

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

FORM 10-K

- Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended March 31, 2009 or  
 Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.  
Commission file number: 0-27266

**WESTELL TECHNOLOGIES, INC.**  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

36-3154957  
(I.R.S. Employer  
Identification No.)

750 North Commons Drive, Aurora, Illinois 60504  
Securities registered pursuant to Section 12(b) of the Act:  
Class A Common Stock, \$.01 par value

Name of each exchange on which registered:  
NASDAQ Global Select Market

(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code: (630) 898-2500  
Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One): Large Accelerated Filer , Accelerated Filer , Non-Accelerated Filer  (Do not check if a smaller reporting company), Smaller Reporting Company

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

The estimated aggregate market value of voting and non-voting Class A Common Stock held by non-affiliates (within the meaning of the term under the applicable regulations of the Securities and Exchange Commission) as of September 30, 2008 (based upon an estimate that 83% of the shares are so owned by non-affiliates and upon the average of the high and low prices for the Class A Common Stock on the NASDAQ Global Select Market on that date) was approximately \$33 million. Determination of stock ownership by non-affiliates was made solely for the purpose of responding to this requirement and registrant is not bound by this determination for any other purpose.

As of May 29, 2009, 54,002,409 shares of the registrant's Class A Common Stock were outstanding and 14,693,619 shares of registrant's Class B Common Stock (which automatically converts on a one-for-one basis into shares of Class A Common Stock upon a transfer of such stock except transfers to certain permitted transferees) were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for the 2009 Annual Stockholders' Meeting are incorporated by reference into Part III hereof.

**WESTELL TECHNOLOGIES, INC.**  
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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements contained herein that are not historical facts or that contain the words “believe”, “expect”, “intend”, “anticipate”, “estimate”, “may”, “will”, “plan”, “should”, or derivatives thereof and other words of similar meaning are forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those expressed in or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, product demand and market acceptance risks, need for financing, an economic downturn in the United States (“U.S.”) economy and telecommunications market, the impact of competitive products or technologies, competitive pricing pressures, product cost increases, new product development, excess and obsolete inventory, commercialization and technological delays or difficulties (including delays or difficulties in developing, producing, testing and selling new products and technologies), the effect of Westell’s accounting policies, the need for additional capital, the effect of economic conditions and trade, legal social and economic risks (such as import, licensing and trade restrictions), retention of key personnel and other risks more fully described in this Form 10-K for the fiscal year ended March 31, 2009, under Item 1A - Risk Factors. The Company undertakes no obligation to publicly update these forward-looking statements to reflect current events or circumstances after the date hereof or to reflect the occurrence of unanticipated events or otherwise.

### PART I

#### ITEM 1. BUSINESS

Westell Technologies, Inc., (the “Company”) was incorporated in Delaware in 1980 and is headquartered at 750 North Commons Drive, Aurora, Illinois. The Company is comprised of three operating segments: Customer Networking Systems (“CNS”) equipment, Outside Plant Systems (“OSPlant Systems”) equipment, both segments, collectively, referred to as “combined equipment segments” or “equipment segments” and ConferencePlus services (previously telecom services) segment. In the equipment segments, the Company designs, distributes, markets and services a broad range of broadband, digital transmission, remote monitoring, power distribution and demarcation products used by telephone companies and other telecommunications service providers such as mobile network operators (“wireless”), multiple systems operators (“MSOs”), integrated carriers, and utility providers (all known as “service providers”) to deliver broadband and other services over existing copper telephone wires, fiber optic networks, hybrid fiber-coax networks, and wireless infrastructures.

The CNS equipment segment includes networking and high-speed transmissions products that allow service providers to deliver broadband services over existing copper, fiber, coax, or wireless infrastructures. The Company’s OSPlant Systems equipment segment is a leading provider of performance monitoring DS1 and DS3 transmission and termination equipment, next generation outside plant cabinets, enclosures, power distribution, flexible termination panels and enclosures for Ethernet, fiber and coax, remote monitoring and ancillary network solutions. The power distribution and remote monitoring solutions are provided through the Company’s Noran Tel subsidiary, which was acquired on January 2, 2007, and marketed and sold through the OSPlant Systems operating segment.

The Company’s ConferencePlus services segment is comprised of a 100% owned subsidiary, Conference Plus, Inc. (“ConferencePlus”). During December 2008, ConferencePlus became a wholly owned subsidiary when the Company purchased the remaining 8.5% minority interest. ConferencePlus provides audio, web and video conferencing services. Businesses and individuals use these services to hold audio, web and video conferences with multiple participants. ConferencePlus sells its services directly to customers, including Fortune 1000 companies, and also serves customers indirectly through its private reseller program.

Revenue and total assets from the Company's reportable segments for the fiscal years ended March 31 are as follows (for more information also see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and Notes thereto included in this Annual Report on Form 10-K):

(in thousands, except percentages)

Fiscal year ended March 31,

Revenue:	2009	%	2008	%	2007	%
CNS equipment	\$ 59,495	37%	\$ 97,923	48%	\$ 153,772	60%
OSPlant Systems equipment	56,506	35%	54,108	26%	54,217	21%
ConferencePlus services	45,203	28%	53,698	26%	48,544	19%
Total revenue	\$ 161,204		\$ 205,729		\$ 256,533	
Assets:						
Combined equipment	\$ 120,946	86%	\$ 116,999	87%	\$ 190,088	92%
ConferencePlus services	19,230	14%	17,229	13%	17,262	8%
Total assets	\$ 140,176		\$ 134,228		\$ 207,350	

Financial information for each of the Company's segments and operations by geographic area are located in Note 12 of the Consolidated Financial Statements included in this Annual Report.

The Company's stock is divided into two classes. Class A Common Stock is entitled to one vote per share while Class B Common Stock is entitled to four votes per share. The Company's largest stockholder is a voting trust that owned 48.6% of the voting control of the Company as of May 29, 2009. The trust was formed for the benefit of Robert C. Penny III and Melvin J. Simon and their respective families. Certain Penny family members also own or are beneficiaries of trusts that own shares outside of the voting trust. As trustees of the Voting Trust and other trusts, Messrs. Penny and Simon control 52.5% of the stock vote and therefore effectively control the Company.

#### Equipment Segments

The equipment segments offer a broad range of products that facilitate the broadband transmission of high-speed digital and analog services between a service provider and end-user customers. These two equipment segments are:

- *CNS*: The Company's CNS family of broadband products enables high-speed transport and networking of voice, data, video, and other advanced services. The products allow service providers to deliver services, content, and applications over existing copper, fiber, coax, and wireless infrastructures. Westell CNS products are typically installed in consumer residences or small businesses as a key component of a broadband service package.
- *OSPlant Systems*: The Company's OSPlant Systems product family consists of next generation outdoor cabinets, enclosures, power distribution, flexible edge connectors (fiber, Ethernet and coax), remote monitoring, DS1 and DS3 transmission plugs. These solutions are optimized for wireless backhaul, service delivery to business enterprise and smart grid applications. With its recent introduction of Customized Systems Integration ("CSI") service, the Westell OSPlant Systems team now offers its customers a one-stop-shop for complete turnkey solutions, reducing the time-to-market and expenses incurred through third-party contractors eliminating the need to design, assemble and test on the job site. Target customers include Wireline Service Providers, Wireless Service Providers, Multiple System Operators ("MSOs"), Utility Providers and Original Equipment Manufacturers ("OEMs") worldwide. The power distribution and remote monitoring products are designed and provided through the Company's Noran Tel subsidiary located in Regina, Saskatchewan, Canada.

The prices for the products within each market group vary based upon volume, customer specifications and other criteria and are subject to change due to competition among telecommunications equipment manufacturers. Increasing competition, in terms of the number of entrants and their size, and the increasing size of the Company's customers because of mergers and other factors, continue to exert downward pressure on prices for some of the Company's products. At some point, the Company may elect to eliminate some products and exit some markets based on an analysis of current and future prospects, and/or enter new, more attractive markets.

*CNS Products.* The Company's CNS products enable residential customers, small businesses, and small office/home office ("SOHO") users to access and share broadband services on networked computers, telephones, cell phones, televisions, media players, and other networked devices. A broad offering of networking products and technologies allows the Company to address several segments of the service provider market, distinguished by the methods used to deliver their services: wireline operators (copper and fiber), mobile network operators (wireless), cable multi-service operators (hybrid fiber-coax), and integrated carriers that operate as combinations of the other three.

The following table sets forth a list of the Company's principal CNS products and their applications:

<b>Product</b>	<b>Description</b>	<b>Applications</b>
LiteLine™ ADSL2+ Modem	Customer premises equipment that is connected to a telephone line that has been configured to provide Asymmetrical Digital Subscriber Line (ADSL and ADSL2+) service from the telephone company. The LiteLine™ is a plug-and-play device that connects to the end customer through a single Ethernet or USB port.	Enables residential and SOHO customers of ADSL service to connect one or more PC's and other computer networking equipment to the ADSL service for high speed Internet access with routing and security protection all in one box.
ProLine™ ADSL2+ manageable Modem/NAT Router	Similar in all ways to the LiteLine™, the ProLine™ provides the added benefit of allowing remote diagnostics, maintenance, software upgrades and other remotely managed services.	In addition to providing the same applications as the LiteLine™, the ProLine™ offers service providers the ability to provide customers a higher level of service and performance.
VersaLink™ Gateway	A compact, versatile gateway device that combines an ADSL2+ modem along with wired Ethernet and WiFi networking features. Versions are also available without the ADSL2+ modem, for wireless and other service providers.	Enables residential, SOHO, and small businesses to network their broadband service to multiple PCs and other networked devices with wired and wireless access.
UltraLine™ Series3 Wireless Broadband Home Router	Ultra high-speed gateways that deliver secure, high-quality, data, voice, IP video services, and advanced services and applications over a variety of network access methods and home networking technologies, including fiber optic, copper, coax, WiFi and Ethernet.	UltraLine™ supports a wide variety of wired and wireless broadband applications, particularly high-speed IP data video services delivered over fiber optic networks.

*OSPlant Systems Products.* The Company's OSPlant Systems products provide service providers with products to transport, maintain and improve the reliability of services delivered over copper and fiber lines in the local access network.

The following table sets forth a list of the Company's principal OSPlant Systems products and their applications:

<b>Product</b>	<b>Description</b>	<b>Applications</b>
T1 NIU-PM (Network Interface Unit with Performance Monitoring)	T1 Network Interface Unit with Performance Monitoring that stores circuit performance and maintenance information for a single T1 circuit.	Provides a point of demarcation between the telephone company equipment and customer's equipment on T1 circuits. The T1 NIU PM units provide enhanced maintenance and remote performance monitoring of T1 circuits. This functionality provides troubleshooting capability that helps the telephone company reduce maintenance costs and customer down-time, thereby improving their customer satisfaction.
NIU Mountings	NIU Mountings are electronic enclosures with connectorized backplanes that house T1 NIU-PM units, and HDSL Remote Terminal cards, including those from other manufacturers such as Adtran.	Deployed by a telephone company at their customer's premises locations to terminate their T1 circuits.
DS3 NIU-PM (Network Interface Unit with Performance Monitoring)	DS3 Network Interface Units with Performance Monitoring including a family of Mountings	Facilitates the maintenance, monitoring, extension, and demarcation of DS3 facilities. Can be deployed in central offices for a DS3 hand-off to alternate carriers, and also customer premises locations.
VirtualEdge <sup>®</sup>	A flexible portfolio of standard 19" or 23" relay rack mount panels and wall mount enclosures designed with a "mix and match" architecture for Ethernet, fiber or coax cable. These products facilitate easy and simple splicing of optical fiber cables, and/or termination of copper based Ethernet, and coax handoffs.	Provides a physical demarcation for Ethernet, DS1, DS3, Optical Fiber and Coax based services at the customer premises.
SHADE <sup>®</sup>	A GR-487 Issue 2 compliant universal environmental equipment cabinet supporting up to 225W of internal heat dissipation using the Company's patent pending Dynamic Cooling System.	An actively cooled outdoor equipment cabinet designed to reduce the effects of solar loading and internal equipment heat generation to help ensure maintenance free equipment operation in conditions ranging from -40°C to +65°C.
CellPak <sup>®</sup>	Outdoor passively cooled equipment enclosures	Provides a sealed "passively" cooled equipment enclosure ideally suited for demarcation hand-offs from a Wireline Carrier (Telco or MSO) to Wireless Carriers.

(Continued from prior page)

<b>Product</b>	<b>Description</b>	<b>Applications</b>
Power Distribution Products	Fuse Panels and Battery Distribution. Secondary DC power distribution products ranging from fuse and breaker panels to alarm panels.	Standard 19" or 23" rack mounting for service providers central offices, remote terminals and enclosures to provide secondary DC power distribution to operate equipment. Safely protecting operating equipment in the event of fault current.
SiteVu Family of Remote Monitoring Systems	A powerful compact and flexible monitoring family of products that provides visibility to remote site environmentals, batteries, and equipment status issues. BattVu (optimized for remote terminal to monitor batteries and temperature) and remotely with SiteVu from a user's desk top or Network Operations Center.	Applications include service providers central offices, remote terminals, and enclosures to provide environmental information such as temperature, air flow, humidity and smoke, battery condition, and equipment operating status.
Customized Systems Integration ("CSI") service	Westell OSPlant Systems CSI team offers its customers a one-stop-shop for complete turnkey solutions reducing time-to-market and expenses through third-party contractors and eliminating the need to design, assemble and test on the job site.	CSI Service is ideal for customers needing complete integrated solutions for backhaul, smart grid and other custom applications.

#### **Research and Development Capabilities and Engineering Base**

The Company believes that its future success depends, in part, on its ability to maintain its technological leadership through enhancements of its existing products and development of new products that meet customer needs. The Company is focusing on providing additional features and functionality to its current product offerings. The Company works closely with its current and potential customers as part of the product development process.

In fiscal year 2009, the CNS equipment segment and the OSPlant Systems equipment segment recorded approximately \$15.0 million and \$2.6 million, respectively, on research and development ("R&D") expense activities. In fiscal years 2008 and 2007, the combined equipment segments recorded R&D expense of \$19.9 million and \$22.1 million, respectively.

The Company's R&D personnel are organized into product development teams. Each product development team is generally responsible for sustaining technical support of existing products plus conceiving new products in cooperation with other groups within the Company and adapting standard products or technologies to meet new customer needs. Additionally, in an effort to remain a highly valued, superior quality, long-term supplier, each product development team is charged with reducing product costs for each succeeding generation of products without compromising functionality or serviceability. The product development teams leverage the Company's relationships with its manufacturing partners and suppliers to achieve these cost reduction objectives. As an adjunct to these internal efforts, the Company uses the talents of certain outsourcing firms in India for software development and system testing.

The Company believes that the key to its R&D strategy is choosing an initial architecture for each product that balances innovation and time-to-market factors while enabling engineering innovations to result in future performance enhancements and cost reductions. The Company's strategy is further enhanced by ensuring products are designed in conjunction with input from customers, procurement, and outsource manufacturing partners and an analysis of the feasibility to reduce costs. The Company believes it has a quality record that is grounded in a solid interface and transference of knowledge among design and manufacturing teams.

The Company's quality systems, including product development processes, are registered to TL9000, which is the Telecommunication Industry's sector-specific version of the ISO9001:2000 International Quality System Standard. These processes are also registered to ISO9001:2000.

The Company continues to expand the software content of its CNS products. The majority of the Company's design engineers, including those at the contracted outsourcing firms, are software engineers. Greater software content in the Company's products not only is necessary to deliver the more sophisticated applications, but is also a key element of the Company's strategy to focus on differentiated, value-added products and solutions. In some cases the Company sources software technology from outside suppliers through licensing agreements which typically, though not always, give the Company the ability to modify the licensed software to meet the needs of the Company's customers. Some software technology is obtained from the open source community. The Company also develops its own proprietary software where needed to provide the desired functionality. Software from all of these sources is typically integrated into the final product releases, and tested by the Company's system test engineers, by outside test labs, by industry certification groups, and by the Company's customers before going into volume production and deployment.

In some cases, the Company utilizes technology, whether hardware, silicon chip, software or other, that is only available from a single source. In these cases, the Company will typically obtain a contractual agreement with the technology supplier that gives the Company access to the technology for the intended lifecycle of the products which incorporate that technology. However, it is not always possible to obtain such an agreement. Additionally, technology suppliers to the Company may go out of business or may be subject to injunctions or natural disasters which prevent them from being able to supply that technology to the Company in the future. Additionally, the technology may evolve due to changes in industry standards or changes in the market, and the Company's contractual agreement may not necessarily give the Company rights to that evolved technology in the future. Were the Company to lose the ability to obtain needed technology from a supplier, or were that technology no longer available to the Company under reasonable terms and conditions, the Company's business and results of operations would be materially and adversely affected.

The Company's products are subject to industry-wide standardization organizations which include Telcordia, the Internet Engineering Task Force, the MoCA Alliance, the Broadband Forum, CableLabs, the American National Standards Institute ("ANSI") in the United States and the International Telecommunications Union ("ITU").

#### **Customers**

The Company's principal customers historically have been major U. S. telecommunications service providers ("telephone companies"). In addition, the Company sells products to several other entities, including public telephone administrations located outside the U.S., independent domestic local exchange carriers, competitive local exchange carriers, inter-exchange carriers, wireless service providers, internet service providers, MSOs, and business enterprises. Revenues from international customers represented approximately \$9.1 million, \$8.9 million and \$3.7 million of the Company's revenues in fiscal 2009, 2008 and 2007, respectively, accounting for 5.6%, 4.3% and 1.4% of the Company's total revenues in such periods.

The Company depends, and will continue to depend, on the telephone companies and other independent local exchange carriers for the majority of its revenues. Sales to the Company's largest two customers, Verizon and AT&T, accounted for 35.4% and 14.4% of the Company's total revenues in fiscal 2009, respectively. Consequently, the Company's future success will depend upon the timing and size of future purchase orders from telephone companies, the product requirements of the telephone companies, the financial and operating success of telephone companies, the success of the telephone companies' services that use the Company's products, and the Company's level of success in diversifying its revenue stream beyond the telephone companies. Any attempt by a telephone company to seek out additional or alternative suppliers or to undertake the internal development of products could have a material adverse effect on the Company's business and results of operations. In addition, the Company's sales to its largest customers have in the past fluctuated, and in the future could fluctuate significantly from quarter to quarter and year to year. The loss of such customers or the occurrence of such sales fluctuations would materially adversely affect the Company's business and results of operations.



The Company's contracts with its major customers are primarily pricing and product specification agreements that do not require a specific level of quantities to be purchased.

Telephone companies and the Company's other customers are significantly larger than, and may be able to exert a high degree of influence over, the Company. As a result, our larger customers may be able to reschedule or cancel orders without significant penalty. Prior to selling its products to service providers, the Company must undergo lengthy approval and purchase processes, which are discussed in the section titled "Marketing, Sales and Distribution."

#### **Marketing, Sales and Distribution**

The Company sells its products in the U.S. through its domestic field sales organization and selected distributors. The Company has maintained an established sales force and channel to domestic service providers since its founding in 1980.

The Company markets its products domestically within the United States, as well as in Canada and Europe. In North America, the Company's equipment products are sold directly to the service providers or in some cases to distributors who service these carriers. The Company believes that the service providers' sales channels are very dynamic and continually looks to adapt and configure its sales force and processes to meet these changes.

Prior to selling its products to service providers, the Company must undergo lengthy approval and purchase processes. Evaluation can take as little as a few months for products that vary slightly from existing products and often longer for products based on new technologies and/or new service offerings. Accordingly, the Company is continually submitting successive generations of its current products, as well as new products, to its customers for approval.

Although the service provider approval processes may vary to some extent depending on the customer and the product being evaluated, they generally are conducted as follows:

*Laboratory Evaluation.* The product's function and performance are tested against all relevant industry standards and the customer's written requirements, usually provided to the Company in the form of a Request for Proposal.

*Technical Trial.* Small quantities of the product are installed in the field for simulated operation in a field trial. The field trial is used to evaluate performance, assess ease of installation and establish troubleshooting procedures.

*Marketing Trial.* Emerging products are tested for market acceptance of new applications and services. Marketing trials usually involve a greater number of products than technical trials because products are typically deployed in several distinct markets in the service provider's network. This stage gives service providers an opportunity to establish procedures, to train employees to install and maintain the new product and to obtain more feedback on the product and the new applications and services from a wider range of operations personnel and consumers.

*Commercial Deployment.* Commercial deployment usually involves substantially greater numbers of products and locations than the marketing trial stage. In the first phase of commercial deployment, a service provider initially installs the equipment in select locations for select applications and services, and will typically start billing for those services. This phase is followed by general deployment involving greater numbers of products and locations across the service provider's serving area. Commercial deployment does not usually mean that one supplier's product is purchased for all of the service provider's needs throughout their serving area as service providers often rely upon multiple suppliers in an effort to provide greater certainty that their needs can be met. Subsequent orders, if any, are generally placed under single or multi-year supply agreements that are generally not subject to minimum volume commitments.

The relationships that the Company establishes in this extensive process are critical in almost every case. The Company has a history of working closely with the service providers in this fashion and the Company has won numerous quality awards from a variety of customers over the past twenty years.

The Company is focusing on new channels, markets and partners for its newer products. The deployment of emerging fixed mobile convergence ("FMC"), IPTV/video and advanced in-home services all represent opportunities for the Company's VersaLink™ and UltraLine™ Series3 products at customers beyond its traditional base of customers.

The Company maintains 24-hour, 7-day-a-week telephone support and provides on-site support. The Company also provides technical consulting, research assistance and training to some of its customers with respect to the installation, operation and maintenance of its products.

The Company has general purchase agreements with most of its major customers. These agreements may require the Company to accept returns of products within certain time limits, or indemnify such customers against certain liabilities arising out of the use of the Company's products. If these claims or returns are significant, there could be a material adverse effect on the Company's business and results of operations.

The Company's products are required to meet rigorous standards imposed by its customers. Most of the Company's products carry a limited warranty ranging from one to three years for CNS products and up to seven years for OSPlant Systems products, which generally covers defects in materials or workmanship and failure to meet published specifications, but excludes damages caused by improper use and all other warranties. In the event there are material deficiencies or defects in the design or manufacture of the Company's products, the affected products could be subject to recall.

#### **Outsourced Manufacturing**

The Company outsourced its manufacturing operations from Aurora, Illinois, to offshore suppliers during fiscal year 2008. The manufacturing facility in the Aurora building is now being used for distribution. Reliance on third-party offshore subcontractors involves several risks. (See Risk Factors)

Standard commercial components available from multiple suppliers are procured by the offshore suppliers. There are also single-sourced components needed to produce products. The Company has direct relationships and purchase contracts with suppliers for these items and therefore maintains inventory for these items at the subcontractors' location. One of the single-sourced items in some of the CNS products consists of a license to run proprietary networking software. There are a number of other suppliers in the market that could supply the Company with similar technology, including the open source community, however it would take the Company at least nine months to reengineer the product and subsequently get product approval from customers. This delay would materially adversely affect the Company's business. All purchase contracts are short term in nature.

A substantial portion of the Company's shipments in any fiscal period can relate to orders for products received in that period. Further, a significant percentage of orders, such as NIUs, may require delivery within 48 hours. To meet this demand, the Company maintains inventory at its facilities and outsource suppliers. In addition, the Company maintains some inventory at the customers' sites pursuant to agreements that the customers will eventually purchase such inventory. Because of the rapid technological changes to our products, the Company faces a recurring risk that the inventory it holds may become obsolete.

#### **Competition**

The markets for the Company's products are intensely competitive and the Company has no reason to believe that this competitive environment will ease in the future, especially in the rapidly changing markets for broadband products. The Company's primary competitors vary by market. The Company's principal competitors with respect to its OSPlant Systems products are ADC Telecommunications, Emerson, Purcell and Telect. The Company's principal competitors with respect to its CNS broadband products are primarily Siemens Information and Communication Network Inc., Motorola ("Netopia"), 2Wire Inc., Cisco Systems Inc. ("Linksys"), D-Link Systems Inc., Actiontec Electronics Inc., Thomson and ZyXEL Communications Co. The Company believes that it is currently one of the leading sellers of broadband CPE products for telecommunication service providers in North America. However, many of the Company's competitors are significantly larger, with broader product lines, and have more financial resources than the Company. To compete against these competitors, the Company focuses on quality, time-to-market, and the ability to react quickly to market changes leveraging its U.S. based product management and product development teams. The Company expects that continuing competitive pressure from Asian based manufacturers will continue to exert downward pressure on pricing.

Since the Company currently derives the majority of its total revenues from the sale of products to telephone companies, the Company faces competition from alternative products optimized for other broadband networks. Telephone companies face competition from MSOs, new local access providers and broadband wireless service providers that are capable of providing high speed digital transmission to end users. In addition, the Company believes that the deployment of DSL, HDSL and fiber networks are reducing the demand for the Company OSPlant Systems traditional transmissions products, including T1 office and line repeaters and T1 NIU's with and without performance monitoring. (See Risk Factors)

### **ConferencePlus Services Segment**

Conference Plus, Inc., founded in 1988, is a full-service conferencing company that manages and hosts specific software and applications supporting its conferencing and meeting services. ConferencePlus is a 100% owned subsidiary of the Company and manages its conferencing and meeting services through its main operations center in Schaumburg, Illinois, and a facility in Dublin, Ireland. ConferencePlus services generated \$45.2 million, \$53.7 million and \$48.5 million in revenues in fiscal 2009, 2008 and 2007, respectively.

ConferencePlus allows multiple individuals, organizations and/or businesses to conduct conference calls using a combination of audio, web and video collaboration and presentations. ConferencePlus offers conference call services that can include a blend of audio, graphics, spreadsheets and other documents that can be carried over and archived on the Internet to enhance the traditional audio conference call. By enabling the sharing of this blend of information, ConferencePlus can help organizations increase productivity and save money by reducing travel time, bringing down travel costs, and making it easier for people in remote locations to work together. Conferencing and meeting service technologies also allow organizations and individuals to collect and disseminate information faster, more accurately and without the associated costs of face-to-face meetings. These technologies also help companies communicate and collaborate effectively in the face of health and safety threats and other impediments to travel and formal gatherings.

Conferencing can save time, budget resources and the environment, as a naturally green alternative to travel and business meetings, and is a way for companies to reduce their carbon footprint.

ConferencePlus is distinguished by three strategies:

- Diverse Distribution Channels
- State-of-the-Art Network and Integrated Systems
- International Reach

#### *Diverse Distribution Channels*

ConferencePlus has historically acted as a provider of conferencing and meeting services on a wholesale basis, managing and hosting applications for major carriers and telecommunications resellers. About 30% of ConferencePlus' revenues come from indirect commercial conferencing services to customers who market or use ConferencePlus services under their own brand name. Such companies choose to outsource and private label audio, web and video conferencing services to maintain continuity, save costs and focus on their core competencies. By selling to indirect or resale customers, ConferencePlus effectively increases the size of its sales organization without incurring the expense necessary with a direct sales force.

ConferencePlus also sells its services directly to companies through its national accounts sales force. This area continues to be a strong part of ConferencePlus' business and the Company expects to continue to invest resources in this area in order to maintain a diverse mix of revenue sources. The deployment of this strategy is designed to improve the recognition of the ConferencePlus brand, which has strategic long term benefits to the Company.

### *State-of-the-Art Network and Integrated Systems*

The ConferencePlus services segment recorded approximately \$2.2 million, \$2.4 million and \$2.0 million, respectively, on research and development expense activities in fiscal 2009, 2008 and 2007, respectively.

A critical part of ConferencePlus' approach is its state-of-the-art network and integrated systems. ConferencePlus has a state-of-the-art network infrastructure that enables it to take advantage of the relationships it has with major telecommunications providers to provide quality service. ConferencePlus has deployed equipment in carrier Points-of-Presence to take advantage of the higher capacity and the lower cost structure available with such deployments.

ConferencePlus has built an integrated reservation, scheduling and billing system called Conference Reservation and Billing System ("CRBS") that is a significant differentiator in the conferencing market. CRBS allows ConferencePlus to leverage its operations on a global basis. This reliable and scalable system is seamlessly integrated into the operational environment from the point of reservation through the billing process. This integration allows ConferencePlus to enjoy scale advantages and to be able to provide transparent branded services to its customers. This system is built and maintained by an in-house team of engineers, developers and technicians who continually work to improve and enhance the system based on industry trends, customer requests and strategic direction.

ConferencePlus has extended certain capabilities of CRBS to a publicly available web portal where customers can sign up for service, manage their accounts and control their conferences. ConferencePlus has also tightly integrated with third-party suppliers of web conferencing services to enhance its audio services. In addition to making these services available to customers, ConferencePlus has the ability to privately brand the entire web experience to match any other brand visualization that may be required. This capability is beneficial for both indirect customers where this helps support the indirect brand as well as for customers where branding can help drive corporate adoption.

### *International Reach*

As customers globalize their telecommunications services, ConferencePlus has expanded its operational presence internationally to meet these needs. In addition to its main operational centers in Schaumburg, Illinois, and Dublin, Ireland, ConferencePlus has conferencing bridges located in Oakbrook, Illinois, and London, England. ConferencePlus is able to serve the conferencing needs of customers headquartered anywhere in the world through these facilities. The ConferencePlus facility in Dublin, Ireland, was established in 1998 to help meet the growing demand for global conferencing service. The international market for conferencing is expected to grow as a result of deregulation and improved networks with associated reductions in end user costs.

ConferencePlus' indirect or private label customers and many of its other customers are significantly larger than, and are thus able to exert a high degree of influence over, ConferencePlus. ConferencePlus depends on large customers to provide a significant percent of its revenues. Although the Company has focused on broadening its customer base, a loss of one of these customers would have a material adverse effect on ConferencePlus' business. Prior to selling its services, ConferencePlus may be required to undergo lengthy approval and purchase processes. Evaluation can take a few months for services that vary slightly from existing services used by the prospective customer to a year or more for services based on cutting edge technologies or which represent a new strategic direction for the customer, as is the case with private labeling conference services for a large reseller.

Competition in the conferencing business is intense and ConferencePlus expects that competition will increase due to low barriers to entry and recent entrants into the audio, web and video conferencing service market. Many of ConferencePlus' competitors, including InterCall, AT&T, Verizon, Premiere and British Telecom, have much greater name recognition, more extensive customer service and marketing capabilities and substantially greater financial, technological and personnel resources than ConferencePlus. There can be no assurance that ConferencePlus will be able to successfully compete in this market in the future or that competitive pressures will not result in price reductions that would materially adversely affect its business and results of operations.

### **Government Regulation**

The telecommunications industry, including most of the Company's customers, is subject to regulation from federal and state agencies, including the Federal Communications Commission ("FCC") and various state public utility and service commissions. While such regulation does not affect the Company directly, the effects of such regulations on the Company's customers may, in turn, adversely impact the Company's business and results of operations. For example, FCC regulatory policies affecting the availability of telephone and communications services and other terms under which service providers conduct their business may impede the Company's penetration of certain

markets, and/or make the markets less financially attractive. The Telecommunications Act of 1996 lifted certain restrictions on carriers' ability to provide interactive multimedia services including video on demand. Under the Telecommunications Act of 1996, new regulations have been established whereby carriers may provide various types of services beyond traditional voice offerings.

In addition, the Telecommunications Act of 1996 permits the carriers to engage in manufacturing activities after the FCC authorizes a carrier to provide long distance services within its service territory. A carrier must first meet specific statutory and regulatory tests demonstrating that its monopoly market for local exchange services is open to competition before it will be permitted to enter the long distance market. When these tests are met, a carrier will be permitted to engage in manufacturing activities, and the carriers, which are the Company's largest customers, may become the Company's competitors as well. (See Risk Factors)

The FCC recently determined that audio and video bridging services are equivalent to teleconferencing services and are "telecommunications" under the Telecommunications Act of 1996 and the Universal Service First Report and Order. Due to this FCC Ruling, ConferencePlus, as well as other conferencing service providers, must pay Federal Universal Service Fund fees ("FUSF") on applicable revenue for services provided on or after October 1, 2008. The FCC allows telecommunications companies to recover the cost of collecting, remitting and reporting FUSF fees. ConferencePlus charges its clients an amount equal to what it must remit, plus an administrative fee to recover the cost of providing these services.

#### **Proprietary Rights and Intellectual Property**

The Company's success and future revenue growth will depend, in part, on its ability to protect trade secrets, obtain or license patents and operate without infringing on the rights of others. The Company relies on a combination of technical leadership, copyrights, patents, trademarks, trade secrets and other intellectual property laws, nondisclosure agreements and other protective measures to protect its unpatented proprietary know-how. The Company regards some of its technology as proprietary and the Company has been granted 29 patents and has an additional 11 U.S. patents pending relating to its OSPlant Systems and CNS products. The expiration of any of the patents held by the Company would not have a material impact on the Company. The Company expects to seek additional patents from time to time related to its research and development activities.

Many of the Company's products incorporate technology developed and owned by third parties, and instantiated in hardware, silicon chips, software, and/or other forms. Consequently, the Company must rely upon third parties to develop and to introduce technologies which enhance the Company's current products and enable the Company, in turn, to develop its own products on a timely and cost-effective basis to meet changing customer needs and technological trends in the telecommunications industry. In these cases, the Company will typically obtain a contractual agreement with the technology supplier that gives the Company access to the technology for the intended lifecycle of the products which incorporate that technology. However, it is not always possible to obtain such an agreement. Additionally, technology suppliers to the Company may go out of business or may be subject to injunctions or natural disasters which prevent them from being able to supply that technology to the Company in the future. Additionally, the technology may evolve due to changes in industry standards or changes in the market, and the Company's contractual agreement may not necessarily give the Company rights to that evolved technology in the future. Were the Company to lose the ability to obtain needed technology from a supplier, or were that technology no longer available to the Company under reasonable terms and conditions, the Company's business and results of operations would be materially and adversely affected. The Company's reliance on certain third-party technology is also discussed above in "Research and Development Capabilities and Engineering Base".

Rapid technological evolution caused the Company to implement strategic alliances with technology suppliers in order to accelerate the time-to-market for new products. Without such relationships, due to the lengthy service provider product approval and purchase cycles, the technology may be obsolete by the time the Company completes the product approval and purchase cycles.

#### **Backlog**

Product shipments are generally made pursuant to standard purchase orders, which are officially acknowledged according to standard terms and conditions. CNS equipment segment purchase orders with scheduled shipment dates within 60 days are generally firm and non-cancellable. The majority of purchase orders with shipment dates in excess of 60-90 days allow for partial or full cancellation. Shipment dates on non-cancellable purchase orders can

be adjusted by some customers on request. OSPlant Systems equipment segment purchase orders are generally received one to two weeks prior to shipment.

As of June 3, 2009, the CNS and OSPlant Systems equipment segments had \$15.3 million and \$2.7 million of backlog, respectively. As of June 2, 2008, the CNS and OSPlant Systems equipment segments had \$6.9 million and \$2.4 million of backlog, respectively.

#### Employees

As of May 31, 2009, the Company had 402 full-time employees. The following table reflects headcount by segment and functional area:

	<u>CNS</u>	<u>OSPlant Systems</u>	<u>Conference Plus</u>	<u>Total</u>
Operations	11	33	108	152
Sales and marketing	25	23	67	115
Research and development	36	17	21	74
General and administrative	12	12	37	61
Total employees	<u>84</u>	<u>85</u>	<u>233</u>	<u>402</u>

#### Available Information

The SEC maintains an internet site, [www.sec.gov](http://www.sec.gov), through which you may access the Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and other information statements, as well as amendments to these reports. In addition, the Company makes these reports available free of charge on the Company's internet website, [www.westell.com](http://www.westell.com). The Company maintains a corporate governance page on the Company's website. This website includes, among other items, the Code of Business Conduct, Audit Committee Charter, Compensation Committee Charter and Nominating Committee Charter. The corporate governance information can be found at [www.westell.com](http://www.westell.com) under Investor Relations.

## ITEM 1A. RISK FACTORS

*You should carefully consider the risks described below in addition to the other information contained and incorporated by reference in this Form 10-K. If any of the following risks occurs, our business, operating results or financial condition would likely suffer, and the market price for our securities could decline.*

### **General economic conditions may affect our results.**

The global economy is currently undergoing a period of unprecedented volatility, which has affected the demand for our equipment and services. A prolonged period of economic decline could have a material adverse effect on our results of operations and financial condition. Possible effects of current and future adverse economic conditions on our business include: decrease in purchases or usage of our products and services if increased unemployment leads to lower utilization of telecommunications, internet services and conferencing services. Customers may stop or decrease purchasing due to efforts to reduce inventory and conserve cash. The Company may also experience business disruptions due to an inability to obtain equipment, parts and supplies from suppliers if marginal supply businesses fail.

### **We have incurred losses in the past and may incur losses in the future.**

We incurred losses in the fiscal years ended March 31, 2009 and 2008 and historically in fiscal years through 2002. The Company had an accumulated deficit of \$319.5 million as of March 31, 2009.

We believe that our future profitability will depend on:

- creating sustainable product and service sales opportunities;
- lowering product costs through design and manufacturing enhancements and volume efficiencies;
- developing new and enhanced products and services;
- diversifying the Company's existing customer base.

In addition, we expect to continue to evaluate new product opportunities. As a result, we will continue to invest in research and development and sales and marketing, which could adversely affect our short-term operating results. We can offer no assurances that we will become profitable again in the future.

### **Our stock price is volatile and could drop unexpectedly.**

Like many technology companies, our stock price has demonstrated and may continue to demonstrate volatility as valuations, trading volume and prices move significantly. This volatility may result in a material decline in the market price of our securities, and may have little relationship to our financial results or prospects.

Our Class A Common Stock price has experienced substantial volatility in the past and is likely to remain volatile in the future due to factors such as:

- our actual and anticipated quarterly and annual operating results;
- variations between our actual results and analyst and investor expectations;
- announcements by us or others on developments affecting our business;
- lack of success on winning new customers or the loss of an existing customer;
- investor and analyst perceptions of our company and comparable public companies;
- future sales of debt or equity securities;
- the activities of short sellers and risk arbitrageurs regardless of our performance;
- conditions and trends in the data communications and internet-related industries;
- low trading volumes in our Class A common stock.

Many of the factors listed above are not within our control. In the past, companies that have experienced volatility in the market price of their stock have been the subject of securities class action litigation.

**Our Class A Common Stock could be delisted from the NASDAQ Global Select Market if our stock price continues to trade below \$1.00 per share.**

NASDAQ has established certain standards for the continued listing of a security on the NASDAQ Global Select Market. The standards for continued listing include, among other things, that the minimum bid price for the listed securities be at least \$1.00 per share. Under these rules, a security is considered deficient if it fails to achieve at least a \$1.00 closing bid price for a period of 30 consecutive business days. On August 22, 2008, we received a notification from the Listing Qualifications Department of NASDAQ that the bid price for our Class A Common Stock had closed below the minimum \$1.00 per share for 30 consecutive trading days in conflict with the NASDAQ rules for continued listing. NASDAQ has suspended the enforcement of the minimum closing bid price requirement until July 20, 2009, and as a result, the period during which we have to regain compliance has been extended to November 23, 2009.

NASDAQ may permit us to transfer the listing of our Class A Common Stock to the NASDAQ Capital Market if we satisfy the requirements for initial listing on the NASDAQ Capital Market, other than for the minimum bid price requirement. If our application for transfer is approved, we would have an additional 180 calendar days to comply with the minimum bid price rule in order to remain on the NASDAQ Capital Market. At this time, we cannot determine whether we will meet the initial listing requirements of the NASDAQ Capital Market or whether we will choose to transfer the listing of our Class A Common Stock to the NASDAQ Capital Market.

For as long as NASDAQ's minimum bid price rule suspension remains in effect, NASDAQ will not delist our Class A common stock because of a low closing bid price. If the closing bid price of our Class A Common Stock continues to fail to meet NASDAQ's minimum closing bid price requirement, or if we otherwise fail to meet all other applicable NASDAQ requirements, NASDAQ may make a determination to delist our Class A common stock. Any such delisting could adversely affect the market liquidity of our Class A Common Stock and the market price of our Class A Common Stock could decrease. A delisting also could adversely affect our ability to obtain financing for our operations and/or result in a loss of confidence by investors, customers, suppliers or employees.

**We are the subject of an investigation by the SEC that could adversely affect our financial condition, results of operations and the price of our common stock.**

The SEC is conducting an investigation regarding events and circumstances surrounding trading in our securities. We have cooperated fully and intend to continue to cooperate fully with the SEC on its investigation. We cannot predict the outcome of the investigation. In the event that the investigation leads to SEC action against the Company, any current or former officer or director, our financial condition, results of operations and the price of our common stock may be adversely impacted. If the SEC investigation continues for a prolonged period of time, it may have an adverse impact on our financial condition, results of operations and the price of our common stock regardless of the ultimate outcome of the investigation. In addition, the SEC investigation has resulted in the incurrence of significant legal expenses and the diversion of management's attention from our business, and this may continue, or increase, until the investigation is concluded.

**We have and could face securities class action litigation, which could significantly harm our business.**

In fiscal 2000, Westell Technologies, Inc. and certain of its officers and directors were named in consolidated class actions. Although these class actions were settled, we could face securities litigation in the future that could result in the payment of substantial damages or settlement costs in excess of our insurance coverage. Any adverse outcome could harm our business. Even if we were to prevail in any such litigation, we could incur substantial legal costs and management's attention and resources could be diverted from our business which could cause our business to suffer.

**Due to the rapid technological changes in our industry, our products may become obsolete and could cause us to incur charges for excess and obsolete inventory and materially harm our business.**

The telecommunications industry is subject to rapid technological change and volatile customer demands, which result in a short product commercial life before a product becomes obsolete. As a result, we have in the past and may in the future devote disproportionate resources to a product that has an unexpectedly short commercial life or we may have to write off excess and obsolete inventory, each of which would harm our operating results and financial condition and harm our business. From time to time, we may need to write off inventory as excess or obsolete. In the past, we have experienced such write-offs. If we incur substantial inventory expenses that we are



not able to recover because of changing market conditions, it could have a material adverse effect on our business, financial condition and results of operations.

**Pricing pressures on our products may affect our ability to be profitable in the future.**

We have and may in the future offer products and services based upon forward pricing, which is the pricing of products at or below production costs to take into account the expectation of large future volumes and corresponding reduction of costs. Forward pricing would cause us to incur lower margins on product or service sales unless we can reduce the associated costs. We believe that costs may decrease if:

- more cost-effective technologies become available;
- product design efficiencies and component integration are obtained;
- we achieve economies of scale related to sufficiently high volumes.

There is no guarantee that we will be able to secure significant additional business and reduce costs that we have factored into our forward-priced products or services. As a result, we could incur low or negative margins in connection with sales of forward-priced products or services even if our volumes increase. Low margins from our sales of products and services could result in fluctuations in our quarterly operating results and could materially and adversely affect our profitability and ability to implement our business goals.

**Our products and services face competition from other existing products, products and services under development and changing technology, and if we do not remain competitive, our business will suffer and we will not be profitable.**

The markets for our products and services are characterized by:

- intense competition;
- increasing competition;
- rapid technological advances;
- evolving industry standards;
- changes in customer requirements;
- frequent new product introductions and enhancements.

New products introductions or changes in services offered by service providers could render our existing products and products under development obsolete and unmarketable. Specifically, the focus by service carriers to offer new VoIP, IPTV, video and FMC services will cause the current products they use from the Company to be replaced with newer, more compatible technology. Although the Company has product offerings which address these new services, the service providers may choose to obtain competitive products from suppliers other than the Company. Further, we believe that the domestic market for many of our traditional OSPlant Systems products is decreasing, and will likely continue to decrease, as high capacity digital transmission becomes less expensive and more widely deployed. Our future OSPlant Systems success will largely depend upon our ability to successfully market our outside plant products not only into its existing accounts but also into MSOs, wireless service providers, OEMs, and utility markets, in addition to developing new products that complement these market segments.

In addition, a large majority of our CNS revenue comes from product offerings which enable telephone companies to deliver broadband services. Telephone companies also face competition in the delivery of broadband services from cable operators and wireless service providers. Although the Company has developed products for wireline fiber optic network operators, MSOs, and wireless service providers, if end-users increasingly obtain their high-speed data transmission services from these alternative providers, then the overall demand for our broadband products may be impaired. New products have been developed that can be used by a variety of broadband delivery mechanisms, but there are no assurances that the products will be successful.

The conferencing services industry is facing increased competition and pricing pressures from existing competitors as well as new entrants. Existing competitors include large telecommunications companies, as well as large teleconferencing-focused providers. New products are also being introduced by telecommunications equipment manufacturers that enable conferencing through unified communications platforms.

To remain competitive, we must develop new products to meet the demands of these emerging transmission media and new local access network providers. Our business would be severely harmed if our products become obsolete or fail to gain widespread commercial acceptance due to competing products and technologies.

**Evolving industry standards may adversely affect our ability to sell our products and consequently harm our business.**

Industry-wide standardization organizations such as the International Telecommunications Union, the American National Standards Institute, the European Telecommunications Standards Institute, and the Internet Engineering Task Force and other standards bodies are responsible for determining much of the protocols, functionality and interoperability that our products must meet. Delay in the announcement or completion of industry standards would materially and adversely impact our product sales and would severely harm our business. Additionally, changes in those standards through subsequent revisions, and the introduction of competing standards or implementation specifications could result in confusion in the market and delay decisions regarding deployment of our products.

**We are dependent on third-party technology, the loss of which would harm our business.**

We rely on third parties to gain access to technologies that are used in our current products and in products under development. These technologies are included in hardware, silicon chips, software, and/or other forms. Consequently, the Company must rely upon third parties to develop and to introduce technologies which enhance the Company's current products and enable the Company, in turn, to develop its own products on a timely and cost-effective basis to meet changing customer needs and technological trends in the telecommunications industry. In these cases, the Company will typically obtain a contractual agreement with the technology supplier that gives the Company access to the technology for the intended lifecycle of the products which incorporate that technology. However, it is not always possible to obtain such an agreement. Additionally, technology suppliers to the Company may go out of business or may be subject to injunctions or natural disasters which prevent them from being able to supply that technology to the Company in the future. Additionally, the technology may evolve due to changes in industry standards or changes in the market, and the Company's contractual agreement may not necessarily give the Company rights to that evolved technology in the future. Were the Company to lose the ability to obtain needed technology from a supplier, or were that technology no longer available to the Company under reasonable terms and conditions, the Company's business and results of operations would be materially and adversely affected.

Any impairment in our relationships with the licensors of technologies used in our products would force us to find other technology providers on a timely basis or develop our own technology. There is no guarantee that we will be able to obtain the third-party technology necessary to continue to develop and introduce new and enhanced products, that we will obtain third-party technology on commercially reasonable terms or that we will be able to replace third-party technology in the event such technology becomes unavailable, obsolete or incompatible with future versions of our products. We would have severe difficulty competing if we cannot obtain or replace much of the third-party technology used in our products. Any absence or delay in obtaining third-party technology necessary for our products would materially adversely affect our business and operating results.

**We are dependent on sole or limited source suppliers, the loss of which would harm our business.**

Integrated circuits and other electronic components used in our products may be currently available from only one source or a limited number of suppliers. Our inability to obtain sufficient key components or to develop alternative sources for key components as required, could result in delays or reductions in product deliveries, and consequently severely harm our customer relationships and our business. Furthermore, additional sole-source components may be incorporated into our future products, thereby increasing our supplier risks. If any of our sole-source suppliers delay or halt production of any of their components, or fail to supply their components on commercially reasonable terms, then our business and operating results would be harmed.

We may experience delays in the receipt of key components that could result in delays in related product deliveries. There is no guarantee that we will be able to continue to obtain sufficient quantities of key components as required, or that such components, if obtained, will be available to us on commercially reasonable terms.

In the event that these suppliers discontinued the manufacture of materials used in our products, we would be forced to incur the time and expense of finding a new supplier if available or modify our products in such a way that such materials were not necessary, which could result in increased manufacturing costs.

**We have few long-term contracts or arrangements with suppliers, which could adversely affect our ability to purchase components and technologies used in our products.**

We have few long-term contracts or arrangements with our suppliers. We may not be able to obtain components at competitive prices, in sufficient quantities or under other commercially reasonable terms. If we enter into a high-volume or long-term supply arrangement and subsequently decide that we cannot use the products or services provided for in the supply arrangement, then our business would also be harmed. We enter into short-term contracts with our suppliers in the form of purchase orders. Purchase orders are often non-cancellable within contractual time periods. These purchase orders are issued to vendors based on forecasted demand. If the forecasted demand is materially incorrect, we may find that we cannot use the products ordered, and then our business would also be harmed.

**We are dependent on our independent offshore outsource manufacturing partners to manufacture, assemble and test our products. If these companies do not meet their commitments to us, it could adversely impact our ability to meet the delivery requirements of our customers.**

In fiscal year 2008, the Company moved substantially all of the manufacturing of CNS and OSPlant Systems products from Aurora, Illinois, to offshore suppliers in China. Reliance on third-party offshore outsource manufacturing partners involves a number of risks, including:

- reliance on a limited number of vendors;
- increased transportation time, costs and possible port closures;
- political instability;
- increased exposure to currency fluctuations;
- reduced protection for intellectual property;
- reduced control over production capacity and
- reduced control over product quality.

**We may be adversely impacted by the rising cost of product material components such as copper, petroleum, gold, platinum and silver.**

The costs of commodities such as copper and petroleum, and to a lesser extent, gold, platinum and silver, all components of the Company's products, could increase the cost of the Company's products thereby adversely impacting our business and operating results.

**We will not be able to successfully compete, develop and sell new products if we fail to retain key personnel and hire additional key personnel.**

Because of our need to continually evolve our business with new products and services development and strategies, our success is dependent on our ability to attract and retain qualified technical, marketing, sales and management personnel. To remain competitive, we must maintain top management talent, employees who are involved in product development and testing and employees who have developed strong customer relationships. Because of the high demand for these types of employees, it may be difficult to retain existing key employees and attract new key employees. In addition we do not have non-compete contracts with most of our employees. Our inability to attract and retain additional key employees could harm our ability to successfully sell existing products and services and develop new products, services and implement our business goals.

**Our quarterly operating results are likely to fluctuate significantly and should not be relied upon as indications of future performance.**

We may experience significant fluctuations in quarterly operating results. Due to the risks identified below and elsewhere in "Risk Factors," sales to our largest customers have fluctuated and could fluctuate significantly between quarters. Sales to our customers typically involve large purchase commitments, and customers purchasing our products may generally reschedule purchases without penalty. As a result, our quarterly operating results have fluctuated significantly in the past. Other factors that have influenced and may continue to influence our quarterly operating results include:

- the impact of changes in the customer mix or product mix sold;
- timing of product introductions or enhancements by us or our competitors;

- changes in operating expenses which can occur because of product development costs, timing of customer reimbursements for research and development, pricing pressures and availability and pricing of key components;
- write-offs for obsolete inventory;
- other risks that are contained in this “Risk Factors” section.

Our quarterly fluctuations make it more difficult to forecast our manufacturing and purchasing needs and revenues. It is possible that in some future quarters our operating results will be below the expectations of securities analysts and investors, which may adversely affect our stock price.

**We may experience delays in the deployment of new products.**

Many of our past sales have resulted from our ability to anticipate changes in technology, industry standards and service provider service offerings, and to develop and introduce new and enhanced products and services. Our continued ability to adapt to such changes will be a significant factor in maintaining or improving our competitive position and our prospects for growth. Factors resulting in delays in product development include:

- rapid technological changes in the broadband communications industry;
- our customers’ lengthy product approval and purchase processes;
- our reliance on third-party technology for the development of new products.

There can be no assurance that we will successfully introduce new products on a timely basis or achieve sales of new products in the future. In addition, there can be no assurance that we will have the financial and product design resources necessary to continue to successfully develop new products or to otherwise successfully respond to changing technology standards and service provider service offerings. If we fail to deploy new products on a timely basis, then our product sales will decrease, our quarterly operating results could fluctuate, and our competitive position and financial condition would be materially and adversely affected.

**The telecommunications industry is a highly competitive market and this competition may result in operating losses, a decrease in our market share and fluctuations in our revenue.**

We expect continuing competition as the telecommunications market in general continues to evolve. Because we are significantly smaller than many of our competitors, we may lack the financial resources needed to increase our market share. Many of our competitors are much larger than we are and can offer a wider array of products and services required for a service provider’s business than we do.

We expect continued aggressive tactics from many of our competitors such as:

- forward pricing of products and services;
- early announcements of competing products;
- bids that bundle customer premises products (which compete with the Company’s CNS products) with other product and service offerings where the Company does not have products to offer;
- intellectual property disputes.

**Our lack of backlog may affect our ability to adjust to an unexpected shortfall in orders.**

Because of customer ordering demands we generally ship products within a short period after receipt of an order. We typically do not have a material backlog (or known quantity) of unfilled orders, and our revenues in any quarter are substantially dependent on orders booked in that quarter. Our expense levels and inventory commitments are based on anticipated future revenues and are relatively fixed in the short term. Therefore, we may be unable to cancel purchase orders or adjust spending in a timely manner to compensate for any unexpected shortfall of orders. Accordingly, any significant shortfall of demand in relation to our expectations or any material delay of customer orders would have an immediate adverse impact on our business and operating results.

**Industry consolidation could make competing more difficult.**

Consolidation of companies offering telecommunications products and conferencing services is occurring through acquisitions, joint ventures and licensing arrangements involving our competitors, our customers and our customers’ competitors. We cannot provide any assurances that we will be able to compete successfully in an increasingly

consolidated telecommunications industry. Any heightened competitive pressures that we may face may have a material adverse effect on our business, prospects, financial condition and result of operations.

**We depend on a limited number of customers who are able to exert a high degree of influence over us and loss of a major customer could adversely impact our business.**

We have and will continue to depend on the U.S. telephone companies for the majority of our revenues. Sales to the two largest telephone company customers accounted for approximately 49.8%, 54.4% and 66.8% of our revenues in fiscal 2009, 2008 and 2007, respectively. Consequently, our future success will depend upon:

- the timeliness and size of future purchase orders from the telephone companies;
- the product requirements of the telephone companies;
- the financial and operating success of the telephone companies;
- the success of the telephone companies' services that use our products and services;
- and the Company's level of success in diversifying its revenue streams beyond the telephone companies.

The telephone companies and our other customers are significantly larger than we are and are able to exert a high degree of influence over us. These customers may generally reschedule orders without penalty to the customer. Even if demand for our products is high, the telephone companies have sufficient bargaining power to demand low prices and other terms and conditions that may materially adversely affect our business and operating results.

Any attempt by our customers to seek out additional or alternative suppliers would have a material adverse effect on our business and operating results. The loss of any of our customers could result in an immediate decrease in sales and materially and adversely affect our business.

ConferencePlus' customer base is concentrated as its top twenty-five customers represent a large portion of total revenue. ConferencePlus' customers continually undergo review and evaluation of their conferencing and meeting services to evaluate the merits of bringing those services in-house rather than outsourcing those services. There can be no assurance in the future that ConferencePlus' customers will not develop their own internal conferencing and meeting services. ConferencePlus must continually provide higher quality, lower cost services to maintain and grow its customer base. Any loss of a major account would have a material adverse effect on ConferencePlus. In addition, any merger or acquisition involving a major customer could have a material adverse effect on ConferencePlus.

**Our customers have lengthy purchase cycles that affect our ability to sell our products.**

Prior to selling products to service providers, we must undergo lengthy approval and purchase processes. Evaluation can take as little as a few months for products that vary slightly from existing products or up to a year or more for products based on new technologies or utilized for new service offerings. Accordingly, we are continually submitting successive generations of our current products as well as new products to our customers for approval. The length of the approval process can vary and is affected by a number of factors, including:

- the complexity of the product involved;
- market acceptance of the service provider's service offering;
- service providers priorities;
- service providers budgets;
- regulatory issues affecting our service providers.

The requirement that service providers obtain FCC or state regulatory approval for most new telecommunications and broadband services prior to their implementation has in the past delayed the approval process. Such delays in the future could have a material adverse affect on our business and operating results. While we have been successful in the past in obtaining product approvals from our customers, there is no guarantee that such approvals or that ensuing sales of such products will continue to occur.

**Our services are affected by uncertain government regulation and changes in current or future laws or regulations could restrict the way we operate our business.**

The telecommunications industry, including most of our customers, is subject to regulation from federal and state agencies, including the FCC and various state public utility and service commissions. While these regulations do not affect us directly, the effects of regulations on our customers may adversely impact our business and operating results. For example, FCC regulatory policies affecting the availability of telephone company services and other terms on which telephone companies conduct their business may impede our penetration of local access markets, and/or make the markets less financially attractive.

In addition, our business and operating results may also be adversely affected by the imposition of tariffs, duties and other import restrictions on components that we obtain from non-domestic suppliers or by the imposition of export restrictions on products that we sell internationally. Internationally, some governments actively promote and create competition in the telecommunications industry. Changes in current or future laws or regulations, in the U.S. or elsewhere, could materially and adversely affect our business and operating results.

**Potential product recalls and warranty expenses could adversely affect our ability to remain profitable.**

Our products are required to meet rigorous standards imposed by our customers. Most of our products carry a limited warranty ranging from one to three years for CNS products and up to seven years for OSPlant Systems products. In addition, our supply contracts with our major customers typically require us to accept returns of products within certain time frames or indemnify such customers against certain liabilities arising out of the use of our products. Complex products such as those offered by us may contain undetected defects or failures when first introduced or as new versions are released. Despite our testing of products and our comprehensive quality control program, there is no guarantee that our products will not suffer from defects or other deficiencies. If product defects, recalls, returns or indemnification claims exceed our reserves for these items, our business could be harmed. Such recalls, returns or claims and the associated negative publicity could result in the loss of or delay in market acceptance of our products, and could affect our product sales, our customer relationships, and our ability to generate a profit.

**Investors could be adversely affected by future issuances and sales of our securities.**

Sales of substantial amounts of our common stock in the public market could adversely affect the market price of our securities. The Company had 54,002,409 shares of common stock outstanding as of May 29, 2009. Options to purchase 7,395,663 shares of Class A Common Stock, 4,853,961 of which were exercisable, were also outstanding on May 29, 2009. These obligations could result in substantial future dilution with respect to our common stock.

**We rely on our intellectual property that we may be unable to protect, or we may be found to infringe the rights of others.**

Our success will depend, in part, on our ability to protect trade secrets, obtain or license patents and operate without infringing the rights of others. We rely on a combination of technical leadership, trade secrets, copyright and trademark law and nondisclosure agreements to protect our non-patented proprietary expertise. These measures, however, may not provide meaningful protection for our trade secrets or other proprietary information. Moreover, our business and operating results may be materially adversely affected by competitors who independently develop substantially equivalent technology.

In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as U.S. law. The telecommunications industry is also characterized by the existence of an increasing number of patents and frequent litigation based on allegations of patent and other intellectual property infringement. From time to time we receive communications from third parties alleging infringement of exclusive patent, copyright and other intellectual property rights to technologies that are important to us. We expect potential claims to increase in the future.

There is no guarantee:

- that third parties will not assert infringement claims against us in the future, and that such assertions will not result in costly litigation;
- that we would prevail in any such litigation or be able to license any valid and infringed patents from third parties on commercially reasonable terms.

Further, such litigation, regardless of its outcome, could result in substantial costs to and diversion of our efforts. Any infringement claim or other litigation against or by us could have a material adverse effect on our business and operating results.

**Business interruption could prevent our ability to deliver product and services to our customers and could adversely affect our business.**

We rely on subcontractors in Asia for assembly and testing of and to purchase some of the raw materials used in such assemblies. The reliance on third-party subcontractors for assembly of our products involves several risks, including the unavailability of, or interruptions in access to, certain process technologies and reduced control over product quality, delivery schedules, transportation, manufacturing yields, and costs. These risks may be exacerbated by economic or political uncertainties, terrorist actions, or by natural pandemics in countries in which our subcontractors are located. We contract with our outsource manufacturing partners in U.S. dollars.

ConferencePlus maintains call centers and bridging equipment in the United States, Ireland and Great Britain. If any of the call centers or bridging equipment was unavailable due to natural or other disaster, then our business could be harmed.

**We may engage in future acquisitions or fund raising activity that could dilute our current stockholders.**

We expect to continue to review potential acquisitions and we may acquire businesses, products or technologies in the future. In addition, the Company may decide to raise additional capital to fund its operations. In order to accomplish these activities, acquisitions and fund raising, we could:

- issue equity securities that could dilute our current stockholders' percentage ownership;
- incur substantial debt; or
- assume contingent liabilities.

These events could harm our business and/or the price of our common stock. Acquisitions also entail numerous integration risks that could adversely affect our business.

**ConferencePlus' large competitors could adversely affect ConferencePlus' ability to maintain or increase its market share.**

ConferencePlus participates in the highly competitive industry of voice, video, and multimedia conferencing and meeting services. Competitors include stand-alone conferencing companies and major telecommunications providers. ConferencePlus' ability to sustain growth and performance is dependent on:

- high quality standards and a cost-competitive position;
- international expansion;
- marketing and sales effectiveness;
- evolving technological capability.

Any increase in competition could reduce our gross margin, require increased spending on sales and marketing, and otherwise materially adversely affect our business and operating results.

**Our principal stockholders can exercise significant influence that could discourage transactions involving a change of control and may affect your ability to receive a premium for Class A Common Stock that you purchase.**

As of May 29, 2009, as trustees of a voting trust containing common stock held for the benefit of the Penny family and the Simon family, Robert C. Penny III and Melvin J. Simon have the exclusive power to vote over 48.6% of the votes entitled to be cast by the holders of our common stock. In addition, members of the Penny family who are beneficiaries under this voting trust are parties to a stock transfer restriction agreement which prohibits the beneficiaries from transferring any class B common stock or their beneficial interests in the voting trust without first offering such class B common stock to the other Penny family members. Certain Penny family members also own or are beneficiaries of trusts that own shares outside of the voting trust. As trustees of the Voting Trust and other trusts, Messrs. Penny and Simon control 52.5% of the stock vote. Consequently, we are effectively under the control of Messrs. Penny and

Simon, as trustees, who can effectively control the election of all of the directors and determine the outcome of most corporate transactions or other matters submitted to the stockholders for approval. Such control may have the effect of discouraging transactions involving an actual or potential change of control, including transactions in which the holders of Class A Common Stock might otherwise receive a premium for their shares over the then-current market price.



**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

The Company leases the following real property:

<u>Location</u>	<u>Purpose</u>	<u>Square footage</u>	<u>Termination year</u>
Aurora, IL	Office and distribution	185,000	2017
Schaumburg, IL	Office, Conferencing Services	41,860	2011
Dublin, Ireland	Office, Conferencing Services	2,000	2024
Regina, Saskatchewan, Canada	Office and manufacturing	24,000	2012

A portion of the Aurora facility is used as a product distribution operation and alternative uses are currently being explored for the remaining excess office portion of the Aurora facility.

The Company does not own any real property.

**ITEM 3. LEGAL PROCEEDINGS**

The Company is involved in various legal proceedings incidental to the Company's business. In the ordinary course of our business, we are routinely audited and subject to inquiries by governmental and regulatory agencies.

Management believes that the outcome of such proceedings will not have a material adverse effect on our consolidated operations or financial condition.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's Class A Common Stock is quoted on the NASDAQ Global Select Market under the symbol "WSTL." The following table sets forth for the periods indicated the high and low sale prices for the Class A Common Stock as reported on the NASDAQ Global Select Market.

	High	Low
<b>Fiscal Year 2008</b>		
First Quarter ended June 30, 2007	\$ 2.89	\$ 2.19
Second Quarter ended September 30, 2007	2.97	2.00
Third Quarter ended December 31, 2007	2.78	1.33
Fourth Quarter ended March 31, 2008	2.00	1.38
<b>Fiscal Year 2009</b>		
First Quarter ended June 30, 2008	\$ 1.83	\$ 1.20
Second Quarter ended September 30, 2008	1.38	0.02
Third Quarter ended December 31, 2008	0.73	0.13
Fourth Quarter ended March 31, 2009	0.37	0.21
<b>Fiscal Year 2010</b>		
First Quarter through May 29, 2009	\$ 0.52	\$ 0.27

As of May 29, 2009, there were approximately 840 holders of record of the outstanding shares of Class A Common Stock and five holders of record of Class B Common Stock.

During the fiscal year ended March 31, 2009, no equity securities of the Company were sold by the Company that were not registered under the Securities Act of 1933, as amended.

*Dividends*

The Company has never declared or paid any cash dividends on its common stock and does not anticipate paying any cash dividends in the foreseeable future. The Company currently intends to retain any future earnings to finance the growth and development of its business. In addition, the Company's credit facility restricts the Company's ability to pay dividends without bank approval.

*Issuer Purchases of Equity Securities*

The following table provides information about the Company's repurchase activity for its Class A Common Stock, during the three months ended March 31, 2009.

Period	Total Number of Shares Purchased	Average Price Paid per Share (a)	Total Number of Shares Purchased as Part of Publicly Announced Program (b)	Maximum Number (or Approximate Dollar Value) that May Yet Be Purchased Under the Program (b)
January 1, 2009 – January 31, 2009	27,100	\$0.30	27,100	\$ 8,403,027
February 1, 2009 – February 28, 2009	264,131	0.34	264,131	8,314,047
March 1, 2009 – March 31, 2009	--	--	--	8,314,047
<b>Total</b>	291,231	\$0.33	291,231	\$ 8,314,047

(a) Average price paid per share excludes commissions.

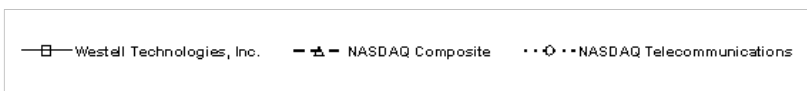
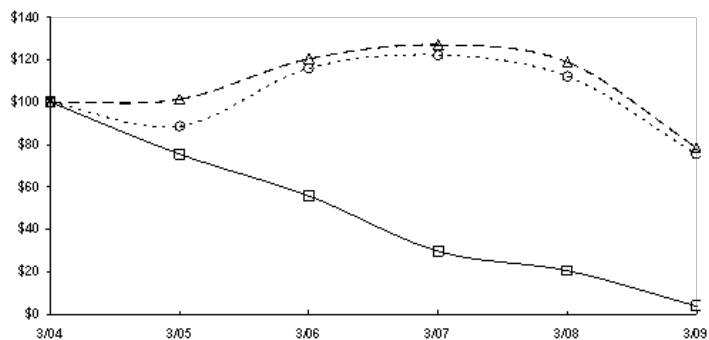
(b) In March 2008, the Board of Directors authorized a share repurchase program whereby the Company may repurchase up to an aggregate of \$10.0 million of its outstanding common shares through March 3, 2010.

Performance Graph

The following performance graph compares the change in the Company's cumulative total stockholder return on its Class A Common Stock with the cumulative total return of the NASDAQ Composite Index and the NASDAQ Telecommunications Index for the period commencing March 31, 2004 and ending March 31, 2009. The stock price performance shown in the performance graph may not be indicative of future stock price performance.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***

Among Westell Technologies, Inc., The NASDAQ Composite Index  
And The NASDAQ Telecommunications Index



\*\$100 invested on 3/31/04 in stock or index, including reinvestment of dividends.  
Fiscal year ending March 31.

Total returns data summary	3/04	3/05	3/06	3/07	3/08	3/09
Westell Technologies, Inc.	100.00	75.48	55.75	29.73	20.55	3.84
NASDAQ Composite	100.00	101.44	120.49	127.08	118.90	78.48
NASDAQ Telecommunications	100.00	88.73	116.07	122.33	112.19	75.49

**ITEM 6. SELECTED FINANCIAL DATA**

The following selected consolidated financial data as of March 31, 2009, 2008, 2007, 2006 and 2005 and for each of the five fiscal years in the period ended fiscal year 2009 have been derived from the Company's Consolidated Financial Statements, which have been audited by Ernst & Young LLP. The data set forth below is qualified by reference to, and should be read in conjunction with, "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Consolidated Financial Statements and the related Notes thereto and other financial information appearing elsewhere in this Annual Report on Form 10-K.

Statement of Operations Data:	Fiscal Year Ended March 31,				
	2009	2008	2007	2006	2005
Revenue	\$ 161,204	\$ 205,729	\$ 256,533	\$ 278,849	\$ 266,339
Cost of equipment revenue and services	110,130	145,289	173,107	194,986	187,976
Gross margin	51,074	60,440	83,426	83,863	78,363
Operating expenses:					
Sales and marketing	24,153	24,067	29,422	23,677	20,679
Research and development	19,854	22,350	24,144	19,766	14,996
General and administrative	20,036	21,537	17,354	15,054	15,781
Goodwill impairment	1,381	9,651	--	--	--
Intangible amortization	1,882	1,834	1,699	1,386	1,335
Restructuring	752	5,717	343	443	(545)
Total operating expenses	68,058	85,156	72,962	60,326	52,246
Gain on sale of product line	--	--	--	--	1,453
Operating income (loss)	(16,984)	(24,716)	10,464	23,537	27,570
Other income (expense), net	662	3,709	3,173	1,559	683
Interest (expense)	(15)	(12)	(7)	(12)	(60)
Income (loss) before income taxes, minority interest and discontinued operations	(16,337)	(21,019)	13,630	25,084	28,193
Income taxes	67	53,495	5,474	10,784	(12,477)
Minority interest	74	260	235	304	520
Net income (loss) from continuing operations	(16,478)	(74,774)	7,921	13,996	40,150
Income (loss) from discontinued operations, net of tax of \$ 0, \$ 208, \$ 418, \$ 672 and \$ 281, respectively	(206)	(1,456)	773	(1,149)	(456)
Net income (loss)	\$ (16,684)	\$ (76,230)	\$ 8,694	\$ 12,847	\$ 39,694
<i>Basic net income (loss) per share:</i>					
Basic net income (loss) from continuing operations	\$ (0.24)	\$ (1.06)	\$ 0.11	\$ 0.20	\$ 0.59
Basic net income (loss) from discontinued operations	\$ (0.00)	\$ (0.02)	\$ 0.01	\$ (0.02)	\$ (0.01)
Basic net income (loss) per share	\$ (0.24)	\$ (1.08)	\$ 0.12	\$ 0.18	\$ 0.58
Average number of basic common shares outstanding	69,470	70,376	69,946	69,440	68,321
<i>Diluted net income (loss) per share</i>					
Diluted net income (loss) from continuing operations	\$ (0.24)	\$ (1.06)	\$ 0.11	\$ 0.20	\$ 0.57
Diluted net income (loss) from discontinued operations	\$ (0.00)	\$ (0.02)	\$ 0.01	\$ (0.02)	\$ (0.01)
Diluted net income (loss) per share	\$ (0.24)	\$ (1.08)	\$ 0.12	\$ 0.18	\$ 0.56
Average number of diluted common shares outstanding	69,470	70,376	71,144	71,529	70,949
<b>Balance Sheet Data (at end of period):</b>					
Working capital (a)	\$ 65,069	\$ 79,064	\$ 88,431	\$ 76,542	\$ 53,249
Total assets	140,176	134,228	207,350	191,813	180,090
Current debt	58	--	5	51	318
Total debt	121	--	5	61	318
Total stockholders' equity	\$ 76,358	\$ 93,495	\$ 167,339	\$ 157,276	\$ 139,658

(a) Working capital is defined as current assets less current liabilities

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

*The following discussion should be read together with the Consolidated Financial Statements and the related Notes thereto and other financial information appearing elsewhere in this Form 10-K. All references herein to the term "fiscal year" shall mean a year ended March 31 of the year specified.*

The Company commenced operations in 1980 as a provider of telecommunications network transmission products that enable advanced telecommunications services over copper telephone wires. Until fiscal 1994, the Company derived substantially all of its revenues from its OSPlant Systems equipment products, particularly the sale of NIU products and related products. The Company introduced its first CNS equipment products in fiscal 1993. The Company has also provided audio teleconferencing services since fiscal 1989 through its Conference Plus, Inc. subsidiary. The Company realizes the majority of its revenues from the North American market.

In the third quarter of fiscal 2009, the Company revised its segment reporting structure to reflect the realignment of internal reporting of its equipment business. This change split the former equipment segment into two separate reporting segments of CNS equipment and OSPlant Systems equipment. In fiscal year 2008, the Company transitioned its internal manufacturing operations from Aurora, Illinois, to an outsourced model using offshore suppliers. CNS and OSPlant Systems products were both manufactured in the Aurora manufacturing facility and shared significant resources. As a result, it is impracticable for the Company to restate prior periods to conform to the current operating segments. In order to provide information comparable to the prior year, the Company has combined the CNS and OSPlant Systems equipment segments in the current year.

The Company's CNS equipment segment products enable high-speed routing and networking of voice, data and video services in the home. The products allow service providers to deliver services, content, and applications over existing copper, fiber, and wireless infrastructures. The Company's CNS products are typically installed in consumer residences as a key component of a broadband service package.

The Company's OSPlant Systems equipment segment products consists of next generation outdoor cabinets, enclosures, power distribution, flexible edge connectors (fiber, Ethernet and coax), remote monitoring, DS1 and DS3 transmission plugs. These solutions are optimized for wireless backhaul, service delivery to business enterprise and smart grid applications. With its recent introduction of Customized Systems Integration ("CSI") service, the Westell OSPlant Systems team now offers its customers a one-stop-shop for complete turnkey solutions, reducing the time-to-market and expenses incurred through third-party contractors eliminating the need to design, assemble and test on the job site. Target customers include Wireline Service Providers, Wireless Service Providers, Multiple System Operators ("MSOs"), Utility Providers and Original Equipment Manufacturers ("OEMs") worldwide. The power distribution and remote monitoring products are designed and provided through the Company's Noran Tel subsidiary located in Regina, Saskatchewan, Canada.

The ConferencePlus services segment is comprised of its subsidiary Conference Plus, Inc. ("ConferencePlus"). During December 2008, the Company purchased the remaining 8.5% minority interest in ConferencePlus for \$3.7 million and as a result, ConferencePlus is now a wholly owned subsidiary of the Company. ConferencePlus provides audio, web and video conferencing services. Businesses and individuals use these services to hold audio, web and voice conferences with multiple participants. ConferencePlus sells its services directly to large customers, including Fortune 1000 companies, and also serves customers indirectly through its private label reseller program.

The prices for the products within each market group vary based upon volume, customer specifications and other criteria, and are subject to change due to competition among telecommunications manufacturers and service providers. Increasing competition, in terms of the number of entrants and their size, and increasing scale of the Company's customers because of past mergers, continues to exert downward pressure on prices for the Company's products.

The Company's customer base for its products is highly concentrated and comprised primarily of major U.S. telecommunications service providers ("telephone companies"), independent domestic local exchange carriers and public telephone administrations located outside the U.S. Due to the stringent quality specifications of its customers and the regulated environment in which its customers operate, the Company must undergo lengthy approval and procurement processes prior to selling its products. Accordingly, the Company must make significant up front investments in product and market development prior to actual commencement of sales of new products.

To remain competitive, the Company must continue to invest in new product development and invest in targeted sales and marketing efforts to launch new product lines. Failure to increase revenues from new products, whether due to lack of market acceptance, competition, technological change or otherwise, would have a material adverse effect on the Company's business and results of operations. The Company expects to continue to evaluate new product opportunities and engage in extensive research and development activities.

The Company has expanded its product offerings in the CNS equipment segment from basic high speed broadband to more sophisticated applications such as VoIP, in-premises networking; wireless/wireline convergence, IP Multimedia Subsystem ("IMS") and FMC, and video / IPTV services. This will require the Company to continue to invest in research and development and sales and marketing, which could adversely affect short-term results of operations. In view of the Company's current reliance on the telecommunications market for revenues and the unpredictability of orders and pricing pressures, the Company believes that period-to-period comparisons of its financial results are not necessarily meaningful and should not be relied upon as an indication of future performance.

In the CNS equipment segment, the Company is focusing on the evolving broadband demand, which includes increased bandwidth, richer application sets and converged capabilities. The Company has introduced products for both the existing local telephone and fiber network including the UltraLine™, ProLine™ and VersaLink™, which are targeted at the home networking, and small business markets. The Company has started shipments of UltraLine™ Series 3, which primarily serves the home networking market. The Company is focusing on cost reducing these products, adding new features and functionality to create additional value in these products.

The OSPlant Systems equipment segment has introduced products and services that focus on customer diversification and has changed from being a Regional Bell Operating Company centric provider into a provider with new sales channels including Independent Operating Companies ("IOCs"), Wireless Service Providers, MSOs, Utility Providers and OEMs worldwide. The Company acquired 100% of the common stock of Noran Tel, Inc. on January 2, 2007. With the addition of Noran Tel, the Company has obtained sales channels for some of its existing products, has added additional transmission products to offer in its existing sales channels and has gained new products in areas of power distribution and remote monitoring. The Company also plans to invest in new product areas to compliment wireless, fiber, and Ethernet applications.

In the first quarter of fiscal year 2009, the Company decided to cease the operations of its Westell Limited entity located in Basingstoke, England to increase efforts to focus on the core businesses of the Company. All employees have been terminated and the facility has been closed. Westell Limited is shown as discontinued operations in the Company's Consolidated Statements of Operations.

As previously disclosed, ConferencePlus was informed by its second largest customer that the customer intends to transfer all business to another conferencing provider. The transition by this customer occurred in the first fiscal quarter of 2009 and is substantially complete. The revenue from this customer was \$1.7 million and \$10.3 million in fiscal years 2009 and 2008, respectively. The ConferencePlus segment has been impacted positively by the current economy as limited business travel increases conferencing call volume, but the lower overall employment market has negatively impacted the business.

The Federal Communications Commission ("FCC") has recently determined that audio and video bridging services are equivalent to teleconferencing services and are "telecommunications" under the Telecommunications Act of 1996 and the Universal Service First Report and Order. Due to this FCC Ruling, ConferencePlus must pay Federal Universal Service Fund Fees ("FUSF") on applicable revenue for services provided on or after October 1, 2008. The FCC allows telecommunications companies to recover the cost of collecting, remitting and reporting FUSF fees. ConferencePlus charges its clients an amount equal to what it must remit, plus charges an administrative fee to recover the cost of providing these services. ConferencePlus recorded approximately \$780,000 of revenue for FUSF related expenses, which are included in cost of telecom services, during the year ended March 31, 2009.

In fiscal year 2009, the Company initiated a reduction in force relating to all three business segments in efforts to reduce costs. In the first quarter of fiscal year 2010, the Company took further cost reduction actions that resulted in the termination of approximately 30 employees primarily in the CNS equipment segment and 20 employees in the ConferencePlus services segment. The total cost of this restructuring action is estimated to cost \$414,000, \$46,000 and \$139,000 in the CNS equipment, OSPlant Systems equipment and ConferencePlus services segments, respectively.

#### **Critical Accounting Policies**

The Company uses estimates and judgments in applying its accounting policies that have a significant impact on the results reported in the Consolidated Financial Statements. The following are the Company's most critical accounting policies.

#### *Inventory Reserves*

The Company reviews inventory for excess quantities and obsolescence based on its best estimates of future demand, product lifecycle status and product development plans. The Company uses historical information along with these future estimates to reserve for obsolete and potentially obsolete inventory. The Company also evaluates inventory valuation for lower of cost or market concerns. Prices related to future inventory demand are compared to current and committed inventory values.

#### *Inventory Purchase Commitments*

In the normal course of business, the Company enters into commitments for the purchase of inventory and long-distance telephone services. The commitments are at market rates. Should there be a dramatic decline in revenues the Company may incur excess inventory and subsequent losses as a result of these commitments. The Company has established reserves for potential losses on such commitments.

#### *Income Taxes*

Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities, applying enacted statutory tax rates in effect for the year in which the tax differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

#### *Goodwill and Intangibles*

Pursuant to the requirements of FAS No. 142, *Goodwill and Other Intangible Assets* ("FAS No. 142"), the Company evaluates its goodwill for impairment on an annual basis during the fourth quarter of each fiscal year or at an interim period if indicators of impairment exist. The goodwill impairment test compares the fair value of a reporting unit with its carrying value. If the carrying value of a reporting unit exceeds its fair value, goodwill of the reporting unit would be considered impaired. To measure the amount of the impairment loss, the fair value of a reporting unit's goodwill is compared to the carrying value of that goodwill. If the carrying value of a reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess. The implied fair value of goodwill shall be determined in the same manner as the amount of goodwill recognized in a business combination is determined. The fair value of each of the Company's reporting units was determined using a discounted cash flow methodology. An impairment charge of approximately \$9.7 million was taken in the fourth quarter of fiscal year 2008 at the Westell Inc. reporting unit. In fiscal 2009, a \$1.4 million impairment was recorded at the Noran Tel reporting unit.

On an ongoing basis, the Company reviews intangible assets and other long-lived assets other than goodwill for impairment whenever events and circumstances indicate that carrying values may not be recoverable. If such events or changes in circumstances occur, the Company will recognize an impairment loss if the fair value is less than the carrying value of the related asset. The impairment loss would adjust the asset to its fair value.

#### *Revenue Recognition, Deferred Revenue and Deferred Costs*

Revenue recognition on equipment where software is incidental to the product as a whole generally occurs when products are shipped, risk of loss has transferred to the customer, objective evidence exists that customer acceptance provisions have been met, no significant obligations remain, collection is reasonably assured and warranty can be estimated.

Due to the technological advances inherent in the telecommunications industry, the Company must assess its revenue recognition policy as products technologically evolve. In doing so for the UltraLine™ Series3 products, the Company determined that embedded software is more than incidental to the product as a whole and therefore applied the provisions of Statement of Position ("SOP") No. 97-2, *Software Revenue Recognition*, and all related interpretations.

Currently, the UltraLine™ Series3 products are sold primarily to a single customer with contractual provisions that include specified future software enhancements and post customer support ("PCS") to maintain ongoing interoperability within the customer's network. Although the product has been delivered to the customer, is installed and meets the customer's current requirements, under SOP No. 97-2, multiple element arrangements that include software are separated into units of accounting when the following criteria are met: the functionality of the delivered

elements is not dependent on the undelivered elements, there is vendor-specific objective evidence (“VSOE”) of the fair value of the undelivered elements, and general revenue recognition criteria related to the delivered elements have been met. If any of these criteria are not met, revenue and related direct costs are deferred until the criteria are met or the last element has been delivered.

The Company was not able to establish VSOE for the specified future software enhancements and therefore deferred revenue recognition on these products until all of the criteria under SOP 97-2 are met. If the revenue recognition criteria for the specified future software enhancements has been met and the only undelivered element is PCS, the Company intends to use the cumulative catch up method to record revenue and related costs equal to the total arrangement consideration less the portion applicable to the remaining PCS service period, which will be recognized pro rata over the remaining PCS service period.

#### *Stock-based Compensation*

The Company accounts for stock-based compensation using the provisions of FAS No. 123R, *Share-Based Payments* (“FAS No. 123R”). FAS No. 123R requires the grant date fair value recognition of expense related to employee stock-based compensations awards over the requisite service period. Determining the fair value of equity-based awards requires the Company to estimate the expected volatility of its stock, the risk-free interest rate, expected option term, expected dividend yield and expected forfeitures.

#### *Warranty Costs*

Most of the Company’s products carry a limited warranty ranging from one to three years for CNS equipment segment products and up to seven years for OSPlant Systems equipment segment products. The warranty reserve is based on historical sales and cost of repair or replacement trends

#### **New Accounting Pronouncements**

In December 2007, FASB issued FAS No. 141(R), *Business Combinations* (“FAS No. 141R”). This FAS establishes the principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, b) recognizes and measures goodwill acquired in the business combination or a gain from a bargain purchase, c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS No. 141R is effective for the Company on April 1, 2009. This statement applies prospectively to business combinations with an acquisition date on or after the effective date. Earlier application is prohibited. The adoption of FAS No. 141R will not have an immediate impact on the Company’s Consolidated Financial Statements.

In December 2007, the FASB issued FAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No.51* (“FAS No. 160”). A noncontrolling interest, sometimes called a minority interest, is the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. This FAS establishes accounting and reporting standards that improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its Consolidated Financial Statements. FAS No. 160 is effective for the Company on April 1, 2009. This statement applies prospectively beginning in the fiscal year in which the Statement is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. As the Company does not have a minority interest as of March 31, 2009, the immediate impact of the adoption of FAS160 will only affect presentation and disclosure, therefore, the adoption of FAS No. 160 will not have a material impact on the Consolidated Financial Statements.

In April 2009, the FASB issued a final FASB Staff Position (“FSP”) FAS No. 107-1 and APB No. 28-1, *Disclosures about Fair Value of Financial Instruments*, which increases the frequency of fair value disclosures to a quarterly instead of annual basis. The guidance relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet at fair value. Effective for interim and annual periods ending after June 15, 2009, but entities may early adopt the FSP for the interim and annual periods ending after March 15, 2009. The Company does not believe that the adoption of this statement will have a material impact on our financial statements.

In April 2009, the FASB issued FSP FAS No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, which provides guidelines for a broad interpretation of when to apply market-based fair value measurements. The FSP reaffirms management’s need to use judgment to determine when a market that was once active has become inactive and in determining fair values in markets that are no longer active. It is effective for interim and annual



periods ending after June 15, 2009, but entities may early adopt the FSP for the interim and annual periods ending after March 15, 2009. The Company does not believe that the adoption of this statement will have a material impact on our financial statements.

In April 2008, the FASB issued FSP FAS No. 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP No. 142-3"), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets* ("FAS No. 142"). FSP No. 142-3 will be effective for fiscal years beginning after December 15, 2008, and is not expected to have a material impact on the Company's Consolidated Financial Statements.

## Results of Operations

### Fiscal Years Ended March 31, 2009, 2008 and 2007

<i>Revenue</i>	<u>Fiscal Year Ended March 31,</u>			<u>Increase (Decrease)</u>	
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2009 vs. 2008</u>	<u>2008 vs. 2007</u>
(in thousands)					
CNS equipment	\$ 59,495	\$ 97,923	\$ 153,772	\$ (38,428)	\$ (55,849)
OSPlant Systems equipment	56,506	54,108	54,217	2,398	(109)
Combined equipment	116,001	152,031	207,989	(36,030)	(55,958)
ConferencePlus services	45,203	53,698	48,544	(8,495)	5,154
Consolidated revenue	\$ 161,204	\$ 205,729	\$ 256,533	\$ (44,525)	\$ (50,804)

In fiscal year 2009, consolidated revenue decreased by 22%. CNS equipment revenue decreased by 39%, OSPlant Systems equipment revenue increased 4% and ConferencePlus services revenue decreased by 16%. The decrease in CNS equipment revenue was due to a 26% decrease in unit volume of modems and gateway products along with a 20% decrease in average selling prices. In addition, the Company shipped \$25.3 million of the UltraLine™ Series3 product, but deferred recognition of revenue and associated costs pursuant to GAAP software accounting rules. The OSPlant Systems equipment revenue increase was the result of increases in revenue from network interface units and outdoor mountings due to increased demand from wireline service providers for outside plant wireless backhaul solutions. The ConferencePlus services revenue decrease was due to decreased call minutes related primarily to the previously disclosed loss of revenue from its second largest customer.

In fiscal year 2008, consolidated revenue decreased by 20%. CNS equipment revenue decreased by 36%, OSPlant Systems equipment revenue was flat and ConferencePlus services revenue increased 11%. The decrease in CNS equipment revenue was due primarily to a 30% decrease in unit volume along with a 15% decrease in average sales price. The decrease in unit volume was primarily due to the completion in October 2007 of providing product under a BellSouth contract. OSPlant Systems equipment had lower sales volumes offset by the inclusion of a full year of revenue from the acquisition of Noran Tel. The ConferencePlus services revenue increase was due to an increase in minutes billed.

<i>Gross Margin</i>	<u>Fiscal Year Ended March 31,</u>			<u>Increase (Decrease)</u>	
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2009 vs. 2008</u>	<u>2008 vs. 2007</u>
CNS equipment	13.5%	NA	NA	NA	NA
OSPlant Systems equipment	40.4%	NA	NA	NA	NA
Combined equipment	26.6%	22.8%	28.5%	3.8%	(5.7)%
ConferencePlus services	44.7%	48.1%	49.7%	(3.4)%	(1.6)%
Consolidated gross margin	31.7%	29.4%	32.5%	2.3%	(3.1)%

In fiscal 2009, consolidated gross margin increased by 2.3%. Gross margin in the combined equipment segments increased by 3.8% due primarily to a higher mix of OSPlant Systems product sales compared to CNS product sales. Additionally, the Company recorded \$1.2 million in accelerated depreciation expense in fiscal 2008 related to the change in estimated useful life of manufacturing equipment that was no longer needed by the Company after the

implementation of its outsourcing strategy which shut down the Aurora manufacturing facility. The decrease in gross margin percentage at the ConferencePlus services segment was due to lower revenue to cover fixed overhead costs and a \$700,000 loss contingency reserve for a contractual dispute. Further, the Company deferred \$646,000 of gross margin related to the ULS3 shipments.

In fiscal 2008, consolidated gross margin decreased by 3.1%. Gross margin in the combined equipment segments decreased by 5.7% due to pricing pressures in the CNS product line and charges for excess and obsolete inventory of \$2.4 million, accelerated depreciation noted above and other period costs related to the shut down of the Aurora manufacturing facility. The fiscal 2008 ConferencePlus services segment gross margins decreased by 1.6% due to pricing pressures in the conferencing industry.

<i>Sales and Marketing ("S&amp;M")</i>	<u>Fiscal Year Ended March 31,</u>			<u>Increase (Decrease)</u>	
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2009 vs. 2008</u>	<u>2008 vs. 2007</u>
(in thousands)					
CNS equipment	\$ 9,464	NA	NA	NA	NA
OSPlant Systems equipment	5,468	NA	NA	NA	NA
Combined equipment	14,932	12,284	19,620	2,648	(7,336)
ConferencePlus services	9,221	11,783	9,802	(2,562)	1,981
Consolidated S&M expense	\$ 24,153	\$ 24,067	\$ 29,422	\$ 86	\$ (5,355)
Percentage of Revenue	15%	12%	12%		

In fiscal 2009, sales and marketing expense increased in the combined equipment segments by \$2.6 million due primarily to a \$2.7 million net gain related to the recovery of product warranty costs, third-party costs and internal costs for non-conforming products from a vendor during fiscal year 2008. Sales and marketing expenses decreased by \$2.6 million in the ConferencePlus services segment due primarily to a \$1.7 million reduction in salary related expenses, \$0.2 million in travel expenses and \$0.2 million in advertising costs.

In fiscal 2008, consolidated sales and marketing expense decreased by \$5.4 million. In the combined equipment segments, the \$7.3 million decrease is primarily due to the \$2.7 million net gain described above. The Company recorded warranty expense of \$1.1 million in fiscal year 2007 related to this issue. Employee-related expenses also decreased by \$609,000 due to reorganization actions taken during fiscal 2008. Sales and marketing headcount decreased by 35% from March 31, 2007 to March 31, 2008. Consulting expense decreased by \$930,000 in fiscal 2008 compared to 2007 as the Company stopped funding DSL initiatives in Europe in 2008. These decreases were offset in part by a \$410,000 increase due to the inclusion of a full year's result of Noran Tel operations subsequent to acquisition. Sales and marketing expenses increased by \$2.0 million in the ConferencePlus services segment due to increased number of sales employees.

The Company believes that sales and marketing expense in the future will continue to be a significant percent of revenue and will be required to expand its product lines, bring new products to market and service customers.

<i>Research and Development ("R&amp;D")</i>	<u>Fiscal Year Ended March 31,</u>			<u>Increase (Decrease)</u>	
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2009 vs. 2008</u>	<u>2008 vs. 2007</u>
(in thousands)					
CNS equipment	\$ 15,029	NA	NA	NA	NA
OSPlant Systems equipment	2,604	NA	NA	NA	NA
Combined equipment	17,633	19,946	22,113	(2,313)	(2,167)
ConferencePlus services	2,221	2,404	2,031	(183)	373
Consolidated R&D expense	\$ 19,854	\$ 22,350	\$ 24,144	\$ (2,496)	\$ (1,794)
Percentage of Revenue	12%	11%	9%		

Research and development expenses in the combined equipment segments decreased by \$2.3 million in fiscal year 2009 due to a \$4.5 million decrease in employee-related expense. Average headcount was reduced by 41% in the year and employee bonus payouts were earned a lower rate than in the prior year. This decrease was offset by an increase in outside consulting expenses by \$1.1 million due to moving some of the engineering development from internal employees to more cost-effective consultants in India.

The fiscal year 2008 research and development expenses in the combined equipment segments decreased by \$2.2 million, primarily due to a \$1.8 million decrease in employee-related expense. Average headcount was reduced by 14% in the year. Additionally, outside consulting services decreased by \$1.4 million in fiscal 2008. This decrease in R&D was offset in part by a \$530,000 increase in research and development expense due to the Company's investment in Contineo (See Note 1) and a \$423,000 increase due to the inclusion of a full year's result of the Noran Tel operations subsequent to the acquisition.

<i>General and Administrative ("G&amp;A")</i>	<u>Fiscal Year Ended March 31,</u>			<u>Increase (Decrease)</u>	
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2009 vs. 2008</u>	<u>2008 vs. 2007</u>
(in thousands)					
CNS equipment	\$ 392	NA	NA	NA	NA
OSPlant Systems equipment	628	NA	NA	NA	NA
Unallocated equipment	11,131	NA	NA	NA	NA
<b>Combined equipment</b>	<b>12,151</b>	<b>13,722</b>	<b>10,115</b>	<b>(1,571)</b>	<b>3,607</b>
ConferencePlus services	7,885	7,815	7,239	70	576
<b>Consolidated G&amp;A expense</b>	<b>\$ 20,036</b>	<b>\$ 21,537</b>	<b>\$ 17,354</b>	<b>\$ (1,501)</b>	<b>\$ 4,183</b>
Percentage of Revenue	12%	11%	7%		

The combined equipment segments general and administrative expense decreased \$1.6 million in fiscal year 2009. The decrease is primarily the result of a \$1.9 million reduction in outside consulting expense of which \$1.6 million related to costs incurred in fiscal 2008 to assist the Company in implementing its outsourcing strategy. In addition, employee-related costs decreased \$1.2 million, resulting from \$567,000 less bonus expense and \$473,000 of employee termination costs recorded in fiscal year 2008 and 3 fewer employees. The decreases were offset by \$1.3 million of severance and stock-based compensation for the accelerated vesting of restricted stock awards to Mr. Thomas Mader, a former Chief Executive Officer.

The fiscal year 2008 increase of \$3.6 million in the combined equipment segments was due primarily to a \$2.3 million increase in consulting expenses, of which \$1.6 million was related to consulting related to the implementation of the Company's outsourcing strategy as noted above, a \$1.2 million increase in legal expenses related to the previously discussed SEC investigation, and \$550,000 increase from the inclusion of a full year's result of the Noran Tel operations subsequent to acquisition. Employee-related expense decreased by \$444,000 in fiscal 2008 as headcount decreased by 10 employees.

**Restructuring** In fiscal 2009, the Company recorded \$752,000 in restructuring expense related to cost reduction initiatives. In fiscal 2008, the Company moved substantially all of its equipment manufacturing operations in the combined equipment segments from Aurora, Illinois, to offshore suppliers in China. The Company recognized restructuring expenses of \$5.7 million related primarily to severance costs for 443 employees. In fiscal year 2007, the Company recorded \$343,000 of restructuring expense.

**Goodwill impairment** The Company recognized a goodwill impairment of \$1.4 million, \$9.7 million, and \$0 in fiscal year 2009, 2008 and 2007, respectively. In fiscal year 2009, the Company performed an interim impairment test on goodwill as required under FAS No. 142, *Goodwill and Other Intangible Assets* ("FAS No. 142") as the adverse economic environment was a potential indicator that goodwill could be impaired. As a result of the interim test, the Company recorded a \$1.4 million charge to write down goodwill in the Noran Tel reporting unit, which is part of the OSPlant Systems equipment segment. No additional impairment was identified during the Company's annual impairment testing performed in the fourth quarter. In conducting the annual impairment testing in fiscal year 2008, the Company determined that the goodwill recorded in the Westell Inc. reporting unit relating to the fiscal 2000 acquisition of Teltrend, Inc. and the fiscal 2006 acquisition of HyperEdge, Inc. was impaired, and as a result, a goodwill impairment charge of \$9.7 million was recorded. No impairment was found in the annual testing performed in fiscal 2007.

**Intangible amortization** Intangible amortization was \$1.9 million, \$1.8 million and \$1.7 million in fiscal 2009, 2008 and 2007, respectively. The intangible assets are primarily part of the OSPlant Systems equipment segment and consist of product technology and customer relationships.

**Other income, net** Other income, net was \$662,000, \$3.7 million and \$3.2 million for fiscal years 2009, 2008, and 2007, respectively. Other income, net was primarily comprised of interest income earned on short-term cash investments and unrealized gains or losses on intercompany balances denominated in foreign currency. The decrease in other income, net in fiscal year 2009 was due to lower cash balances and reduced short-term interest rates. The increase in other income, net for fiscal year 2008 was due higher average cash balances in the year compared to fiscal year 2007.

**Income Taxes** Income tax expense was \$67,000, \$53.5 million and \$5.5 million for fiscal years 2009, 2008, and 2007, respectively. In assessing the realizability of the deferred tax assets, the Company considered whether it is more likely than not that some portion or all of the deferred tax assets will not be realized through the generation of future taxable income. As a result of this assessment, the Company recorded a valuation allowance to fully reserve for tax benefits generated in fiscal year 2008. In fiscal 2009, the Company increased the valuation allowance to fully reserve for deferred tax assets recorded during the year.

**Minority Interest** Minority interest expense was \$74,000, \$260,000 and \$235,000 in fiscal years 2009, 2008 and 2007, respectively. Minority interest expense represents the Company's minority share of income at the then 91.5% owned subsidiary, Conference Plus, Inc. The remaining minority interest was purchased by the Company in the third quarter of fiscal 2009.

**Discontinued Operations** Net loss from discontinued operations was \$206,000 and \$1.5 million in fiscal years 2009 and 2008, respectively and net income from discontinued operations of \$773,000 in fiscal 2007. In the first quarter of fiscal year 2009, the Company decided to cease the operations of its Westell Limited subsidiary in the UK. All remaining employees have been terminated and the facility has been closed.

## Quarterly Results of Operations

The following tables present certain financial information for each of the last eight fiscal quarters. The Company believes that the unaudited information regarding each of these quarters is prepared on the same basis as the audited Consolidated Financial Statements of the Company appearing elsewhere in this Form 10-K. In the opinion of management, all necessary adjustments (consisting only of normal recurring adjustments) have been included to present fairly the unaudited quarterly results when read in conjunction with the audited Consolidated Financial Statements of the Company and the Notes thereto appearing elsewhere in this Form 10-K. These quarterly results of operations are not necessarily indicative of the results for any future period.

	Quarter Ended							
	Fiscal 2008				Fiscal 2009			
	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007	Mar. 31, 2008	June 30, 2008	Sept. 30, 2008	Dec. 31, 2008	Mar. 31, 2009
(in thousands, except per share amounts)								
Revenue	\$ 58,401	\$ 59,421	\$ 43,730	\$ 44,177	\$ 38,058	\$ 43,120	\$ 38,301	\$ 41,725
Gross margin	17,947	16,334	14,204	11,955	12,847	13,110	12,328	12,789
Operating expenses	19,735	18,143	18,423	28,855	18,009	18,405	16,475	15,169
Income tax	(261)	(326)	(955)	55,037	27	48	(62)	54
Net income (loss)	(916)	(668)	(2,502)	(72,144)	(5,521)	(5,109)	(4,061)	(1,993)
Net income (loss) per common share:								
Basic	\$ (0.01)	\$ (0.01)	\$ (0.04)	\$ (1.02)	\$ (0.08)	\$ (0.07)	\$ (0.06)	\$ (0.03)
Diluted	\$ (0.01)	\$ (0.01)	\$ (0.04)	\$ (1.02)	\$ (0.08)	\$ (0.07)	\$ (0.06)	\$ (0.03)

The quarterly fluctuations in revenue are due primarily to fluctuations in the CNS equipment segment. These fluctuations are due to product mix between the modem and VersaLink™ products, quantity shipped and generally declining sales prices. In the December 31, 2007 quarter, the Company concluding shipping of CNS products under a BellSouth agreement in October of 2007. Quarterly gross margin was impacted primarily by price repression in the CNS equipment segment. The margin in the fourth quarter of fiscal 2008 was negatively impacted by \$1.1 million of excess and obsolete inventory expense recorded. Operating expenses in the June 30, 2008 quarter was positively impacted by a \$3.3 million gain related to the recovery of product warranty costs from a vendor and negatively impacted by \$3.9 million in restructuring cost recorded relating to the Company's outsourcing plan. Operating expenses in June, September and December 2007 quarters also contained \$545,000, \$ 552,000 and \$521,000 of consulting expense related to the outsourcing strategy. Operating expenses in the March 31, 2008 quarter was impacted by an additional restructuring charge of \$1.9 million and a goodwill impairment charge of \$9.7 million. In addition, the Company recorded tax expense of \$55.5 million relating primarily to valuation allowance all deferred tax assets in that quarter. Operating expenses in the September 2008 quarter were impacted by \$1.3 million of severance and stock-based compensation expense related to the accelerated vesting of restricted stock both for the former CEO, Thomas Mader. For the quarter ended December 31, 2008, operating expenses included \$808,000 of unallocated equipment restructuring expense and \$1.4 million of goodwill impairment charges in the OSPlant Systems equipment segment. In the quarter ended March 31, 2009, the Company recorded a \$700,000 loss contingency for a contractual dispute as a component of cost of services in the ConferencePlus services segment. The Company also recorded a \$925,000 non-cash rent charge of which \$462,000 was included in CNS equipment operating expenses, \$158,000 was included in OSPlant Systems equipment operating expenses, \$157,000 was included in unallocated G&A operating expenses, and \$148,000 was recorded in cost of equipment revenues to correct the Company's lease accounting policy.

The Company expects to continue to experience significant fluctuations in quarterly results of operations. The Company believes that fluctuations in quarterly results may cause the market price of the Class A Common Stock to fluctuate, perhaps substantially. Some factors which have had an influence on and may continue to influence the Company's results of operations in a particular quarter include, but are not limited to, the size and timing of customer orders and subsequent shipments, customer order deferrals in anticipation of new products, timing of product introductions or enhancements by the Company or its competitors, market acceptance of new products, technological changes in the telecommunications industry, competitive pricing pressures, accuracy of customer forecasts of end-user demand, write-offs for obsolete inventory, changes in the Company's operating expenses, personnel changes, foreign currency fluctuations, changes in the mix of products sold, quality control of products sold, disruption in sources of supply, regulatory changes, capital spending, delays of payments by customers, working capital deficits and general economic conditions. Sales to the Company's customers typically involve long approval and procurement cycles and can involve large purchase commitments. Accordingly, cancellation or deferral of one or a small number of orders could cause significant fluctuations in the Company's quarterly results of

operations. As a result, the Company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as indications of future performance.

The Company's expense levels are based in large part on anticipated future revenues and are relatively fixed in the short term. Therefore, the Company may be unable to adjust spending in a timely manner to compensate for any unexpected shortfall of orders. Accordingly, any significant shortfall of demand in relation to the Company's expectations or any material delay of customer orders would have an almost immediate adverse impact on the Company's business and results of operations and profitability.

#### **Liquidity and Capital Resources**

At March 31, 2009, the Company had \$46.1 million in cash and cash equivalents, including the \$173,000 of Contineo cash, consisting of bank deposits, highly rated money market funds backed by the government and money market funds that hold assets primarily consisting of U.S. government obligations. At March 31, 2009, the Company had no amounts outstanding and \$12.0 million available under its secured revolving credit facility.

The Company does not have any significant debt nor does it have material capital expenditure requirements, balloon payments or other payments due on long term obligations. The Company does not have any off-balance sheet arrangements other than the Enginuity note described in Note 11 of the Consolidated Financial Statements. Total future obligations and commitments of March 31, 2009 were \$90.6 million. The Company believes that the existing sources of liquidity and cash from operations will satisfy cash flow requirements for the foreseeable future.

The Company entered into a Credit Agreement with The Private Bank and Trust Company dated as of March 5, 2009 (the "Credit Agreement"). The Credit Agreement is a one-year asset-based revolving credit facility in an amount up to \$12.0 million based on 80% of eligible accounts receivable plus the lesser of 30% of eligible inventory or \$3.0 million. The obligations of the Company under the Credit Agreement are secured by a guaranty from certain direct and indirect domestic subsidiaries of the Company, and by substantially all of the assets of the Company.

The revolving loans under the Credit Agreement bear interest at the greater of the London Interbank Offered Rate ("LIBOR") plus a spread of 2.5%, or an alternative base rate. The alternative base rate is the greater of prime rate or the Federal Funds rate plus 0.25% (the "Base Rate"). The Company is also required to pay a one-time closing fee of \$25,000 and non-use fee of 0.75% per annum on the unused portion of the revolving loans. These fees are waived if the Company maintains with the lender an average monthly demand deposit account balance of \$5.0 million and an average monthly investment balance of \$15.0 million.

The Credit Agreement contains financial covenants that include a minimum EBITDA, a minimum tangible net worth and a limitation on capital expenditures for any fiscal year. The Company was in compliance with these covenants on March 31, 2009.

In addition, although the Company has never declared or paid any cash dividends on its common stock and does not anticipate paying any cash dividends in the foreseeable future, the Company's credit facility restricts the Company's ability to pay dividends without bank approval.

The Company's operating activities used cash of \$14.7 million and \$1.9 million in fiscal 2009 and 2008, respectively, and generated cash of \$39.5 million in fiscal 2007. Cash used in fiscal 2009 resulted primarily from a net loss of \$16.7 million offset by \$10.4 million of depreciation, amortization, stock-based compensation, restructuring and goodwill impairment. The change in balance sheet accounts was a use of \$8.6 million resulting primarily from increases in inventory, prepaid expenses and accounts receivable.

Cash used in fiscal 2008 resulted primarily from a net loss of \$76.2 million, which includes \$53.6 million valuation allowance on deferred taxes and \$9.7 million of non-cash goodwill impairment. Depreciation, amortization, stock-based compensation and restructuring offset the loss by \$15.3 million. Cash generated by operations in fiscal 2007 resulted primarily from net income of \$8.7 million and by \$9.8 million of depreciation, amortization expense and stock-based compensation, as well as, an increase of \$5.2 million of deferred taxes. In fiscal 2007, the change in balance sheet accounts provided \$15.1 million in total from decreases in accounts receivable and inventory, and from increases in accounts payable and accrued expenses.

The Company's investing activities used \$3.3 million, \$3.1 million and \$10.7 million in fiscal 2009, 2008 and 2007, respectively. In fiscal 2009, the Company used \$2.2 million on capital expenditures and \$3.7 million to acquire the remaining minority interest of Conference Plus, Inc. Additionally, the Company sold \$2.6 million of short-term investments to fund a deferred compensation arrangement. In fiscal 2008, the Company used \$4.7 million on capital expenditures and received \$2.3 million from the sale of manufacturing equipment no longer required after production moved offshore. In fiscal 2007, the Company used \$3.8 million on capital expenditures and \$6.2 million on acquisitions.

The combined equipment segments capital expenditures were \$1.3 million in fiscal 2009 which were primarily for leasehold improvements and storage racking to convert the former manufacturing facility into a distribution facility. The combined equipment segments capital expenditures for fiscal 2008 and 2007 were \$2.1 million and \$2.9 million, respectively and were primarily for machinery and research and development equipment purchases. The ConferencePlus services segment capital expenditures in fiscal 2009, 2008 and 2007 were \$0.9 million, \$2.6 million and \$0.9 million, respectively. These expenditures were primarily for teleconference bridge equipment.

The Company's financing activities used \$1.4 million of cash in fiscal 2009 and generated \$316,000 and \$335,000 of cash in fiscal 2008 and 2007, respectively. The Company purchased \$1.6 million of treasury stock in fiscal 2009. The primary financing source of cash in fiscal 2008 and 2007 was proceeds from the issuance of stock for the exercise of stock options.

Future obligations and commitments as of March 31, 2009 consisted of the following:

(in thousands)	Payments due by fiscal year						
	2010	2011	2012	2013	2014	Thereafter	Total
Purchase obligations	\$ 66,918	\$ 2,960	\$ 8	\$ --	\$ --	\$ --	\$ 69,886
Future minimum lease payments for operating leases	3,066	3,024	2,322	2,097	2,114	8,060	20,683
Future obligations and commitments	\$ 69,984	\$ 5,984	\$ 2,330	\$ 2,097	\$ 2,114	\$ 8,060	\$ 90,569

Purchase obligations consist of raw materials in the equipment segment and local and long distance telephone service commitments in the ConferencePlus services segment that arise in the normal course of business operations.

As of March 31, 2009, the Company had deferred tax assets of approximately \$70.5 million before a valuation allowance of \$64.3 million, which reduced the recorded net deferred tax asset to \$6.2 million. The remaining deferred tax asset is fully reserved by a FIN 48 liability recorded in other long-term liabilities.

The net operating loss carryforwards begin to expire in 2020. Realization of deferred tax assets associated with the Company's future deductible temporary differences, net operating loss carryforwards and tax credit carryforwards is dependent upon generating sufficient taxable income prior to their expiration. The Company uses estimates of future taxable income to access the valuation allowance required against deferred tax assets. Management periodically evaluates the recoverability of the deferred tax assets and will adjust the valuation allowance against deferred tax assets accordingly.

#### Off-Balance Sheet Arrangements

In fiscal year 2005, the Company sold its Data Station Termination product lines and specified fixed assets to Enginuity Communications Corporation ("Enginuity"). The Company provided an unconditional guarantee relating to a 10-year term note payable by Enginuity to the third-party lender that financed the transaction (the "Enginuity Note"). The Enginuity Note has an unpaid balance of \$1.0 million as of March 31, 2009. Certain owners of Enginuity personally guaranteed the note and pledged assets as collateral. These personal guarantees will stay in place until the note is paid in full as will the Company's guarantee. Under the Company's guarantee, the Company must pay all amounts due under the note payable upon demand from the lender, however, the Company would have recourse against the assets of Enginuity and the personal guarantees.

The Company evaluated FIN No. 46R and concluded that Enginuity was a VIE as a result of the debt guarantee. The Company is not considered the primary beneficiary of the VIE, therefore consolidation is not required.

At the time of the product sale, the Company assessed its obligation under this guarantee pursuant to the provisions of FIN No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* and recorded a \$300,000 liability for the value of the guarantee. The Company evaluates the liability each quarter based on Engenuity's operating performance and current status of the guaranteed debt obligation. The balance of the liability is \$100,000 and \$125,000 as of March 31, 2009 and March 31, 2008, respectively. The liability is shown as a current liability in the accrued expenses line on the Consolidated Balance Sheets.

## **ITEM 8. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **7A.**

The Company is subject to certain market risks, including foreign currency rate exposures. The Company has foreign subsidiaries in Ireland and Canada that develop and sell products and services in those respective countries and in other countries. The Company is exposed to potential gains and losses from foreign currency fluctuations affecting net investments and earnings denominated in foreign currencies. The Company's primary future exposure is to changes in exchange rates for the U.S. dollar versus the Euro and Canadian dollar. Approximately 6% of the Company fiscal 2009 revenue was denominated in foreign currencies. Market risk is estimated as the potential decrease in pretax earnings resulting from a hypothetical decrease in the ending exchange rate of 10%. If such a decrease occurred, the Company would incur approximately \$143,000 in additional other expense based on the ending intercompany balance outstanding at March 31, 2009.

As of March 31, 2009, the balance in the cumulative foreign currency translation adjustment account, which is a component of stockholders' equity, was an unrealized loss of \$206,000.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The Company's Consolidated Financial Statements required by Item 8, together with the reports thereon of the Independent Registered Public Accounting Firm set forth on pages 46 - 77 of this report. The Consolidated Financial Statement schedule listed under Item 15(a)2, is set forth on page 78 of this report and should be read in conjunction with the financial statements.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### *Evaluation of Disclosure Controls and Procedures*

Disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports filed under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of March 31, 2009, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports the Company files or submits under the Exchange Act is recorded, processed, summarized and reported as and when required.

### *Management's Report on Internal Control Over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management assessed the effectiveness of the Company's internal control over financial reporting as of March 31, 2009 using criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring



Organizations of the Treadway Commission (“COSO”) and concluded that the Company maintained effective internal controls over financial reporting as of March 31, 2009.

Because of its inherent limitations, although designed and operated to provide reasonable assurance that the objectives of the control system are met, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies may deteriorate.

The Company’s Independent Registered Public Accounting Firm has issued an audit report on its assessment of the Company’s internal control over financial reporting as of March 31, 2009. This report is included on page 47.

**ITEM 9B. OTHER INFORMATION**

None.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

#### (a) Directors of the Company

The information required by this Item is set forth in registrant's Proxy Statement for the Annual Meeting of Stockholders to be held in September 2009 under the captions "Election of Directors", "Corporate Governance – Board Committees" and "Section 16(a). Beneficial Ownership Reporting Compliance" which information is incorporated herein by reference.

#### (b) Executive Officers of the Company

The information required by this Item is set forth in registrant's Proxy Statement for the Annual Meeting of Stockholders to be held in September 2009 under the caption "Corporate Governance - Executive Officers," which information is incorporated herein by reference.

### CODE OF BUSINESS CONDUCT

We have adopted a Code of Business Conduct within the meaning of Item 406(b) of Regulation S-K. This Code of Business Conduct applies to all of our officers (including the principal executive officer, principal financial officer, principal accounting officer and any person performing similar functions) and employees. The Company filed a copy of this Code of Business Conduct as Exhibit 14.1 to this Form 10-K. This Code of Business Conduct is also publicly available in the corporate governance section on our website at <http://www.westell.com>. The Company intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K by posting on its website any amendments to, or waivers from its Code of Business Conduct applicable to our principal executive officer, principal financial officer, principal accounting officer and any person performing similar functions. Copies of the Code of Business Conduct will be provided free of charge upon written request directed to the Secretary of the Company at the address of the principal executive offices.

### ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is set forth in registrant's Proxy Statement for the Annual Meeting of Stockholders to be held in September 2009 under the captions "Compensation Discussion and Analysis", "Compensation Committee Interlocks and Insider Participation", "Compensation Committee Report on Executive Compensation", "Summary Compensation Table", "Grants of Plan-Based Awards", "Outstanding Equity Awards at Fiscal Year-End", "Option Exercises and Stock Vested", "Potential Payments Upon Termination or Change in Control" and "Director Compensation", which information is incorporated herein by reference.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is set forth in registrant's Proxy Statement for the Annual Meeting of Stockholders to be held in September 2009 under the captions "Ownership of the Capital Stock of the Company," and "Equity Compensation Plan Information" which information is incorporated herein by reference.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is set forth in registrant's Proxy Statement for the Annual Meeting of Stockholders to be held in September 2009 under the caption "Certain Relationships and Related Party Transactions," which information is incorporated herein by reference.

### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated herein by reference to the sections entitled "Fees to the Company's Auditors" and "Approval of Services Provided by Independent Registered Public Accounting Firm" in our Proxy Statement for the annual meeting to be held in September 2009.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

(a) (1) Financial Statements

The following documents are filed as part of this report:

The Consolidated Financial Statements of Westell Technologies, Inc. at March 31, 2009 and 2008 and for each of the three fiscal years in the period ended March 31, 2009, together with the Report of Independent Registered Public Accounting Firm, are set forth on pages 46 through 77 of this Report.

The supplemental financial information listed and appearing hereafter should be read in conjunction with the Consolidated Financial Statements included in the report.

(2) Financial Statement Schedule

The following are included in Part IV of this Report for each of the years ended March 31, 2009, 2008 and 2007 as applicable:

Schedule II - Valuation and Qualifying Accounts - page 78

Financial statement schedules not included in this report have been omitted either because they are not applicable or because the required information is shown in the Consolidated Financial Statements or notes thereto, included in this report.

(3) Exhibits

- 3.1 Amended and Restated Certificate of Incorporation, as amended (incorporated herein by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).
- 3.2 Amended and Restated By-laws (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on March 3, 2009).
- 9.1 Voting Trust Agreement dated February 23, 1994, as amended (incorporated herein by reference to Exhibit 9.1 to Westell Technologies, Inc.'s Registration Statement on Form S-1, as amended, Registration No. 33-98024).
- 10.2 Stock Transfer Restriction Agreement entered into by members of the Penny family, as amended, (incorporated herein by reference to Exhibits 10.4 and 10.16 to Westell Technologies, Inc.'s Registration Statement on Form S-1, as amended, Registration No. 33-98024).
- 10.3 Form of Registration Rights Agreement among the Company and Robert C. Penny III and Melvin J. Simon, as trustees of the Voting Trust dated February 23, 1994 (incorporated herein by reference to Exhibit 10.5 to Westell Technologies, Inc.'s Registration Statement on Form S-1, as amended, Registration No. 33-98024).
- \*10.4 1995 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.6 to Westell Technologies, Inc.'s Registration Statement on Form S-1, as amended, Registration No. 33-98024).
- \*10.5 Employee Stock Purchase Plan (as amended) (incorporated by reference to the electronic copy filed with the Company's proxy statement on July 29, 2008).
- \*10.6 Teltrend Inc. 1995 Stock Option Plan.(incorporated by reference to the Teltrend, Inc.'s Registration Statement on Form S-1, as amended (Registration No. 33-91104), originally filed with the Securities and Exchange Commission April 11, 1995)
- \*10.7 Teltrend Inc. 1996 Stock Option Plan (incorporated by reference to the Teltrend Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended April 26, 1997).

- \*10.8 Teltrend Inc. 1997 Non-Employee Director Stock Option Plan (incorporated by reference to the Teltrend Inc.'s Definitive Proxy Statement for the Annual Meeting of Stockholders held on December 11, 1997).
- \*10.9 Deferred Compensation Arrangement between Westell Technologies, Inc. and E. Van Cullens (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended March 31, 2003).
- 10.11 Lease dated September 29, 1997 between WTI, Inc. and Westell, Inc. (incorporated herein by reference to Exhibit 99.3 to the Form 8-K filed on October 2, 1997)
- 10.12 Settlement agreement dated November 30, 2002 with respect to the lease dated September 29, 1997.
- \*10.16 Employment Agreement by and among Westell Technologies, Inc, Westell, Inc. and Thomas E. Mader (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 12, 2007).
- \*10.17 Restricted Stock Award for Thomas E. Mader (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 12, 2007).
- \*10.18 Consulting Agreement by and between Westell Technologies, Inc and E. Van Cullens (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 26, 2007).
- \*10.19 Amendment to Deferred Compensation Program for E. Van Cullens (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 26, 2007).
- 10.22 Westell Technologies, Inc. 2004 Stock Incentive Plan (incorporated by reference to Exhibit B to the Company's Proxy Statement for the 2004 Annual Meeting of Stockholders)
- 10.23 Form of Restricted Stock Award under the Westell Technologies, Inc. 2004 Stock Incentive Plan (incorporated by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on January 3, 2005)
- 10.24 Form of Stock Option Award under the Westell Technologies, Inc. 2004 Stock Incentive Plan (incorporated by reference to the Company's Quarterly Report on Form 8-K for the quarter ended September 30, 2008)
- 10.25 Conference Plus, Inc. 2002 Nonqualified Stock Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2007)
- 10.26 Form of Conference Plus, Inc. Nonqualified Stock Option (for Management Level Employees) (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2007)
- 10.27 Form of Conference Plus, Inc. Nonqualified Stock Option (for Non-Management Level Employees) (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2007)
- 10.28 Employment Agreement dated August 1, 2007 by and among Westell Technologies, Inc, Westell, Inc. and Timothy R. Pillow (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007)
- \*10.29 First Amendment to Employment Agreement dated August 1, 2007 by and among Westell Technologies, Inc, Westell, Inc. and Timothy R. Pillow (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008).
- \*10.30 Severance Agreement dated May 15, 2008 by and between Conference Plus, Inc. and Timothy J. Reedy (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on May 19, 2008).
- \*10.31 First Amendment to Severance Agreement dated May 15, 2008 by and between Conference Plus, Inc. and Timothy J. Reedy (incorporated by reference to

- Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008).
- \*10.32 Employment Agreement dated July 8, 2008 by and among Westell Technologies, Inc., Westell, Inc. and Bernard F. Sergesketter (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on July 10, 2008).
  - \*10.33 First Amendment to Employment Agreement dated July 8, 2008 by and among Westell Technologies, Inc., Westell, Inc. and Bernard F. Sergesketter (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008).
  - \*10.34 Employment Agreement by and among Westell Technologies, Inc., Westell, Inc. and Richard S. Gilbert (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on January 23, 2009).
  - \*10.35 Employment Agreement dated April 14, 2009 by and between Westell Technologies, Inc. and Westell, Inc. and Brian S. Cooper (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on April 17, 2009).
  - \*10.36 Severance Agreement dated April 15, 2009 by and between Westell Technologies, Inc. and Westell, Inc. and Amy T. Forster (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed with the Securities and Exchange Commission on April 17, 2009).
  - \*10.37 Credit Agreement dated as of March 5, 2009 among Westell Technologies, Inc., Westell, Inc., Teltrend LLC and Conference Plus, Inc., a borrowers, and the Private Bank and Trust Company, as lender.
  - \*10.38 Guaranty and Security Agreement dated as of March 5, 2009 among Westell Technologies, Inc., Westell, Inc., Teltrend LLC, Conference Plus, Inc. and the other parties thereto, as guarantors and grantors, in favor of the The Private Bank and Trust Company.
- 14.1 Code of Business Conduct (incorporated by reference to Exhibit 14.1 to the Company's Annual Report on Form 10-K for the year ended March 31, 2004)
  - 21.1 Subsidiaries of the Registrant
  - 23.1 Consent of Ernst & Young LLP
  - 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002
  - 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002
  - 32.1 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002
- \* Management contract or compensatory plan or arrangement.

(b) Exhibits

The exhibits filed as part of this Annual Report on Form 10-K are as specified in Item 15(a)(3) herein.

(c) Financial Statement Schedule

The financial statement schedule filed as part of this Annual Report on Form 10-K are as specified in Item 15(a)(2) herein.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on June 15, 2009.

WESTELL TECHNOLOGIES, INC.

By /s/ Richard S. Gilbert  
Richard S. Gilbert  
President, Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on June 15, 2009.

<u>Signature</u>	<u>Title</u>
<u>/s/ Richard S. Gilbert</u> Richard S. Gilbert	President, Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ Brian S. Cooper.</u> Brian S. Cooper	Chief Financial Officer, Treasurer and Secretary (Principal Financial Officer)
<u>/s/ Amy T. Forster.</u> Amy T. Forster	Chief Accounting Officer (Principal Accounting Officer)
<u>/s/ John W. Seazholtz</u> John W. Seazholtz	Chairman of the Board of Directors
<u>/s/ James M. Froisland</u> James M. Froisland	Director
<u>/s/ Martin Hernandez</u> Martin Hernandez	Director
<u>/s/ Eileen A. Kamerick</u> Eileen A. Kamerick	Director
<u>/s/ Robert C. Penny III</u> Robert C. Penny III	Director
<u>/s/ Melvin J. Simon</u> Melvin J. Simon	Director
<u>/s/ Martin H. Singer</u> Martin H. Singer	Director

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY DATA**

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and the Stockholders  
Westell Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Westell Technologies, Inc. and subsidiaries (the "Company") as of March 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2009. Our audit also included the financial statement schedule listed in the Index at Item 15a(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Westell Technologies, Inc. and subsidiaries at March 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As described in Note 2 of the Notes to the Consolidated Financial Statements, effective April 1, 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes*. In addition, as described in Note 2 to the Consolidated Financial Statements, effective April 1, 2006, the Company adopted FASB Statement No. 123(R), *Share-Based Payments*. Also, as discussed in Note 2 to the Consolidated Financial Statements, effective April 1, 2006, the Company adopted Securities and Exchange Commission Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in the Current Year Financial Statements*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Westell Technologies, Inc.'s internal control over financial reporting as of March 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 12, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Chicago, Illinois  
June 12, 2009



Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Westell Technologies, Inc.

We have audited Westell Technologies, Inc.'s internal control over financial reporting as of March 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Westell Technologies, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Westell Technologies, Inc. maintained, in all material respects, effective internal control over financial reporting as of March 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Westell Technologies, Inc. and subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2009 of Westell Technologies, Inc. and our report dated June 12, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Chicago, Illinois  
June 12, 2009

**WESTELL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share amounts)

**March 31, 2009      March 31, 2008**

Current assets:		
Cash and cash equivalents	\$ 46,058	\$ 65,747
Short-term investments	--	2,602
Accounts receivable (net of allowance of \$ 289 and \$ 281, respectively)	20,827	19,498
Inventories	20,178	17,897
Prepaid expenses and other current assets	7,487	3,005
Total current assets	94,550	108,749
Property and equipment:		
Machinery and equipment	15,920	25,581
Office, computer and research equipment	18,580	25,412
Leasehold improvements	9,342	9,471
	43,842	60,464
Less accumulated depreciation and amortization	(36,947)	(51,712)
Property and equipment, net	6,895	8,752
Goodwill	2,009	3,264
Intangibles, net	4,333	6,215
Deferred costs	24,612	--
Deferred income taxes and other assets	7,777	7,248
Total assets	\$ 140,176	\$ 134,228

The accompanying notes are an integral part of these Consolidated Financial Statements.

**WESTELL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share amounts)

	March 31, 2009	March 31, 2008
Current liabilities:		
Accounts payable	\$ 17,883	\$ 10,145
Accrued expenses	5,812	9,603
Accrued compensation	3,667	9,630
Deferred revenue	2,119	307
Total current liabilities	29,481	29,685
Deferred revenue long-term	25,258	--
Other long-term liabilities	9,079	7,738
Total liabilities	63,818	37,423
Commitments and contingencies (Notes 1 and 6)		
Minority interest	--	3,310
Stockholders' equity:		
Class A common stock, par \$0.01	539	567
Authorized – 109,000,000 shares		
Issued and outstanding – 53,862,409 shares at March 31, 2009 and 56,695,724 shares at March 31, 2008		
Class B common stock, par \$0.01	147	147
Authorized – 25,000,000 shares		
Issued and outstanding – 14,693,619 shares at March 31, 2009 and 14,693,619 shares at March 31, 2008		
Preferred stock, par \$0.01	--	--
Authorized – 1,000,000 shares		
Issued and outstanding – none		
Additional paid-in capital	397,242	394,930
Treasury stock at cost – 3,020,448 shares at March 31, 2009 and 123,128 shares at March 31, 2008	(1,904)	(299)
Cumulative translation adjustment	(206)	926
Accumulated deficit	(319,460)	(302,776)
Total stockholders' equity	76,358	93,495
Total liabilities and stockholders' equity	\$ 140,176	\$ 134,228

The accompanying notes are an integral part of these Consolidated Financial Statements.

**WESTELL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share amounts)

	Year ended March 31,		
	2009	2008	2007
Equipment revenue	\$ 116,001	\$ 152,031	\$ 207,989
Services revenue	45,203	53,698	48,544
<b>Total revenue</b>	<b>161,204</b>	<b>205,729</b>	<b>256,533</b>
Cost of equipment revenue	85,151	117,412	148,671
Cost of services	24,979	27,877	24,436
<b>Total cost of equipment revenue and services</b>	<b>110,130</b>	<b>145,289</b>	<b>173,107</b>
Gross margin	51,074	60,440	83,426
Operating expenses:			
Sales and marketing	24,153	24,067	29,422
Research and development	19,854	22,350	24,144
General and administrative	20,036	21,537	17,354
Goodwill impairment	1,381	9,651	--
Intangible amortization	1,882	1,834	1,699
Restructuring	752	5,717	343
<b>Total operating expenses</b>	<b>68,058</b>	<b>85,156</b>	<b>72,962</b>
Operating income (loss)	(16,984)	(24,716)	10,464
Other income (expense), net	662	3,709	3,173
Interest (expense)	(15)	(12)	(7)
Income (loss) before income taxes, minority interest and discontinued operations	(16,337)	(21,019)	13,630
Income taxes	67	53,495	5,474
Minority interest	74	260	235
<b>Net income (loss) from continuing operations</b>	<b>(16,478)</b>	<b>(74,774)</b>	<b>7,921</b>
Income (loss) from discontinued operations, net of tax of \$ 0, \$ 208 and \$ 418, respectively	(206)	(1,456)	773
<b>Net income (loss)</b>	<b>\$ (16,684)</b>	<b>\$ (76,230)</b>	<b>\$ 8,694</b>
<i>Basic net income (loss) per share:</i>			
Basic net income (loss) from continuing operations	\$ (0.24)	\$ (1.06)	\$ 0.11
Basic net income (loss) from discontinued operations	\$ (0.00)	\$ (0.02)	\$ 0.01
Basic net income (loss) per share	\$ (0.24)	\$ (1.08)	\$ 0.12
<i>Diluted net income (loss) per share:</i>			
Diluted net income (loss) from continuing operations	\$ (0.24)	\$ (1.06)	\$ 0.11
Diluted net income (loss) from discontinued operations	\$ (0.00)	\$ (0.02)	\$ 0.01
Diluted net income (loss) per share	\$ (0.24)	\$ (1.08)	\$ 0.12
<i>Weighted-average number of shares outstanding:</i>			
Basic	69,470	70,376	69,946
Diluted	69,470	70,376	71,144

The accompanying notes are an integral part of these Consolidated Financial Statements.

**WESTELL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**AND COMPREHENSIVE INCOME (LOSS)**  
(In thousands)

	Comprehensive Income	Common Stock Class A	Common Stock Class B	Additional Paid-in Capital	Cumulative Translation Adjustment	Deferred Compensation	Accumulated Deficit	Treasury Stock	Total Stockholders' Equity
Balance, March 31, 2006		\$ 556	\$ 147	\$ 392,843	\$ (241)	\$ (1,751)	\$ (234,031)	\$ (247)	\$ 157,276
Adoption of SAB No. 108 cumulative adjustments		--	--	--	--	--	(1,209)	--	(1,209)
Adjusted Balance, March 31, 2006		\$ 556	\$ 147	\$ 392,843	\$ (241)	\$ (1,751)	\$ (235,240)	\$ (247)	\$ 156,067
Net income (loss)	\$ 8,694	--	--	--	--	--	8,694	--	8,694
Translation adjustment	327	--	--	--	327	--	--	--	327
Total comprehensive income	\$ 9,021								
Options exercised	--	--	--	198	--	--	--	--	198
Shares sold under Employee Stock Purchase Plan		1	--	122	--	--	--	--	123
Adoption of FAS No. 123R reclass deferred stock-based compensation 123R		--	--	(1,751)	--	1,751	--	--	--
Stock-based compensation	--	--	--	1,853	--	--	--	--	1,853
Tax benefits related to stock-option exercises	--	--	--	70	--	--	--	--	70
Restricted stock grant, net of forfeitures		7	--	--	--	--	--	--	7
Balance, March 31, 2007		\$ 564	\$ 147	\$ 393,335	\$ 86	\$ 0	\$ (226,546)	\$ (247)	\$ 167,339
Net income (loss)	\$ (76,230)	--	--	--	--	--	(76,230)	--	(76,230)
Translation adjustment	840	--	--	--	840	--	--	--	840
Total comprehensive loss	\$ (75,390)								
Options exercised		3	--	337	--	--	--	--	340
Contineo, stock issuance costs		--	--	9	--	--	--	--	9
Shares sold under Employee Stock Purchase Plan		1	--	102	--	--	--	--	103
Treasury Stock		--	--	--	--	--	--	(52)	(52)
Restricted stock forfeitures		(1)	--	--	--	--	--	--	(1)
Stock-based compensation		--	--	1,217	--	--	--	--	1,217
Tax benefits related to stock-option exercises		--	--	(70)	--	--	--	--	(70)
Balance, March 31, 2008		\$ 567	\$ 147	\$ 394,930	\$ 926	\$ 0	\$ (302,776)	\$ (299)	\$ 93,495
Net income (loss)	\$ (16,684)	--	--	--	--	--	(16,684)	--	(16,684)
Translation adjustment	(1,132)	--	--	--	(1,132)	--	--	--	(1,132)
Total comprehensive loss	\$ (17,816)								
Options exercised		1	--	98	--	--	--	--	99
Shares sold under Employee Stock Purchase Plan		0	--	22	--	--	--	--	22
Treasury Stock		(29)	--	--	--	--	--	(1,605)	(1,634)
Restricted stock forfeitures		(0)	--	--	--	--	--	--	(0)
Stock-based compensation		--	--	2,192	--	--	--	--	2,192
Balance, March 31, 2009		\$ 539	\$ 147	\$ 397,242	\$ (206)	\$ 0	\$ (319,460)	\$ (1,904)	\$ 76,358

The accompanying notes are an integral part of these Consolidated Financial Statements.

**WESTELL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

	Year ended March 31,		
	2009	2008	2007
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ (16,684)	\$ (76,230)	\$ 8,694
<b>Reconciliation of net income (loss) to net cash provided by (used in) operating activities:</b>			
Depreciation and amortization	5,821	7,852	7,978
Goodwill impairment	1,381	9,651	--
Stock-based compensation	2,192	1,217	1,853
Exchange (gain) loss	234	(112)	--
(Gain) loss on sale of fixed assets	(63)	66	16
Restructuring	966	6,221	343
Deferred taxes	--	53,615	5,214
Minority interest	74	260	235
<b>Changes in assets and liabilities:</b>			
Accounts receivable	(1,780)	6,797	4,774
Inventory	(2,587)	895	6,809
Prepaid expenses and other current assets	(4,545)	316	764
Deferred costs – long-term	(24,612)	--	--
Other assets	(728)	260	(164)
Deferred revenue – long-term	27,089	--	--
Accounts payable and accrued expenses	4,111	(11,444)	752
Accrued compensation	(5,573)	(1,218)	2,192
Net cash provided by (used in) operating activities	<u>(14,704)</u>	<u>(1,854)</u>	<u>39,460</u>
<b>Cash flows from investing activities:</b>			
Purchases of property and equipment	(2,206)	(4,713)	(3,835)
Proceeds from the sale of equipment	90	2,292	50
Sale (purchase) of investments	2,602	(618)	(697)
Acquisition of minority interest	(3,650)	--	--
Acquisition of businesses	(175)	(22)	(6,246)
Net cash used in investing activities	<u>(3,339)</u>	<u>(3,061)</u>	<u>(10,728)</u>
<b>Cash flows from financing activities:</b>			
Borrowing (repayment) of debt and leases payable	121	(5)	(56)
Purchase of treasury stock	(1,634)	(52)	--
Proceeds from stock options exercised	121	443	321
Tax benefits related to stock-based compensation	--	(70)	70
Net cash provided by (used in) financing activities	<u>(1,392)</u>	<u>316</u>	<u>335</u>
Effect of exchange rate changes on cash	(254)	163	188
Net increase (decrease) in cash	(19,689)	(4,436)	29,255
Cash and cash equivalents, beginning of period	65,747	70,183	40,928
Cash and cash equivalents, end of period	<u>\$ 46,058</u>	<u>\$ 65,747</u>	<u>\$ 70,183</u>
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid for interest	\$ 17	\$ 17	\$ 7
Cash paid for income taxes, net	\$ 80	\$ 409	\$ 341

The accompanying notes are an integral part of these Consolidated Financial Statements.

WESTELL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 1. Basis of Presentation:**

*Description of Business*

Westell Technologies, Inc. (the "Company") is a holding company. Its' wholly owned subsidiary, Westell, Inc., designs and distributes telecommunications equipment which is sold primarily to major telephone companies. During December 2008, Conference Plus, Inc. ("ConferencePlus") became a wholly owned subsidiary when the Company purchased the remaining 8.5% minority interest. ConferencePlus provides audio, web and video conferencing services to various customers. Conference Plus Global Services, Ltd ("CGPS") is a wholly owned subsidiary of ConferencePlus that provides services similar to ConferencePlus. Noran Tel, Inc., a manufacturer of transmission, power distribution and remote monitoring products, is a wholly owned subsidiary of Westell, Inc. In the first quarter of the fiscal year ended March 31, 2009 ("fiscal year 2009"), the Company decided to cease the operations of Westell Limited, which was a wholly owned subsidiary of Westell, Inc. Westell Limited is shown as discontinued operations in the Company's Consolidated Statements of Operations (See Note 3 for further information on discontinued operations).

*Principles of Consolidation*

The accompanying Consolidated Financial Statements include the accounts of the Company, its wholly owned subsidiaries, and Contineo Systems, Inc. ("Contineo"). The Consolidated Financial Statements have been prepared using accounting principles generally accepted in the United States ("GAAP"). All intercompany accounts and transactions have been eliminated in consolidation. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses during the period reported. Estimates are used when accounting for the allowance for uncollectible accounts receivable, net realizable value of inventory, product warranty accrued, depreciation, income taxes, and contingencies, among other things. Actual results could differ from those estimates. In addition, certain reclassification adjustments have been made to historical results to achieve consistency in presentation.

*Business Acquisitions*

During December 2008, ConferencePlus became a wholly owned subsidiary when the Company purchased the remaining 8.5% minority interest consisting of 2,398,114 shares for approximately \$3.7 million. In accordance with FASB Statement of Financial Accounting Standards ("FAS") No. 141, *Business Combinations* ("FAS No. 141"), the purchase price of \$3.7 million was allocated to the tangible and intangible assets acquired and liabilities assumed based upon their estimated fair values at the acquisition date. This intangible asset will be amortized over a 5 year life and tested for impairment in accordance with FAS No. 144.

On October 2, 2007, the Company paid \$2.5 million cash to acquire a 40% equity ownership Contineo, a software development company based in Plano, Texas, to advance the Company's research and development efforts. Contineo specializes in identity-management solutions which can be applied to secure broadband applications across a network. The Company received an exclusive license for an identified set of customers in North America to certain Contineo software in connection with the investment. The Company's investment is in the form of preferred stock which entitles the Company to 8% cumulative non-compounding dividends and a liquidation preference over common stock. The Company has the right, but not the obligation, to participate in future equity funding. The preferred stock converts to common stock in the event that certain agreed-upon objectives are met and additional funding of \$2.5 million is provided, or upon a public offering exceeding \$30.0 million.

The Company evaluated the Financial Accounting Standards Board ("FASB") Interpretation No. 46(R), *Consolidation of Variable Interest Entities* ("VIE") ("FIN No. 46R"), and concluded that Contineo is a VIE and the Company is considered the primary beneficiary of the VIE, as the Company is the sole source of start-up funding. Contineo's financial statements are fully consolidated and include Contineo net losses of \$1.5 million and \$896,000 during the fiscal years 2009 and 2008, respectively. Contineo had approximately \$173,000 and \$1.6 million,

respectively, of cash which is included in the cash and cash equivalents line on the Consolidated Balance Sheet. The creditors of Contineo have no recourse to the general credit of the Company.

On March 31, 2007, Conference Plus, Inc. entered into a settlement agreement with a former executive to buy back shares of its CPGS operation located in Dublin, Ireland for \$347,000. The shares had been issued to the employee when CPGS was acquired in 1998. In accordance with the FAS No. 141, the purchase of the minority stockholder's interest was accounted for using purchase accounting and resulted in additional goodwill of \$322,000.

On January 2, 2007, the Company acquired 100% of the capital stock of Noran Tel, Inc. located in Regina, Saskatchewan, Canada. The purchase price for Noran Tel was \$5.5 million USD (\$6.5 million CAD), with a potential \$2.8 million USD (\$3.5 million CAD) earn-out if certain financial performance goals are met. The final earn-out calculation will be completed as of December 31, 2009 and any earn-out would be considered additional purchase consideration.

The Noran Tel acquisition was accounted for using the purchase method of accounting in accordance with FAS No. 141 and accordingly the operating results of Noran Tel are included in the Company's consolidated financial results from the acquisition date. In accordance with FAS No. 141, the total purchase price was allocated to the tangible and intangible assets acquired and liabilities assumed based upon their estimated fair values at the acquisition date with excess purchase price allocated to goodwill.

The allocation of the purchase price to the net assets acquired is as follows:

(in thousands)	
Current assets (primarily inventory and accounts receivable)	\$ 2,172
Fixed assets	171
Intangible assets	2,021
Goodwill	2,068
Total assets acquired	<u>6,432</u>
Current liabilities	<u>(901)</u>
Total liabilities assumed	<u>(901)</u>
Total purchase price	<u>\$ 5,531</u>

At the time of the acquisition, intangible assets consist of amortizable intangible assets of \$39,000 of product technology, \$629,000 of customer relationships for Power products and \$978,000 of customer relationships for Transmission products. Product technology is amortized over 5 years, customer relationships for Power products are amortized over 10 years and customer relationships for Transmission products are amortized over 12 years. The intangible assets balance also includes \$375,000 for the trade name which is not amortizable. See Note 2 for further discussion on goodwill and intangible assets.

The audited and pro forma results of operations based on historical results of operations including adjustments for interest and amortization, as though Noran Tel was acquired as of April 1, 2006:

(in thousands, except per share amounts)	(As Reported) March 31, 2007	(Pro Forma Unaudited) March 31, 2007
Revenue	\$ 256,533	\$ 261,285
Net income	\$ 8,694	\$ 8,799
Basic earnings per share	\$ 0.12	\$ 0.12
Diluted earnings per share	\$ 0.12	\$ 0.12

The pro forma results of operations is presented for illustrative purposes only and is not intended to represent what the Company's results of operations would have been if the acquisition had occurred on those dates or to project the Company's results of operations for any future period.



**Note 2. Summary of Significant Accounting Policies:***Cash and Cash Equivalents*

Cash and cash equivalents consist of highly liquid investments with maturities of three months or less when purchased and include bank deposits, highly rated money market funds participating in the Treasury Guarantee Program and money market funds that hold assets primarily consisting of U.S. government obligations. Money market funds are accounted for as available-for-sale securities under the requirements of Financial Accounting Standards Board ("FASB") No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

*Concentrations of Credit Risk*

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents and trade receivables. The Company currently invests its excess cash in highly rated money market funds. The Company's U.S. Bank deposits are fully insured under the Federal Deposit Insurance Corporation ("FDIC").

*Inventories*

Inventories are stated at the lower of first-in, first-out ("FIFO") cost or market value. The components of inventories are as follows:

*The components of inventories are as follows:*

(in thousands)	March 31,	
	2009	2008
Raw material	\$ 13,168	\$ 10,569
Finished goods	8,346	10,618
Reserve for excess and obsolete inventory and net realizable value	(1,336)	(3,290)
Total inventory	<u>\$ 20,178</u>	<u>\$ 17,897</u>

*Prepaid Expenses and Other Current Assets*

The Company has prepaid and current assets consisting primarily of rebate receivables from vendors, prepaid product royalty, prepaid maintenance agreements and prepaid rent.

*Property and Equipment*

Property and equipment are stated at cost, net of depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets, or for leasehold improvements, the shorter of the remaining lease term or the estimated useful life, as follows:

Machinery and equipment	5-7 years
Office, computer and research equipment	2-5 years

Depreciation expense was \$3.9 million, \$6.0 million and \$5.9 million for fiscal 2009, 2008 and 2007, respectively. In September 2007, the Company entered into a \$2.1 million agreement to sell the manufacturing equipment that it will no longer use after the completion of the transition to its outsourcing manufacturer. The Company accelerated the depreciation on these assets to the residual value which included additional depreciation expense of \$1.2 million for the year ended March 31, 2008 and recorded a loss of approximately \$85,000 on the sale. In accordance with FAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company assesses all of its long-lived assets, including intangibles, for impairment when impairment indicators are identified. If the carrying value of an asset exceeds its undiscounted cash flows, an impairment loss may be necessary. An impairment loss is calculated as the difference between the carrying value and the fair value of the asset. In fiscal 2009, there was an impairment charge of \$68,000 related to the Noran Tel reporting unit in the OSPlant Systems equipment segment. No such impairment losses were recorded in fiscal 2008 or fiscal 2007.

## *Goodwill and Intangibles*

The Company accounts for goodwill and other intangibles under FAS No. 142, *Goodwill and Other Intangible Assets* ("FAS No. 142"). FAS No. 142 requires that these assets be reviewed for impairment at least annually. The Company currently has three reporting units that contain goodwill consisting of Noran Tel, Conference Plus, Inc., and Conference Plus Global Services, Inc. A two-step approach is required to test goodwill for impairment for each reporting unit. The first step tests for impairment by applying fair value-based tests at the reporting unit level. The second step (if necessary) measures the amount of impairment by applying fair value-based tests to individual assets and liabilities within each reporting unit. The fair value of each reporting unit is estimated using a discounted cash flow methodology estimating future cash flow, discount rates, growth rates and other assumptions. The Company performs its annual impairment test in the fourth quarter of each fiscal year or when an event occurs or circumstances change between annual tests that would more likely than not reduce the fair value of the reporting unit below its carrying value.

The Company performed an interim impairment test in accordance with FAS No. 142 during the December 2008 quarter as the recent adverse economic environment was a potential indicator that goodwill and/or intangibles could be impaired. A two-step approach was used to test goodwill for impairment for each reporting unit. The first step tests for impairment by comparing the fair value of each reporting unit to its carrying value, including goodwill. The second step, which was necessary for the Noran Tel reporting unit, measured the amount of impairment by comparing the implied fair value of goodwill determined to the carrying value of goodwill. The fair value of each reporting unit was estimated using a discounted cash flow methodology. As a result of the interim test, a charge of approximately \$1.4 million was recorded during the quarter ended December 31, 2008 to write down goodwill and intangible assets allocated to the Noran Tel reporting unit, which is included in the OSPlant Systems equipment segment.

As a result of the annual impairment testing in fiscal year 2008, the goodwill related to the prior acquisitions in the Westell Inc. reporting unit in the combined equipment segments were impaired and a charge of \$9.7 million was recorded to highly rated the entire goodwill related to this reporting unit. No impairment was indicated in the other reporting units. The Company did not recognize an impairment loss on goodwill in fiscal 2007. Future impairment tests may result in a charge to earnings and a potential for a write-down of goodwill if the annual test would indicate impairment. Other finite-lived intangible assets will continue to be amortized over their useful lives.

On an ongoing basis, the Company reviews intangible assets, capitalized software development and other long-lived assets other than goodwill for impairment whenever events and circumstances indicate that carrying values may not be recoverable. If such events or changes in circumstances occur, the Company will recognize an impairment loss if the undiscounted future cash flows expected to be generated by the asset are less than the carrying value of the related asset. The impairment loss would adjust the asset to its fair value.

Goodwill decreased by \$1.3 million and \$9.3 million during fiscal 2009 and 2008, respectively. The decrease in fiscal year 2009 was due to a \$1.4 million impairment charge in the Noran Tel reporting unit in the OSPlant Systems equipment segment and foreign currency changes. The decrease in fiscal year 2008 was due to the impairment charge recorded in the Westell Inc. reporting unit of \$9.7 million, which was included in the equipment segments, final purchase price accounting adjustments and foreign currency changes. As of March 31, 2009, the Company had a total of \$2.0 million of goodwill, of which \$1.4 million was included in the ConferencePlus services segment and \$635,000 was included in the OSPlant Systems equipment segment.

The Company has finite and infinite-lived intangible assets related to its acquisitions. The following table presents details of the Company's intangibles from acquisitions:

(in thousands)	March 31,	
	2009	2008
Gross intangible assets	\$ 39,037	\$ 38,596
Accumulated amortization	(10,720)	(8,839)
Foreign currency fluctuation	(116)	258
Impairment	(23,868)	(23,800)
Net	\$ 4,333	\$ 6,215

These intangibles are being amortized over periods of 3 to 12 years. Finite-lived intangible amortization included in expense was \$1.9 million, \$1.8 million and \$1.7 million in fiscal years 2009, 2008 and 2007 respectively. The following is the expected future amortization by year:

	2010	2011	2012	2013	2014	thereafter
Intangible amortization expense	\$ 618	\$ 618	\$ 574	\$ 554	\$ 535	\$ 1,154

Net carrying amounts of intangible assets are as follows:

(in thousands)	March 31,	
	2009	2008
Finite-lived intangible assets:		
Product technology (1)	\$ 838	\$ 2,264
Customer relationship (1)	3,215	3,524
Total finite-lived intangible assets, net	\$ 4,053	\$ 5,788
Infinite-lived intangible assets:		
Trade Name (2)	280	427
Total intangible assets	\$ 4,333	\$ 6,215

(1)Change due to amortization and change in foreign currency exchange rate.

(2)Change due to change in foreign currency exchange rate and a fiscal 2009 year impairment charge of \$68,000.

#### Revenue Recognition, Deferred Revenue and Deferred Costs

Revenue recognition on equipment where software is incidental to the product as a whole generally occurs when products are shipped, risk of loss has transferred to the customer, objective evidence exists that customer acceptance provisions have been met, no significant obligations remain, collection is reasonably assured and warranty can be estimated.

Due to the technological advances inherent in the telecommunications industry, the Company must assess its revenue recognition policy as products technologically evolve. In doing so for the UltraLine™ Series3 products, the Company determined that embedded software is more than incidental to the product as a whole and therefore applied the provisions of Statement of Position (SOP) 97-2, *Software Revenue Recognition*, and all related interpretations.

Currently, the UltraLine™ Series3 products are sold primarily to a single customer with contractual provisions that include specified future software enhancements and post customer support (PCS) to maintain ongoing interoperability within the customer's network. Although the product has been delivered to the customer, is installed and meets the customers' current requirements, under SOP 97-2, multiple element arrangements that include software are separated into units of accounting when the following criteria are met: the functionality of the delivered elements is not dependent on the undelivered elements, there is vendor-specific objective evidence (VSOE) of the fair value of the undelivered elements, and general revenue recognition criteria related to the delivered elements have been met. If any of these criteria are not met, revenue and related direct costs are deferred until the criteria are met or the last element has been delivered.

The Company was not able to establish VSOE for the specified future software enhancements and therefore deferred the recognition of \$25.3 million of revenue and the related costs of \$24.6 million on these products until all of the criteria under SOP 97-2 are met. If the revenue recognition criteria for the specified future software enhancements have been met and the only undelivered element is PCS, the Company intends to use the cumulative catch up method to record revenue and related costs equal to the total arrangement consideration less the portion applicable to the remaining PCS service period, which will be recognized pro rata over the remaining PCS service period.

The Company's product return policy allows customers to return unused equipment for partial credit if the equipment is non-custom, product is returned within specified time limits and is currently being manufactured and sold. Credit is not offered on returned products that are no longer manufactured and sold. The Company has recorded a reserve for returns that is not significant.

The Company's ConferencePlus services segment recognizes revenue for conference calls and other services upon completion of the conference call or services.

The Company records revenue net of taxes in accordance with EITF No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement*.

#### *Shipping and Handling*

The Company recorded costs related to shipping and handling expense of \$1.3 million, \$1.3 million and \$1.2 million in sales and marketing expense for the years ended March 31, 2009, 2008 and 2007, respectively.

#### *Product Warranties*

Most of the Company's products carry a limited warranty ranging from one to three years for CNS products and up to seven years for OSPlant Systems products. The Company accrues for estimated warranty costs as products are shipped.

#### *Research and Development Costs*

Engineering and product development costs are charged to expense as incurred.

#### *Stock-based Compensation*

Effective April 1, 2006, the Company adopted the provisions of FAS No. 123R, *Share-Based Payments* ("FAS No. 123R") using the modified prospective method, and therefore did not restate prior periods. FAS No. 123R requires the grant-date fair-value recognition of expense related to employee stock-based compensation awards over the requisite service period. In addition, the Company eliminated the balance of deferred compensation expense in stockholders equity against Additional Paid-in Capital ("APIC") as required by this statement. The Company elected to use the short-cut methods as prescribed by FASB Staff Position ("FSP") FAS No.123R-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*, to calculate the beginning APIC tax pool. Additionally, FAS No. 123R requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow instead of as an operating cash flow as required under previous accounting literature. See Note 9 for further discussion of the Company's share-based compensation plans.

#### *Fair Value Measurements*

The Company accounts for the fair value of assets and liabilities in accordance with FAS No.157, *Fair Value Measurements* ("FAS No. 157"). FAS No. 157 defines fair value and establishes a framework for measuring fair value as required by other accounting pronouncements.

#### *Foreign Currency Translation*

The financial position and the results of operations of the Company's foreign subsidiaries are measured using local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the

exchange rate in effect at the end of each period. Income statement accounts are translated at the average rate of exchange prevailing during the period. Translation adjustments arising from differences in exchange rates from period to period are included in the foreign currency translation adjustment account in stockholders' equity.

The Company records transaction gains (losses) for fluctuations on foreign currency rates on accounts receivable, cash and on intercompany accounts anticipated by management to be settled in the foreseeable future within the Other income, net line on the Consolidated Statements of Operations.

#### Income Taxes

The Company accounts for income taxes under the provisions of FAS No. 109, *Accounting for Income Taxes* ("FAS No. 109"). FAS No. 109 requires an asset and liability based approach in accounting for income taxes. Deferred income tax assets and liabilities are recorded based on the differences between the financial statement and tax basis of assets and liabilities, applying enacted statutory tax rates in effect for the year in which the tax differences are expected to reverse. Valuation allowances are provided against deferred tax assets, which are not likely to be realized. On a regular basis, management evaluates the recoverability of deferred tax assets and the need for a valuation allowance.

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 108 ("SAB No. 108"), *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, to address diversity in practice in quantifying financial statement misstatements. SAB No. 108 provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB No. 108 was effective for the Company in its year ended March 31, 2007, and allows a one-time transitional cumulative effect adjustment to retained earnings for errors that were not previously deemed material, but are material under the guidance in SAB No. 108. In accordance with SAB No. 108, the Company recorded an adjustment of \$1.2 million to beginning Retained Earnings for fiscal year 2007 in the accompanying consolidated financial statements for the items described below.

In fiscal 2007, during the Company's review of its deferred taxes, it was determined that certain deferred tax assets were recorded in error, causing the deferred tax asset to be overstated by \$785,000. This error first impacted the deferred tax asset and earnings in fiscal 2005. The Company also identified during its fiscal 2007 year end review process that certain state tax accruals were understated. The impact of this error was an underpayment of tax expense, net of federal benefit, of approximately \$195,000 in fiscal 2005 and \$229,000 in fiscal 2006.

The Company does not believe the effect of these adjustments was material, either quantitatively or qualitatively, on the Company's Consolidated Financial Statements in any of the prior years effected. In reaching that determination, the following quantitative measures were considered (dollars in thousands):

Fiscal Year	Net After tax effect of adjustments	Reported Net Income	Percent of reported Net Income
2006	\$ 229	\$ 12,847	1.79%
2005	980	39,694	2.47%

#### New Accounting Standards Adopted

On April 1, 2008, the Company adopted FAS No. 157 for all financial instruments and non-financial instruments accounted for at fair value on a recurring basis. Fair value is defined by FAS No. 157 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS No. 157 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 – Quoted prices in active markets for identical assets and liabilities.

- Level 2 – Quoted prices in active markets for similar assets and liabilities, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Substantially all of the Company's financial assets that are measured at fair value on a recurring basis are measured using Level 1 inputs with the exception of the note payable guarantee described in Note 11 which is measured using Level 3 inputs

The following table presents financial assets and liabilities measured at fair value on a recurring basis and their related valuation inputs as of March 31, 2009:

(in thousands)	Total Fair Value of Asset or Liability	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Money markets	\$ 36,297	\$ 36,297	--	--
<b>Liabilities:</b>				
Guarantee	\$ 100	--	--	\$ 100

In October 2008, the FASB issued FSP FAS No. 157-3, *Determining Fair Value of a Financial Asset in a Market That Is Not Active* ("FSP No. 157-3"). FSP No. 157-3 clarified the application of FAS No. 157 in an inactive market. It demonstrated how the fair value of a financial asset is determined when the market for that financial asset is inactive. FSP 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. The implementation of this standard did not have an impact on the Company's Condensed Consolidated Financial Statements.

Effective April 1, 2008, the Company adopted FAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115* ("FAS No. 159"), which permits entities to voluntarily choose to measure many financial instruments at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value is elected for an instrument, the statement specifies that entities report in earnings unrealized gains and losses at each subsequent reporting date. The Company did not elect the fair value option for any of its financial assets or liabilities.

Effective April 1, 2008, the Company adopted Emerging Issues Task Force ("EITF") Issue No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities* ("EITF No. 07-3"). EITF No. 07-3 concluded that nonrefundable advance payments for goods or services to be received in the future for use in research and development activities should be deferred and capitalized. The capitalized amounts should be expensed as the related goods are delivered or the services are performed. If an entity's expectations change such that it does not expect it will need the goods to be delivered or the services to be rendered, capitalized nonrefundable advance payments should then be charged to expense. EITF No. 07-3 is effective for new contracts entered into during fiscal years beginning after December 15, 2007, including interim periods within those fiscal years. The consensus may not be applied to earlier periods and early adoption of the provisions of the consensus is not permitted. The adoption of EITF No. 07-3 did not have an impact on the Company's Condensed Consolidated Financial Statements.

#### *New Accounting Pronouncements*

In December 2007, FASB issued FAS No. 141(R), *Business Combinations* ("FAS No. 141R"). This FAS establishes the principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, b) recognizes and measures goodwill acquired in the business combination or a gain from a bargain purchase, c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS No. 141R is effective for the Company on April 1, 2009. This statement applies prospectively to business combinations with an acquisition date on or after the effective date. Earlier application is prohibited. The adoption of FAS No. 141R will not have an immediate impact on the Company's Consolidated Financial Statements.

In December 2007, the FASB issued FAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No.51* ("FAS No. 160"). A noncontrolling interest, sometimes called a minority interest, is the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. This FAS establishes accounting and reporting standards that improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its Consolidated Financial Statements. FAS No.160 is effective for the Company on April 1, 2009. This statement applies prospectively beginning in the fiscal year in which the Statement is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. As the Company does not have a minority interest as of March 31, 2009 the immediate impact of the adoption of FAS160 will only affect presentation and disclosure, therefore, the adoption of FAS No. 160 will not have a material impact on the Consolidated Financial Statements.

In April 2009, the FASB issued FSP FAS No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, which provides guidelines for a broad interpretation of when to apply market-based fair value measurements. The FSP reaffirms management's need to use judgment to determine when a market that was once active has become inactive and in determining fair values in markets that are no longer active. It is effective for interim and annual periods ending after June 15, 2009, entities may early adopt the FSP for the interim and annual periods ending after March 15, 2009. The Company does not believe that the adoption of this statement will have a material impact on the financial statements.

In April 2008, the FASB issued a final FSP FAS No. 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP No. 142-3"), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets* ("FAS No. 142"). FSP No. 142-3 will be effective for fiscal years beginning after December 15, 2008, and is not expected to have a material impact on the Company's Consolidated Financial Statements.

#### **Note 3. Discontinued Operations:**

In the first quarter of fiscal year 2009, the Company decided to cease the operations of its Westell Limited subsidiary in the UK. All remaining employees of the subsidiary have been terminated and the facility has been closed. The results of operations of Westell Limited have been classified as discontinued operations for the years ended March 31, 2009, 2008 and 2007. The Westell Limited entity was dissolved and therefore no assets or liabilities exist at March 31, 2009. The Westell Limited net assets and liabilities included in the Consolidated Balance Sheet at March 31, 2008 were approximately \$84,000. The Consolidated Statements of Cash Flows include discontinued operations.

#### **Note 4. Revolving Credit Agreements and Debt:**

The Company had a revolving credit facility from June 30, 2006 to November 5, 2008. The Company was not in compliance with certain "adjusted EBITDA" and "total debt to adjusted EBITDA ratio" covenants based on its results for the quarter ended September 30, 2008. The Company and the lender were unable to come to mutually

acceptable terms to amend the covenants or replace the facility and the Company terminated the facility with the lender. The Company did not borrow against this facility through its duration.

The Company entered into a new revolving credit agreement with The Private Bank and Trust Company dated as of March 5, 2009 (the "Credit Agreement"). The Credit Agreement is a one-year asset-based revolving credit facility in an amount up to \$12.0 million based on 80% of eligible accounts receivable plus the lesser of 30% of eligible inventory or \$3.0 million. The obligations of the Company under the Credit Agreement are secured by a guaranty from certain direct and indirect domestic subsidiaries of the Company, and by substantially all of the assets of the Company.

The revolving loans under the Credit Agreement bear interest at the greater of the London Interbank Offered Rate ("LIBOR") plus a spread of 2.5%, or an alternative base rate. The alternative base rate is the greater of prime rate or the Federal Funds rate plus 0.25% (the "Base Rate"). The Company is also required to pay a one-time closing fee of \$25,000 and non-use fee of 0.75% per annum on the unused portion of the revolving loans. These fees are waived if the Company maintains with the lender an average monthly demand deposit account balance of \$5.0 million and an average monthly investment balance of \$15.0 million.

The Credit Agreement contains financial covenants that include a minimum EBITDA, a minimum tangible net worth and a limitation on capital expenditures for any fiscal year. The Company was in compliance with these covenants on March 31, 2009. As of March 31, 2009, the Company had \$12.0 million available on the credit facility with no borrowings.

In addition, although the Company has never declared or paid any cash dividends on its common stock and does not anticipate paying any cash dividends in the foreseeable future, the Company's credit facility restricts the Company's ability to pay dividends without bank approval.

As of March 31, 2009, Contineo had a \$121,000 bank loan. The current loan portion of \$58,000 and long-term loan portion of \$63,000 is reported in the accrued expenses line and other-long term liabilities line, respectively, on the Consolidated Balance Sheet.

#### Note 5. Income Taxes:

The Company utilizes the liability method of accounting for income taxes and deferred taxes are determined based on the differences between the financial statements and tax basis of assets and liabilities given the provisions of the enacted tax laws. The income taxes charged to net income are summarized as follows:

(in thousands)	Fiscal Year Ended March 31,		
	2009	2008	2007
<b>Federal:</b>			
Current	\$ --	\$ 48	\$ (500)
Deferred	--	47,682	5,433
	--	47,730	4,933
<b>State:</b>			
Current	149	(44)	744
Deferred	--	5,724	(219)
	149	5,680	525
<b>Foreign:</b>			
Current	(82)	85	16
Deferred	--	--	--
	(82)	85	16
<b>Total</b>	<b>\$ 67</b>	<b>\$ 53,495</b>	<b>\$ 5,474</b>

The Company utilizes the flow-through method to account for tax credits. In fiscal 2009, 2008 and 2007, the Company generated alternative minimum tax credits of \$0, \$0 and \$368,000, respectively.



The statutory federal income tax rate is reconciled to the Company's effective income tax rates below:

	Fiscal Year Ended March 31,		
	2009	2008	2007
Statutory federal income tax rate	35.0%	35.0%	35.0%
Meals and entertainment	(0.3)	(0.3)	0.6
State income tax, net of federal tax effect	(0.6)	2.7	1.0
Valuation allowance	(33.1)	(274.1)	(0.4)
Goodwill impairment	--	(16.1)	--
Contingent tax reserves	(0.3)	0.3	2.1
Other	(1.1)	(2.0)	1.9
	<u>(0.4)%</u>	<u>(254.5)%</u>	<u>40.2%</u>

Components of the net deferred income tax asset are as follows:

(in thousands)	March 31,	
	2009	2008
Deferred income tax assets:		
Allowance for doubtful accounts	\$ 77	\$ 79
Alternative minimum tax credit	1,803	1,803
Research and development credit carryforward	4,346	4,346
Compensation accruals	1,520	1,231
Inventory reserves	528	1,357
Warranty reserve	258	341
Net operating loss carryforward	57,100	52,664
Intangibles	1,845	1,815
Other	2,964	2,156
	<u>70,441</u>	<u>65,792</u>
Valuation allowance	(64,283)	(59,344)
Net deferred income tax asset	<u>\$ 6,158</u>	<u>\$ 6,448</u>

Classified in Consolidated Balance Sheet as follows:

(in thousands)	March 31,	
	2009	2008
Deferred income tax assets- included in noncurrent other assets	\$ 6,448	\$ 6,448
Deferred income tax liability – included in other long-term liabilities	(290)	--
Net deferred income tax asset	<u>\$ 6,158</u>	<u>\$ 6,448</u>

During 2009, the Company recorded a deferred tax liability of \$290,000 which relates to certain intangible assets from the 2007 Noran Tel acquisition that was non-deductible for tax purposes with a corresponding adjustment to goodwill. The Company has approximately \$6.1 million in income tax credit carryforwards and a \$147.0 million federal net operating loss carryforward that is available to offset taxable income in the future. The tax credit carryforwards begin to expire in fiscal year 2010. The federal net operating loss carryforward begins to expire in fiscal year 2020. State net operating loss carryforwards have varying carryforward periods from five to twenty years.

The Company evaluates the need for valuation allowances on the net deferred tax assets under the rules of FAS No. 109. In assessing the realizability of the deferred tax assets, the Company considered whether it is more likely than not that some portion or all of the deferred tax assets will not be realized through the generation of future taxable income. The Company generated net losses in fiscal years 2008 and 2009 which means the Company is in a domestic three-year cumulative loss position. As a result of this and other assessments in fiscal 2008, the Company concluded that in accordance with FAS No. 109 a full valuation allowance is required.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income taxes - an interpretation of FASB Statement No. 109* ("FIN No. 48"), which prescribes a recognition threshold and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

There was no cumulative effect adjustment to retained earnings as a result of adopting FIN No. 48, which was effective April 1, 2007. As of April 1, 2007, the Company had \$1.0 million of unrecognized tax benefits which would impact the effective tax rate. As of March 31, 2008, the Company had approximately \$679,000 of unrecognized tax benefits, net of federal tax benefits, that if recognized would impact the effective tax rate. There was no change in the unrecognized tax benefits for 2009. The Company cannot state with a reasonable degree of certainty that any amount included in the March 31, 2009 balance of unrecognized tax benefits is likely to change significantly during the next twelve months.

A reconciliation of the beginning and ending balances of the total amounts of unrecognized tax benefits is as follows (in thousands):

Unrecognized tax benefits at April 1, 2008	\$ 7,569
Additions based on positions related to the current year	--
Additions for tax positions of prior years	47
Reductions for tax positions of prior years	--
Reductions as a result of expirations of applicable statutes of limitations	--
Settlements	--
Unrecognized tax benefits at March 31, 2009	\$ 7,616

At March 31, 2009, the unrecognized tax benefits are presented in the other long-term liabilities line on the Consolidated Balance Sheet.

The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense. At March 31, 2008, the Company had accrued \$104,000 for the potential payment of interest related to unrecognized tax benefits. At March 31, 2009, the Company had accrued \$151,000 for the potential payment of interest related to unrecognized tax benefits.

The Company files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates.

The major jurisdiction subject to examination by the relevant taxable authorities and open tax years are as follows:

<u>Jurisdiction</u>	<u>Open Tax Years</u>
U.S. Federal	1998-2009
U.S. State	1999-2009
Foreign	2004-2009

#### **Note 6. Commitments and Contingencies:**

The Company's CNS and OSPlant Systems equipment segments lease a 185,000 square foot corporate facility in Aurora, Illinois, to house product distribution, engineering, sales, marketing and administration pursuant to a lease that runs through 2017. The ConferencePlus services segment leases approximately 42,000 square feet of office space in Schaumburg, Illinois, pursuant to a lease that runs through August, 2011.

The Company also has commitments to lease other facilities at various locations. All of the leases require the Company to pay utilities, insurance and real estate taxes on the facilities. In addition, the Company has leases for equipment and photocopiers. Total rent expense was \$4.5 million, \$3.9 million and \$3.8 million for fiscal 2009, 2008 and 2007, respectively. In the fourth quarter of fiscal 2009, the Company recorded a \$925,000 non-cash charge to correct an error in the Company's accounting treatment related to the lease of its corporate headquarters and distribution facility. In accordance with FASB Technical Bulletin No. 88-1, *Issues Related to Accounting of Leases*, the Company recorded \$890,000 of the associated deferred lease liability within other long-term liabilities and \$35,000 within accrued expenses on the Consolidated Balance Sheet as of March 31, 2009.

Future obligations and commitments as of March 31, 2009 consisted of the following:

(in thousands)	Payments due by fiscal year						
	2010	2011	2012	2013	2014	Thereafter	Total
Purchase obligations	\$ 66,918	\$ 2,960	\$ 8	\$ --	\$ --	\$ --	\$ 69,886
Future minimum lease payments for operating leases	3,066	3,024	2,322	2,097	2,114	8,060	20,683
Future obligations and commitments	\$ 69,984	\$ 5,984	\$ 2,330	\$ 2,097	\$ 2,114	\$ 8,060	\$ 90,569

Purchase obligations consist of raw materials in the combined equipment segments and local and long distance telephone service commitments in the ConferencePlus services segment that arise in the normal course of business operations.

As a result of an ongoing vendor dispute in the ConferencePlus services segment a \$700,000 loss contingency reserve was recorded in cost of services in March 2009. The Company applies FAS No. 5, *Accounting for Contingencies*, in assessing the need for a reserve and concluded that this loss was both probable and estimable. The \$700,000 contingency reserve is classified in accrued expenses as a current liability on the Consolidated Balance Sheet as of March 31, 2009.

The Company recorded a gain contingency using guidance under *Staff Accounting Bulletin No. 92 – Accounting and Disclosure Relating to Loss Contingencies* (“SAB No. 92”), of \$3.3 million in the quarter ended June 30, 2007 related to the probable settlement of a claim to recover product warranty costs incurred by the Company for non-conforming product from a vendor. This recovery offset \$600,000 of related costs recorded in the quarter ended June 30, 2007 and costs recorded in the prior fiscal year and are recorded in sales and marketing expense in the Consolidated Statements of Operations. In September 2007, a settlement agreement was reached with the vendor and the Company received the entire \$3.3 million settlement by January 2008.

The Company recorded a loss contingency related to a probable future settlement of \$1.0 million as a purchase price adjustment in the quarter ended December 31, 2006, for the cost to exit a HyperEdge purchase agreement that was outstanding as of the HyperEdge acquisition date. This purchase agreement was not recorded or disclosed to the Company prior to the acquisition. During the quarter ended December 31, 2007, the Company recorded an additional net expense of \$300,000 related to this probable future settlement. The Company used guidance under SAB No. 92 and recorded a probable recovery comprised of an increase in the settlement loss of \$1.0 million offset by a probable recovery of \$0.7 million from former stockholders of HyperEdge. In January 2008, settlement agreements were finalized with both parties for the amounts recorded as of December 31, 2007.

**Note 7. Product Warranties:**

Most of the Company’s products carry a limited warranty ranging from one to three years for CNS products and up to seven years for OSPlant Systems products. The specific terms and conditions of those warranties vary depending upon the product sold. Factors that enter into the estimate of the warranty reserve include the number of units shipped historically and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the reserve as necessary. The current portion of the warranty reserve was \$823,000 and \$733,000 as of March 31, 2009 and 2008, respectively and is presented on the Consolidated Balance Sheets as accrued expenses. The long-term portion of the warranty reserve was \$249,000 and \$199,000, respectively, and is presented on the Consolidated Balance Sheets as other long-term liabilities. The Company recorded \$1.1 million and \$600,000 of product warranty expense during fiscal year 2007 and fiscal year 2008, respectively, related to a specific product warranty issue.

The following table presents the changes in our product warranty reserve:

(in thousands)	Fiscal years ended March 31,		
	2009	2008	2007
Total product warranty reserve at the beginning of the period	\$ 932	\$ 2,664	\$ 1,776
Warranty expense	562	1,227	2,529
Utilization	(422)	(2,959)	(1,641)
Total product warranty reserve at the end of the period	<u>\$ 1,072</u>	<u>\$ 932</u>	<u>\$ 2,664</u>

**Note 8. Capital Stock and Stock Restriction Agreements:**

*Capital Stock Activity*

The Board of Directors has the authority to issue up to 1,000,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of such series, without any further vote or action by stockholders.

*Share Repurchase Program*

In March 2008, the Board of Directors authorized a share repurchase program whereby the Company may repurchase up to an aggregate of \$10.0 million of its outstanding common shares through March 3, 2010. During fiscal 2009 and 2008, 2,897,320 and 29,800 shares, respectively, were repurchased under this program with a weighted-average per share purchase price of \$ 0.56 and \$1.76, respectively. There is approximately \$8.3 million remaining for additional treasury stock purchases under this program as of March 31, 2009.

*Stock Restriction Agreements*

The members of the Penny family (majority stockholders) have a Stock Transfer Restriction Agreement which prohibits, with limited exceptions, such members from transferring their Class A Common Stock or Class B Common Stock acquired prior to November 30, 1995, without first offering such stock to the other members of the Penny family. If converted, Class B stock converts on a one-for-one basis into shares of Class A Common Stock upon a transfer. As of March 31, 2009, a total of 14,693,619 shares of Common Stock are subject to this Stock Transfer Restriction Agreement.

*Voting Rights*

The Company's stock is divided into two classes. Class A Common Stock is entitled to one vote per share while Class B common stock is entitled to four votes per share. The Company's largest stockholder is a voting trust that owned 48.6% of the voting control of the Company as of May 29, 2009. The trust was formed for the benefit of Robert C. Penny III and Melvin J. Simon and their respective families. Certain Penny family members also own or are beneficiaries of trusts that own shares outside of the voting trust. As trustees of the Voting Trust and other trusts, Messrs. Penny and Simon control 52.5% of the voting power of the Company's outstanding stock and therefore effectively control the Company.

*Shares Issued and Outstanding*

The following table summarizes Common Stock transactions for fiscal years 2007, 2008 and 2009:

(in thousands)	Common Shares Issued and Outstanding		
	Class A	Class B	Treasury
Balance, March 31, 2006	55,514	14,742	(93)
Options exercised	132	--	--
Shares sold under Employee Stock Purchase Plan	71	--	--
Restricted stock grant	720	--	--
Balance, March 31, 2007	56,437	14,742	(93)
Options exercised	250	--	--
Shares sold under Employee Stock Purchase Plan	59	--	--
Purchase of Treasury Stock	(30)	--	(30)
Class B converted to Class A	48	(48)	--
Restricted stock forfeiture	(68)	--	--
Balance, March 31, 2008	56,696	14,694	(123)
Options exercised	78	--	--
Shares sold under Employee Stock Purchase Plan	19	--	--
Purchase of Treasury Stock	(2,897)	--	(2,897)
Restricted stock forfeiture	(34)	--	--
Balance, March 31, 2009	53,862	14,694	(3,020)

**Note 9. Stock-based Compensation:**

Effective April 1, 2006, the Company adopted FAS No. 123 (revised 2004), *Share-Based Payment* ("FAS No. 123R"), to account for employee stock-based compensation using the modified prospective method, and therefore did not restate prior periods. FAS No. 123R requires all employee share-based payments be measured at fair value on the award's grant date and be recognized in the financial statements over the requisite service period.

*Employee Stock Incentive Plans*

In September 2004, stockholders approved the Westell Technologies, Inc. 2004 Stock Incentive Plan (the "2004 SIP Plan") that permits the issuance of restricted Class A Common Stock, nonqualified stock options, stock appreciation rights and performance share awards to selected officers, employees, and non-employee directors of the Company. There are a total of 4,495,726 shares available for issuance under this plan as of March 31, 2009.

*Stock Options*

Typically, stock options granted by the Company have an exercise price that is equal to or higher than the reported value of the Company's stock on the grant date. Options usually vest over period from two to five years, or upon the earlier of the achievement of Company and individual goals established, or at the end of 7 or 8 years. The Company's options have a contractual term of 7 or 10 years. Generally, compensation expense is recognized ratably over the vesting period. Certain options provide for accelerated vesting if there is a change in control (as defined in the 2004 SIP Plan).

As permitted by FAS No. 123R, the Company uses the Black-Scholes-Merton model to estimate the fair value of employee stock options on the date of grant. That model employs parameters for which the Company has made estimates according to the assumptions noted below. Expected volatilities were based on historical volatilities of the Company's stock. The expected option lives were derived from the output of the options valuation model and represent the period of time that options granted are expected to be outstanding based on historical information. The risk-free interest rates were based on the United States Treasury yield curve for the term that mirrored the expected term in effect at the time of grant. The dividend yield was based on expected dividends at the time of grant.

The Company recorded expense of \$564,000, \$393,000 and \$834,000 in the twelve months ended March 31, 2009, 2008 and 2007, respectively, related to stock options. Cash received from option exercises for the years ended March 31, 2009, 2008 and 2007 were \$99,000, \$340,000 and \$198,000, respectively. The total intrinsic value of options exercised during the years ended March 31, 2009, 2008 and 2007, was approximately \$32,000, \$242,000 and \$176,000, respectively.

The option activity for the twelve months ended March 31, 2009 is as follows:

	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value(a) (in thousands)
Outstanding on March 31, 2008	8,577,433	\$ 5.06	3.6	\$ 206
Granted	1,671,733	1.20		
Exercised	(78,764)	1.26		
Forfeited	(486,611)	2.33		
Expired	(1,865,319)	7.86		
Outstanding on March 31, 2009	7,818,472	3.78	3.2	--
Vested or expected to vest as of March 31, 2009	5,939,821	4.35	2.5	--
Exercisable on March 31, 2009	4,828,152	4.95	1.9	--

(a) The intrinsic value for the stock options is calculated based on the difference between the exercise price of the underlying awards and Westell Technologies' closing stock price as of the reporting date.

FAS No. 123R requires recognition of stock-based compensation for the number of awards that are ultimately expected to vest. As of March 31, 2009, the Company used an estimated forfeiture rate of approximately 30%. The estimated forfeiture rate will be reassessed in subsequent periods and may change based on new facts and circumstances.

As of March 31, 2009, there was \$1.4 million of pre-tax stock option compensation expense related to non-vested awards not yet recognized, including estimated forfeitures, which is expected to be recognized over a weighted-average period of 3.45 years.

The fair value of each option was estimated on the date of grant using the Black-Scholes-Merton option pricing model with the following weighted-average assumptions:

Input assumptions:	Twelve months ended March 31		
	2009	2008	2007
Expected volatility	57%	54%	66%
Risk-free interest rate	2.8%	4.7%	4.6%
Expected life	5 years	5 years	5 years
Expected dividend yield	0.0%	0.0%	0.0%
Output weighted-average-grant-date fair value	\$ 0.61	\$ 1.35	\$ 1.39

The Company has the policy of issuing new shares of stock when stock options are exercised.

#### *Non-qualified Non-public Subsidiary Stock Options*

The Company's ConferencePlus subsidiary has a stock option plan for the purchase of ConferencePlus stock. There are 2,679,245 shares reserved for issuance under this plan. Stock options granted under this plan have an exercise price that is equal to the calculated value of ConferencePlus stock on the grant date based on a discounted cash flow method and a contractual term of 10 years. Typically, options vest on the fifth anniversary of the options grant date and compensation is expensed ratably over that period. Per the original terms of the option awards, acceleration of vesting may occur due to the following events: an initial public offering, a spin off, or a change in control of ConferencePlus. The options granted in fiscal 2009 were to replace options that expired during the year. The

options were issued with exercise price of the expiring options and with immediate vesting. The expense for this grant was therefore recognized immediately.

ConferencePlus uses the Black-Scholes-Merton model to estimate the calculated value of employee stock options on the date of grant. That model employs parameters for with the Company has made estimates according to the assumptions noted below. As ConferencePlus stock is not traded on an exchange nor does it have an internal market for its shares, expected volatilities were based on historical stock volatilities for comparable public companies stock for a period of time comparable to the expected term of the options. The expected option lives were derived from the output of the options valuation model and represent the period of time that options granted are expected to be outstanding based on historical information. The risk-free interest rates were based on the United States Treasury yield curve for the term that mirrored the expected term in effect at the time of grant. The dividend yield was based on expected dividends at the time of grant.

The Company recorded expense of \$466,000, \$177,000 and \$221,000 in the twelve months ended March 31, 2009, 2008 and 2007, respectively, related to these stock options. The option activity for the year ended March 31, 2009 is as follows:

	Shares	Weighted-Average Exercise Price Per Share	Weighted Average-Remaining Contractual Term (in years)	Aggregate Intrinsic Value(b) (in thousands)
Outstanding on March 31, 2008	2,096,676	1.63	4.7	\$ 106
Granted	377,358	1.14		
Exercised	--	--		--
Forfeited	(266,438)	1.64		
Expired	(400,422)	1.18		
Outstanding on March 31, 2009	1,807,174	1.63	5.4	\$ 156
Vested or expected to vest as of March 31, 2009	1,750,466	1.62	5.4	\$ 154
Exercisable on March 31, 2009	1,476,574	1.61	5.1	\$ 146

(b) The intrinsic value for the stock options is calculated based on the difference between the exercise price of the underlying awards and the estimated fair value of the CPI stock as of the reporting date.

FAS No. 123R requires recognition of stock-based compensation for the number of awards that are ultimately expected to vest. As of March 31, 2009, the Company used an estimated forfeiture rate of approximately 11%. The estimated forfeiture rate will be reassessed in subsequent periods and may change based on new facts and circumstances.

As of March 31, 2009, there was \$133,000 of pre-tax stock option compensation expense related to non-vested awards not yet recognized, including estimated forfeitures, which is expected to be recognized over a weighted-average period of 2.1 years.

The calculated value of each option was estimated on the date of grant using the Black-Scholes-Merton option pricing model with the following weighted-average assumptions:

	Twelve months ended March 31		
	2009	2008	2007
Inputs assumptions:			
Expected volatility	58%	42%	50%
Risk-free interest rate	2.1%	4.2%	4.7%
Expected life	7 years	5 years	5 years
Expected dividend yield	0.0%	0.0%	0.0%
Output weighted-average-grant date fair value	\$ 0.99	\$ 0.61	\$ 0.89

### Restricted Stock

Vesting of restricted stock is subject to continued employment with the Company. There were no restricted stock grants in fiscal 2009 or 2008. Restricted stock awards granted in fiscal year 2006 vested in full on March 31, 2007. The restricted stock awards granted in fiscal year 2005 vested in full on June 1, 2008 with the exception of 20,000 shares that vested on March 31, 2007. Two restricted stock awards were made in fiscal year 2007. The first was for 280,000 shares of restricted stock that will vest in full on October 31, 2009. The second fiscal 2007 award was for 500,000 shares of restricted stock which one-fifth vested on February 1, 2008. Per the terms of the original agreement, the remaining four-fifths of the 500,000 shares accelerated vesting in July 2008 when the holder was no longer employed by the Company. Restricted stock awards made in fiscal year 2005 and 280,000 shares of restricted stock awarded in fiscal 2007 are subject to partial vesting in the event of death, disability or involuntary termination other than for cause, as defined in the restricted stock award, based upon the number of months worked prior to the vesting date of the stock award.

The Company recognizes compensation expense on a straight-line basis over the vesting periods of the awards based on the market value of Westell Technologies stock on the date of grant adjusted for estimated forfeitures.

The following table sets forth restricted stock activity for the twelve months ended March 31, 2009:

	Shares	Weighted-Average Grant Date Fair Value
Non-vested as of March 31, 2008	735,000	\$ 2.76
Granted	--	--
Vested	(501,111)	2.99
Forfeited	(33,889)	2.26
Non-vested as of March 31, 2009	200,000	\$ 2.26

The Company recorded \$1,158,000, \$629,000 and \$780,000 of expense in the twelve months ended March 31, 2009, 2008 and 2007, respectively, related to restricted stock. As of March 31, 2009, there was \$105,000 of pre-tax unrecognized compensation expense, including estimated forfeitures, related to non-vested restricted stock, which is expected to be recognized over a weighted-average period of 0.6 years.

The fiscal 2009 stock-based compensation for restricted stock increased compared to fiscal 2008 primarily due to accelerated vesting in July 2008 described above.

### Employee Stock Purchase Plan

The Company has an employee stock purchase plan ("ESPP") that allows employees to purchase stock each quarter end through payroll deductions at a 15% discount from the market price on the date of purchases. There were 19,130 shares, 58,939 shares and 70,566 shares of common stock purchased under the ESPP during fiscal years 2009, 2008 and 2007, respectively. The 15% market discount for shares purchased during fiscal years 2009, 2008 and 2007 approximated \$4,000, \$18,000 and \$18,000, respectively, and was recognized as compensation expense in the Consolidated Statement of Operations.

The Company's stockholders approved an amendment to the ESPP at the Annual Meeting of Stockholders on September 18, 2008, to increase the number of shares available for issuance under the ESPP by 200,000. As a result of such amendment, there are 717,950 shares authorized under the Company's ESPP with 202,280 of the Company's common stock available for issuance as of March 31, 2009. Due to the current share price and the number of shares available under the ESPP plan, the Company has not reopened this program for employees.



### Stock-Based Compensation Expense

The following table sets forth the total stock-based compensation expense included in the Consolidated Statements of Operations, resulting from stock options, restricted stock and the employee stock purchase plan:

(in thousands)	Twelve months ended March 31		
	2009	2008	2007
Cost of equipment revenues	\$ 88	\$ 209	\$ 352
Cost of services	29	55	59
Sales and marketing	315	287	444
Research and development	136	117	365
General and administrative	1,624	549	633
Stock-based compensation expense	2,192	1,217	1,853
Income tax benefit	--	--	(732)
Total stock-based compensation expense after taxes	\$ 2,192	\$ 1,217	\$ 1,121

Stock-based compensation for the fiscal year ended March 31, 2009 increased compared to fiscal 2008 primarily due to accelerated vesting on restricted stock. Stock-based compensation for the fiscal year ended March 31, 2008 decreased compared to the prior fiscal year primarily due to an increase in the estimated forfeiture rate.

#### Note 10. Benefit Plans:

##### Deferred Compensation

The Company had a deferred compensation program with Mr. Van Cullens, a former Chief Executive Officer, which was funded through a Rabbi trust. The Rabbi trust was subject to the creditors of the Company. All amounts deferred under this compensation program vested on March 31, 2007. The Rabbi trust qualified as a variable interest entity ("VIE") under FIN No. 46R and as such was consolidated in the Company's financial statements. The deferred compensation liability was \$2.5 million as of March 31, 2008 and March 31, 2007. As of March 31, 2007, approximately \$1.9 million of cash had been funded into the Rabbi trust. In fiscal 2008, the Company funded an additional \$509,000 of cash to fully fund the Rabbi trust as of March 31, 2008. As of March 31, 2008, the Rabbi trust was presented in the investments line on the Consolidated Balance Sheets, whereas the associated deferred compensation liability was shown as a current liability in the accrued compensation line. In April 2008, the Company used the investments in the Rabbi trust to pay this deferred compensation liability in full.

##### 401(k) Benefit Plan

The Company sponsors a 401(k) benefit plan (the "Plan") which covers substantially all of its domestic employees. The Plan is a salary reduction plan that allows employees to defer up to 100% of wages subject to Internal Revenue Service limits. The Plan also allows for Company discretionary and matching contributions. Effective in February 2009, the Company eliminated matching contributions. From January 2008 through January 2009, the matching contribution percentage made by the Company was 100% of participants' contributions up to 4%. Participants were immediately 100% vested in the match. Fiscal 2009 and 2008, matching contribution expense was approximately \$804,000 and \$582,000, respectively. The Company provided for discretionary and matching contributions to the Plan totaling approximately \$1.0 million for fiscal 2007.

#### Note 11. Sale of Product Line:

In fiscal year 2005, the Company sold its Data Station Termination product lines and specified fixed assets to Enginuity Communications Corporation ("Enginuity"). The Company provided an unconditional guarantee relating to a 10-year term note payable by Enginuity to the third-party lender that financed the transaction (the "Enginuity Note"). The Enginuity Note has an unpaid balance of \$1.0 million as of March 31, 2009. Certain owners of Enginuity personally guaranteed the note and pledged assets as collateral. These personal guarantees will stay in place until the note is paid in full as will the Company's. Under the Company's guarantee, the Company must pay all

amounts due under the note payable upon demand from the lender, however, the Company would have recourse against the assets of Engenuity and the personal guarantees.

The Company evaluated FIN No. 46R and concluded that Engenuity was a VIE as a result of the debt guarantee. The Company is not considered the primary beneficiary of the VIE and consolidation therefore is not required.

At the time of the product sale, the Company assessed its obligation under this guarantee pursuant to the provisions of FIN No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* and recorded a \$300,000 liability for the value of the guarantee. The Company evaluates the liability each quarter based on Engenuity's operating performance and current status of the guaranteed debt obligation. The balance of the liability is \$100,000 and \$125,000 as of March 31, 2009 and 2008, respectively. The liability is shown as a current liability in the accrued expenses line on the Consolidated Balance Sheets.

#### **Note 12. Segment and Related Information:**

Historically, the Company has conducted its business within the following two reportable segments: telecom equipment and telecom services. Effective in the third quarter of fiscal 2009, the Company began reporting its financial information within the three reportable segments of CNS equipment, OSPlant Systems equipment, and ConferencePlus services.

*CNS equipment:* The Company's CNS family of broadband products enables high-speed routing and networking of voice, data, video, and other advanced services in the home. The products allow service providers to deliver services, content, and applications over existing copper, fiber, coax, and wireless infrastructures. Westell CNS products are typically installed in consumer residences or small businesses as a key component of broadband service packages.

*OSPlant Systems equipment:* The Company's OSPlant Systems product family consists of next generation outdoor cabinets, enclosures, power distribution, edge connectors (fiber, Ethernet and Coax), remote monitoring, DS1 and DS3 transmission plugs. These solutions are optimized for wireless backhaul, service delivery to business enterprise and smart grid applications. With its recent introduction of Customized Systems Integrations ("CSI") service, Westell OSPlant Systems team now offers its customers with a one-stop-shop for complete turnkey solutions, reducing time-to-market and expenses incurred through third-party contractors eliminating the need to design, assemble and test on the job site. Target customer include Wireline Service Providers, Wireless Service Providers, Multi-Service Operators ("MSOs"), Utility Providers and OEM Equipment Manufacturers worldwide. The power distribution and remote monitoring products are designed and provided through the Company's Noran Tel subsidiary located in Regina, Saskatchewan, Canada.

*ConferencePlus services:* The Company's subsidiary Conference Plus, Inc. is a multi-point telecommunications service bureau specializing in audio teleconferencing, multi-point video conferencing, and multimedia teleconference services.

In the third quarter of fiscal 2009, the Company revised its segment reporting structure to reflect the realignment of internal reporting of its telecom equipment business. In fiscal year 2008, the Company transitioned its internal manufacturing operations from Aurora, Illinois, to an outsourced model using offshore suppliers. The manufacturing entity, Westell Inc., reduced its number of employees from over 500 to its current level of 124. During fiscal year 2009, Westell's Chief Executive Officer, the chief operating decision maker ("CODM"), implemented business unit financial reporting which changed reporting from a telecom equipment segment to two CNS and OSPlant Systems segments. The underlying direct product costs, engineering and sales and marketing costs of CNS and OSPlant Systems are now segregated into separate cost centers for financial reporting purposes. In fiscal 2008, CNS and OSPlant Systems products were both manufactured in the Aurora manufacturing facility and shared significant resources that were not segregated for financial reporting. As a result, the Company determined that it is impracticable for the Company to restate prior periods to conform to the current operating segments. In order to provide comparable information to the prior year, the Company has combined the CNS and OSPlant Systems equipment segments ("combined equipment segments") in the current year.

Performance of these segments is primarily evaluated utilizing revenue and segment operating income (loss). The accounting policies of the segments are the same as those for Westell Technologies, Inc. described in the summary of significant accounting policies. The Company defines segment operating income (loss) as gross profit less direct expenses, including direct expenses from research and development expenses, sales and marketing expenses, and general and administrative ("G&A"). Segment operating income (loss) excludes unallocated Westell Inc. G&A and restructuring charges.

Segment information for the years ended March 31, 2009, 2008 and 2007, which excludes the impact of the Westell Limited discontinued operations, is set forth below:

<b>Revenue (in thousands)</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
CNS equipment	\$ 59,495	\$ 97,923	\$153,772
OSPlant Systems equipment	56,506	54,108	54,217
Combined equipment	116,001	152,031	207,989
ConferencePlus services	45,203	53,698	48,544
Total revenue	\$ 161,204	\$ 205,729	\$ 256,533

**Segment operating income (loss) and reconciliation  
to loss before income taxes, minority interest and  
discontinued operations  
(in thousands)**

	<b>2009</b>	<b>2008</b>	<b>2007</b>
CNS equipment segment loss	\$ (16,843)	\$ NA	\$ NA
OSPlant Systems equipment segment income	10,881	NA	NA
Unallocated equipment G&A and restructuring charges	(11,691)	NA	NA
Combined equipment segments loss	(17,653)	(28,603)	5,363
ConferencePlus services operating income	669	3,887	5,101
Operating loss	(16,984)	(24,716)	10,464
Other income (expense), net	662	3,709	3,173
Interest (expense)	(15)	(12)	(7)
Income (loss) before income taxes, minority interest and discontinued operations	\$ (16,337)	\$ (21,019)	\$ 13,630

**Depreciation and amortization  
(in thousands)**

	<b>2009</b>	<b>2008</b>	<b>2007</b>
CNS equipment depreciation and amortization	\$ 1,080	\$ NA	\$ NA
OSPlant Systems equipment depreciation and amortization	2,003	NA	NA
Unallocated equipment depreciation and amortization	991	NA	NA
Combined equipment depreciation and amortization	4,074	6,127	6,127
ConferencePlus services depreciation and amortization	1,745	1,701	1,808
Total depreciation and amortization	\$ 5,819	\$ 7,828	\$ 7,935

**Total Assets  
(in thousands)**

	<b>2009</b>	<b>2008</b>
Combined equipment segments assets	\$ 120,946	\$ 116,999
ConferencePlus services assets	19,230	17,229
Total assets	\$ 140,176	\$ 134,228

The combined equipment segments use many of the same assets. For internal reporting purposes, the Company does not allocate all assets between the CNS and OSPlant Systems equipment segments and therefore no asset or capital expenditure information by each of the equipment segments is available. Combined equipment segments information is provided above.

### Enterprise-wide Information

The Company's revenues are primarily generated in the United States. More than 90% of all revenues were generated in the United States in fiscal years 2009, 2008 and 2007.

### Significant Customers and Concentration of Credit

The Company is dependent on certain major telephone companies that represent more than 10% of the total revenue. Sales to major customers and successor companies that exceed 10% of total revenue are as follows:

	Fiscal Year Ended March 31,		
	2009	2008	2007
Verizon	35.4%	34.4%	37.5%
AT&T	14.4%	20.0%	29.3%

Verizon is a customer to the OSPlant Systems equipment segment and the CNS equipment segment. AT&T is a customer of all three reporting segments.

Major telephone companies comprise a significant portion of the Company's trade receivables. Receivables from major customers that exceed 10% of total accounts receivable balance are as follows:

	Fiscal Year Ended March 31,	
	2009	2008
Verizon	41.3%	29.0%
AT&T	8.7%	7.9%

### Geographic Information

The Company's financial information by geographic area was as follows for the years ended March 31:

(in thousands)	Domestic	International	Total
2009			
Revenues	\$ 149,773	\$ 11,431	\$ 161,204
Operating income (loss)	(15,854)	(1,130)	(16,984)
Total assets	132,995	7,181	140,176
2008			
Revenues	\$ 192,929	\$ 12,800	\$ 205,729
Operating income (loss)	(24,818)	102	(24,716)
Total assets	122,881	11,347	134,228
2007			
Revenues	\$ 251,199	\$ 5,334	\$ 256,533
Operating income (loss)	11,136	(672)	10,464
Total assets	196,093	11,257	207,350

International identifiable assets, revenues and operating income (loss) are related to Conference Plus Global Services, Ltd., which has locations in Dublin, Ireland and London, England and Noran Tel, Inc. which is located in Regina, Saskatchewan, Canada.

### **Note 13. Restructuring:**

On December 29, 2005, the Company acquired 100% of the stock of HyperEdge Corporation. In connection with this acquisition, the Company implemented a restructuring plan to combine and streamline the operations of the companies to achieve synergies related to the manufacture and distribution of common OSPlant Systems equipment

segment. The severance costs recorded as a liability assumed in the acquisitions were \$400,000. Twenty employees were impacted by this plan. All terminations were completed by the second quarter of fiscal year 2007. As of September 30, 2007, all of these costs had been paid.

In the fourth quarter of fiscal year 2007, the Company recognized a restructuring expense of \$343,000 related primarily to the severance costs of eighteen employees. This action was to reduce cost in the equipment segment. As of September 30, 2007, all of these costs had been paid.

In May 2007, the Company announced it would move substantially all of the Company's Aurora, Illinois, manufacturing operations in the CNS and OSPlant Systems equipment segments to offshore suppliers. In connection with this plan, the Company recognized restructuring expense of \$5.7 million in fiscal year 2008. This charge included personnel costs related to the termination of 443 employees. The Company recorded a reversal of expenses of \$56,000 in the year ended March 31, 2009 related to a change in estimated severance and outplacement costs. As of March 31, 2009, all of these costs have been paid in full.

In the fourth quarter of fiscal 2008, the Company recognized restructuring expense of \$504,000 at its Westell Limited facility located in the United Kingdom for personnel costs related to the termination of six employees and an early lease termination cost for its facility. In the first quarter of fiscal year 2009, the Company decided to cease the operations of its Westell Limited subsidiary. All remaining employees were terminated and the facility was closed. The Company recorded \$214,000 related to severance expense for the last 5 employees and \$277,000 to write down assets in the quarter ended June 30, 2008. As of March 31, 2008, \$92,000 had been paid leaving an unpaid balance of \$412,000. As of March 31, 2009, all of these costs have been paid in full. Westell Limited is shown as discontinued operations in the Company's Consolidated Statements of Operations. Previously, the Westell Limited subsidiary was shown in the telecom equipment segment.

The Company initiated an additional reduction in force of 20 employees in October 2008 impacting all three operating segments. As a result of these actions, the Company recorded employee termination costs in the third fiscal quarter ending December 31, 2008 of approximately \$169,000 in the ConferencePlus services segment and \$639,000 in the combined CNS and OSPlant Systems equipment segments (see Note 12 for further information on segments). As of March 31, 2009, approximately \$527,000 has been paid leaving an unpaid balance of \$281,000.

The restructuring charges and their utilization are summarized as follows:

(in thousands)	Employee- related	Legal, other and facility costs	Total
Liability at March 31, 2006	\$ 371	\$ 28	\$ 399
HyperEdge acquisition	250	--	250
Charged	304	39	343
Utilized	(727)	(19)	(746)
Liability at March 31, 2007	198	48	246
Charged	6,100	121	6,221
Utilized	(4,037)	(46)	(4,083)
Liability at March 31, 2008	2,261	123	2,384
Charged	977	(11)	966
Utilized	2,960	109	3,069
Liability at March 31, 2009	\$ 278	\$ 3	\$ 281

**Note 14. Net Income (Loss) Per Share:**

The computation of basic net income (loss) per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share includes the number of additional common shares that would have been outstanding if the dilutive potential shares had been issued. In periods with a net loss, all common stock equivalents are excluded from the per share calculation; therefore, the basic loss per share equals the diluted loss per share.

The following table sets forth the computation of basic and diluted net income (loss) per share:

(in thousands, except per share amounts)	Fiscal Year ended March 31,		
	2009	2008	2007
<b>Net income (loss):</b>			
Net income (loss) from continuing operations	\$ (16,478)	\$ (74,774)	\$ 7,921
Net income (loss) from discontinued operations	(206)	(1,456)	773
Net income (loss)	\$ (16,684)	\$ (76,230)	\$ 8,694
<b>Weighted-average shares outstanding:</b>			
Weighted-average basic shares outstanding	69,740	70,376	69,946
Effect of dilutive securities:			
restricted stock and stock options	--	--	1,198
Weighted-average diluted shares outstanding	69,740	70,376	71,144
<b>Basic net income (loss) per share:</b>			
Basic net income (loss) from continuing operations	\$ (0.24)	\$ (1.06)	\$ 0.11
Basic net income (loss) from discontinued operations	\$ (0.00)	\$ (0.02)	\$ 0.01
Basic net income (loss) per share	\$ (0.24)	\$ (1.08)	\$ 0.12
<b>Diluted net income (loss) per share:</b>			
Diluted net income (loss) from continuing operations	\$ (0.24)	\$ (1.06)	\$ 0.11
Diluted net income (loss) from discontinued operations	\$ (0.00)	\$ (0.02)	\$ 0.01
Diluted net income (loss) per share	\$ (0.24)	\$ (1.08)	\$ 0.12

The Company had 5.7 million options outstanding as of March 31, 2007, which were not included in the computation of average diluted shares outstanding as they were antidilutive. In accordance with SAB 108, in fiscal 2007 the Company recorded a cumulative effect adjustment for an accounting change of \$1,209,000, which would have decreased basic and diluted earnings per share by \$0.02.

**Note 15. Quarterly Results of Operations (Unaudited):**

The following tables present certain financial information for each of the last eight fiscal quarters. The Company believes that the unaudited information regarding each of these quarters is prepared on the same basis as the audited Consolidated Financial Statements of the Company appearing elsewhere in this Form 10-K. In the opinion of management, all necessary adjustments (consisting only of normal recurring adjustments) have been included to present fairly the unaudited quarterly results when read in conjunction with the audited Consolidated Financial Statements of the Company and the Notes thereto appearing elsewhere in this Form 10-K. These quarterly results of operations are not necessarily indicative of the results for any future period.

	Quarter Ended							
	Fiscal 2008				Fiscal 2009			
(in thousands, except per share amounts)	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007	Mar. 31, 2008	June 30, 2008	Sept. 30, 2008	Dec. 31, 2008	Mar. 31, 2009
Revenue	\$ 58,401	\$ 59,421	\$ 43,730	\$ 44,177	\$ 38,058	\$ 43,120	\$ 38,301	\$ 41,725
Gross margin	17,947	16,334	14,204	11,955	12,847	13,110	12,328	12,789
Operating expenses	19,735	18,143	18,423	28,855	18,009	18,405	16,475	15,169
Income tax	(261)	(326)	(955)	55,037	27	48	(62)	54
Net income (loss)	(916)	(668)	(2,502)	(72,144)	(5,521)	(5,109)	(4,061)	(1,993)
Net income (loss) per common share:								
Basic	\$ (0.01)	\$ (0.01)	\$ (0.04)	\$ (1.02)	\$ (0.08)	\$ (0.07)	\$ (0.06)	\$ (0.03)
Diluted	\$ (0.01)	\$ (0.01)	\$ (0.04)	\$ (1.02)	\$ (0.08)	\$ (0.07)	\$ (0.06)	\$ (0.03)

The quarterly fluctuations in revenue are due primarily to fluctuations in the CNS equipment segment. These fluctuations are due to product mix between the modem and VersaLink™ products, quantity shipped and generally declining sales prices. In the December 31, 2007 quarter, the Company concluding shipping of CNS products under a BellSouth agreement in October of 2007. Quarterly gross margin was impacted primarily by price repression in the CNS equipment segment. The margin in the fourth quarter of fiscal 2008 was negatively impacted by \$1.1 million of excess and obsolete inventory expense recorded. Operating expenses in the June 30, 2008 quarter was positively impacted by a \$3.3 million gain related to the recovery of product warranty costs from a vendor and negatively impacted by \$3.9 million in restructuring cost recorded relating to the Company's outsourcing plan. Operating expenses in June, September and December 2007 quarters also contained \$545,000, \$ 552,000 and \$521,000 of consulting expense related to the outsourcing strategy. Operating expenses in the March 31, 2008 quarter was impacted by an additional restructuring charge of \$1.9 million and a goodwill impairment charge of \$9.7 million. In addition, the Company recorded tax expense of \$55.5 million relating primarily to valuation allowance all deferred tax assets in that quarter. Operating expenses in the September 2008 quarter were impacted by \$1.3 million of severance and stock-based compensation expense related to the accelerated vesting of restricted stock both for the former CEO, Thomas Mader. For the quarter ended December 31, 2008, operating expenses included \$808,000 of unallocated equipment restructuring expense and \$1.4 million of goodwill impairment charges in the OSPlant Systems equipment segment. In the quarter ended March 31, 2009, the Company recorded a \$700,000 loss contingency for a contractual dispute as a component of cost of services in the ConferencePlus services segment. The Company also recorded a \$925,000 non-cash rent charge of which \$462,000 was included in CNS equipment operating expenses, \$158,000 was included in OSPlant Systems equipment operating expenses, \$157,000 was included in unallocated G&A expenses, and \$148,000 was recorded in cost of equipment revenues to correct the Company's lease accounting policy.

The Company expects to continue to experience significant fluctuations in quarterly results of operations. The Company believes that fluctuations in quarterly results may cause the market price of the Class A Common Stock to fluctuate, perhaps substantially. Some factors which have had an influence on and may continue to influence the Company's results of operations in a particular quarter include, but are not limited to, the size and timing of customer orders and subsequent shipments, customer order deferrals in anticipation of new products, timing of product introductions or enhancements by the Company or its competitors, market acceptance of new products, technological changes in the telecommunications industry, competitive pricing pressures, accuracy of customer forecasts of end-user demand, write-offs for obsolete inventory, changes in the Company's operating expenses, personnel changes, foreign currency fluctuations, changes in the mix of products sold, quality control of products sold, disruption in sources of supply, regulatory changes, capital spending, delays of payments by customers, working capital deficits and general economic conditions. Sales to the Company's customers typically involve long approval and procurement cycles and can involve large purchase commitments. Accordingly, cancellation or deferral of one or a small number of orders could cause significant fluctuations in the Company's quarterly results of operations. As a result, the Company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as indications of future performance.

The Company's expense levels are based in large part on anticipated future revenues and are relatively fixed in the short term. Therefore, the Company may be unable to adjust spending in a timely manner to compensate for any unexpected shortfall of orders. Accordingly, any significant shortfall of demand in relation to the Company's expectations or any material delay of customer orders would have an almost immediate adverse impact on the Company's business and results of operations and profitability.

**Note 16. Subsequent Event:**

In fiscal year 2009, the Company initiated a reduction in force relating to all three business segments in efforts to reduce costs. In the first quarter of fiscal year 2010, the Company took further cost reduction actions that resulted in the termination of approximately 30 employees primarily in the CNS equipment segment and 20 employees in the ConferencePlus services segment. The total cost of this restructuring action is estimated to cost \$414,000, \$46,000 and \$139,000 in the CNS equipment, OSPlant Systems equipment and ConferencePlus services segments, respectively. The Company has evaluated subsequent events through the date the financial statements are issued.

**WESTELL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS**

(In thousands)	Balance Beginning Of Year	Net Additions Charged to Cost And Expenses	Acquired	Additions (Deductions)	Balance at End of Year
<b>2009</b>					
Accounts receivable allowances	\$ 281	\$ 110	\$ --	\$ (102) (1)	\$ 289
Reserve for excess and obsolete inventory	3,290	580	-	(2,534) (2)	1,336
Deferred tax assets valuation allowance	59,344	--	--	4,939 (3)	64,283
Reserve for returns	30	110	--	(130)	10
<b>2008</b>					
Accounts receivable allowances	\$ 290	\$ 97	\$-	\$ (106) (1)	\$ 281
Reserve for excess and obsolete inventory	3,016	2,000	-	(1,716) (2)	3,290
Deferred tax assets valuation allowance	8,461	57,573 (3)	-	(6,690) (4)	59,344
Reserve for returns	30	224	--	(224)	30
<b>2007</b>					
Accounts receivable allowances	\$ 246	\$ 69	\$ 8	\$ (33) (1)	\$ 290
Reserve for excess and obsolete inventory	3,828	452	47	(1,311) (2)	3,016
Deferred tax assets valuation allowance	9,475	(1,014) (3)	--	-	8,461
Reserve for returns	35	266	--	(271)	30

(1) Accounts written off, net of recoveries

(2) Inventory scrapped against inventory reserves.

(3) Change in deferred tax asset valuation allowance.

(4) Amounts reclassified to unrecognized tax benefit liability with the adoption of FIN No. 48 (See Note 5).



**CREDIT AGREEMENT**

**dated as of March 5, 2009**

**among**

**WESTELL TECHNOLOGIES, INC.,**

**WESTELL, INC.,**

**TELTREND LLC**

**and**

**CONFERENCE PLUS, INC.,**

**as Borrowers**

**and**

**THE PRIVATEBANK AND TRUST COMPANY,**

**as the Lender**

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## CREDIT AGREEMENT

THIS CREDIT AGREEMENT dated as of March 5, 2009 (this "Agreement") is entered into among WESTELL TECHNOLOGIES, INC., a Delaware corporation ("Technologies"), WESTELL, INC., an Illinois corporation ("Westell"), TELTREND LLC, a Delaware limited liability company ("Teltrend") and CONFERENCE PLUS, INC., a Delaware corporation ("CPI", Technologies, Westell, Teltrend and CPI being hereinafter collectively referred to as the "Borrowers" and individually as a "Borrower") and THE PRIVATEBANK AND TRUST COMPANY (the "Lender").

Subject to the terms and conditions of this Agreement and the other Loan Documents, Lender may make Revolving Loans (as defined in Section 2.1.1 hereof) to the Borrowers in an amount not exceeding Revolving Loan Availability (as defined in Section 1.1 hereof) in accordance with the terms hereof.

In consideration of the mutual agreements herein contained, the parties hereto agree as follows:

### SECTION 1 DEFINITIONS.

1.1. Definitions. When used herein the following terms shall have the following meanings:

Account Debtor is defined in the Guaranty and Security Agreement.

Account or Accounts is defined in the UCC.

Acquisition means any transaction or series of related transactions for the purpose of or resulting, directly or indirectly, in (a) the acquisition of all or substantially all of the assets of a Person, or of all or substantially all of any business or division of a Person, (b) the acquisition of in excess of 50% of the Capital Securities of any Person, or otherwise causing any Person to become a Subsidiary, or (c) a merger or consolidation or any other combination with another Person (other than a Person that is already a Subsidiary).

Affiliate of any Person means (a) any other Person which, directly or indirectly, controls or is controlled by or is under common control with such Person, (b) any officer or director of such Person and (c) with respect to the Lender, any entity administered or managed by the Lender or an Affiliate or investment advisor thereof and which is engaged in making, purchasing, holding or otherwise investing in commercial loans. A Person shall be deemed to be "controlled by" any other Person if such Person possesses, directly or indirectly, power to vote 10% or more of the securities (on a fully diluted basis) having ordinary voting power for the election of directors or managers or power to direct or cause the direction of the management and policies of such Person whether by contract or otherwise. Unless expressly stated otherwise herein, the Lender shall not be deemed an Affiliate of any Loan Party.

Agreement - see the Preamble.

Applicable Margin means, for any day, .25% per annum in the case of Base Rate Loans and 2.50% per annum in the case of LIBOR Loans.



Attorney Costs means, with respect to any Person, all reasonable fees and charges of any outside counsel to such Person all reasonable disbursements of such counsel and all court costs and similar legal expenses.

Bank Product Agreements means those certain cash management service agreements entered into from time to time between any Loan Party and the Lender or its Affiliates in connection with any of the Bank Products.

Bank Product Obligations means all obligations, liabilities, contingent reimbursement obligations, fees, and expenses owing by the Loan Parties to the Lender or its Affiliates pursuant to or evidenced by the Bank Product Agreements and irrespective of whether for the payment of money, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, and including all such amounts that a Loan Party is obligated to reimburse to the Lender as a result of the Lender purchasing participations or executing indemnities or reimbursement obligations with respect to the Bank Products provided to the Loan Parties pursuant to the Bank Product Agreements.

Bank Products means any service or facility extended to any Loan Party by the Lender or its Affiliates including: (a) credit cards, (b) credit card processing services, (c) debit cards, (d) purchase cards, (e) ACH transactions, (f) cash management, including controlled disbursement, accounts or services, or (g) Hedging Agreements.

Base Rate means at any time the greater of (a) the Federal Funds Rate plus 0.5% and (b) the Prime Rate.

Base Rate Loan means any Loan which bears interest at or by reference to the Base Rate.

Base Rate Margin - see the definition of Applicable Margin.

Borrowing Base means an amount equal to the total of (a) 80% of the unpaid amount (net of such reserves and allowances as the Lender deems necessary in its reasonable discretion) of all Eligible Accounts plus (b) the lesser of (i) 30% of the value of all Eligible Inventory valued at the lower of cost or market in the aggregate and (ii) \$3,000,000 (in each case, net of such reserves and allowances as the Lender deems necessary in its reasonable discretion which reserves may include a rent reserve based on three-months rent with respect to each of the following leased properties: (i) 750 North Commons Drive, Aurora, Illinois and (ii) 1051 Woodfield Road, Schaumburg, Illinois in each case, solely to the extent the Borrowers do not deliver Collateral Access Agreements with respect to each landlord).

Borrower - see the Preamble.

Borrower Representative means Technologies.

Borrowing Base Certificate means a certificate substantially in the form of Exhibit C.

BSA - see Section 10.4.

Business Day means any day on which Lender is open for commercial banking business in Chicago, Illinois and, in the case of a Business Day which relates to a LIBOR Loan, on which dealings are carried on in the London interbank eurodollar market.

Capital Expenditures means all expenditures which, in accordance with GAAP, would be required to be capitalized and shown on a balance sheet of the Loan Parties, including expenditures in respect of Capital Leases, but excluding expenditures made in connection with the replacement, substitution or restoration of assets to the extent financed (a) from insurance proceeds (or other similar recoveries) paid on account of the loss of or damage to the assets being replaced or restored or (b) with awards of compensation arising from the taking by eminent domain or condemnation of the assets being replaced.

Capital Lease means, with respect to any Person, any lease of (or other agreement conveying the right to use) any real or personal property by such Person that, in conformity with GAAP, is accounted for as a capital lease on the balance sheet of such Person.

Capital Securities means, with respect to any Person, all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) of such Person's capital, whether now outstanding or issued or acquired after the Closing Date, including common shares, preferred shares, membership interests in a limited liability company, limited or general partnership interests in a partnership, interests in a trust, interests in other unincorporated organizations or any other equivalent of such ownership interest.

Cash Collateralize means to deliver cash collateral to the Lender, to be held as cash collateral for outstanding Letters of Credit, pursuant to documentation reasonably satisfactory to the Lender. Derivatives of such term have corresponding meanings.

Cash Equivalent Investment means, at any time, (a) any evidence of Debt, maturing not more than one year after such time, issued or guaranteed by the United States Government or any agency thereof, (b) commercial paper, maturing not more than one year from the date of issue, or corporate demand notes, in each case (unless issued by the Lender or its holding company) rated at least A-1 by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. or P-1 by Moody's Investors Service, Inc., (c) any certificate of deposit, time deposit or bankers acceptance, maturing not more than one year after such time, or any overnight Federal Funds transaction that is issued or sold by the Lender or its holding company (or by a commercial banking institution that is a member of the Federal Reserve System and has a combined capital and surplus and undivided profits of not less than \$500,000,000), (d) any repurchase agreement entered into with the Lender (or commercial banking institution of the nature referred to in clause (c)) which (i) is secured by a fully perfected security interest in any obligation of the type described in any of clauses (a) through (c) above and (ii) has a market value at the time such repurchase agreement is entered into of not less than 100% of the repurchase obligation of the Lender (or other commercial banking institution) thereunder and (e) money market accounts or mutual funds which invest exclusively in assets satisfying the foregoing requirements, and (f) other short term liquid investments approved in writing by the Lender.

Change of Control means each occurrence of any of the following:

- (a) any "person" or "group" (within the meaning of Sections 13(d) and 14(d) of the Exchange Act), other than any Permitted Holder, becomes the beneficial owner (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of the Capital Securities of Technologies representing 50% or more of the voting power in respect of the election of members of the Board of Directors of Technologies,
- (b) a majority of the members of the Board of Directors of Technologies do not constitute Continuing Directors,
- (c) (i) Technologies ceases to own and control, directly or indirectly, 90% of the shares of the Capital Securities of CPI, and (ii) Technologies ceases to own and control, directly or indirectly, 100% of the shares of the Capital Securities of each of the other Loan Parties, in each case, unless otherwise permitted hereunder,
- (d) (i) Technologies consolidates with or merges with or into another entity and is not the surviving entity or (ii) Technologies conveys, transfers or leases all or substantially all of its property and assets of any Person; or
- (e) the Permitted Holders cease to hold legal title to the common stock of Technologies entitling the Voting Trust to at least 40% of the voting power of all shares of Capital Securities of Technologies entitled to vote with respect to election of members of the Board of Directors of Technologies.

Closing Date - see Section 12.1.

Code means the Internal Revenue Code of 1986.

Collateral is defined in the Guaranty and Security Agreement of even date herewith executed by the Loan Parties.

Collateral Access Agreement means an agreement in form and substance reasonably satisfactory to the Lender pursuant to which a mortgagee or lessor of real property on which collateral is stored or otherwise located, or a warehouseman, processor or other bailee of Inventory or other property owned by any Loan Party, acknowledges the Liens of the Lender and waives any Liens held by such Person on such property, and, in the case of any such agreement with a mortgagee or lessor, permits the Lender reasonable access to and use of such real property following the occurrence and during the continuance of an Event of Default to assemble, complete and sell any Collateral stored or otherwise located thereon.

Collateral Documents means, collectively, the Guaranty and Security Agreement, each Mortgage, each Collateral Access Agreement, each control agreement and any other agreement or instrument pursuant to which any Loan Party, any Subsidiary or any other Person grants or purports to grant collateral to the Lender or otherwise relates to such collateral.

Compliance Certificate means a Compliance Certificate in substantially the form of Exhibit B.

Computation Period means each period of four consecutive Fiscal Quarters ending on the last day of a Fiscal Quarter.

Consolidated Net Income means, with respect to the Loan Parties for any period, the net income (or loss) of the Loan Parties for such period, excluding any gains from asset dispositions, any extraordinary gains and any gains from discontinued operations.

Contingent Liability means, with respect to any Person, each obligation and liability of such Person and all such obligations and liabilities of such Person incurred pursuant to any agreement, undertaking or arrangement by which such Person: (a) guarantees, endorses or otherwise becomes or is contingently liable upon (by direct or indirect agreement, contingent or otherwise, to provide funds for payment, to supply funds to, or otherwise to invest in, a debtor, or otherwise to assure a creditor against loss) the indebtedness, dividend, obligation or other liability of any other Person in any manner (other than by endorsement of instruments in the course of collection), including any indebtedness, dividend or other obligation which may be issued or incurred at some future time; (b) guarantees the payment of dividends or other distributions upon the Capital Securities of any other Person; (c) undertakes or agrees (whether contingently or otherwise): (i) to purchase, repurchase, or otherwise acquire any indebtedness, obligation or liability of any other Person or any property or assets constituting security therefor, (ii) to advance or provide funds for the payment or discharge of any indebtedness, obligation or liability of any other Person (whether in the form of loans, advances, stock purchases, capital contributions or otherwise), or to maintain solvency, assets, level of income, working capital or other financial condition of any other Person, or (iii) to make payment to any other Person other than for value received; (d) agrees to lease property or to purchase securities, property or services from such other Person with the purpose or intent of assuring the owner of such indebtedness or obligation of the ability of such other Person to make payment of the indebtedness or obligation; (e) to induce the issuance of, or in connection with the issuance of, any letter of credit for the benefit of such other Person; or (f) undertakes or agrees otherwise to assure a creditor against loss. The amount of any Contingent Liability shall (subject to any limitation set forth herein) be deemed to be the outstanding principal amount (or maximum permitted principal amount, if larger) of the indebtedness, obligation or other liability guaranteed or supported thereby.

Continuing Director means (a) any member of the Board of Directors who was a director (or comparable manager) of Technologies on the Closing Date, and (b) any individual who becomes a member of the Board of Directors after the Closing Date if such individual was appointed, elected or nominated for election to the Board of Directors by (1) a majority of the Continuing Directors or (2) by the Permitted Holders representing a majority of the voting power held by the Permitted Holders.

Controlled Group means all members of a controlled group of corporations, all members of a controlled group of trades or businesses (whether or not incorporated) under common control and all members of an affiliated service group which, together with any Loan Party or

any of its Subsidiaries, are treated as a single employer under Section 414 of the Code or Section 4001 of ERISA.

Debt of any Person means, without duplication, (a) all indebtedness of such Person, (b) all borrowed money of such Person, whether or not evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person as lessee under Capital Leases which have been or should be recorded as liabilities on a balance sheet of such Person in accordance with GAAP, (d) all obligations of such Person to pay the deferred purchase price of property or services (excluding trade accounts payable in the ordinary course of business), (e) all indebtedness secured by a Lien on the property of such Person, whether or not such indebtedness shall have been assumed by such Person; provided that if such Person has not assumed or otherwise become liable for such indebtedness, such indebtedness shall be measured at the fair market value of such property securing such indebtedness at the time of determination, (f) all obligations, contingent or otherwise, with respect to the face amount of all letters of credit (whether or not drawn), bankers' acceptances and similar obligations issued for the account of such Person (including the Letters of Credit), (g) all Hedging Obligations of such Person, (h) all Contingent Liabilities of such Person, (i) all Debt of any partnership of which such Person is a general partner and (j) any Capital Securities or other equity instrument, whether or not mandatorily redeemable, that under GAAP is characterized as debt, whether pursuant to financial accounting standards board issuance No. 150 or otherwise.

Debt to be Repaid means Debt identified as such and listed on Schedule 11.1.

Designated Proceeds - see Section 6.2.2(a).

Dollar and the sign "\$" mean lawful money of the United States of America.

EBITDA means, for any period, Consolidated Net Income for such period plus, to the extent deducted in determining such Consolidated Net Income, Interest Expense, income tax expense, depreciation and amortization and non-cash management compensation expense for such period.

Eligible Account means an Account owing to any Borrower which meets each of the following requirements:

(a) it arises from the final, bona fide sale or lease of goods or the rendering of services which have been fully performed by such Borrower; and if it arises from the sale or lease of goods, (i) such goods comply with such Account Debtor's specifications (if any) and have been delivered to such Account Debtor and (ii) such Borrower has possession of, or if requested by the Lender has delivered to the Lender, delivery receipts evidencing such delivery;

(b) it (i) is owned by such Borrower, (ii) is subject to a perfected, first priority Lien in favor of the Lender and (iii) is not subject to any other assignment, claim or Lien;

(c) it (i) is a valid, legally enforceable and unconditional obligation of the Account Debtor with respect thereto, and (ii) is not subject to (x) the fulfillment of any condition whatsoever or (y) any counterclaim, credit, allowance, discount, rebate or adjustment by the Account Debtor with respect thereto, or (z) to any claim by such Account Debtor denying liability thereunder in whole or in part and (iii) the Account Debtor has not refused to accept and/or has not returned or offered to return any of the goods or services which are the subject of such Account; provided that only such portion of any such Account referred to in subclause (c)(ii) above not satisfying the criteria in such subclause (c)(ii) will be deemed ineligible pursuant to this clause (c);

(d) there is no bankruptcy, insolvency or liquidation proceeding pending by or against the Account Debtor with respect thereto;

(e) the Account Debtor with respect thereto is a resident or citizen of, and is located within, the United States, unless the sale of goods or services giving rise to such Account is on letter of credit, banker's acceptance or other credit support terms reasonably satisfactory to the Lender;

(f) it is not an Account arising from a "sale on approval," "sale or return," "consignment" or "bill and hold" or subject to any other repurchase or return agreement;

(g) it is not an Account with respect to which possession and/or control of the goods sold giving rise thereto is held, maintained or retained by such Borrower (or by any agent or custodian of such Borrower) for the account of or subject to further and/or future direction from the Account Debtor with respect thereto;

(h) it arises in the ordinary course of business of such Borrower;

(i) if the Account Debtor is the United States or any department, agency or instrumentality thereof, such Borrower has assigned its right to payment of such Account to the Lender pursuant to the Assignment of Claims Act of 1940, and evidence (reasonably satisfactory to the Lender) of such assignment has been delivered to the Lender;

(j) if such Borrower maintains a credit limit for an Account Debtor, the aggregate dollar amount of Accounts due from such Account Debtor, including such Account, does not exceed such credit limit;

(k) if the Account is evidenced by chattel paper or an instrument, the originals of such chattel paper or instrument shall have been endorsed and/or assigned and delivered to the Lender or, in the case of electronic chattel paper, shall be in the control of the Lender, in each case in a manner reasonably satisfactory to the Lender;

(l) such Account is evidenced by an invoice delivered to the related Account Debtor and is not more than (i) 60 days past the due date thereof or (ii) 90 days past the original invoice date thereof, in each case according to the original terms of sale;

(m) it is not an Account with respect to an Account Debtor that is located in any jurisdiction which has adopted a statute or other requirement with respect to which any Person that obtains business from within such jurisdiction must file a notice of business activities report or make any other required filings in a timely manner in order to enforce its claims in such jurisdiction's courts unless (i) such notice of business activities report has been duly and timely filed or such Borrower is exempt from filing such report and has provided the Lender with reasonably satisfactory evidence of such exemption or (ii) the failure to make such filings may be cured retroactively by such Borrower for a nominal fee;

(n) the Account Debtor with respect thereto is not a Borrower or an Affiliate of any Borrower or a director, officer, employee or agent of a Loan Party or an Affiliate of a Loan Party;

(o) it is not owed by an Account Debtor with respect to which 25% or more of the aggregate amount of outstanding Accounts owed at such time by such Account Debtor is classified as ineligible under clause (l) of this definition;

(p) if the aggregate amount of all Accounts owed by the Account Debtor thereon exceeds 25% of the aggregate amount of all Accounts at such time, then all Accounts owed by such Account Debtor in excess of such amount shall be deemed ineligible;

(q) it is otherwise not unacceptable to the Lender in its reasonable discretion for any other reason.

An Account which is at any time an Eligible Account, but which subsequently fails to meet any of the foregoing requirements, shall forthwith cease to be an Eligible Account. Further, with respect to any Account (and without duplication of any reserves set by Lender), if the Lender at any time hereafter determine in its reasonable credit judgment that the prospect of payment or performance by the Account Debtor with respect thereto is materially impaired for any reason whatsoever, such Account shall cease to be an Eligible Account after notice of such determination is given to the Borrower Representative.

Eligible Inventory means Inventory of any Borrower which meets each of the following requirements:

(a) (i) is owned by such Borrower, (ii) is subject to a perfected, first priority Lien in favor of the Lender and (iii) is not subject to any other assignment, claim or Lien;

(b) it is salable and not slow-moving, obsolete or discontinued; provided that any Inventory which has been held for 18 months or more shall be deemed ineligible;

(c) it is in the possession and control of such Borrower and it is stored and held in facilities owned by such Borrower or, if such facilities are not so owned, the Lender is in possession of a Collateral Access Agreement with respect thereto;

(d) it is not Inventory produced in violation of the Fair Labor Standards Act and subject to the “hot goods” provisions contained in Title 29 U.S.C. §215;

(e) it is not subject to any agreement or license which would restrict the Lender’s ability to sell or otherwise dispose of such Inventory;

(f) it is located in the United States or in any territory or possession of the United States that has adopted Article 9 of the Uniform Commercial Code;

(g) it is not “in transit” to such Borrower or held by such Borrower on consignment;

(h) it is not “work-in-progress” Inventory;

(i) it is not supply items or packaging;

(j) it is not identified to any purchase order or contract to the extent progress or advance payments are received with respect to such Inventory;

(k) it does not breach any of the representations, warranties or covenants pertaining to Inventory set forth in the Loan Documents;

(l) it is Inventory recorded on such Borrower’s inventory system; and

(m) the Lender shall not have determined in its reasonable discretion that it is unacceptable due to age, type, category, quality, quantity and/or any other reason whatsoever.

Inventory which is at any time Eligible Inventory but which subsequently fails to meet any of the foregoing requirements shall forthwith cease to be Eligible Inventory.

Enginuity means Enginuity Communications Corporation, an Illinois corporation.

Enginuity Asset Purchase Agreement means that certain Asset Purchase Agreement dated as of July 1, 2004 pursuant to which Westell sold certain assets to Enginuity in exchange for \$200,000, as the same may be amended in accordance with the terms hereof.

Enginuity Guarantee means that certain Unconditional Guarantee to the United States Small Business Administration dated as of July 1, 2004 entered into in connection with Enginuity Asset Purchase Agreement and pursuant to which Westell guaranteed the small business loan application of Enginuity up to a maximum dollar limitation of \$1,650,000 in principal plus interest and other amounts owned on the note as the same may be amended in accordance with the terms hereof.

Enginuity Transaction Documents means, collectively, the Enginuity Asset Purchase Agreement and the Enginuity Guarantee.



Environmental Claims means all claims, however asserted, by any governmental, regulatory or judicial authority or other Person alleging potential liability or responsibility for violation of any Environmental Law, or for release or injury to the environment.

Environmental Laws means all present or future federal, state or local laws, statutes, common law duties, rules, regulations, ordinances and codes, together with all administrative or judicial orders, consent agreements, directed duties, requests, licenses, authorizations and permits of, and agreements with, any governmental authority, in each case relating to any matter arising out of or relating to public health and safety, or pollution or protection of the environment or workplace, including any of the foregoing relating to the presence, use, production, generation, handling, transport, treatment, storage, disposal, distribution, discharge, emission, release, threatened release, control or cleanup of any Hazardous Substance.

Equipment is defined in the UCC.

ERISA means the Employee Retirement Income Security Act of 1974.

Event of Default means any of the events described in Section 13.1.

Excluded Taxes means taxes based upon, or measured by, the Lender's (or a branch of the Lender's) overall net income, overall net receipts, or overall net profits (including franchise taxes imposed in lieu of such taxes), but only to the extent such taxes are imposed by a taxing authority (a) in a jurisdiction in which the Lender is organized, (b) in a jurisdiction which the Lender's principal office is located, or (c) in a jurisdiction in which the Lender's lending office (or branch) in respect of which payments under this Agreement are made is located.

Federal Funds Rate means, for any day, a fluctuating interest rate equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Lender from three Federal funds brokers of recognized standing selected by the Lender. The Lender's determination of such rate shall be binding and conclusive absent manifest error.

Fiscal Quarter means a fiscal quarter of a Fiscal Year.

Fiscal Year means the fiscal year of the Loan Parties, which period shall be the 12-month period ending on March 31st of each year. References to a Fiscal Year with a number corresponding to any calendar year (e.g., "Fiscal Year 2007") refer to the Fiscal Year ending on March 31<sup>st</sup> of such year (e.g. March 31, 2007).

FRB means the Board of Governors of the Federal Reserve System or any successor thereto.

Funded Debt means, as to any Person, all Debt of such Person that matures more than one year from the date of its creation (or is renewable or extendible, at the option of such Person, to a date more than one year from such date).

GAAP means generally accepted accounting principles set forth from time to time in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board (or agencies with similar functions of comparable stature and authority within the U.S. accounting profession) and the Securities and Exchange Commission, which are applicable to the circumstances as of the date of determination.

Group - see Section 2.2.1.

Guaranty and Security Agreement means the Guaranty and Security Agreement dated as of the date hereof executed and delivered by the Loan Parties, together with any joinders thereto and any other guaranty and security agreement executed by a Loan Party, in each case in form and substance reasonably satisfactory to the Lender.

Hazardous Substances means (a) any petroleum or petroleum products, radioactive materials, asbestos in any form that is or could become friable, urea formaldehyde foam insulation, dielectric fluid containing levels of polychlorinated biphenyls, radon gas and mold; (b) any chemicals, materials, pollutant or substances defined as or included in the definition of "hazardous substances", "hazardous waste", "hazardous materials", "extremely hazardous substances", "restricted hazardous waste", "toxic substances", "toxic pollutants", "contaminants", "pollutants" or words of similar import, under any applicable Environmental Law; and (c) any other chemical, material or substance, the exposure to, or release of which is prohibited, limited or regulated by any governmental authority or for which any duty or standard of care is imposed pursuant to, any Environmental Law.

Hedging Agreement means any interest rate, currency or commodity swap agreement, cap agreement or collar agreement, and any other agreement or arrangement designed to protect a Person against fluctuations in interest rates, currency exchange rates or commodity prices.

Hedging Obligation means, with respect to any Person, any liability of such Person under any Hedging Agreement.

Indemnified Liabilities - see Section 14.16.

Intangible Assets means goodwill, patents, trademarks, prepaid expenses, deposits, deferred charges, deferred income taxes and other personal property which is classified as intangible property in accordance with GAAP.

Interest Expense means for any period the consolidated interest expense of the Loan Parties for such period (including all imputed interest on Capital Leases).

Interest Period means, as to any LIBOR Loan, the period commencing on the date such Loan is borrowed or continued as, or converted into, a LIBOR Loan and ending on the date one, two, three or six months thereafter as selected by the Borrower Representative pursuant to Section 2.2.2 or 2.2.3, as the case may be; provided that:

(a) if any Interest Period would otherwise end on a day that is not a Business Day, such Interest Period shall be extended to the following Business Day unless the result of such extension would be to carry such Interest Period into another calendar month, in which event such Interest Period shall end on the preceding Business Day;

(b) any Interest Period that begins on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(c) the Borrower Representative may not select any Interest Period for a Revolving Loan which would extend beyond the Termination Date.

Inventory is defined in the Guaranty and Security Agreement.

Investment means, with respect to any Person, any investment in another Person, whether by acquisition of any debt or Capital Security, by making any loan or advance, by becoming obligated with respect to a Contingent Liability in respect of obligations of such other Person (other than travel and similar advances to employees in the ordinary course of business) or by making an Acquisition.

L/C Application means, with respect to any request for the issuance of a Letter of Credit, a letter of credit application in the form being used by the Lender at the time of such request for the type of letter of credit requested.

L/C Fee Rate means 2.00% per annum.

Lender - see the Preamble. In addition to the foregoing, for the purpose of identifying the Persons entitled to share in the Collateral and the proceeds thereof under, and in accordance with the provisions of, this Agreement and the Collateral Documents, the term "Lender" shall include Affiliates of the Lender providing a Bank Product.

Lender Party - see Section 14.16.

Letter of Credit - see Section 2.1.2.

LIBOR Loan means any Loan which bears interest at a rate determined by reference to the LIBOR Rate.

LIBOR Margin - see the definition of Applicable Margin.

LIBOR Office means the office or offices of the Lender which shall be making or maintaining the LIBOR Loans hereunder. A LIBOR Office may be, at the option of the Lender, either a domestic or foreign office.

LIBOR Rate means a rate of interest equal to (a) the per annum rate of interest at which United States dollar deposits in an amount comparable to the amount of the relevant LIBOR Loan and for a period equal to the relevant Interest Period are offered in the London InterBank Eurodollar market at 11:00 A.M. (London time) two (2) Business Days prior to the commencement of such Interest Period (or three (3) Business Days prior to the commencement of such Interest Period if banks in London, England were not open and dealing in offshore United States dollars on such second preceding Business Day), as displayed in the *Bloomberg Financial Markets* system (or other authoritative source selected by the Lender in its reasonable discretion) or, if the *Bloomberg Financial Markets* system or another authoritative source is not available, as the LIBOR Rate is otherwise determined by the Lender in its reasonable discretion, divided by (b) a number determined by subtracting from 1.00 the then stated maximum reserve percentage for determining reserves to be maintained by member banks of the Federal Reserve System for Eurocurrency funding or liabilities as defined in Regulation D (or any successor category of liabilities under Regulation D), such rate to remain fixed for such Interest Period. The Lender's determination of the LIBOR Rate shall be conclusive, absent manifest error.

Lien means, with respect to any Person, any interest granted by such Person in any real or personal property, asset or other right owned or being purchased or acquired by such Person (including an interest in respect of a Capital Lease) which secures payment or performance of any obligation and shall include any mortgage, lien, encumbrance, title retention lien, charge or other security interest of any kind, whether arising by contract, as a matter of law, by judicial process or otherwise.

Loan Documents means this Agreement, the Note, the Letters of Credit, the Master Letter of Credit Agreement, the L/C Applications, the Collateral Documents and all documents, instruments and agreements delivered in connection with the foregoing.

Loan Party means each Borrower and each Subsidiary.

Loan or Loans means the Revolving Loans.

Mandatory Prepayment Event - see Section 6.2.2(a).

Margin Stock means any "margin stock" as defined in Regulation U.

Master Letter of Credit Agreement means, at any time, with respect to the issuance of Letters of Credit, a master letter of credit agreement or reimbursement agreement in the form, if any, being used by the Lender at such time.

Material Adverse Effect means (a) a material adverse change in, or a material adverse effect upon, the financial condition, operations, assets, business or properties of the Loan Parties taken as a whole, (b) a material impairment of the ability of any Loan Party to perform any of the

Obligations under any Loan Document or (c) a material adverse effect upon any substantial portion of the collateral under the Collateral Documents or upon the legality, validity, binding effect or enforceability against any Loan Party of any Loan Document.

Mortgage means a mortgage, deed of trust, leasehold mortgage or similar instrument granting the Lender a Lien on real property of any Loan Party.

Multiemployer Pension Plan means a multiemployer plan, as defined in Section 4001(a)(3) of ERISA, to which any Loan Party or any other member of the Controlled Group may have any liability.

Net Worth means, with respect to any Person, as of any date, the sum of the capital stock and additional paid-in capital plus retained earnings (or minus accumulated deficit) calculated in conformity with GAAP.

Non-Use Fee Rate means .75% per annum.

Note means a promissory note substantially in the form of Exhibit A.

Notice of Borrowing - see Section 2.2.2.

Notice of Conversion/Continuation - see Section 2.2.3.

Obligations means all obligations (monetary (including post-petition interest, allowed or not) or otherwise) of any Loan Party under this Agreement and any other Loan Document including Attorney Costs and any reimbursement obligations of each Loan Party in respect of Letters of Credit and surety bonds, all Hedging Obligations permitted hereunder which are owed to the Lender or its Affiliate, and all Bank Products Obligations, all in each case howsoever created, arising or evidenced, whether direct or indirect, absolute or contingent, now or hereafter existing, or due or to become due.

OFAC - see Section 10.4.

Operating Lease means any lease of (or other agreement conveying the right to use) any real or personal property by any Loan Party, as lessee, other than any Capital Lease.

PBGC means the Pension Benefit Guaranty Corporation and any entity succeeding to any or all of its functions under ERISA.

Participant - see Section 14.6.2.

Pension Plan means a "pension plan", as such term is defined in Section 3(2) of ERISA, which is subject to Title IV of ERISA or the minimum funding standards of ERISA (other than a Multiemployer Pension Plan), and as to which any Loan Party or any member of the Controlled Group may have any liability, including any liability by reason of having been a substantial

employer within the meaning of Section 4063 of ERISA at any time during the preceding five years, or by reason of being deemed to be a contributing sponsor under Section 4069 of ERISA.

Permitted Holders means the Voting Trust, any beneficiary of the Voting Trust, the voting trustee of the Voting Trust and Robert C. Penny III (individually and as trustee of any other trust).

Permitted Lien means a Lien expressly permitted hereunder pursuant to Section 11.2.

Person means any natural person, corporation, partnership, trust, limited liability company, association, governmental authority or unit, or any other entity, whether acting in an individual, fiduciary or other capacity.

Prime Rate means, for any day, the rate of interest in effect for such day as publicly announced from time to time by the Lender as its prime rate (whether or not such rate is actually charged by the Lender), which is not intended to be the Lender's lowest or most favorable rate of interest at any one time. Any change in the Prime Rate announced by the Lender shall take effect at the opening of business on the day specified in the public announcement of such change; provided that the Lender shall not be obligated to give notice of any change in the Prime Rate.

Regulation D means Regulation D of the FRB.

Regulation U means Regulation U of the FRB.

Reportable Event means a reportable event as defined in Section 4043 of ERISA and the regulations issued thereunder as to which the PBGC has not waived the notification requirement of Section 4043(a), or the failure of a Pension Plan to meet the minimum funding standards of Section 412 of the Code (without regard to whether the Pension Plan is a plan described in Section 4021(a)(2) of ERISA) or under Section 302 of ERISA.

Requisite Minimum Balances means an average monthly demand deposit account balance of at least \$5,000,000 and an average monthly balance of at least \$15,000,000 consisting of other investments.

Revolving Authorization means \$12,000,000, as reduced from time to time pursuant to Section 6.1.

Revolving Loan - see Section 2.1.1.

Revolving Loan Availability means the lesser of (i) the Revolving Authorization and (ii) the Borrowing Base.

Revolving Outstandings means, at any time, the sum of (a) the aggregate principal amount of all outstanding Revolving Loans, plus (b) the Stated Amount of all Letters of Credit.

SEC means the Securities and Exchange Commission or any other governmental authority succeeding to any of the principal functions thereof.

Senior Officer means, with respect to any Loan Party, any of the president, chief executive officer, the chief financial officer, the chief operating officer, controller or the treasurer of such Loan Party.

Stated Amount means, with respect to any Letter of Credit at any date of determination, (a) the maximum aggregate amount available for drawing thereunder under any and all circumstances plus (b) the aggregate amount of all unreimbursed payments and disbursements under such Letter of Credit.

Subsidiary means, with respect to any Person, a corporation, partnership, limited liability company or other entity of which such Person owns, directly or indirectly, such number of outstanding Capital Securities as have more than 50% of the ordinary voting power for the election of directors or other managers of such corporation, partnership, limited liability company or other entity. Unless the context otherwise requires, each reference to Subsidiaries herein shall be a reference to Subsidiaries of the Borrowers.

Tangible Net Worth of any Person means an amount equal to: (a) Net Worth of such Person; less (b) Intangible Assets of such Person; less (c) all obligations owed to such Person or any of its Subsidiaries by any Affiliate of such Person or any of its Subsidiaries; and less (d) all loans by such Person to its officers, stockholders, Subsidiaries or employees.

Taxes means any and all present and future taxes, duties, levies, imposts, deductions, assessments, charges or withholdings, and any and all liabilities (including interest and penalties and other additions to taxes) with respect to the foregoing, but excluding Excluded Taxes.

Termination Date means the earlier to occur of (a) March 5, 2010 (b) such other date on which the Revolving Authorization terminates pursuant to Section 6 or Section 13.

Termination Event means, with respect to a Pension Plan that is subject to Title IV of ERISA, (a) a Reportable Event, (b) the withdrawal of a Loan Party or any other member of the Controlled Group from such Pension Plan during a plan year in which such Loan Party or any other member of the Controlled Group was a "substantial employer" as defined in Section 4001(a)(2) of ERISA or was deemed such under Section 4068(f) of ERISA, (c) the termination of such Pension Plan, the filing of a notice of intent to terminate the Pension Plan or the treatment of an amendment of such Pension Plan as a termination under Section 4041 of ERISA, (d) the institution by the PBGC of proceedings to terminate such Pension Plan or (e) any event or condition that might constitute grounds under Section 4042 of ERISA for the termination of, or appointment of a trustee to administer, such Pension Plan.

Total Plan Liability means, at any time, the present value of all vested and unvested accrued benefits under all Pension Plans, determined as of the then most recent valuation date for each Pension Plan, using PBGC actuarial assumptions for single employer plan terminations.

type - see Section 2.2.1.

UCC is defined in the Guaranty and Security Agreement.

Unfunded Liability means the amount (if any) by which the present value of all vested and unvested accrued benefits under all Pension Plans exceeds the fair market value of all assets allocable to those benefits, all determined as of the then most recent valuation date for each Pension Plan, using PBGC actuarial assumptions for single employer plan terminations.

Unmatured Event of Default means any event that, if it continues uncured, will, with lapse of time or notice or both, constitute an Event of Default.

Voting Trust means The Westell Technologies, Inc., f/k/a Electronic Information Technologies, Inc. Voting Trust Agreement dated February 23, 1994, as amended.

Withholding Certificate - see Section 7.6(d).

Wholly-Owned Subsidiary means, as to any Person, a Subsidiary all of the Capital Securities of which (except directors' qualifying Capital Securities) are at the time directly or indirectly owned by such Person and/or another Wholly-Owned Subsidiary of such Person.

1.2. Other Interpretive Provisions.

(a) The meanings of defined terms are equally applicable to the singular and plural forms of the defined terms.

(b) Section, Annex, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(c) The term "including" is not limiting and means "including without limitation."

(d) In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including"; the words "to" and "until" each mean "to but excluding", and the word "through" means "to and including."

(e) Unless otherwise expressly provided herein, (i) references to agreements (including this Agreement and the other Loan Documents) and other contractual instruments shall be deemed to include all subsequent amendments, restatements, supplements and other modifications thereto, but only to the extent such amendments, restatements, supplements and other modifications are not prohibited by the terms of any Loan Document, and (ii) references to any statute or regulation shall be construed as including all statutory and regulatory provisions amending, replacing, supplementing or interpreting such statute or regulation.

(f) This Agreement and the other Loan Documents may use several different limitations, tests or measurements to regulate the same or similar matters. All such limitations, tests and measurements are cumulative and each shall be performed in accordance with its terms.



(g) This Agreement and the other Loan Documents are the result of negotiations among and have been reviewed by counsel to the Borrowers, the Lender and the other parties thereto and are the products of all parties. Accordingly, they shall not be construed against the Lender merely because of the Lender's involvement in their preparation.

## SECTION 2

## CREDIT AUTHORIZATION; BORROWING, CONVERSION AND LETTER OF CREDIT PROCEDURES.

2.1. Credit Authorization. On and subject to the terms and conditions of this Agreement, the Lender agrees to make loans to, and issue letters of credit for the account of, the Borrowers as follows:

2.1.1 Revolving Loan Authorization. The Lender agrees to make loans on a revolving basis ("Revolving Loans") from time to time until the Termination Date to the Borrowers in such amounts as the Borrower Representative may request from the Lender; provided that Revolving Loans will be made in Lender's reasonable credit judgment in accordance with the terms and conditions hereof and of the other Loan Documents, and further provided that the Revolving Outstandings will not at any time exceed Revolving Loan Availability.

2.1.2 L/C Subfacility. Subject to Section 2.3.1, the Lender agrees to issue letters of credit, in each case containing such terms and conditions as are permitted by this Agreement and are reasonably satisfactory to the Lender (each, a "Letter of Credit"), at the request of the Borrower Representative and for the account of the Borrowers from time to time before the scheduled Termination Date; provided that (a) the aggregate Stated Amount of all Letters of Credit shall not at any time exceed \$1,500,000, (b) Letters of Credit will be issued in Lender's reasonable credit judgment in accordance with the terms and conditions hereof and of the other Loan Documents and (c) the Revolving Outstandings shall not at any time exceed Revolving Loan Availability.

### 2.2. Loan Procedures.

2.2.1 Various Types of Loans. Each Revolving Loan shall be divided into tranches which are, either a Base Rate Loan or a LIBOR Loan (each a "type" of Loan), as the Borrower Representative shall specify in the related notice of borrowing or conversion pursuant to Section 2.2.2 or 2.2.3. LIBOR Loans having the same Interest Period which expire on the same day are sometimes called a "Group" or collectively "Groups". Base Rate Loans and LIBOR Loans may be outstanding at the same time, provided that not more than five (5) different Groups of LIBOR Loans shall be outstanding at any one time.

2.2.2 Borrowing Procedures. The Borrower Representative shall give written notice (each such written notice, a "Notice of Borrowing") substantially in the form of Exhibit E or telephonic notice (followed immediately by a Notice of Borrowing) to the Lender of each request for a proposed borrowing not later than (a) in the case of a Base Rate borrowing, 2:00 P.M., Chicago time, on the proposed date of such borrowing, and (b) in the case of a LIBOR borrowing, 11:00 A.M., Chicago time, at least three Business Days prior to the proposed date of such

borrowing. Each such notice shall be effective upon receipt by the Lender, shall be irrevocable, and shall specify the date, amount and type of borrowing requested and, in the case of a LIBOR borrowing, the initial Interest Period requested therefor. The proceeds of such borrowing will be made available to the Borrowers on the requested borrowing date. Each borrowing shall be on a Business Day. Each Base Rate borrowing shall be in an aggregate amount of at least \$100,000 and an integral multiple of \$100,000, and each LIBOR borrowing shall be in an aggregate amount of at least \$1,000,000 and an integral multiple of at least \$500,000. The Lender shall promptly notify the Borrower Representative of its decision as to whether it agrees to make any borrowing requested pursuant to this Section 2.2.2 and in the event the Lender fails to respond or fails to make any requested Loan on the requested borrowing date, Lender shall be assumed to have accepted Borrowers' request for such Loan.

2.2.3 Conversion and Continuation Procedures. (a) Subject to Section 2.2.1, the Borrowers may, upon irrevocable written notice by the Borrower Representative to the Lender in accordance with clause (b) below:

(A) elect, as of any Business Day, to convert any Loans (or any part thereof in an aggregate amount not less than \$500,000 or a higher integral multiple of \$100,000) into Loans of the other type; or

(B) elect, as of the last day of the applicable Interest Period, to continue any LIBOR Loans having Interest Periods expiring on such day (or any part thereof in an aggregate amount not less than \$1,000,000 or a higher integral multiple of \$500,000) for a new Interest Period;

provided that after giving effect to any prepayment, conversion or continuation, the aggregate principal amount of each Group of LIBOR Loans shall be at least \$1,000,000 and an integral multiple of \$500,000.

(b) The Borrower Representative shall give written notice (each such written notice, a "Notice of Conversion/Continuation") substantially in the form of Exhibit F or telephonic notice (followed immediately by a Notice of Conversion/Continuation) to the Lender of each request for the proposed conversion or continuation not later than (i) in the case of conversion into Base Rate Loans, 2:00 P.M., Chicago time, on the proposed date of such conversion and (ii) in the case of conversion into or continuation of LIBOR Loans, 11:00 A.M., Chicago time, at least three Business Days prior to the proposed date of such conversion or continuation, specifying in each case:

(A) the proposed date of conversion or continuation;

(B) the aggregate amount of Loans to be converted or continued;

(C) the type of Loans resulting from the proposed conversion or continuation; and

(D) in the case of conversion into, or continuation of, LIBOR Loans, the duration of the requested Interest Period therefor.

(c) If upon the expiration of any Interest Period applicable to LIBOR Loans, the Borrower Representative has failed to select timely a new Interest Period to be applicable to such LIBOR Loans, the Borrowers shall be deemed to have elected to convert such LIBOR Loans into Base Rate Loans effective on the last day of such Interest Period.

(d) Any conversion of a LIBOR Loan on a day other than the last day of an Interest Period therefor shall be subject to Section 8.4.

(e) The Lender shall promptly notify the Borrower Representative of its decision whether to accept or reject any request for a continuation or conversion pursuant to this Section 2.2.3 and in the event the Lender fails to respond or fails to make any requested conversion or continuation of a Loan on the date requested therefor, Lender shall be assumed to have accepted Borrowers' request for the same.

2.3. Letter of Credit Procedures.

2.3.1 L/C Applications. Each Borrower shall execute and deliver to the Lender the Master Letter of Credit Agreement from time to time in effect. The Borrower Representative shall give notice to the Lender of each request for the proposed issuance of each Letter of Credit on a Business Day which is at least three Business Days (or such lesser number of days as the Lender shall agree in any particular instance in its reasonable discretion) prior to the proposed date of issuance of such Letter of Credit. Each such notice shall be accompanied by an L/C Application, duly executed by the Borrowers and in all respects reasonably satisfactory to the Lender, together with such other documentation as the Lender may request in support thereof, it being understood that each L/C Application shall specify, among other things, the date on which the proposed Letter of Credit is to be issued, the expiration date of such Letter of Credit (which shall not be later than the scheduled Termination Date (unless such Letter of Credit is Cash Collateralized)) and whether such Letter of Credit is to be transferable in whole or in part. In the event of any inconsistency between the terms of the Master Letter of Credit Agreement, any L/C Application and the terms of this Agreement, the terms of this Agreement shall control. The Lender agrees it will promptly notify the Borrower Representative whether or not it agrees to issue any Letter of Credit requested under this Section 2.3.

2.3.2 Reimbursement Obligations.

(a) The Borrowers hereby unconditionally and irrevocably agree to reimburse the Lender for each payment or disbursement made by the Lender under any Letter of Credit honoring any demand for payment made by the beneficiary thereunder, in each case on the date that such payment or disbursement is made. Any amount not reimbursed on the date of such payment or disbursement shall bear interest from the date of such payment or disbursement to the date that the Lender is reimbursed by the Borrowers

therefor, payable on demand, at a rate per annum equal to the Base Rate from time to time in effect plus the Base Rate Margin from time to time in effect plus, beginning on the third Business Day after receipt of notice from the Lender of such payment or disbursement, 2%. The Lender shall notify the Borrower Representative whenever any demand for payment is made under any Letter of Credit by the beneficiary thereunder; provided that the failure of the Lender to so notify the Borrower Representative shall not affect the rights of the Lender in any manner whatsoever.

(b) The Borrowers' reimbursement obligations hereunder shall be irrevocable and unconditional under all circumstances, including (a) any lack of validity or enforceability of any Letter of Credit, this Agreement or any other Loan Document, (b) the existence of any claim, set-off, defense or other right which any Loan Party may have at any time against a beneficiary named in a Letter of Credit, any transferee of any Letter of Credit (or any Person for whom any such transferee may be acting), the Lender or any other Person, whether in connection with any Letter of Credit, this Agreement, any other Loan Document, the transactions contemplated herein or any unrelated transactions (including any underlying transaction between any Loan Party and the beneficiary named in any Letter of Credit), (c) the validity, sufficiency or genuineness of any document which the Lender has determined complies on its face with the terms of the applicable Letter of Credit, even if such document should later prove to have been forged, fraudulent, invalid or insufficient in any respect or any statement therein shall have been untrue or inaccurate in any respect, or (d) the surrender or impairment of any security for the performance or observance of any of the terms hereof. Without limiting the foregoing, no action or omission whatsoever by the Lender under or in connection with any Letter of Credit or any related matters shall result in any liability of the Lender to any Borrower, or relieve any Borrower of any of its obligations hereunder to any such Person.

2.4. Certain Conditions. The Lender shall have no obligation to make any Loan, or to permit the continuation of or any conversion into any LIBOR Loan or have any obligation to issue any Letter of Credit, if an Event of Default or Unmatured Event of Default exists.

2.5. Borrower Representative. Each Borrower hereby designates the Borrower Representative as its representative and agent for all purposes under the Loan Documents, including requests for Loans and Letters of Credit, designation of interest rates, delivery or receipt of communications, preparation and delivery of Borrowing Base Certificates and financial reports, receipt and payment of Obligations, requests for waivers, amendments, consents, modifications or other accommodations, actions under the Loan Documents (including in respect of compliance with covenants), and all other dealings with the Lender. Borrower Representative hereby accepts such appointment. The Bank shall be entitled to rely upon, and shall be fully protected in relying upon, any notice or communication (including any notice of borrowing) delivered by Borrower Representative on behalf of the Borrowers or any of them. The Lender may give any notice or communication with a Borrower hereunder to Borrower Representative on behalf of such Borrower. The Lender shall have the right, in its discretion, to deal exclusively with Borrower Representative for any or all purposes under the Loan Documents. Each Borrower agrees that

any notice, election, communication, representation, agreement or undertaking made on its behalf by Borrower Representative shall be binding upon and enforceable against it.

### SECTION 3

### EVIDENCING OF LOANS.

3.1. Note. The Loans of the Lender shall be evidenced by the joint and several Note of the Borrowers, with appropriate insertions, payable to the order of the Lender in a face principal amount equal to Twelve Million and 00/100<sup>th</sup> Dollars (\$12,000,000).

3.2. Recordkeeping. The Lender, shall record in its records, the date and amount of each Loan made by the Lender, each repayment or conversion thereof and, in the case of each LIBOR Loan, the dates on which each Interest Period for such Loan shall begin and end. The aggregate unpaid principal amount so recorded shall be prima facie evidence of the principal amount of the Loans owing and unpaid. The failure to so record any such amount or any error in so recording any such amount shall not, however, limit or otherwise affect the Obligations of the Borrowers hereunder or under any Note to repay the principal amount of the Loans hereunder, together with all interest accruing thereon.

### SECTION 4

### INTEREST.

4.1. Interest Rates. The Borrowers promise to pay interest on the unpaid principal amount of each Loan for the period commencing on the date of such Loan until such Loan is paid in full as follows:

(a) at all times while such Loan is a Base Rate Loan, at a rate per annum equal to the greater of (i) sum of the Base Rate from time to time in effect plus the Base Rate Margin from time to time in effect and (ii) the LIBOR Rate which would have otherwise been applicable to such Loan had Borrowers elected it be a LIBOR Loan with an Interest Period of one month plus the Applicable Margin for LIBOR Loans from time to time in effect; and

(b) at all times while such Loan is a LIBOR Loan, at a rate per annum equal to the sum of the LIBOR Rate applicable to each Interest Period for such Loan plus the LIBOR Margin from time to time in effect;

provided that at any time an Event of Default exists, unless the Lender otherwise consents, the interest rate applicable to each Loan shall be increased by 2% (and, in the case of Obligations not bearing interest, such Obligations shall bear interest at the Base Rate applicable to Revolving Loans plus 2%).

4.2. Interest Payment Dates. Accrued interest on each Base Rate Loan shall be payable in arrears on the last day of each calendar month and at maturity. Accrued interest on each LIBOR Loan shall be payable on the last day of each Interest Period relating to such Loan (and, in the case of a LIBOR Loan with an Interest Period in excess of three months, on the three-month anniversary of the first day of such Interest Period), upon a prepayment of such Loan, and at maturity. After maturity, and at any time an Event of Default exists, accrued interest on all Loans shall be payable on demand.

4.3. Setting and Notice of LIBOR Rates. The applicable LIBOR Rate for each Interest Period shall be determined by the Lender, and notice thereof shall be given by the Lender promptly to the Borrower Representative. Each determination of the applicable LIBOR Rate by the Lender shall be conclusive and binding upon the parties hereto, in the absence of demonstrable error.

4.4. Computation of Interest. Interest shall be computed for the actual number of days elapsed on the basis of a year of 360 days. The applicable interest rate for each Base Rate Loan shall change simultaneously with each change in the Base Rate.

## SECTION 5

## FEES.

5.1. Non-Use Fee. The Borrowers agree to pay to the Lender a non-use fee, for the period beginning ninety (90) days from the Closing Date to the Termination Date, at the Non-Use Fee Rate in effect from time to time the unused amount of the Revolving Authorization. For purposes of calculating usage under this Section, the Revolving Authorization shall be deemed used to the extent of Revolving Outstandings. Such non-use fee shall be payable in arrears on the last day of each calendar quarter and on the Termination Date for any period then ending for which such non-use fee shall not have previously been paid. The non-use fee shall be computed for the actual number of days elapsed on the basis of a year of 360 days. Notwithstanding the foregoing, such non-use fee shall be waived at all times during which the Loan Parties maintain Requisite Minimum Balances with the Lender.

### 5.2. Letter of Credit Fees.

(a) The Borrowers agree to pay to the Lender a letter of credit fee for each Letter of Credit equal to the L/C Fee Rate in effect from time to time of the undrawn amount of such Letter of Credit (computed for the actual number of days elapsed on the basis of a year of 360 days); provided that, unless the Lender otherwise consent, the rate applicable to each Letter of Credit shall be increased by 2% at any time that an Event of Default exists. Such letter of credit fee shall be payable in arrears on the last day of each calendar quarter and on the Termination Date (or such later date on which such Letter of Credit expires or is terminated) for the period from the date of the issuance of each Letter of Credit (or the last day on which the letter of credit fee was paid with respect thereto) to the date such payment is due or, if earlier, the date on which such Letter of Credit expired or was terminated.

(b) In addition, with respect to each Letter of Credit, the Borrowers agree to pay to the Lender such fees and expenses as the Lender customarily requires in connection with the issuance, negotiation, processing and/or administration of letters of credit in similar situations.

5.3. Closing Fee. The Borrowers agree to pay to the Lender a non-refundable closing fee in an amount equal to \$25,000 on the date which is ninety (90) days after the Closing Date, provided such fee will be waived if prior to the end of such 90 day period and all times thereafter through the Termination Date, the Borrowers establish and maintain Requisite Minimum Balances.

6.1. Reduction or Termination of the Revolving Authorization.

6.1.1 Voluntary Reduction or Termination of the Revolving Authorization. The Borrowers may from time to time on at least five Business Days' prior written notice from the Borrower Representative received by the Lender permanently reduce the Revolving Authorization to an amount not less than the Revolving Outstandings. Any such reduction shall be in an amount not less than \$500,000 or a higher integral multiple of \$100,000. Concurrently with any reduction of the Revolving Authorization to zero, the Borrowers shall pay all interest on the Revolving Loans, all non-use fees and all letter of credit fees and shall Cash Collateralize in full all obligations arising with respect to the Letters of Credit.

6.2. Prepayments.

6.2.1 Voluntary Prepayments. The Borrowers may from time to time prepay the Loans in whole or in part; provided that the Borrower Representative shall give the Lender notice thereof not later than 2:00 P.M., Chicago time, on the day of such prepayment (which shall be a Business Day), specifying the Loans to be prepaid and the date and amount of prepayment. Any such partial prepayment shall be in an amount equal to \$500,000 or a higher integral multiple of \$100,000.

6.2.2 Mandatory Prepayments.

(a) If on any day the Revolving Outstandings exceeds the Borrowing Base, the Borrowers shall immediately prepay Revolving Loans and/or Cash Collateralize the outstanding Letters of Credit, or do a combination of the foregoing, in an amount sufficient to eliminate such excess.

(b) If on any day on which the Revolving Authorization is reduced pursuant to Section 6.1.1 the Revolving Outstandings exceeds the Revolving Authorization, the Borrowers shall immediately prepay Revolving Loans or Cash Collateralize the outstanding Letters of Credit, or do a combination of the foregoing, in an amount sufficient to eliminate such excess.

6.3. Manner of Prepayments.

6.3.1 All Prepayments. Each voluntary partial prepayment shall be in a principal amount of \$500,000 or a higher integral multiple of \$100,000. Any partial prepayment of a Group of LIBOR Loans shall be subject to the proviso to Section 2.2.3(a). Any prepayment of a LIBOR Loan on a day other than the last day of an Interest Period therefor shall include interest on the principal amount being repaid and shall be subject to Section 8.4. Except as otherwise provided by this Agreement, all principal payments in respect of the Loans shall be applied first, to repay outstanding Base Rate Loans and then to repay outstanding LIBOR Rate Loans in direct order of Interest Period maturities.

6.4. Repayments.

6.4.1 Revolving Loans. The Revolving Loans shall be paid in full and the Revolving Authorization shall terminate on the Termination Date.

SECTION 7

MAKING AND PRORATION OF PAYMENTS; SETOFF; TAXES.

7.1. Making of Payments. All payments of principal or interest on the Note, and of all fees, shall be made by the Borrowers to the Lender in immediately available funds at the office specified by the Lender not later than noon, Chicago time, on the date due; and funds received after that hour shall be deemed to have been received by the Lender on the following Business Day.

7.2. Application of Certain Payments. So long as no Unmatured Event of Default or Event of Default has occurred and is continuing, (a) payments matching specific scheduled payments then due shall be applied to those scheduled payments and (b) voluntary and mandatory prepayments shall be applied as set forth in Sections 6.2 and 6.3. After the occurrence and during the continuance of an Unmatured Event of Default or Event of Default, all amounts collected or received by the Lender as proceeds from the sale of, or other realization upon, all or any part of the Collateral shall be applied as the Lender shall determine in its discretion or, in the absence of a specific determination by the Lender, as set forth in the Guaranty and Security Agreement.

7.3. Due Date Extension. If any payment of principal or interest with respect to any of the Loans, or of any fees, falls due on a day which is not a Business Day, then such due date shall be extended to the immediately following Business Day (unless, in the case of a LIBOR Loan, such immediately following Business Day is the first Business Day of a calendar month, in which case such due date shall be the immediately preceding Business Day) and, in the case of principal, additional interest shall accrue and be payable for the period of any such extension.

7.4. Setoff. Each Borrower, for itself and each other Loan Party, agrees that the Lender has all rights of set-off and bankers' lien provided by applicable law, and in addition thereto, each Borrower, for itself and each other Loan Party, agrees that at any time any Event of Default exists, the Lender may apply to the payment of any Obligations of the Borrowers and each other Loan Party hereunder, whether or not then due, any and all balances, credits, deposits, accounts or moneys of such Borrower and each other Loan Party then or thereafter with the Lender.

7.5. Taxes.

(a) All payments made by the Borrowers hereunder or under any Loan Documents shall be made without setoff, counterclaim, or other defense. To the extent permitted by applicable law, all payments hereunder or under the Loan Documents (including any payment of principal, interest, or fees) to, or for the benefit, of any person shall be made by the Borrowers free and clear of and without deduction or withholding for, or account of, any Taxes now or hereinafter imposed by any taxing authority.



(b) If the Lender is required by law to make any payments of any Taxes on or in relation to any amounts received or receivable hereunder or under any other Loan Document, or any Tax is assessed against the Lender with respect to amounts received or receivable hereunder or under any other Loan Document, the Borrowers will indemnify the Lender against (i) such Tax (and any reasonable counsel fees and expenses associated with such Tax) and (ii) any taxes imposed as a result of the receipt of the payment under this Section 7.5(b). A certificate prepared in good faith as to the amount of such payment by the Lender, absent manifest error, be final, conclusive, and binding on all parties.

## SECTION 8

## INCREASED COSTS; SPECIAL PROVISIONS FOR LIBOR LOANS.

### 8.1. Increased Costs.

(a) If, after the date hereof, the adoption of, or any change in, any applicable law, rule or regulation, or any change in the interpretation or administration of any applicable law, rule or regulation by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by the Lender with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency: (i) shall impose, modify or deem applicable any reserve (including any reserve imposed by the FRB, but excluding any reserve included in the determination of the LIBOR Rate pursuant to Section 4), special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by the Lender; or (ii) shall impose on the Lender any other condition affecting its LIBOR Loans, its Note or its obligation to make LIBOR Loans; and the result of anything described in clauses (i) and (ii) above is to increase the cost to (or to impose a cost on) the Lender (or any LIBOR Office of the Lender) of making or maintaining any LIBOR Loan, or to reduce the amount of any sum received or receivable by the Lender (or its LIBOR Office) under this Agreement or under its Note with respect thereto, then upon demand by the Lender (which demand shall be accompanied by a statement setting forth the basis for such demand and a calculation of the amount thereof in reasonable detail), the Borrowers shall pay to the Lender such additional amount as will compensate the Lender for such increased cost or such reduction.

(b) If the Lender shall reasonably determine that any change in, or the adoption or phase-in of, any applicable law, rule or regulation regarding capital adequacy, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or the compliance by the Lender or any Person controlling the Lender with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on the Lender's or such controlling Person's capital as a consequence of the Lender's obligations hereunder or under any Letter of Credit to a level below that which the Lender or such controlling Person could have achieved but for such change, adoption, phase-in or compliance (taking into consideration the Lender's or such controlling Person's policies with respect to capital adequacy) by an amount deemed by the Lender or such controlling Person to be material, then from time to time, upon demand by the Lender (which demand shall be accompanied by a statement setting

forth the basis for such demand and a calculation of the amount thereof in reasonable detail), the Borrowers shall pay to the Lender such additional amount as will compensate the Lender or such controlling Person for such reduction.

8.2. Basis for Determining Interest Rate Inadequate or Unfair. If:

(a) the Lender reasonably determines (which determination shall be binding and conclusive on the Borrowers) that by reason of circumstances affecting the interbank LIBOR market adequate and reasonable means do not exist for ascertaining the applicable LIBOR Rate; or

(b) the LIBOR Rate as determined by the Lender will not adequately and fairly reflect the cost to the Lender of maintaining or funding LIBOR Loans for such Interest Period (taking into account any amount to which the Lender may be entitled under Section 8.1) or that the making or funding of LIBOR Loans has become impracticable as a result of an event occurring after the date of this Agreement which in the opinion of the Lender materially affects such Loans;

then the Lender shall promptly notify the Borrower Representative thereof and, so long as such circumstances shall continue, (i) the Lender shall not be under any obligation to make or convert any Base Rate Loans into LIBOR Loans and (ii) on the last day of the current Interest Period for each LIBOR Loan, such Loan shall, unless then repaid in full, automatically convert to a Base Rate Loan.

8.3. Changes in Law Rendering LIBOR Loans Unlawful. If any change in, or the adoption of any new, law or regulation, or any change in the interpretation of any applicable law or regulation by any governmental or other regulatory body charged with the administration thereof, should make it (or in the good faith judgment of the Lender cause a substantial question as to whether it is) unlawful for the Lender to make, maintain or fund LIBOR Loans, then the Lender shall promptly notify the Borrower Representative thereof and, so long as such circumstances shall continue, (a) the Lender shall have no obligation to make or convert any Base Rate Loan into a LIBOR Loan and (b) on the last day of the current Interest Period for each LIBOR Loan (or, in any event, on such earlier date as may be required by the relevant law, regulation or interpretation), such LIBOR Loan shall, unless then repaid in full, automatically convert to a Base Rate Loan.

8.4. Funding Losses. The Borrowers hereby agree that upon demand by the Lender (which demand shall be accompanied by a statement setting forth the basis for the amount being claimed), the Borrowers will indemnify the Lender against any net loss or expense which the Lender may sustain or incur (including any net loss or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by the Lender to fund or maintain any LIBOR Loan), as reasonably determined by the Lender, as a result of (a) any payment, prepayment or conversion of any LIBOR Loan on a date other than the last day of an Interest Period for such Loan (including any conversion pursuant to Section 8.3) or (b) any failure of the Borrowers to borrow, convert or continue any Loan on a date specified therefor in a

notice of borrowing, conversion or continuation pursuant to this Agreement. For this purpose, all notices to the Lender pursuant to this Agreement shall be deemed to be irrevocable.

8.5. Right of Lender to Fund through Other Offices. The Lender may, if it so elects, fund any LIBOR Loan by causing a foreign branch or Affiliate of the Lender to make such Loan; provided that in such event for the purposes of this Agreement such Loan shall be deemed to have been made by the Lender and the obligation of the Borrowers to repay such Loan shall nevertheless be to the Lender and shall be deemed held by it, to the extent of such Loan, for the account of such branch or Affiliate.

8.6. Discretion of Lender as to Manner of Funding. Notwithstanding any provision of this Agreement to the contrary, the Lender shall be entitled to fund and maintain its funding of all or any part of its Loans in any manner it sees fit, it being understood, however, that for the purposes of this Agreement all determinations hereunder shall be made as if the Lender had actually funded and maintained each LIBOR Loan during each Interest Period for such Loan through the purchase of deposits having a maturity corresponding to such Interest Period and bearing an interest rate equal to the LIBOR Rate for such Interest Period.

8.7. Mitigation of Circumstances.

The Lender shall promptly notify the Borrower Representative of any event of which it has knowledge which will result in, and will use reasonable commercial efforts available to it (and not, in the Lender's sole judgment, otherwise disadvantageous to the Lender) to mitigate or avoid, (i) any obligation by the Borrowers to pay any amount pursuant to Sections 7.5 or 8.1 or (ii) the occurrence of any circumstances described in Sections 8.2 or 8.3 (and, if the Lender has given notice of any such event described in clause (i) or (ii) above and thereafter such event ceases to exist, the Lender shall promptly so notify the Borrower Representative). Without limiting the foregoing, the Lender will designate a different funding office if such designation will avoid (or reduce the cost to the Borrowers of) any event described in clause (i) or (ii) above and such designation will not, in the Lender's sole judgment, be otherwise disadvantageous to the Lender.

8.8. Conclusiveness of Statements; Survival of Provisions. Determinations and statements of the Lender pursuant to Sections 8.1, 8.2, 8.3 or 8.4 shall be conclusive absent demonstrable error. The Lender may use reasonable averaging and attribution methods in determining compensation under Sections 8.1 and 8.4, and the provisions of such Sections shall survive repayment of the Obligations, cancellation of the Note, expiration or termination of the Letters of Credit and termination of this Agreement.

SECTION 9

REPRESENTATIONS AND WARRANTIES.

To induce the Lender to enter into this Agreement and to induce the Lender to make Loans and issue Letters of Credit hereunder, each Borrower represents and warrants to the Lender that:

9.1. Organization. Each Loan Party is validly existing and in good standing under the laws of its jurisdiction of organization; and each Loan Party is duly qualified to do business in each jurisdiction where, because of the nature of its activities or properties, such qualification is required, except for such jurisdictions where the failure to so qualify would not have a Material Adverse Effect.

9.2. Authorization; No Conflict. Each Loan Party is duly authorized to execute and deliver each Loan Document to which it is a party, each Borrower is duly authorized to borrow monies hereunder and each Loan Party is duly authorized to perform its Obligations under each Loan Document to which it is a party. The execution, delivery and performance by each Loan Party of each Loan Document to which it is a party, and the borrowings by each Borrower hereunder, do not and will not (a) require any consent or approval of any governmental agency or authority (other than any consent or approval which has been obtained and is in full force and effect), (b) conflict with (i) any provision of law, (ii) the charter, by-laws or other organizational documents of any Loan Party or (iii) any agreement, indenture, instrument or other document, or any judgment, order or decree, which is binding upon any Loan Party or any of their respective properties or (c) require, or result in, the creation or imposition of any Lien on any asset of any Loan Party (other than Liens in favor of the Lender created pursuant to the Collateral Documents).

9.3. Validity and Binding Nature. Each of this Agreement and each other Loan Document to which any Loan Party is a party is the legal, valid and binding obligation of such Person, enforceable against such Person in accordance with its terms, subject to bankruptcy, insolvency and similar laws affecting the enforceability of creditors' rights generally and to general principles of equity.

9.4. Financial Condition. The audited consolidated financial statements of the Loan Parties as at March 31, 2008 and the unaudited consolidated financial statements of the Loan Parties as at September 30, 2008 copies of each of which have been delivered to the Lender, were prepared in accordance with GAAP (subject, in the case of such unaudited statements, to the absence of footnotes and to normal year-end adjustments) and present fairly in all material respects the consolidated financial condition of the Loan Parties as at such dates and the results of their operations for the periods then ended.

9.5. No Material Adverse Change. Since March 31, 2008 there has been no material adverse change in the financial condition, operations, assets, business or properties of the Loan Parties taken as a whole (it being acknowledged and understood by the Lender that the mere existence of a loss for any one or more reporting periods which does not materially vary from the projections furnished to the Lender prior to the Closing Date, or the use of cash to fund such losses shall not, in and of itself, constitute a material adverse change).

9.6. Litigation and Contingent Liabilities. No litigation (including derivative actions), arbitration proceeding or governmental investigation or proceeding is pending or, to any Borrower's knowledge, threatened against any Loan Party which might reasonably be expected to have a Material Adverse Effect, except as set forth in Schedule 9.6. Other than any liability

incident to such litigation or proceedings, no Loan Party has any material contingent liabilities not listed on Schedule 9.6 or permitted by Section 11.1.

9.7. Ownership of Properties; Liens. Each Loan Party owns good and, in the case of real property, marketable title to all of its properties and assets, real and personal, tangible and intangible, of any nature whatsoever (including patents, trademarks, trade names, service marks and copyrights), free and clear of all Liens, charges and claims (including infringement claims with respect to patents, trademarks, service marks, copyrights and the like) except as permitted by Section 11.2.

9.8. Equity Ownership; Subsidiaries. All issued and outstanding Capital Securities of each Loan Party are duly authorized and validly issued, fully paid, non-assessable, and free and clear of all Liens other than those in favor of the Lender, and such securities were issued in compliance with all applicable state and federal laws concerning the issuance of securities. Schedule 9.8 sets forth the authorized Capital Securities of each Loan Party as of the Closing Date. All of the issued and outstanding Capital Securities of the Loan Parties are owned as set forth on Schedule 9.8 as of the Closing Date, and as of the Closing Date all of the issued and outstanding Capital Securities of each Wholly-Owned Subsidiary is, directly or indirectly, owned by Technologies. As of the Closing Date, except as set forth on Schedule 9.8, there are no pre-emptive or other outstanding rights, options, warrants, conversion rights or other similar agreements or understandings for the purchase or acquisition of any Capital Securities of any Loan Party.

9.9. Pension Plans.

(a) The Unfunded Liability of all Pension Plans does not in the aggregate exceed twenty percent of the Total Plan Liability for all such Pension Plans. Each Pension Plan complies in all material respects with all applicable requirements of law and regulations. No contribution failure under Section 412 of the Code, Section 302 of ERISA or the terms of any Pension Plan has occurred with respect to any Pension Plan, sufficient to give rise to a Lien under Section 302(f) of ERISA, or otherwise to have a Material Adverse Effect. There are no pending or, to the knowledge of any Borrower, threatened, claims, actions, investigations or lawsuits against any Pension Plan, any fiduciary of any Pension Plan, or any Loan Party or other any member of the Controlled Group with respect to a Pension Plan or a Multiemployer Pension Plan which could reasonably be expected to have a Material Adverse Effect. Neither any Loan Party nor any other member of the Controlled Group has engaged in any prohibited transaction (as defined in Section 4975 of the Code or Section 406 of ERISA) in connection with any Pension Plan or Multiemployer Pension Plan which would subject that Person to any material liability. Within the past five years, neither any Loan Party nor any other member of the Controlled Group has engaged in a transaction which resulted in a Pension Plan with an Unfunded Liability being transferred out of the Controlled Group, which could reasonably be expected to have a Material Adverse Effect. No Termination Event has occurred or is reasonably expected to occur with respect to any Pension Plan, which could reasonably be expected to have a Material Adverse Effect.

(b) All contributions (if any) have been made to any Multiemployer Pension Plan that are required to be made by any Loan Party or any other member of the Controlled Group under the terms of the plan or of any collective bargaining agreement or by applicable law; neither any Loan Party nor any other member of the Controlled Group has withdrawn or partially withdrawn from any Multiemployer Pension Plan, incurred any withdrawal liability with respect to any such plan or received notice of any claim or demand for withdrawal liability or partial withdrawal liability from any such plan, and no condition has occurred which, if continued, could result in a withdrawal or partial withdrawal from any such plan; and neither any Loan Party nor any other member of the Controlled Group has received any notice that any Multiemployer Pension Plan is in reorganization, that increased contributions may be required to avoid a reduction in plan benefits or the imposition of any excise tax, that any such plan is or has been funded at a rate less than that required under Section 412 of the Code, that any such plan is or may be terminated, or that any such plan is or may become insolvent.

9.10. Investment Company Act. No Loan Party is an “investment company” or a company “controlled” by an “investment company” or a “subsidiary” of an “investment company,” within the meaning of the Investment Company Act of 1940.

9.11. Regulation U. No Loan Party is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying Margin Stock.

9.12. Taxes. Each Loan Party has timely filed all tax returns and reports required by law to have been filed by it and has paid all taxes and governmental charges due and payable with respect to such return, except any such taxes or charges which are being diligently contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP shall have been set aside on its books. The Loan Parties have made adequate reserves on their books and records in accordance with GAAP for all taxes that have accrued but which are not yet due and payable. No Loan Party has participated in any transaction that relates to a year of the taxpayer (which is still open under the applicable statute of limitations) which is a “reportable transaction” within the meaning of Treasury Regulation Section 1.6011-4(b)(2) (irrespective of the date when the transaction was entered into).

9.13. Solvency, etc. On the Closing Date, and immediately prior to and after giving effect to the issuance of each Letter of Credit and each borrowing hereunder and the use of the proceeds thereof, with respect to each Loan Party, individually, (a) the fair value of its assets is greater than the amount of its liabilities (including disputed, contingent and unliquidated liabilities) as such value is established and liabilities evaluated in accordance with GAAP, (b) the present fair saleable value of its assets is not less than the amount that will be required to pay the probable liability on its debts as they become absolute and matured, (c) it is able to realize upon its assets and pay its debts and other liabilities (including disputed, contingent and unliquidated liabilities) as they mature in the normal course of business, (d) it does not intend to, and does not believe that it will, incur debts or liabilities beyond its ability to pay as such debts and liabilities mature and (e) it is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which its property would constitute unreasonably small capital.

9.14. Environmental Matters. The on-going operations of each Loan Party comply in all respects with all Environmental Laws, except such non-compliance which could not (if enforced in accordance with applicable law) reasonably be expected to result, either individually or in the aggregate, in a Material Adverse Effect. Each Loan Party has obtained, and maintained in good standing, all licenses, permits, authorizations, registrations and other approvals required under any applicable Environmental Law and required for their respective ordinary course operations, and for their reasonably anticipated future operations, and each Loan Party is in compliance with all terms and conditions thereof, except where the failure to do so could not reasonably be expected to result in material liability to any Loan Party and could not reasonably be expected to result, either individually or in the aggregate, in a Material Adverse Effect. No Loan Party or any of its properties or operations is subject to, or reasonably anticipates the issuance of, any written order from or agreement with any Federal, state or local governmental authority, nor subject to any judicial or docketed administrative or other proceeding, respecting any Environmental Law, Environmental Claim or Hazardous Substance. There are no Hazardous Substances or other conditions or circumstances existing with respect to any property, arising from operations prior to the Closing Date, or relating to any waste disposal, of any Loan Party that would reasonably be expected to result, either individually or in the aggregate, in a Material Adverse Effect. No Loan Party has any underground storage tanks that are not properly registered or permitted under applicable Environmental Laws or that at any time have released, leaked, disposed of or otherwise discharged Hazardous Substances.

9.15. Insurance. Set forth on Schedule 9.15 is a complete and accurate summary of the property and casualty insurance program of the Loan Parties as of the Closing Date (including the names of all insurers, policy numbers, expiration dates, amounts and types of coverage, annual premiums, exclusions, deductibles, self-insured retention, and a description in reasonable detail of any self-insurance program, retrospective rating plan, fronting arrangement or other risk assumption arrangement involving any Loan Party). Each Loan Party and its properties are insured with financially sound and reputable insurance companies which are not Affiliates of the Loan Parties, in such amounts, with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where such Loan Parties operate.

9.16. Real Property. Set forth on Schedule 9.16 is a complete and accurate list, as of the Closing Date, of the address of all real property owned or leased by any Loan Party, together with, in the case of leased property, the name and mailing address of the lessor of such property.

9.17. Information. All information heretofore or contemporaneously herewith furnished in writing by any Loan Party to the Lender for purposes of or in connection with this Agreement and the transactions contemplated hereby is, and all written information hereafter furnished by or on behalf of any Loan Party to the Lender pursuant hereto or in connection herewith will be, true and accurate in every material respect on the date as of which such information is dated or certified, and none of such information is or will be incomplete by omitting to state any material fact necessary to make such information not misleading in light of the circumstances under which made (it being recognized by the Lender that any projections and forecasts provided by the Loan Parties are based on good faith estimates and assumptions believed by the Loan Parties

to be reasonable as of the date of the applicable projections or assumptions and that actual results during the period or periods covered by any such projections and forecasts may differ from projected or forecasted results).

9.18. Intellectual Property. Each Loan Party owns and possesses or has a license or other right to use all patents, patent rights, trademarks, trademark rights, trade names, trade name rights, service marks, service mark rights and copyrights as are necessary for the conduct of the businesses of the Loan Parties, without any infringement upon rights of others which could reasonably be expected to have a Material Adverse Effect.

9.19. Burdensome Obligations. No Loan Party is a party to any agreement or contract or subject to any restriction contained in its organizational documents which could reasonably be expected to have a Material Adverse Effect.

9.20. Labor Matters. Except as set forth on Schedule 9.20, no Loan Party is subject to any labor or collective bargaining agreement. There are no existing or threatened strikes, lockouts or other labor disputes involving any Loan Party that singly or in the aggregate could reasonably be expected to have a Material Adverse Effect. Hours worked by and payment made to employees of the Loan Parties are not in violation of the Fair Labor Standards Act or any other applicable law, rule or regulation dealing with such matters.

9.21. No Default. No Event of Default or Unmatured Event of Default exists or would result from the incurrence by any Loan Party of any Debt hereunder or under any other Loan Document.

## SECTION 10

## AFFIRMATIVE COVENANTS.

Until the expiration or termination of the Revolving Authorization and thereafter until all Obligations hereunder and under the other Loan Documents are paid in full and all Letters of Credit have been terminated, each Borrower agrees that it will and will cause each other Loan Party to:

10.1. Reports, Certificates and Other Information. Furnish to the Lender:

10.1.1 Annual Report. Promptly when available and in any event within 90 days after the close of each Fiscal Year: (a) a copy of the annual audit report of the Loan Parties for such Fiscal Year, including therein consolidated balance sheets and statements of earnings and cash flows of the Loan Parties as at the end of such Fiscal Year, certified without adverse reference to going concern value and without qualification by independent auditors of recognized standing selected by the Loan Parties and reasonably acceptable to the Lender, together with (i) a written statement from such accountants to the effect that in making the examination necessary for the signing of such annual audit report by such accountants, nothing came to their attention that caused them to believe that the Borrowers were not in compliance with any provision of Sections 11.1, 11.3, 11.4 or 11.14 of this Agreement insofar as such provision relates to accounting matters or, if something has come to their attention that caused them to believe that the Borrowers were not in compliance with any such provision, describing such non-compliance in reasonable detail, (ii) a



comparison with the budget for such Fiscal Year and a comparison with the previous Fiscal Year; and (b) a consolidating balance sheet of the Loan Parties as of the end of such Fiscal Year and consolidating statement of earnings and cash flows for the Loan Parties for such Fiscal Year, certified by a Senior Officer of the Loan Parties and (c) a copy of Technologies' annual report on Form 10-K as filed with the SEC which, to the extent Technologies' annual report on Form 10-K shall satisfy the requirements of this Section 10.1., the Lender shall accept such Form 10-K in lieu of such item.

10.1.2 Interim Reports. (a) Promptly when available and in any event within 60 days after the end of each of the first three Fiscal Quarters of each Fiscal Year, consolidated balance sheets of the Loan Parties as of the end of such Fiscal Quarter, together with consolidated statements of earnings and cash flows for such Fiscal Quarter and for the period beginning with the first day of such Fiscal Year and ending on the last day of such Fiscal Quarter, together with a comparison with the corresponding period of the previous Fiscal Year and a comparison with the budget for such period of the current Fiscal Year, certified by a Senior Officer of the Loan Parties; and (b) a copy of Technologies' quarterly report on Form 10-Q, as filed with the SEC which to the extent Technologies' quarterly report on Form 10-Q shall satisfy the requirements of this Section 10.1.2, the Lender shall accept such Form 10-Q in lieu of such item.

10.1.3 Compliance Certificates. Contemporaneously with the furnishing of a copy of each annual audit report pursuant to Section 10.1.1 and each set of quarterly statements pursuant to Section 10.1.2, a duly completed compliance certificate in the form of Exhibit B, with appropriate insertions, dated the date of such annual report or such quarterly statements and signed by a Senior Officer of the Loan Parties, containing (i) a computation of each of the financial ratios and restrictions set forth in Section 11.14 and to the effect that such officer has not become aware of any Event of Default or Unmatured Event of Default that has occurred and is continuing or, if there is any such event, describing it and the steps, if any, being taken to cure it and (ii) a written statement of the Loan Parties' management setting forth a discussion of the Loan Parties' financial condition, changes in financial condition and results of operations.

10.1.4 Reports to the SEC and to Shareholders. Promptly upon the filing or sending thereof, copies of all material regular, periodic or special reports of any Loan Party filed with the SEC; copies of all registration statements of any Loan Party filed with the SEC (other than on Form S-8); and copies of all material proxy statements or other communications made to security holders generally.

10.1.5 Notice of Default, Litigation and ERISA Matters. Promptly upon becoming aware of any of the following, written notice describing the same and the steps being taken by the Loan Parties affected thereby with respect thereto:

- (a) the occurrence of an Event of Default or an Unmatured Event of Default;
- (b) any litigation, arbitration or governmental investigation or proceeding not previously disclosed by the Borrowers to the Lender which has been instituted or, to the knowledge of any Borrower, is threatened against any Loan Party or to which any of the

properties of any thereof is subject which could reasonably be expected to have a Material Adverse Effect;

(c) the institution of any steps by any member of the Controlled Group or any other Person to terminate any Pension Plan, or the failure of any member of the Controlled Group to make a required contribution to any Pension Plan (if such failure is sufficient to give rise to a Lien under Section 302(f) of ERISA) or to any Multiemployer Pension Plan, or the taking of any action with respect to a Pension Plan which could result in the requirement that any Loan Party furnish a bond or other security to the PBGC or such Pension Plan, or the occurrence of any event with respect to any Pension Plan or Multiemployer Pension Plan which could result in the incurrence by any member of the Controlled Group of any material liability, fine or penalty (including any claim or demand for withdrawal liability or partial withdrawal from any Multiemployer Pension Plan), or any material increase in the contingent liability of any Loan Party with respect to any post-retirement welfare benefit plan or other employee benefit plan of any Loan Party or another member of the Controlled Group, or any notice that any Multiemployer Pension Plan is in reorganization, that increased contributions may be required to avoid a reduction in plan benefits or the imposition of an excise tax, that any such plan is or has been funded at a rate less than that required under Section 412 of the Code, that any such plan is or may be terminated, or that any such plan is or may become insolvent;

(d) any cancellation or material change in any insurance maintained by any Loan Party;

(e) any Account or Inventory identified by any Borrower to the Lender as an Eligible Account or Eligible Inventory becomes ineligible for any reason; or

(f) any other event (including (i) any violation of any Environmental Law or the assertion of any Environmental Claim or (ii) the enactment or effectiveness of any law, rule or regulation) which might reasonably be expected to have a Material Adverse Effect.

10.1.6 Borrowing Base Certificates. Within 15 days of the end of each month for which the Revolving Outstandings exceed \$0, a Borrowing Base Certificate dated as of the end of such month and executed by a Senior Officer of the Borrowers on behalf of the Borrowers (provided that (a) the Borrowers may deliver a Borrowing Base Certificate more frequently if they choose and (b) at any time an Event of Default exists, the Lender may require the Borrowers to deliver Borrowing Base Certificates more frequently).

10.1.7 Management Reports. Promptly upon receipt thereof, copies of all detailed financial and management reports, if any, submitted to the Borrowers by independent auditors in connection with each annual or interim audit made by such auditors of the books of the Borrowers.

10.1.8 Projections. As soon as practicable, and in any event not later than 30 days after to the commencement of each Fiscal Year, financial projections for the Loan Parties for such Fiscal

Year (including monthly operating and cash flow budgets) prepared in a manner consistent with the projections delivered by the Borrowers to the Lender prior to the Closing Date or otherwise in a manner reasonably satisfactory to the Lender, accompanied by a certificate of a Senior Officer of the Loan Parties to the effect that (a) such projections were prepared by the Loan Parties in good faith, (b) the Loan Parties have a reasonable basis for the assumptions contained in such projections and (c) such projections have been prepared in accordance with such assumptions.

10.1.9 Other Information. Promptly from time to time, such other information concerning the Loan Parties as the Lender may reasonably request.

10.2. Books, Records and Inspections. Keep, and cause each other Loan Party to keep, its books and records in accordance with sound business practices sufficient to allow the preparation of financial statements in accordance with GAAP; permit, and cause each other Loan Party to permit, the Lender or any representative thereof to inspect the properties and operations of the Loan Parties; and permit, and cause each other Loan Party to permit, at any reasonable time and with reasonable notice (or at any time without notice if an Event of Default exists), the Lender or any representative thereof to visit any or all of its offices, to discuss its financial matters with its officers and its independent auditors (and each Borrower hereby authorizes such independent auditors to discuss such financial matters with the Lender or any representative thereof), and to examine (and, at the expense of the Loan Parties, photocopy extracts from) any of its books or other records; and permit, and cause each other Loan Party to permit, the Lender and its representatives to inspect the Inventory and other tangible assets of the Loan Parties, to perform appraisals of the equipment of the Loan Parties, and to inspect, audit, check and make copies of and extracts from the books, records, computer data, computer programs, journals, orders, receipts, correspondence and other data relating to Inventory, Accounts and any other collateral. All such inspections or audits by the Lender shall be at the Borrowers' expense, provided that so long as no Event of Default or Unmatured Event of Default exists, such inspections or audits shall only be conducted during normal business hours and the Borrowers shall not be required to reimburse the Lender for inspections or audits more frequently than twice each Fiscal Year.

10.3. Maintenance of Property: Insurance.

(a) Keep, and cause each other Loan Party to keep, all property useful and necessary in the business of the Loan Parties in good working order and condition, ordinary wear and tear excepted.

(b) Maintain, and cause each other Loan Party to maintain, with responsible insurance companies, such insurance coverage as may be required by any law or governmental regulation or court decree or order applicable to it and such other insurance, to such extent and against such hazards and liabilities, as is customarily maintained by companies similarly situated, but which shall insure against all risks and liabilities of the type identified on Schedule 9.15 and shall have insured amounts no less than, and deductibles no higher than, those set forth on such schedule; and, upon request of the Lender, furnish to the Lender a certificate setting forth in reasonable detail the nature and extent of all insurance maintained by the Loan Parties. Each

Borrower shall cause each issuer of an insurance policy to provide the Lender with an endorsement (i) showing the Lender as loss payee with respect to each policy of property or casualty insurance and naming the Lender as an additional insured with respect to each policy of liability insurance, (ii) providing that 30 days' notice will be given to the Lender prior to any cancellation of, material reduction or change in coverage provided by or other material modification to such policy and (iii) reasonably acceptable in all other respects to the Lender.

**UNLESS THE BORROWERS PROVIDE THE LENDER WITH EVIDENCE OF THE INSURANCE COVERAGE REQUIRED BY THIS AGREEMENT, THE LENDER MAY PURCHASE INSURANCE AT THE BORROWERS' EXPENSE TO PROTECT THE LENDER'S INTERESTS IN THE COLLATERAL. THIS INSURANCE MAY, BUT NEED NOT, PROTECT ANY LOAN PARTY'S INTERESTS. THE COVERAGE THAT THE LENDER PURCHASES MAY NOT PAY ANY CLAIM THAT IS MADE AGAINST ANY LOAN PARTY IN CONNECTION WITH THE COLLATERAL. THE BORROWERS MAY LATER CANCEL ANY INSURANCE PURCHASED BY THE LENDER, BUT ONLY AFTER PROVIDING THE LENDER WITH EVIDENCE THAT THE BORROWERS HAVE OBTAINED INSURANCE AS REQUIRED BY THIS AGREEMENT. IF THE LENDER PURCHASES INSURANCE FOR THE COLLATERAL, THE BORROWERS WILL BE RESPONSIBLE FOR THE COSTS OF THAT INSURANCE, INCLUDING INTEREST AND ANY OTHER CHARGES THAT MAY BE IMPOSED WITH THE PLACEMENT OF THE INSURANCE, UNTIL THE EFFECTIVE DATE OF THE CANCELLATION OR EXPIRATION OF THE INSURANCE. THE COSTS OF THE INSURANCE MAY BE ADDED TO THE PRINCIPAL AMOUNT OF THE LOANS OWING HEREUNDER. THE COSTS OF THE INSURANCE MAY BE MORE THAN THE COST OF THE INSURANCE THE LOAN PARTIES MAY BE ABLE TO OBTAIN ON THEIR OWN.**

10.4. Compliance with Laws; Payment of Taxes and Liabilities. (a) Comply, and cause each other Loan Party to comply, in all material respects with all applicable laws, rules, regulations, decrees, orders, judgments, licenses and permits, except where failure to comply could not reasonably be expected to have a Material Adverse Effect; (b) without limiting clause (a) above, ensure, and cause each other Loan Party to ensure, that no person who owns a controlling interest in or otherwise controls a Loan Party is or shall be (i) listed on the Specially Designated Nationals and Blocked Person List maintained by the Office of Foreign Assets Control ("OFAC"), Department of the Treasury, and/or any other similar lists maintained by OFAC pursuant to any authorizing statute, Executive Order or regulation or (ii) a person designated under Section 1(b), (c) or (d) of Executive Order No. 13224 (September 23, 2001), any related enabling legislation or any other similar Executive Orders, (c) without limiting clause (a) above, comply, and cause each other Loan Party to comply, with all applicable Bank Secrecy Act ("BSA") and anti-money laundering laws and regulations and (d) pay, and cause each other Loan Party to pay, prior to delinquency, all taxes and other governmental charges against it or any collateral, as well as claims of any kind which, if unpaid, could become a Lien on any of its property; provided that the foregoing shall not require any Loan Party to pay any such tax or charge so long as it shall contest the validity thereof in good faith by appropriate proceedings and shall set aside on its books adequate reserves with respect thereto in accordance with GAAP and,

in the case of a claim which could become a Lien on any collateral, such contest proceedings shall stay the foreclosure of such Lien or the sale of any portion of the collateral to satisfy such claim.

10.5. Maintenance of Existence, etc. Maintain and preserve, and (subject to Section 11.5) cause each other Loan Party to maintain and preserve, (a) its existence and good standing in the jurisdiction of its organization (other than with respect to the termination or dissolution of inactive foreign Subsidiaries) and (b) its qualification to do business and good standing in each jurisdiction where the nature of its business makes such qualification necessary (other than such jurisdictions in which the failure to be qualified or in good standing could not reasonably be expected to have a Material Adverse Effect).

10.6. Use of Proceeds. Use the proceeds of the Loans, and the Letters of Credit, solely to satisfy the Debt to be Repaid for working capital purposes, for Capital Expenditures and for other general business purposes; and not use or permit any proceeds of any Loan to be used, either directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of “purchasing or carrying” any Margin Stock.

10.7. Employee Benefit Plans.

(a) Maintain, and cause each other member of the Controlled Group to maintain, each Pension Plan in substantial compliance with all applicable requirements of law and regulations.

(b) Make, and cause each other member of the Controlled Group to make, on a timely basis, all required contributions to any Multiemployer Pension Plan.

(c) Not, and not permit any other member of the Controlled Group to (i) seek a waiver of the minimum funding standards of ERISA, (ii) terminate or withdraw from any Pension Plan or Multiemployer Pension Plan or (iii) take any other action with respect to any Pension Plan that would reasonably be expected to entitle the PBGC to terminate, impose liability in respect of, or cause a trustee to be appointed to administer, any Pension Plan, unless the actions or events described in clauses (i), (ii) and (iii) individually or in the aggregate would not have a Material Adverse Effect.

10.8. Environmental Matters. If any release or threatened release or other disposal of Hazardous Substances shall occur or shall have occurred on any real property or any other assets of any Loan Party, the Borrowers shall, or shall cause the applicable Loan Party to, cause the prompt containment and removal of such Hazardous Substances and the remediation of such real property or other assets as necessary to comply with all applicable Environmental Laws and to preserve the value of such real property or other assets. Without limiting the generality of the foregoing, the Borrowers shall, and shall cause each other Loan Party to, comply with any Federal or state judicial or administrative order requiring the performance at any real property of any Loan Party of activities in response to the release or threatened release of a Hazardous Substance. To the extent that the transportation of Hazardous Substances is permitted by this Agreement, the Borrowers shall, and shall cause the other Loan Parties to, dispose of such

Hazardous Substances, or of any other wastes, only at licensed disposal facilities operating in compliance with Environmental Laws.

10.9. Further Assurances. Take, and cause each other Loan Party to take, such actions as are necessary or as the Lender may reasonably request from time to time to ensure that the Obligations of each Loan Party under the Loan Documents are secured by substantially all of the assets of the Borrowers and each domestic Subsidiary (as well as all Capital Securities of each domestic Subsidiary and 65% of all Capital Securities of each direct foreign Subsidiary) and guaranteed by each domestic Subsidiary (including, upon the acquisition or creation thereof, any Subsidiary acquired or created after the Closing Date), in each case as the Lender may reasonably determine, including (a) the execution and delivery of guaranties, security agreements, pledge agreements, mortgages, deeds of trust, financing statements and other documents, and the filing or recording of any of the foregoing and (b) the delivery of certificated securities and other Collateral with respect to which perfection is obtained by possession.

10.10. Deposit Accounts. Unless the Lender otherwise consents in writing, in order to facilitate the Lender's and the Lender's maintenance and monitoring of their security interests in the collateral, maintain all of their principal deposit accounts with the Lender. Notwithstanding the foregoing, the Borrowers may maintain deposit accounts with financial institutions other than the Lender in an aggregate amount not exceeding \$1,000,000 provided such deposit accounts are subject to the control of the Lender.

## SECTION 11

## NEGATIVE COVENANTS

Until the expiration or termination of the Revolving Authorization and thereafter until all Obligations hereunder and under the other Loan Documents are paid in full and all Letters of Credit have been terminated, each Borrower agrees that it will:

11.1. Debt. Not, and not permit any other Loan Party to, create, incur, assume or suffer to exist any Debt, except:

(a) Obligations under this Agreement and the other Loan Documents;

(b) Debt secured by Liens permitted by Section 11.2(d), and extensions, renewals and refinancings thereof; provided that the aggregate amount of all such Debt at any time outstanding shall not exceed \$5,000,000.

(c) Debt of any Borrower to any domestic Wholly-Owned Subsidiary or Debt of any domestic Wholly-Owned Subsidiary to any Borrower or another domestic Wholly-Owned Subsidiary; provided that such Debt shall be evidenced by a demand note in form and substance reasonably satisfactory to the Lender and pledged and delivered to the Lender pursuant to the Collateral Documents as additional collateral security for the Obligations, and the obligations under such demand note shall be subordinated to the Obligations of the Borrowers hereunder in a manner reasonably satisfactory to the Lender;

- (d) Westell's obligations under the Enginuity Guarantee, provided that the aggregate principal amount of such Debt shall not exceed \$1,620,000;
- (e) Hedging Obligations incurred in favor of the Lender or an Affiliate thereof for bona fide hedging purposes and not for speculation;
- (f) Debt described on Schedule 11.1 and any extension, renewal or refinancing thereof so long as the principal amount thereof is not increased;
- (g) the Debt to be Repaid (so long as such Debt is repaid on the Closing Date with the proceeds of the initial Loans hereunder);
- (h) Contingent Liabilities arising with respect to customary indemnification obligations in favor of purchasers in connection with dispositions permitted under Section 11.5; and
- (i) other unsecured Debt, in addition to the Debt listed above, in an aggregate outstanding amount not at any time exceeding \$2,000,000.

11.2. Liens. Not, and not permit any other Loan Party to, create or permit to exist any Lien on any of its real or personal properties, assets or rights of whatsoever nature (whether now owned or hereafter acquired), except:

(a) Liens for taxes or other governmental charges not at the time delinquent or thereafter payable without penalty or being contested in good faith by appropriate proceedings and, in each case, for which it maintains adequate reserves;

(b) Liens arising in the ordinary course of business (such as (i) Liens of carriers, warehousemen, mechanics and materialmen and other similar Liens imposed by law and (ii) Liens in the form of deposits or pledges incurred in connection with worker's compensation, unemployment compensation and other types of social security (excluding Liens arising under ERISA) or in connection with surety bonds, bids, performance bonds and similar obligations) for sums not overdue or being contested in good faith by appropriate proceedings and not involving any advances or borrowed money or the deferred purchase price of property or services and, in each case, for which it maintains adequate reserves;

(c) Liens described on Schedule 11.2 as of the Closing Date;

(d) subject to the limitation set forth in Section 11.1(b), (i) Liens arising in connection with Capital Leases (and attaching only to the property being leased), (ii) Liens existing on property at the time of the acquisition thereof by any Loan Party (and not created in contemplation of such acquisition) and (iii) Liens that constitute purchase money security interests on any property securing debt incurred for the purpose of financing all or any part of the cost of acquiring such property, provided that any such Lien attaches to such property within 20 days of the acquisition thereof and attaches solely to the property so acquired;

(e) attachments, appeal bonds, judgments and other similar Liens, for sums not exceeding \$500,000 arising in connection with court proceedings, provided the execution or other enforcement of such Liens is effectively stayed and the claims secured thereby are being actively contested in good faith and by appropriate proceedings;

(f) easements, rights of way, restrictions, minor defects or irregularities in title and other similar Liens not interfering in any material respect with the ordinary conduct of the business of any Loan Party;

(g) Liens arising under the Loan Documents; and

(h) the replacement, extension or renewal of any Lien permitted by clause (c) above upon or in the same property subject thereto arising out of the extension, renewal or replacement of the Debt secured thereby (without increase in the amount thereof).

11.3. Operating Leases. Not permit the aggregate amount of all rental payments under Operating Leases made (or scheduled to be made) by the Loan Parties (on a consolidated basis) to exceed \$5,000,000 in any Fiscal Year.

11.4. Restricted Payments. Not, and not permit any other Loan Party to, (a) make any distribution to any holders of its Capital Securities, (b) purchase or redeem any of its Capital Securities, (c) pay any management fees or similar fees to any of its equityholders or any Affiliate thereof, or (d) set aside funds for any of the foregoing. Notwithstanding the foregoing, (i) any Subsidiary may pay dividends or make other distributions to any Borrower or to a domestic Wholly-Owned Subsidiary and (ii) the Borrowers may, so long as no Event of Default or Unmatured Event of Default exists or would exist as a result thereof, repurchase or redeem an amount of up to \$8,500,000 of its Capital Securities from shareholders from time to time provided that no repurchase or redemption shall be made pursuant to this clause (ii) if at such time or within 30 days prior thereto, Loans are or have been outstanding hereunder unless prior to making the same, the Borrowers shall have delivered to the Lender such evidence of proforma compliance with Section 11.14 hereof as the Lender shall reasonably request, the Lender acknowledging that such evidence may be delivered by the Borrowers periodically on a monthly or quarterly basis and shall not necessarily be required at the time of each such repurchase or redemption if such prior evidence remains accurate in all material respects.

11.5. Mergers, Consolidations, Sales. Not, and not permit any other Loan Party to, (a) be a party to any merger or consolidation, or purchase or otherwise acquire all or substantially all of the assets or any Capital Securities of any class of, or any partnership or joint venture interest in, any other Person, (b) sell, transfer, convey or lease all or any substantial part of its assets or Capital Securities (including the sale of Capital Securities of any Subsidiary) except for sales of inventory in the ordinary course of business, or (c) sell or assign with or without recourse any receivables, except for (i) any such merger, consolidation, sale, transfer, conveyance, lease or assignment of or by any Wholly-Owned Subsidiary into any Borrower or into any other domestic Wholly-Owned Subsidiary; (ii) any such purchase or other acquisition by any Borrower or any domestic Wholly-Owned Subsidiary of the assets or Capital Securities of any Wholly-Owned



Subsidiary; (iii) sales and dispositions of assets (including the Capital Securities of Subsidiaries) for at least fair market value (as determined by the Board of Directors of the applicable Loan Party) so long as the net book value of all assets sold or otherwise disposed of in any Fiscal Year does not exceed 10% of the net book value of the consolidated assets of the Loan Parties as of the last day of the preceding Fiscal Year; and (iv) any Acquisition by any Borrower or any domestic Wholly-Owned Subsidiary where:

(A) the business or division acquired are for use, or the Person acquired is engaged, in the businesses engaged or reasonably related or complementary thereto, in the businesses engaged in by the Loan Parties on the Closing Date;

(B) immediately before and after giving effect to such Acquisition, no Event of Default or Unmatured Event of Default shall exist;

(C) the aggregate consideration to be paid by the Loan Parties (including any Debt assumed or issued in connection therewith, the amount thereof to be calculated in accordance with GAAP) in connection with such Acquisition (or any series of related Acquisitions) when taken together with other Acquisitions consummated after the Closing Date is less than \$5,000,000 no more than \$1,500,000 (in the aggregate for all Acquisitions) of which is funded from proceeds of Loans;

(D) immediately after giving effect to such Acquisition, the Borrowers are in pro forma compliance with all the financial ratios and restrictions set forth in Section 11.14 and the Borrowers shall have furnished the Lender with evidence thereof reasonably satisfactory to the Lender;

(E) in the case of the Acquisition of any Person, the board of directors or similar governing body of such Person has approved such Acquisition;

(F) reasonably prior to such Acquisition, the Lender shall have received complete executed or conformed copies of each material document, instrument and agreement to be executed in connection with such Acquisition together with all lien search reports and lien release letters and other documents as the Lender may require to evidence the termination of Liens on the assets or business to be acquired;

(G) not less than ten Business Days prior to such Acquisition, the Lender shall have received an acquisition summary with respect to the Person and/or business or division to be acquired, such summary to include a reasonably detailed description thereof (including financial information) and operating results (including financial statements for the most recent 12 month period for which they are available and as otherwise available), the terms and conditions, including economic terms, of the proposed Acquisition, and the Borrowers' calculation of pro forma EBITDA relating thereto;

(H) consents have been obtained in favor of the Lender to the collateral assignment of rights and indemnities under the related acquisition documents and

opinions of counsel for the Loan Parties and (if delivered to the Loan Party) the selling party in favor of the Lender have been delivered;

(I) the provisions of Section 10.9 have been satisfied;

(J) simultaneously with the closing of such Acquisition, the target company (if such Acquisition is structured as a purchase of equity) or the Loan Party (if such Acquisition is structured as a purchase of assets or a merger and a Loan Party is the surviving entity) executes and delivers to Lender (a) such documents necessary to grant to Lender a first priority Lien in all of the assets of such target company or surviving company, and their respective Subsidiaries, each in form and substance reasonably satisfactory to Lender and (b) an unlimited Guaranty of the Obligations, or at the option of Lender in Lender's absolute discretion, a joinder agreement reasonably satisfactory to Lender in which such target company or surviving company, and their respective Subsidiaries becomes a Borrower under this Agreement and assumes primary, joint and several liability for the Obligations; and

(K) if the Acquisition is structured as a merger, a Borrower is the surviving entity.

11.6. Modification of Organizational Documents. Not permit the charter, by-laws or other organizational documents of any Loan Party to be amended or modified in any way which could reasonably be expected to materially adversely affect the interests of the Lender; not change, or allow any Loan Party to change, its state of formation or its organizational form.

11.7. Transactions with Affiliates. Not, and not permit any other Loan Party to, enter into, or cause, suffer or permit to exist any transaction, arrangement or contract with any of its other Affiliates (other than the Loan Parties) which is on terms which are less favorable than are obtainable from any Person which is not one of its Affiliates (except for existing intercompany Debt).

11.8. Unconditional Purchase Obligations. Other than in the ordinary course of business in accordance with past practices and disclosed to Lender, not, and not permit any other Loan Party to, enter into or be a party to any contract for the purchase of materials, supplies or other property or services if such contract requires that payment be made by it regardless of whether delivery is ever made of such materials, supplies or other property or services.

11.9. Inconsistent Agreements. Not, and not permit any other Loan Party to, enter into any agreement containing any provision which would (a) be violated or breached by any borrowing by the Borrowers hereunder or by the performance by any Loan Party of any of its Obligations hereunder or under any other Loan Document, (b) prohibit any Loan Party from granting to the Lender, a Lien on any of its assets or (c) create or permit to exist or become effective any encumbrance or restriction on the ability of any Subsidiary to (i) pay dividends or make other distributions to the Borrowers or any other Subsidiary, or pay any Debt owed to the Borrowers or any other Subsidiary, (ii) make loans or advances to any Loan Party or (iii) transfer any of its

assets or properties to any Loan Party, other than (A) customary restrictions and conditions contained in agreements relating to the sale of all or a substantial part of the assets of any Subsidiary pending such sale, provided that such restrictions and conditions apply only to the Subsidiary to be sold and such sale is permitted hereunder (B) restrictions or conditions imposed by any agreement relating to purchase money Debt, Capital Leases and other secured Debt permitted by this Agreement if such restrictions or conditions apply only to the property or assets securing such Debt and (C) customary provisions in leases and other contracts restricting the assignment thereof.

11.10. Business Activities; Issuance of Equity. Not, and not permit any other Loan Party to, engage in any line of business other than the businesses engaged in on the date hereof and businesses reasonably related and complementary thereto. Not, and not permit any other Loan Party to, issue any Capital Securities other than (a) any issuance of shares of any Borrower's common Capital Securities pursuant to any employee or director option program, benefit plan or compensation program, (b) any issuance by a Subsidiary to any Borrower or another Subsidiary in accordance with Section 11.4 or (c) the issuance of additional shares of common Capital Securities by Technologies.

11.11. Investments. Not, and not permit any other Loan Party to, make or permit to exist any Investment in any other Person, except the following:

(a) contributions by any Borrower to the capital of any Wholly-Owned Subsidiary, or by any Subsidiary to the capital of any other domestic Wholly-Owned Subsidiary, in each case in accordance with Section 10.10 so long as the recipient of any such capital contribution has guaranteed the Obligations and such guaranty is secured by a pledge of all of its Capital Securities and substantially all of its real and personal property;

(b) Investments constituting Debt permitted by Section 11.1;

(c) Contingent Liabilities constituting Debt permitted by Section 11.1 or Liens permitted by Section 11.2;

(d) Cash Equivalent Investments;

(e) Subject to Section 10.10 hereof, bank deposits in the ordinary course of business.

(f) Investments in securities of Account Debtors received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such account debtors;

(g) Investments to consummate Acquisitions permitted by Section 11.5; and

(h) Investments listed on Schedule 11.11 as of the Closing Date.

provided that (x) any Investment which when made complies with the requirements of the definition of the term "Cash Equivalent Investment" may continue to be held notwithstanding

that such Investment if made thereafter would not comply with such requirements; (y) no Investment otherwise permitted by clause (b), (c), or (g) shall be permitted to be made if, immediately before or after giving effect thereto, any Event of Default or Unmatured Event of Default exists.

11.12. Restriction of Amendments to Certain Documents. Not amend or otherwise modify, or waive any rights under, the Engineuity Transaction Documents if, in any case, such amendment, modification or waiver could be adverse to the interests of the Lender.

11.13. Fiscal Year. Not change its Fiscal Year.

11.14. Financial Covenants.

11.14.1 EBITDA. Not permit EBITDA for any period specified below to be less than the applicable amount set forth below for such period:

<u>Period Ending</u>	<u>EBITDA</u>
Three (3) months ending March 31, 2009	(\$2,000,000)
Six (6) months ending June 30, 2009	(\$4,000,000)
Nine (9) months ending September 30, 2009	(\$6,000,000)
Computation Period ending December 31, 2009	(\$8,000,000)

11.14.2 Tangible Net Worth. Not permit Tangible Net Worth for any date specified below to be less than the applicable amount set forth below for such date:

<u>Date</u>	<u>Minimum Tangible Net Worth</u>
March 31, 2009	\$51,040,000
June 30, 2009	\$48,972,000
September 30, 2009	\$47,128,000
December 31, 2009	\$45,008,000
March 31, 2010	\$42,089,000

11.14.3 Capital Expenditures. Not permit the aggregate amount of all Capital Expenditures made by the Loan Parties in any Fiscal Year to exceed \$3,000,000 for Fiscal Year 2009 and \$4,000,000 for Fiscal Year 2010.

11.15. Cancellation of Debt. Not, and not permit any other Loan Party to, cancel any claim or debt owing to it, except for reasonable consideration or in the ordinary course of business, and otherwise except for the cancellation of debts or claims not to exceed \$500,000 in any Fiscal Year.

The obligation of the Lender to make the Loans and issue the Letters of Credit is subject to the following conditions precedent:

12.1. Initial Credit Extension. The obligation of the Lender to make the initial Loans and the obligation to issue its initial Letter of Credit (whichever first occurs) is, in addition to the conditions precedent specified in Section 12.2, subject to the conditions precedent that (a) all Debt to be Repaid has been (or concurrently with the initial borrowing will be) paid in full, and that all agreements and instruments governing the Debt to be Repaid, if any, and that all Liens securing such Debt to be Repaid, if any, have been (or concurrently with the initial borrowing will be) terminated and (b) the Lender shall have received all of the following, each duly executed and dated the Closing Date (or such earlier date as shall be reasonably satisfactory to the Lender), in form and substance satisfactory to the Lender (and the date on which all such conditions precedent have been satisfied or waived by the Lender is called the "Closing Date");

12.1.1 Note. The Note.

12.1.2 Authorization Documents. For each Loan Party, such Person's (a) charter (or similar formation document), certified by the appropriate governmental authority; (b) good standing certificates in its state of incorporation (or formation) and in each other state reasonably requested by the Lender; (c) bylaws (or similar governing document); (d) resolutions of its board of directors (or similar governing body) approving and authorizing such Person's execution, delivery and performance of the Loan Documents to which it is party and the transactions contemplated thereby; and (e) signature and incumbency certificates of its officers executing any of the Loan Documents (it being understood that the Lender may conclusively rely on each such certificate until formally advised by a like certificate of any changes therein), all certified by its secretary or an assistant secretary (or similar officer) as being in full force and effect without modification.

12.1.3 Consents, etc. Certified copies of all documents evidencing any necessary corporate, limited liability company or partnership action, consents and governmental approvals (if any) required for the execution, delivery and performance by the Loan Parties of the documents referred to in this Section 12.

12.1.4 Letter of Direction. A letter of direction containing funds flow information with respect to the proceeds of the Loans on the Closing Date.

12.1.5 Guaranty and Security Agreement. A counterpart of the Guaranty and Security Agreement executed by each Loan Party, together with all instruments, transfer powers and other items required to be delivered in connection therewith.

12.1.6 Pay-off Letter. A pay-off letter, if applicable, reasonably satisfactory to the Lender evidencing the repayment in full of all Debt to be Repaid, if any, the termination of all agreements relating thereto and the release of all Liens granted in connection therewith.

12.1.7 Opinion of Counsel. An opinion of counsel for each Loan Party.

12.1.8 Insurance. Evidence of the existence of insurance required to be maintained pursuant to Section 10.3(b), together with evidence that the Lender has been named as a lender's loss payee and an additional insured on all related insurance policies.

12.1.9 Copies of Documents. Copies of the Voting Trust and Enginuity Transaction Documents certified by the secretary or assistant secretary (or similar officer) of the Borrowers as being true, accurate and complete.

12.1.10 Payment of Fees. Evidence of payment by the Borrowers of all accrued and unpaid fees, costs and expenses to the extent then due and payable on the Closing Date, together with all Attorney Costs of the Lender to the extent invoiced prior to the Closing Date, plus such additional amounts of Attorney Costs as shall constitute the Lender's reasonable estimate of Attorney Costs incurred or to be incurred by the Lender through the closing proceedings (provided that such estimate shall not thereafter preclude final settling of accounts between the Borrowers and the Lender).

12.1.11 Solvency Certificate. A Solvency Certificate executed by a Senior Officer of the Borrowers.

12.1.12 Search Results; Lien Terminations. Certified copies of Uniform Commercial Code search reports dated a date reasonably near to the Closing Date, listing all effective financing statements which name any Loan Party (under their present names and any previous names) as debtors, together with (a) copies of such financing statements and (b) such Uniform Commercial Code termination statements as the Lender may reasonably request.

12.1.13 Filings, Registrations and Recordings. The Lender shall have received each document (including Uniform Commercial Code financing statements) required by the Collateral Documents or under law or reasonably requested by the Lender to be filed, registered or recorded in order to create in favor of the Lender, a perfected Lien on the collateral described therein, prior to any other Liens (subject only to Liens permitted pursuant to Section 11.2), in proper form for filing, registration or recording.

12.1.14 Closing Certificate, Consents and Permits. A certificate executed by a Senior Officer of the Borrowers on behalf of the Borrowers certifying the matters set forth in Section 12.2.1 as of the Closing Date.

12.1.15 Other. Such other documents as the Lender may reasonably request.

12.2. Conditions. The obligation of the Lender to make any Loan and issue any Letter of Credit is subject to the following further conditions precedent that:

12.2.1 Compliance with Warranties, No Default, etc. Both before and after giving effect to any borrowing and the issuance of any Letter of Credit, the following statements shall be true and correct:

(a) the representations and warranties of each Loan Party set forth in this Agreement and the other Loan Documents shall be true and correct in all respects with the same effect as if then made (except to the extent stated to relate to a specific earlier date, in which case such representations and warranties shall be true and correct as of such earlier date); and

(b) no Event of Default or Unmatured Event of Default shall have then occurred and be continuing.

12.2.2 Confirmation. It is expressly understood and agreed that each request by the Borrower Representative for the making of a Loan to, or the issuance of a Letter of Credit for the account of, the Borrowers shall be deemed to constitute a representation and warranty by the Borrowers that the conditions precedent set forth in Section 12.2.1 will be satisfied at the time of the making of such Loan or the issuance of such Letter of Credit, together with such other documents as the Lender may reasonably request in support thereof.

12.2.3 Borrowing Base Certificate. In the case of the initial Loan or Letter of Credit hereunder, a Borrowing Base Certificate dated as of the date of such extension of credit.

## SECTION 13

## EVENTS OF DEFAULT AND THEIR EFFECT.

13.1. Events of Default. Each of the following shall constitute an Event of Default under this Agreement:

13.1.1 Non-Payment of the Loans, etc. Default in the payment when due of the principal of any Loan; or default, and continuance thereof for five days, in the payment when due of any interest, fee, reimbursement obligation with respect to any Letter of Credit or other amount payable by the Borrowers hereunder or under any other Loan Document.

13.1.2 Non-Payment of Other Debt. Any default shall occur under the terms applicable to any Debt of any Loan Party in an aggregate amount (for all such Debt so affected and including undrawn committed or available amounts and amounts owing to all creditors under any combined or syndicated credit arrangement) exceeding \$500,000 and such default shall (a) consist of the failure to pay such Debt when due, whether by acceleration or otherwise, or (b) accelerate the maturity of such Debt or permit the holder or holders thereof, or any trustee or agent for such holder or holders, to cause such Debt to become due and payable (or require any Loan Party to purchase or redeem such Debt or post cash collateral in respect thereof) prior to its expressed maturity.

13.1.3 Other Material Obligations. Default in the payment when due, or in the performance or observance of, any material obligation of, or condition agreed to by, any Loan Party with respect to any material purchase or lease of goods or services where such default, singly or in the aggregate with all other such defaults, could reasonably be expected to have a Material Adverse Effect.

13.1.4 Bankruptcy, Insolvency, etc. Any Loan Party becomes insolvent or generally fails to pay, or admits in writing its inability or refusal to pay, debts as they become due; or any Loan Party applies for, consents to, or acquiesces in the appointment of a trustee, receiver or other custodian for such Loan Party or any property thereof, or makes a general assignment for the benefit of creditors; or, in the absence of such application, consent or acquiescence, a trustee, receiver or other custodian is appointed for any Loan Party or for a substantial part of the property of any thereof and is not discharged within 60 days; or the bankruptcy, reorganization, debt arrangement, or other case or proceeding under the bankruptcy or insolvency law, or any dissolution or liquidation proceeding, is commenced in respect of any Loan Party, and if such case or proceeding is not commenced by such Loan Party, it is consented to or acquiesced in by such Loan Party, or remains for 60 days undismissed; or any Loan Party takes any action to authorize, or in furtherance of, any of the foregoing.

13.1.5 Non-Compliance with Loan Documents. (a) Failure by any Loan Party to comply with or to perform any covenant set forth in Sections 10.1.5, 10.3(b) or 10.5 or Section 11; or (b) failure by any Loan Party to comply with or to perform any other provision of this Agreement or any other Loan Document (and not constituting an Event of Default under any other provision of this Section 13) and continuance of such failure described in this clause (b) for 30 days.

13.1.6 Representations; Warranties. Any representation or warranty made by any Loan Party herein or any other Loan Document is breached or is false or misleading in any material respect, or any schedule, certificate, financial statement, report, notice or other writing furnished by any Loan Party to the Lender in connection herewith is false or misleading in any material respect on the date as of which the facts therein set forth are stated or certified.

13.1.7 Pension Plans. (a) Any Person institutes steps to terminate a Pension Plan if as a result of such termination any Loan Party or any member of the Controlled Group could be required to make a contribution to such Pension Plan, or could incur a liability or obligation to such Pension Plan, in excess of \$500,000 (b) a contribution failure occurs with respect to any Pension Plan sufficient to give rise to a Lien under Section 302(f) of ERISA; (c) the Unfunded Liability exceeds twenty percent of the Total Plan Liability, or (d) there shall occur any withdrawal or partial withdrawal from a Multiemployer Pension Plan and the withdrawal liability (without unaccrued interest) to Multiemployer Pension Plans as a result of such withdrawal (including any outstanding withdrawal liability that any Loan Party or any member of the Controlled Group have incurred on the date of such withdrawal) exceeds \$500,000.

13.1.8 Judgments. Final judgments which exceed an aggregate of \$250,000 shall be rendered against any Loan Party and shall not have been paid, discharged or vacated or had execution thereof stayed pending appeal within 30 days after entry or filing of such judgments.

13.1.9 Invalidity of Collateral Documents, etc. Any Collateral Document shall cease to be in full force and effect; or any Loan Party (or any Person by, through or on behalf of any Loan Party) shall contest in any manner the validity, binding nature or enforceability of any Collateral Document.



13.1.10 Change of Control. A Change of Control shall occur.

13.2. Effect of Event of Default. If any Event of Default described in Section 13.1.4 shall occur, the Revolving Authorization shall immediately terminate and the Loans and all other Obligations hereunder shall become immediately due and payable and the Borrowers shall become immediately obligated to Cash Collateralize all Letters of Credit, all without presentment, demand, protest or notice of any kind; and, if any other Event of Default shall occur and be continuing, the Lender may declare the Revolving Authorization to be terminated in whole or in part and/or declare all or any part of the Loans and all other Obligations hereunder to be due and payable and/or demand that the Borrowers immediately Cash Collateralize all or any Letters of Credit, whereupon the Revolving Authorization shall immediately terminate (or be reduced, as applicable) and/or the Loans and other Obligations hereunder shall become immediately due and payable (in whole or in part, as applicable) and/or the Borrowers shall immediately become obligated to Cash Collateralize the Letters of Credit (all or any, as applicable), all without presentment, demand, protest or notice of any kind. The Lender shall promptly advise the Borrowers of any such declaration, but failure to do so shall not impair the effect of such declaration. Any cash collateral delivered hereunder shall be held by the Lender (without liability for interest thereon) and applied to the Obligations arising in connection with any drawing under a Letter of Credit. After the expiration or termination of all Letters of Credit, such cash collateral shall be applied by the Lender to any remaining Obligations hereunder and any excess shall be delivered to the Borrowers or as a court of competent jurisdiction may elect.

#### SECTION 14

#### GENERAL.

14.1. Waiver; Amendments. No delay on the part of the Lender in the exercise of any right, power or remedy shall operate as a waiver thereof, nor shall any single or partial exercise by any of them of any right, power or remedy preclude other or further exercise thereof, or the exercise of any other right, power or remedy. No amendment, modification or waiver of, or consent with respect to, any provision of this Agreement or the other Loan Documents shall in any event be effective unless the same shall be in writing and acknowledged by the Lender, and then any such amendment, modification, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

14.2. Confirmations. The Borrowers and Lender agree from time to time, upon written request received by it from the other, to confirm to the other in writing the aggregate unpaid principal amount of the Loans then outstanding under such Note.

14.3. Notices. Except as otherwise provided in Sections 2.2.2 and 2.2.3, all notices hereunder shall be in writing (including facsimile transmission) and shall be sent to the applicable party at its address shown on Annex B or at such other address as such party may, by written notice received by the other parties, have designated as its address for such purpose. Notices sent by facsimile transmission shall be deemed to have been given when sent; notices sent by mail shall be deemed to have been given three Business Days after the date when sent by registered or certified mail, postage prepaid; and notices sent by hand delivery or overnight courier service shall be deemed to have been given when received. For purposes of Sections 2.2.2 and 2.2.3, the

Lender shall be entitled to rely on telephonic instructions from any person that the Lender in good faith believes is an authorized officer or employee of the Borrowers, and the Borrowers shall hold the Lender harmless from any loss, cost or expense resulting from any such reliance.

14.4. Computations. Where the character or amount of any asset or liability or item of income or expense is required to be determined, or any consolidation or other accounting computation is required to be made, for the purpose of this Agreement, such determination or calculation shall, to the extent applicable and except as otherwise specified in this Agreement, be made in accordance with GAAP, consistently applied; provided that if the Borrower Representative notifies the Lender that the Borrowers wish to amend any covenant in Sections 10 or 11.14 (or any related definition) to eliminate or to take into account the effect of any change in GAAP on the operation of such covenant (or if the Lender notifies the Borrower Representative that the Lender wishes to amend Sections 10 or 11.14 (or any related definition) for such purpose), then the Borrowers' compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant (or related definition) is amended in a manner satisfactory to the Borrowers and the Lender.

14.5. Costs, Expenses and Taxes. The Borrowers agree to pay on demand all reasonable out-of-pocket costs and expenses of the Lender (including Attorney Costs and any Taxes) in connection with the preparation, execution, delivery and administration (including perfection and protection of any Collateral and the costs of Intralinks (or other similar service), if applicable) of this Agreement, the other Loan Documents and all other documents provided for herein or delivered or to be delivered hereunder or in connection herewith (including any amendment, supplement or waiver to any Loan Document), whether or not the transactions contemplated hereby or thereby shall be consummated, and all reasonable out-of-pocket costs and expenses (including Attorney Costs and any Taxes) incurred by the Lender after an Event of Default in connection with the collection of the Obligations or the enforcement of this Agreement the other Loan Documents or any such other documents or during any workout, restructuring or negotiations in respect thereof. In addition, the Borrowers agree to pay, and to save the Lender harmless from all liability for, any reasonable fees of the Borrower's auditors in connection with any reasonable exercise by the Lender and its rights pursuant to Section 10.2. All Obligations provided for in this Section 14.5 shall survive repayment of the Loans, cancellation of the Note, expiration or termination of the Letters of Credit and termination of this Agreement.

14.6. Assignments; Participations.

14.6.1 Assignments. The Lender may at any time assign to one or more Persons (any such Person, an "Assignee") all of the Lender's Loans and Revolving Authorization, with the prior written consent, so long as no Event of Default exists, of the Borrowers (which consent shall not be unreasonably withheld or delayed and shall not be required for an assignment by the Lender to an Affiliate of the Lender).

14.6.2 Participations. The Lender may at any time sell to one or more Persons participating interests in its Loans, Revolving Authorization or other interests hereunder (any such Person, a

“Participant”). In the event of a sale by the Lender of a participating interest to a Participant, (a) the Lender’s obligations hereunder shall remain unchanged for all purposes, (b) the Borrowers shall continue to deal solely and directly with the Lender in connection with the Lender’s rights and obligations hereunder and (c) all amounts payable by the Borrowers shall be determined as if the Lender had not sold such participation and shall be paid directly to the Lender. The Lender agrees to incorporate the requirements of the preceding sentence into each participation agreement which the Lender enters into with any Participant. The Borrowers agree that if amounts outstanding under this Agreement are due and payable (as a result of acceleration or otherwise), each Participant shall be deemed to have the right of set-off in respect of its participating interest in amounts owing under this Agreement and with respect to any Letter of Credit to the same extent as if the amount of its participating interest were owing directly to it as a Lender under this Agreement. Each Borrower also agrees that each Participant shall be entitled to the benefits of Section 8 as if it were a Lender (provided that on the date of the participation no Participant shall be entitled to any greater compensation pursuant to Section 7.6 or 8 than would have been paid to the Lender on such date if no participation had been sold).

14.7. **GOVERNING LAW.** THIS AGREEMENT AND THE NOTE SHALL BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF ILLINOIS APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE, WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES.

14.8. **Confidentiality.** As required by federal law and the Lender's policies and practices, the Lender may need to obtain, verify, and record certain customer identification information and documentation in connection with opening or maintaining accounts, or establishing or continuing to provide services. The Lender agrees to use commercially reasonable efforts (equivalent to the efforts the Lender applies to maintain the confidentiality of its own confidential information) to maintain as confidential all information provided to it by any Loan Party and designated as confidential, except that the Lender may disclose such information (a) to Persons employed or engaged by the Lender in evaluating, approving, structuring or administering the Loans and the Revolving Authorization; (b) to any assignee or participant or potential assignee or participant that has agreed to comply with the covenant contained in this Section 14.8 (and any such assignee or participant or potential assignee or participant may disclose such information to Persons employed or engaged by them as described in clause (a) above); (c) as required or requested by any federal or state regulatory authority or examiner, or any insurance industry association, or as reasonably believed by the Lender to be compelled by any court decree, subpoena or legal or administrative order or process; (d) as, on the advice of the Lender’s counsel, is required by law; (e) in connection with the exercise of any right or remedy under the Loan Documents or in connection with any litigation to which the Lender is a party; (f) to any nationally recognized rating agency that requires access to information about the Lender’s investment portfolio in connection with ratings issued with respect to the Lender; (g) to any Affiliate of the Lender who may provide Bank Products to the Loan Parties; or (h) that ceases to be confidential through no fault of the Lender. Notwithstanding the foregoing, each Borrower consents to the publication by the Lender of a tombstone or similar advertising material relating to the financing transactions contemplated by this Agreement, and the Lender reserves the right

to provide to industry trade organizations information necessary and customary for inclusion in league table measurements.

14.9. Severability. Whenever possible each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement. All obligations of the Borrowers and rights of the Lender expressed herein or in any other Loan Document shall be in addition to and not in limitation of those provided by applicable law.

14.10. Nature of Remedies. All Obligations of the Borrowers and rights of the Lender expressed herein or in any other Loan Document shall be in addition to and not in limitation of those provided by applicable law. No failure to exercise and no delay in exercising, on the part of the Lender, any right, remedy, power or privilege hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

14.11. Entire Agreement. This Agreement, together with the other Loan Documents, embodies the entire agreement and understanding among the parties hereto and supersedes all prior or contemporaneous agreements and understandings of such Persons, verbal or written, relating to the subject matter hereof and thereof and any prior arrangements made with respect to the payment by the Borrowers of (or any indemnification for) any fees, costs or expenses payable to or incurred (or to be incurred) by or on behalf of the Lender.

14.12. Counterparts. This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts and each such counterpart shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Agreement. Receipt of an executed signature page to this Agreement by facsimile or other electronic transmission shall constitute effective delivery thereof. Electronic records of executed Loan Documents maintained by the Lender shall be deemed to be originals.

14.13. Successors and Assigns. This Agreement shall be binding upon the Borrowers and the Lender and their respective successors and assigns, and shall inure to the benefit of the Borrowers, the Lender and the successors and assigns of the Lender. No other Person shall be a direct or indirect legal beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any of the other Loan Documents. No Borrower may assign or transfer any of its rights or Obligations under this Agreement without the prior written consent of the Lender.

14.14. Captions. Section captions used in this Agreement are for convenience only and shall not affect the construction of this Agreement.

14.15. Customer Identification - USA Patriot Act Notice. The Lender hereby notifies the Loan Parties that, pursuant to the requirements of the USA Patriot Act, Title III of Pub. L. 107-56, signed into law October 26, 2001 (the "Act"), it is required to obtain, verify and record information that identifies the Loan Parties, which information includes the name and address of the Loan Parties and other information that will allow the Lender to identify the Loan Parties in accordance with the Act.

14.16. **INDEMNIFICATION BY THE BORROWERS.** IN CONSIDERATION OF THE EXECUTION AND DELIVERY OF THIS AGREEMENT BY THE LENDER AND THE AGREEMENT TO EXTEND THE REVOLVING AUTHORIZATION PROVIDED HEREUNDER, EACH BORROWER HEREBY AGREES TO INDEMNIFY, EXONERATE AND HOLD THE LENDER AND EACH OF THE OFFICERS, DIRECTORS, EMPLOYEES, AFFILIATES AND AGENTS OF THE LENDER (EACH A "LENDER PARTY") FREE AND HARMLESS FROM AND AGAINST ANY AND ALL ACTIONS, CAUSES OF ACTION, SUITS, LOSSES, LIABILITIES, DAMAGES AND EXPENSES, INCLUDING ATTORNEY COSTS (COLLECTIVELY, THE "INDEMNIFIED LIABILITIES"), INCURRED BY THE LENDER PARTIES OR ANY OF THEM AS A RESULT OF, OR ARISING OUT OF, OR RELATING TO (A) ANY TENDER OFFER, MERGER, PURCHASE OF CAPITAL SECURITIES, PURCHASE OF ASSETS OR OTHER SIMILAR TRANSACTION FINANCED OR PROPOSED TO BE FINANCED IN WHOLE OR IN PART, DIRECTLY OR INDIRECTLY, WITH THE PROCEEDS OF ANY OF THE LOANS, (B) THE USE, HANDLING, RELEASE, EMISSION, DISCHARGE, TRANSPORTATION, STORAGE, TREATMENT OR DISPOSAL OF ANY HAZARDOUS SUBSTANCE AT ANY PROPERTY OWNED OR LEASED BY ANY LOAN PARTY, (C) ANY VIOLATION OF ANY ENVIRONMENTAL LAWS WITH RESPECT TO CONDITIONS AT ANY PROPERTY OWNED OR LEASED BY ANY LOAN PARTY OR THE OPERATIONS CONDUCTED THEREON, (D) THE INVESTIGATION, CLEANUP OR REMEDIATION OF OFFSITE LOCATIONS AT WHICH ANY LOAN PARTY OR THEIR RESPECTIVE PREDECESSORS ARE ALLEGED TO HAVE DIRECTLY OR INDIRECTLY DISPOSED OF HAZARDOUS SUBSTANCES OR (E) THE EXECUTION, DELIVERY, PERFORMANCE OR ENFORCEMENT OF THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT BY ANY OF THE LENDER PARTIES, EXCEPT FOR ANY SUCH INDEMNIFIED LIABILITIES ARISING ON ACCOUNT OF THE APPLICABLE LENDER PARTY'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT AS DETERMINED BY A FINAL, NONAPPEALABLE JUDGMENT BY A COURT OF COMPETENT JURISDICTION. IF AND TO THE EXTENT THAT THE FOREGOING UNDERTAKING MAY BE UNENFORCEABLE FOR ANY REASON, EACH BORROWER HEREBY AGREES TO MAKE THE MAXIMUM CONTRIBUTION TO THE PAYMENT AND SATISFACTION OF EACH OF THE INDEMNIFIED LIABILITIES WHICH IS PERMISSIBLE UNDER APPLICABLE LAW. ALL OBLIGATIONS PROVIDED FOR IN THIS SECTION 14.16 SHALL SURVIVE REPAYMENT OF THE LOANS, CANCELLATION OF THE NOTE, EXPIRATION OR TERMINATION OF THE LETTERS OF CREDIT, ANY FORECLOSURE UNDER, OR ANY MODIFICATION, RELEASE OR DISCHARGE OF, ANY OR ALL OF THE COLLATERAL DOCUMENTS AND TERMINATION OF THIS AGREEMENT.

14.17. Nonliability of Lender. The relationship between the Borrowers on the one hand and the Lender on the other hand shall be solely that of borrower and lender. The Lender has no fiduciary relationship with or duty to any Loan Party arising out of or in connection with this Agreement or any of the other Loan Documents, and the relationship between the Loan Parties, on the one hand, and the Lender, on the other hand, in connection herewith or therewith is solely that of debtor and creditor. The Lender undertakes no responsibility to any Loan Party to review or inform any Loan Party of any matter in connection with any phase of any Loan Party's business or operations. Each Borrower agrees, on behalf of itself and each other Loan Party, that the Lender shall have no liability to any Loan Party (whether sounding in tort, contract or otherwise) for losses suffered by any Loan Party in connection with, arising out of, or in any way related to the transactions contemplated and the relationship established by the Loan Documents, or any act, omission or event occurring in connection therewith, unless it is determined in a final non-appealable judgment by a court of competent jurisdiction that such losses resulted from the gross negligence or willful misconduct of the party from which recovery is sought. **NO LENDER PARTY SHALL BE LIABLE FOR ANY DAMAGES ARISING FROM THE USE BY OTHERS OF ANY INFORMATION OR OTHER MATERIALS OBTAINED THROUGH INTRALINKS OR OTHER SIMILAR INFORMATION TRANSMISSION SYSTEMS IN CONNECTION WITH THIS AGREEMENT, NOR SHALL THE LENDER PARTY HAVE ANY LIABILITY WITH RESPECT TO, AND EACH BORROWER ON BEHALF OF ITSELF AND EACH OTHER LOAN PARTY, HEREBY WAIVES, RELEASES AND AGREES NOT TO SUE FOR ANY SPECIAL, PUNITIVE, EXEMPLARY, INDIRECT OR CONSEQUENTIAL DAMAGES RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR ARISING OUT OF ITS ACTIVITIES IN CONNECTION HEREWITH OR THEREWITH (WHETHER BEFORE OR AFTER THE CLOSING DATE).** Each Borrower acknowledges that it has been advised by counsel in the negotiation, execution and delivery of this Agreement and the other Loan Documents to which it is a party. No joint venture is created hereby or by the other Loan Documents or otherwise exists by virtue of the transactions contemplated hereby among the Lender or among the Loan Parties and the Lender.

14.18. Joint and Several Obligations. All obligations of the Borrowers hereunder shall be joint and several obligations of the Borrowers.

14.19. FORUM SELECTION AND CONSENT TO JURISDICTION. ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, SHALL BE BROUGHT AND MAINTAINED EXCLUSIVELY IN THE COURTS OF THE STATE OF ILLINOIS OR IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS; PROVIDED THAT NOTHING IN THIS AGREEMENT SHALL BE DEEMED OR OPERATE TO PRECLUDE THE LENDER FROM BRINGING SUIT OR TAKING OTHER LEGAL ACTION IN ANY OTHER JURISDICTION. EACH BORROWER HEREBY EXPRESSLY AND IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE STATE OF ILLINOIS AND OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS FOR THE PURPOSE OF ANY SUCH LITIGATION AS SET FORTH ABOVE. EACH BORROWER FURTHER IRREVOCABLY

CONSENTS TO THE SERVICE OF PROCESS BY REGISTERED MAIL, POSTAGE PREPAID, OR BY PERSONAL SERVICE WITHIN OR WITHOUT THE STATE OF ILLINOIS. EACH BORROWER HEREBY EXPRESSLY AND IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH LITIGATION BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH LITIGATION HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

14.20. **WAIVER OF JURY TRIAL.** EACH BORROWER AND THE LENDER HEREBY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS AGREEMENT, THE NOTE, ANY OTHER LOAN DOCUMENT AND ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HEREWITH OR THEREWITH OR ARISING FROM ANY LENDING OR BANKING RELATIONSHIP EXISTING IN CONNECTION WITH ANY OF THE FOREGOING, AND AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

*[signature pages follow]*

The parties hereto have caused this Agreement to be duly executed and delivered by their duly authorized officers as of the date first set forth above.

**WESTELL TECHNOLOGIES, INC.**, as a Borrower and Borrower Representative

By: /s/ Amy T. Forster  
Name: Amy T. Forster  
Title: Senior Vice President and Treasurer

**WESTELL, INC.**, as a Borrower

By: /s/ Amy T. Forster  
Name: Amy T. Forster  
Title: Senior Vice President and Treasurer

**TELTREND LLC**, as a Borrower

By: /s/ Amy T. Forster  
Name: Amy T. Forster  
Title: Senior Vice President and Treasurer

**CONFERENCE PLUS, INC.**, as a Borrower

By: /s/ Amy T. Forster  
Name: Amy T. Forster  
Title: Senior Vice President and Treasurer



**THE PRIVATEBANK AND TRUST COMPANY**, as Lender

By: /s/ William Robertson

Name: William Robertson

Title: Managing Director/Senior Vice President

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ADDRESSES FOR NOTICES

**BORROWERS:**

c/o Westell Technologies, Inc.  
750 North Commons Drive  
Aurora, IL 60504  
Attention: Ms. Amy Forster  
Telephone: (630) 375-4271  
Facsimile: (630) 375-4940

**LENDER:**

THE PRIVATEBANK AND TRUST COMPANY, as Lender

1110 Jorie Boulevard  
Oak Brook, Illinois 60523  
Attention: William J. Robertson  
Telephone: (630) 589-3207  
Facsimile: (630) 574-1334

EXHIBIT A

**FORM OF NOTE**

March 5, 2009

\$12,000,000

Chicago, Illinois

The undersigned, for value received, jointly and severally promise to pay to the order of THE PRIVATEBANK AND TRUST COMPANY (the "Lender") at the principal office of the Lender in Chicago, Illinois the aggregate unpaid amount of all Loans made to the undersigned by the Lender pursuant to the Credit Agreement referred to below (as shown on the schedule attached hereto (and any continuation thereof) or in the records of the Lender), such principal amount to be payable on the dates set forth in the Credit Agreement.

The undersigned further jointly and severally promise to pay interest on the unpaid principal amount of each Loan from the date of such Loan until such Loan is paid in full, payable at the rate(s) and at the time(s) set forth in the Credit Agreement. Payments of both principal and interest are to be made in lawful money of the United States of America.

This Note evidences indebtedness incurred under, and is subject to the terms and provisions of, the Credit Agreement, dated as of March 5, 2009 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"; terms not otherwise defined herein are used herein as defined in the Credit Agreement), among the undersigned and the Lender, to which Credit Agreement reference is hereby made for a statement of the terms and provisions under which this Note may or must be paid prior to its due date or its due date accelerated.

This Note is made under and governed by the laws of the State of Illinois applicable to contracts made and to be performed entirely within such State.

**WESTELL TECHNOLOGIES, INC.**, as a Borrower and Borrower Representative

By:  
Name: \_\_\_\_\_  
Title:

**WESTELL, INC.**, as a Borrower

By:  
Name: \_\_\_\_\_  
Title:

**TELTREND LLC**, as a Borrower

By:  
Name: \_\_\_\_\_  
Title:

**CONFERENCE PLUS, INC.**, as a Borrower

By:  
Name: \_\_\_\_\_  
Title:

Signature Page to Credit Agreement

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EXHIBIT B

**FORM OF COMPLIANCE CERTIFICATE**

To: The PrivateBank and Trust Company

Please refer to the Credit Agreement dated as of March 5, 2009 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement") among the undersigned Borrowers and The PrivateBank and Trust Company. Terms used but not otherwise defined herein are used herein as defined in the Credit Agreement.

I. Reports. Enclosed herewith is a copy of the [annual audited/quarterly/monthly] report of the Loan Parties as at \_\_\_\_\_, \_\_\_\_ (the "Computation Date"), which report fairly presents the financial condition and results of operations [(subject to the absence of footnotes and to normal year-end adjustments)] of the Borrowers as of the Computation Date and has been prepared in accordance with GAAP consistently applied.

II. Financial Tests. Each Borrower hereby certifies and warrants to you that the following is a true and correct computation as at the Computation Date of the following ratios and/or financial restrictions contained in the Credit Agreement:

**A. Section 11.14.1 - Minimum EBITDA**

1.	Consolidated Net Income	\$ _____
2.	Plus: Interest Expense	\$ _____
	income tax expense	\$ _____
	depreciation	\$ _____
	amortization	\$ _____
3.	Total (EBITDA)	\$ _____
2.	Minimum required	\$ _____

**B. Section 11.14.2 - Minimum Tangible Net Worth**

1.	Net Worth	\$ _____
2.	Intangible Assets	\$ _____
3.	Affiliate, Subsidiary, Officer, Stockholders Receivables	\$ _____
4.	Sum of (2) and (3)	\$ _____
5.	Remainder of (1) minus (4) (Tangible Net Worth)	\$ _____
6.	Minimum Required	\$ _____

**C. Section 11.14.3 - Capital Expenditures**

1. Capital Expenditures for the Fiscal Year \$ \_\_\_\_\_
  
2. Maximum Permitted Capital Expenditures \$ \_\_\_\_\_

Each Borrower further certifies to you that no Event of Default or Unmatured Event of Default has occurred and is continuing.

The Borrowers have caused this Certificate to be executed and delivered by its duly authorized officer on \_\_\_\_\_, \_\_\_\_.

**WESTELL TECHNOLOGIES, INC.**, as a Borrower and Borrower Representative

By:  
Name: \_\_\_\_\_  
Title:

**WESTELL, INC.**, as a Borrower

By:  
Name: \_\_\_\_\_  
Title:

**TELTREND LLC**, as a Borrower

By:  
Name: \_\_\_\_\_  
Title:

**CONFERENCE PLUS, INC.**, as a Borrower

By:  
Name: \_\_\_\_\_  
Title:

EXHIBIT C

**FORM OF BORROWING BASE CERTIFICATE**

To: The PrivateBank and Trust Company

Please refer to the Credit Agreement dated as of March 5, 2009 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement") among the undersigned Borrowers and The PrivateBank and Trust Company. This certificate (this "Certificate"), together with supporting calculations attached hereto, is delivered to you pursuant to the terms of the Credit Agreement. Capitalized terms used but not otherwise defined herein shall have the same meanings herein as in the Credit Agreement.

Each Borrower hereby certifies and warrants to the Lender that at the close of business on \_\_\_\_\_, \_\_\_\_ (the "Calculation Date"), the Borrowing Base was \$ \_\_\_\_\_, computed as set forth on the schedule attached hereto.

The Borrowers have caused this Certificate to be executed and delivered by its officer thereunto duly authorized on \_\_\_\_\_, \_\_\_\_\_.

**WESTELL TECHNOLOGIES, INC.**, as a Borrower and Borrower Representative

By:  
Name: \_\_\_\_\_  
Title:

**WESTELL, INC.**, as a Borrower

By:  
Name: \_\_\_\_\_  
Title:

**TELTREND LLC**, as a Borrower

By:  
Name: \_\_\_\_\_  
Title:

**CONFERENCE PLUS, INC.**, as a Borrower

By:  
Name: \_\_\_\_\_  
Title:

SCHEDULE TO BORROWING BASE CERTIFICATE

Dated as of [ \_\_\_\_\_ ]

1.	Gross Accounts		\$ _____
2.	Less Ineligibles		
	- Lender's Lien Not Perfected	\$ _____	
	- Subject to other Lien	\$ _____	
	- Subject to Offset, etc.	\$ _____	
	- Account Debtor not in U.S.	\$ _____	
	- Sale on Approval, Sale or Return, Bill and Hold or Consignment	\$ _____	
	- Over 60 days past due or over 90 days past invoice date	\$ _____	
	- Affiliate Receivables	\$ _____	
	- Non-assignable	\$ _____	
	- Other	\$ _____	
	- Total		\$ _____
3.	Eligible Accounts [ <i>Item 1 minus Item 2</i> ]		\$ _____
4.	Item 3 times 80%		\$ _____
5.	Gross Inventory		\$ _____
6.	Less Ineligibles		
	- Lender's Lien Not Perfected	\$ _____	
	- Subject to other Lien	\$ _____	
	- Not Salable	\$ _____	
	- Located off-site and no Collateral Access Agreement	\$ _____	
	- Not located in U.S.	\$ _____	
	- Supply items; packaging	\$ _____	
	- Advance payments received	\$ _____	
	- Other	\$ _____	
	- Total		\$ _____
7.	Eligible Inventory [ <i>Item 5 minus Item 6</i> ]		\$ _____
8.	Item 7 times 30%		\$ _____
9.	Inventory Cap	\$3,000,000	
10.	Lesser of Item 8 or Item 9	\$ _____	
11.	Borrowing Base		



*[Item 4 plus Item 10]*

\$ \_\_\_\_\_

12. Lesser of Item 11 and  
the Revolving Authorization

\$ \_\_\_\_\_

13. Revolving Outstandings (includes Stated Amount of Letters of Credit)

\$ \_\_\_\_\_

14. Revolving Loan Availability  
*[Excess of Item 12 over Item 13]*

\$ \_\_\_\_\_

15. Required Prepayment  
*[Excess of Item 13 over Item 12]*

\$ \_\_\_\_\_

EXHIBIT D

**FORM OF NOTICE OF BORROWING**

To: The PrivateBank and Trust Company

Please refer to the Credit Agreement dated as of March 5, 2009 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement") among Westell Technologies, Inc., Westell, Inc., Teltrend LLC and Conference Plus, Inc., as Borrowers, and The PrivateBank and Trust Company. Terms used but not otherwise defined herein are used herein as defined in the Credit Agreement.

The undersigned Borrower Representative, on behalf of the Borrowers, hereby gives irrevocable notice, pursuant to Section 2.2.2 of the Credit Agreement, of a request hereby for a borrowing as follows:

- (i) The requested borrowing date for the proposed borrowing (which is a Business Day) is \_\_\_\_\_, \_\_\_\_.
- (ii) The aggregate amount of the proposed borrowing is \$ \_\_\_\_\_.
- (iii) The type of Revolving Loans comprising the proposed borrowing are [Base Rate] [LIBOR] Loans.
- (iv) The duration of the Interest Period for each LIBOR Loan made as part of the proposed borrowing, if applicable, is \_\_\_\_\_ months (which shall be 1, 2, 3 or 6 months).
- (v) The proceeds of the proposed borrowing will be used for \_\_\_\_\_.

The undersigned hereby certifies on behalf of the Borrowers that on the date hereof and on the date of borrowing set forth above, and immediately after giving effect to the borrowing requested hereby: (i) there exists and there shall exist no Unmatured Event of Default or Event of Default under the Credit Agreement; and (ii) each of the representations and warranties contained in the Credit Agreement and the other Loan Documents is true and correct as of the date hereof, except to the extent that such representation or warranty expressly relates to another date and except for changes therein expressly permitted or expressly contemplated by the Credit Agreement.

The Borrower Representative has caused this Notice of Borrowing to be executed and delivered by its officer thereunto duly authorized on behalf of the Borrowers on \_\_\_\_\_, \_\_\_\_\_.

**WESTELL TECHNOLOGIES, INC.**, as Borrower Representative on behalf of the Borrowers

By:  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

EXHIBIT E

**FORM OF NOTICE OF CONVERSION/CONTINUATION**

To: The PrivateBank and Trust Company

Please refer to the Credit Agreement dated as of February \_\_, 2009 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement") among Westell Technologies, Inc., Westell, Inc., Teltrend LLC and Conference Plus, Inc., as Borrowers, and The PrivateBank and Trust Company. Terms used but not otherwise defined herein are used herein as defined in the Credit Agreement.

The undersigned, Borrower Representative, on behalf of the Borrowers, hereby gives irrevocable notice, pursuant to Section 2.2.3 of the Credit Agreement, of its request to:

(a) on [ date ] convert \$[ ] of the aggregate outstanding principal amount of the [ ] Loan, bearing interest at the [ ] Rate, into a(n) [ ] Loan [and, in the case of a LIBOR Loan, having an Interest Period of [ ] month(s)];

(b) on [ date ] continue \$[ ] of the aggregate outstanding principal amount of the [ ] Loan, bearing interest at the LIBOR Rate, as a LIBOR Loan having an Interest Period of [ ] month(s).

The undersigned hereby represents and warrants on behalf of the Borrowers that all of the conditions contained in Section 12.2 of the Credit Agreement have been satisfied on and as of the date hereof, and will continue to be satisfied on and as of the date of the conversion/continuation requested hereby, before and after giving effect thereto.

The Borrower Representative has caused this Notice of Conversion/Continuation to be executed and delivered by its officer thereunto duly authorized on behalf of the Borrowers on \_\_\_\_\_, \_\_\_\_\_.

**WESTELL TECHNOLOGIES, INC.**, as Borrower Representative on behalf of the Borrowers

By:  
Name: \_\_\_\_\_  
Title:

SCHEDULE 9.6

LITIGATION AND CONTINGENT LIABILITIES

None.

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## SCHEDULE 9.8

## EQUITY OWNERSHIP; SUBSIDIARIES

Westell Technologies, Inc.

## Class B Stock (super voting 4 votes per share)

Voting Trust Penny Family	13,570,175
Voting Trust Simon	137,804
Penny Family Non-Voting Trust	985,639
Gary Seamans	1
Class B stock outstanding at December 31, 2008	14,693,619

## Class A Stock (1 vote per share)

Penny Family	381,336
Melvin J. Simon	10,000
Amy Forster	90
Chris Shaver	30,991
Tim Pillow	10,000
Mark Skurla	--
Tim Reedy	--
Bernard F. Sergesketter	100,000
Paul A. Dwyer	53,000
John W. Seazholtz	60,000
Eileen Kamerick	10,000
Total officers and directors	655,417
Public Float and Ownership	54,153,640
Class A stock outstanding at December 31, 2008	

## Summary of options authorized, issued and outstanding at December 31, 2008:

Authorized Class A shares reserved for options	18,500,000
Issued and outstanding	7,700,059
Average Exercise Price	\$4.08
Exercisable at December 31, 2008	5,137,264

Conference Plus, Inc.

All shares 100% owned by Westell Technologies, Inc.

Common Stock Class B	25,000,000
Common Stock Class A	3,301,888
Total	28,301,888

Summary of Conference Plus options authorized, issued and outstanding at December 31, 2008:

Issued and outstanding	1,820,612
Average Exercise Price	\$1.63
Exercisable at December 31, 2008	1,487,762

Westell, Inc.

100,000 shares outstanding, owned 100% by Westell Technologies, Inc.

Teltrend LLC

100% of the equity interests are owned by Westell, Inc.

NoranTel, Inc.

100% of the equity interests are owned by Westell, Inc.

SCHEDULE 9.15

INSURANCE

A. Property  
 Carrier: Hartford Insurance  
 Expiration: 10/13/2009  
 Policy No:  
 Premium: \$55,392

Address	Business Real Property	Business Personal Property	Business Income	Earthquake	Flood
750 N. Commons Drive Aurora, IL	\$15,000,000	\$25,000,000	\$20,000,000	\$25,000,000	\$10,000,000
1051 E. Woodfield Schaumburg, IL	N/A	\$10,000,000	Included	Included	Included
711 Edgewood Wood Dale, IL	N/A	\$1,200,000	Included	Included	Included
1000 Commerce Oak Brook, IL	N/A	\$3,000,000	Included	Included	Included
363 Maxwell Drive Regina SK, Canada	N/A	\$2,500,000	\$3,000,000	Excluded	Excluded
Deductible	\$50,000	\$50,000	24 hour	\$100,000	\$100,000

B. General Liability  
 Carrier: Hartford Insurance  
 Expiration: 10/13/2009  
 Policy No: 83UUNZ01186  
 Premium: \$23,180

Type of Coverage	Limits
General Aggregate	\$2,000,000
Products	\$2,000,000
Each Occurrence	\$1,000,000
Personal and Advertising	\$1,000,000
Damage to Rented Premises	\$1,000,000
Medical	\$10,000
Employee Benefits (\$1,000 deductible)	\$1,000,000

C. Automobile  
 Carrier: Hartford Insurance  
 Expiration: 10/13/09  
 Policy No: 83UUNZO1186  
 Premium: \$1,161

Type of Coverage	Limits
Liability	\$1,000,000
Uninsured/underinsured motorists	\$1,000,000
Medical	\$5,000
<u>Deductible</u>	
Comprehensive	Lesser of actual cash value or cost of repair, minus \$1,000
Collision	Lesser of actual cash value or cost of repair, minus \$1,000



- D. Errors & Omissions  
Carrier: Hartford Insurance  
Expiration: 10/13/09  
Policy No: 00 TE 0246180-08  
Premium: \$15,059  
Limits, each and aggregate: \$1,000,000  
Deductible: \$50,000
- E. World Risk  
Carrier: CNA  
Expiration: 10/13/09  
Policy No: PST 295900326  
Premium: \$2,500  
Limits: Various
- F. Umbrella  
Carrier: CHUBB  
Expiration: 10/13/09  
Policy No: L4012358441  
Premium: \$32,952  
Limits, each and aggregate: \$25,000,000  
Deductible: \$0
- G. Transportation  
Carrier: Fireman's Fund Insurance  
Expiration: 10/13/09  
Policy No: OC91104800  
Premium: \$34,000  
Limits: \$1,000,000  
Deductible per occurrence: \$50,000
- H. Fiduciary  
Carrier: Travelers Insurance  
Expiration: 10/13/09  
Policy No: EC01201279  
Premium: \$4,500  
Limits: \$2,000,000
- I. Crime  
Carrier: Travelers Insurance  
Expiration: 10/13/09  
Policy No: 412CF0656  
Premium: \$2,600  
Limits: \$500,000  
Deductible: \$50,000

- J. Workman's Compensation  
Carrier: Hartford Insurance  
Expiration: 2/8/10  
Policy No: 83WBTC1572  
Premium: \$98,550  
Limits: \$500,000  
Deductible: None
  
- K. Employment Practices Liability  
Carrier: Hartford Insurance  
Expiration: 3/3/09  
Policy No: 00 GT 221372 08  
Premium: \$16,500  
Limits: \$1,000,000  
Deductible: \$150,000
  
- L. Director and Officers  
Primary Carrier: XL  
Secondary Carrier: Hartford Insurance  
Expiration: 11/30/09  
Primary Policy No: ELU 108520-08  
Secondary Policy No: 00 MM 0247129-08  
Primary Premium: \$385,000  
Secondary Premium: \$30,030  
Limits: \$15,000,000  
Side A: \$5,000,000  
Retention: \$500,000

SCHEDULE 9.16

REAL PROPERTY

1. Westell Technologies, Inc.  
Westell, Inc.  
Teltrend LLC

750 North Commons Drive  
Aurora, Illinois 60504

Landlord:

WTI(IL) QRS 12-36, Inc.  
c/o W.P. Carey & Co. LLC  
50 Rockefeller Plaza, Second Floor  
New York, New York 10020

2. Conference Plus, Inc.  
1051 Woodfield Road  
Schaumburg, Illinois 60173

Landlord:

Four Columns, Ltd.  
1325 North Sandburg Terrace  
Chicago, Illinois 60610-2011

SCHEDULE 9.20

LABOR MATTERS

None.

CHI99 5096420-1.043183.0051

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SCHEDULE 11.1

EXISTING DEBT

None.

CHI99 5096420-1.043183.0051

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SCHEDULE 11.2

EXISTING LIENS

**Conference Plus, Inc.**

a. Delaware Secretary of State

SECURED PARTY	LIEN TYPE	FILE NUMBER	FILE DATE	COLLATERAL
Insight Global Finance	UCC-1	40417412	2/16/04	Computer equipment
Insight Global Finance	UCC-1	41988197	7/15/04	Computer equipment
Insight Global Finance	UCC-1	50994708	4/1/05	Computer equipment
CIT Technology Financing Services, Inc.	UCC-1	53750966	11/29/05	Computer equipment

b. Illinois Secretary of State

SECURED PARTY	LIEN TYPE	FILE NUMBER	FILE DATE	COLLATERAL
National City Commercial Capital Corporation	UCC-1	11886329	3/12/07	Specific equipment lease.

CHI99 5096420-1.043183.0051

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SCHEDULE 11.11

INVESTMENTS

1. Investments in money markets or other short term cash equivalents, which amounts fluctuate from time to time.

CHI99 5096420-1.043183.0051

**GUARANTY AND SECURITY AGREEMENT**

**DATED AS OF MARCH 5, 2009**

**AMONG**

**WESTELL TECHNOLOGIES, INC.,**

**WESTELL, INC.,**

**TELTREND LLC,**

**CONFERENCE PLUS, INC.**

**AND**

**THE OTHER PARTIES HERETO,**

**as Guarantors and Grantors,**

**AND**

**THE PRIVATEBANK AND TRUST COMPANY,**

**as the Lender**

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## GUARANTY AND SECURITY AGREEMENT

THIS GUARANTY AND SECURITY AGREEMENT dated as of March 5, 2009 (this "Agreement") is entered into among WESTELL TECHNOLOGIES, INC., a Delaware corporation ("Technologies"), WESTELL, INC., an Illinois corporation ("Westell"), TELTREND LLC, a Delaware limited liability company ("Teltrend") and CONFERENCE PLUS, INC., a Delaware corporation ("CPI", Technologies, Westell, Teltrend and CPI being hereinafter collectively referred to as the "Borrowers" and individually as a "Borrower") and each other Person signatory hereto as a Grantor (together with any other Person that becomes a party hereto as provided herein, the "Grantors") in favor of THE PRIVATEBANK AND TRUST COMPANY (the "Lender").

The Lender has agreed to extend credit to the Borrowers pursuant to the Credit Agreement. The Borrowers are affiliated with each other and each other Grantor. The proceeds of credit extended under the Credit Agreement will be used in part to enable the Borrowers to make valuable transfers to each other and the other Grantors in connection with the operation of their respective businesses. The Borrowers and the other Grantors are engaged in interrelated businesses, and each Grantor will derive substantial direct and indirect benefit from extensions of credit under the Credit Agreement. It is a condition precedent to the Lender's obligation to extend credit under the Credit Agreement that the Grantors shall have executed and delivered this Agreement to the Lender.

In consideration of the premises and to induce the Lender to enter into the Credit Agreement and to induce the Lender to extend credit thereunder, each Grantor hereby agrees with the Lender as follows:

### SECTION 1. DEFINITIONS.

1.1. Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement, and the following terms are used herein as defined in the UCC: Accounts, Certificated Security, Commercial Tort Claims, Deposit Accounts, Documents, Electronic Chattel Paper, Equipment, Farm Products, Goods, Health Care Insurance Receivables, Instruments, Inventory, Leases, Letter-of-Credit Rights, Money, Payment Intangibles, Supporting Obligations, Tangible Chattel Paper.

1.2. When used herein the following terms shall have the following meanings:

Agreement has the meaning set forth in the preamble hereto.

Borrower Obligations means all Obligations of the Borrowers or any of them.

Chattel Paper means all "chattel paper" as such term is defined in Section 9-102(a)(11) of the UCC and, in any event, including with respect to any Grantor, all Electronic Chattel Paper and Tangible Chattel Paper.

Collateral means (a) all of the personal property now owned or at any time hereafter acquired by any Grantor or in which any Grantor now has or at any time in the future may

acquire any right, title or interest, including all of each Grantor's Accounts, Chattel Paper, Commercial Tort Claims, Deposit Accounts, Documents, Equipment, Fixtures, General Intangibles, Health Care Insurance Receivables, Farm Products, Goods, Instruments, Intellectual Property, Inventory, Investment Property, Leases, Letter-of-Credit Rights, Money, Supporting Obligations and Identified Claims, (b) all books and records pertaining to any of the foregoing, (c) all Proceeds and products of any of the foregoing, and (d) all collateral security and guaranties given by any Person with respect to any of the foregoing. Where the context requires, terms relating to the Collateral or any part thereof, when used in relation to a Grantor, shall refer to such Grantor's Collateral or the relevant part thereof.

Copyrights means all copyrights arising under the laws of the United States, any other country or any political subdivision thereof, whether registered or unregistered and whether published or unpublished, including those listed on Schedule 5, all registrations and recordings thereof, and all applications in connection therewith, including all registrations, recordings and applications in the United States Copyright Office, and the right to obtain all renewals of any of the foregoing.

Copyright Licenses means all written agreements naming any Grantor as licensor or licensee, including those listed on Schedule 5, granting any right under any Copyright, including the grant of rights to manufacture, distribute, exploit and sell materials derived from any Copyright.

Credit Agreement means the Credit Agreement of even date herewith among the Borrowers and the Lender, as amended, supplemented, restated or otherwise modified from time to time.

Fixtures means all of the following, whether now owned or hereafter acquired by a Grantor: plant fixtures; business fixtures; other fixtures and storage facilities, wherever located; and all additions and accessories thereto and replacements therefor.

General Intangibles means all "general intangibles" as such term is defined in Section 9-102(a)(42) of the UCC and, in any event, including with respect to any Grantor, all Payment Intangibles, all contracts and contract rights, agreements, instruments and indentures in any form, and portions thereof, to which such Grantor is a party or under which such Grantor has any right, title or interest or to which such Grantor or any property of such Grantor is subject, as the same from time to time may be amended, supplemented or otherwise modified, including, without limitation, (a) all rights of such Grantor to receive moneys due and to become due to it thereunder or in connection therewith, (b) all rights of such Grantor to damages arising thereunder and (c) all rights of such Grantor to perform and to exercise all remedies thereunder; provided, that the foregoing limitation shall not affect, limit, restrict or impair the grant by such Grantor of a security interest pursuant to this Agreement in any Receivable or any money or other amounts due or to become due under any such Payment Intangible, contract, agreement, instrument or indenture.

Guarantor Obligations means, collectively, with respect to each Guarantor, all Obligations of such Guarantor.

Guarantors means the collective reference to each Borrower with respect to the Obligations of the other Borrowers and each other Grantor, it being understood and agreed that no Grantor shall be a Guarantor of any Obligations for which it is primarily liable.

Identified Claims means the Commercial Tort Claims described on Schedule 7 as such schedule shall be supplemented from time to time.

Intellectual Property means the collective reference to all rights, priorities and privileges relating to intellectual property, whether arising under United States, multinational or foreign laws or otherwise, including the Copyrights, the Copyright Licenses, the Patents, the Patent Licenses, the Trademarks and the Trademark Licenses, and all rights to sue at law or in equity for any infringement or other impairment thereof, including the right to receive all proceeds and damages therefrom.

Intercompany Note means any promissory note evidencing loans made by any Grantor to any other Grantor.

Investment Property means the collective reference to (a) all "investment property" as such term is defined in Section 9-102(a)(49) of the UCC (other than the equity interest of any foreign Subsidiary excluded from the definition of Pledged Equity), (b) all "financial assets" as such term is defined in Section 8-102(a)(9) of the UCC, and (b) whether or not constituting "investment property" as so defined, all Pledged Notes and all Pledged Equity.

Issuers means the collective reference to each issuer of any Investment Property.

Paid in Full means (a) the payment in full in cash and performance of all Secured Obligations, (b) the termination of all Commitments and (c) either (i) the cancellation and return to the Lender of all Letters of Credit or (ii) the cash collateralization of all Letters of Credit in accordance with the Credit Agreement.

Patents means (a) all letters patent of the United States, any other country or any political subdivision thereof, all reissues and extensions thereof and all goodwill associated therewith, including any of the foregoing referred to in Schedule 5, (b) all applications for letters patent of the United States or any other country and all divisions, continuations and continuations-in-part thereof, including any of the foregoing referred to in Schedule 5, and (c) all rights to obtain any reissues or extensions of the foregoing.

Patent Licenses means all agreements, whether written or oral, providing for the grant by or to any Grantor of any right to manufacture, use or sell any invention covered in whole or in part by a Patent, including any of the foregoing referred to in Schedule 5.

Pledged Equity means the equity interests listed on Schedule 1, together with any other equity interests, certificates, options or rights of any nature whatsoever in respect of the equity interests of any Person that may be issued or granted to, or held by, any Grantor while this Agreement is in effect; provided that in no event shall more than 65% of the total outstanding equity interests of any foreign Subsidiary be required to be pledged hereunder.

Pledged Notes means all promissory notes listed on Schedule 1, all Intercompany Notes at any time issued to any Grantor and all other promissory notes issued to or held by any Grantor

(other than (a) promissory notes issued in connection with extensions of trade credit by any Grantor in the ordinary course of business and (b) any individual promissory note which is less than \$100,000 in principal amount, up to an aggregate of \$100,000 for all such promissory notes excluded under this clause (b)).

Proceeds means all “proceeds” as such term is defined in Section 9-102(a)(64) of the UCC and, in any event, shall include all dividends or other income from the Investment Property, collections thereon or distributions or payments with respect thereto.

Receivable means any right to payment for goods sold or leased or for services rendered, whether or not such right is evidenced by an Instrument or Chattel Paper and whether or not it has been earned by performance (including any Accounts).

Secured Obligations means, collectively, the Borrower Obligations and Guarantor Obligations.

Securities Act means the Securities Act of 1933, as amended.

Trademarks means (a) all trademarks, trade names, corporate names, company business names, fictitious business names, trade styles, service marks, logos and other source or business identifiers, and all goodwill associated therewith, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and all applications in connection therewith, whether in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or any other country or any political subdivision thereof, or otherwise, and all common-law rights related thereto, including any of the foregoing referred to in Schedule 5, and (b) the right to obtain all renewals thereof.

Trademark Licenses means, collectively, each agreement, whether written or oral, providing for the grant by or to any Grantor of any right to use any Trademark, including any of the foregoing referred to in Schedule 5.

UCC means the Uniform Commercial Code as in effect on the date hereof and from time to time in the State of Illinois, provided that if by reason of mandatory provisions of law, the perfection or the effect of perfection or non-perfection of the security interests in any Collateral or the availability of any remedy hereunder is governed by the Uniform Commercial Code as in effect on or after the date hereof in any other jurisdiction, “UCC” means the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to such perfection or effect of perfection or non-perfection or availability of such remedy.

## SECTION 2. GUARANTY.

2.1. Guaranty. (a) Each of the Guarantors hereby, jointly and severally, unconditionally and irrevocably, as a primary obligor and not only a surety, guaranties to the Lender and its successors, endorsees, transferees and assigns, the prompt and complete payment and performance by each Borrower when due (whether at the stated maturity, by acceleration or otherwise) of the Borrower Obligations.

(b) Anything herein or in any other Loan Document to the contrary notwithstanding, the maximum liability of each Guarantor hereunder and under the other Loan Documents shall in no event exceed the amount which can be guaranteed by such Guarantor under applicable federal and state laws relating to the insolvency of debtors (after giving effect to the right of contribution established in Section 2.2).

(c) Each Guarantor agrees that the Secured Obligations may at any time and from time to time exceed the amount of the liability of such Guarantor hereunder without impairing the guaranty contained in this Section 2 or affecting the rights and remedies of the Lender hereunder.

(d) The guaranty contained in this Section 2 shall remain in full force and effect until all of the Secured Obligations shall have been Paid in Full.

(e) No payment made by any Borrower, any of the Guarantors, any other guarantor or any other Person or received or collected by the Lender from any Borrower, any of the Guarantors, any other guarantor or any other Person by virtue of any action or proceeding or any set-off or appropriation or application at any time or from time to time in reduction of or in payment of the Secured Obligations shall be deemed to modify, reduce, release or otherwise affect the liability of any Guarantor hereunder which shall, notwithstanding any such payment (other than any payment made by such Guarantor in respect of the Secured Obligations or any payment received or collected from such Guarantor in respect of the Secured Obligations), remain liable for the Secured Obligations up to the maximum liability of such Guarantor hereunder until the Secured Obligations are Paid in Full.

2.2. Right of Contribution. Each Guarantor hereby agrees that to the extent that a Guarantor shall have paid more than its proportionate share of any payment made hereunder, such Guarantor shall be entitled to seek and receive contribution from and against any other Guarantor hereunder which has not paid its proportionate share of such payment. Each Guarantor's right of contribution shall be subject to the terms and conditions of Section 2.3. The provisions of this Section 2.2 shall in no respect limit the obligations and liabilities of any Guarantor to the Lender, and each Guarantor shall remain liable to the Lender for the full amount guaranteed by such Guarantor hereunder.

2.3. No Subrogation. Notwithstanding any payment made by any Guarantor hereunder or any set-off or application of funds of any Guarantor by the Lender, no Guarantor shall be entitled to be subrogated to any of the rights of the Lender against any Borrower or any other Guarantor or any collateral security or guaranty or right of offset held by the Lender for the payment of the Secured Obligations, nor shall any Guarantor seek or be entitled to seek any contribution or reimbursement from any Borrower or any other Guarantor in respect of payments made by such Guarantor hereunder, until all of the Secured Obligations are Paid in Full, no Letter of Credit shall be outstanding and the Commitments are terminated. If any amount shall be paid to any Guarantor on account of such subrogation rights at any time when all of the Secured Obligations shall not have been Paid in Full, such amount shall be held by such Guarantor in trust for the Lender, segregated from other funds of such Guarantor, and shall, forthwith upon receipt by such Guarantor, be turned over to the Lender in the exact form received by such Guarantor (duly

indorsed by such Guarantor to the Lender, if required), to be applied against the Secured Obligations, whether matured or unmatured, in such order as the Lender may determine.

2.4. Amendments, etc. with respect to the Secured Obligations. Each Guarantor shall remain obligated hereunder notwithstanding that, without any reservation of rights against any Guarantor and without notice to or further assent by any Guarantor, any demand for payment of any of the Secured Obligations made by the Lender may be rescinded by the Lender and any of the Secured Obligations continued, and the Secured Obligations, or the liability of any other Person upon or for any part thereof, or any collateral security or guaranty therefor or right of offset with respect thereto, may, from time to time, in whole or in part, be renewed, extended, amended, modified, accelerated, compromised, waived, surrendered or released by the Lender, and the Credit Agreement and the other Loan Documents and any other documents executed and delivered in connection therewith may be amended, modified, supplemented or terminated, in whole or in part, as the Lender may deem advisable from time to time. The Lender shall not have any obligation to protect, secure, perfect or insure any Lien at any time held by it as security for the Secured Obligations or for the guaranty contained in this Section 2 or any property subject thereto.

The Lender may, from time to time, at its sole discretion and without notice to any Guarantor, take any or all of the following actions: (a) retain or obtain a security interest in any property to secure any of the Secured Obligations or any obligation hereunder, (b) retain or obtain the primary or secondary obligation of any obligor or obligors, in addition to the undersigned, with respect to any of the Secured Obligations, (c) extend or renew any of the Secured Obligations for one or more periods (whether or not longer than the original period), alter or exchange any of the Secured Obligations, or release or compromise any obligation of any of the undersigned hereunder or any obligation of any nature of any other obligor with respect to any of the Secured Obligations, (d) release any guaranty or right of offset or its security interest in, or surrender, release or permit any substitution or exchange for, all or any part of any property securing any of the Secured Obligations or any obligation hereunder, or extend or renew for one or more periods (whether or not longer than the original period) or release, compromise, alter or exchange any obligations of any nature of any obligor with respect to any such property, and (e) resort to the undersigned (or any of them) for payment of any of the Secured Obligations when due, whether or not the Lender shall have resorted to any property securing any of the Secured Obligations or any obligation hereunder or shall have proceeded against any other of the undersigned or any other obligor primarily or secondarily obligated with respect to any of the Secured Obligations.

2.5. Waivers. Each Guarantor waives any and all notice of the creation, renewal, extension or accrual of any of the Secured Obligations and notice of or proof of reliance by the Lender upon the guaranty contained in this Section 2 or acceptance of the guaranty contained in this Section 2; the Secured Obligations, and any of them, shall conclusively be deemed to have been created, contracted or incurred, or renewed, extended, amended or waived, in reliance upon the guaranty contained in this Section 2, and all dealings between any Borrower and any of the Guarantors, on the one hand, and the Lender, on the other hand, likewise shall be

conclusively presumed to have been had or consummated in reliance upon the guaranty contained in this Section 2. Each Guarantor waives (a) diligence, presentment, protest, demand for payment and notice of default, dishonor or nonpayment and all other notices whatsoever to or upon any Borrower or any of the Guarantors with respect to the Secured Obligations, (b) notice of the existence or creation or non-payment of all or any of the Secured Obligations and (c) all diligence in collection or protection of or realization upon any Secured Obligations or any security for or guaranty of any Secured Obligations.

2.6. Payments. Each Guarantor hereby guaranties that payments hereunder will be paid to the Lender without set-off or counterclaim in Dollars at the office of the Lender specified in the Credit Agreement.

### SECTION 3. GRANT OF SECURITY INTEREST.

3.1. Grant. Each Grantor hereby assigns and transfers to the Lender, and hereby grants to the Lender, for the benefit of the Lender and (to the extent provided herein) its Affiliates, a continuing security interest in all of its Collateral, as collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of the Secured Obligations. Notwithstanding the foregoing, the Collateral shall not include: any Intellectual Property to the extent (and only to the extent) the granting of a security interest pursuant to this Agreement would render such Intellectual Property unenforceable or is prohibited by, or would result in a breach of the terms of, or constitute a default thereunder; provided that the foregoing exclusion shall not apply if: (A) such prohibition has been waived or a security interest with respect thereto has been consented to by the other party thereto or (B) such prohibition would be rendered ineffective pursuant to Sections 9-406, 9-407, 9-408 or 9-409 of Article 9 of the UCC, as applicable and as then in effect in any relevant jurisdiction, or pursuant to any other applicable law or principles of equity; provided, further, immediately upon the ineffectiveness, lapse or termination of any such provision, Grantors shall be deemed to have granted a security interest in, all of their right, title and interest in and to such property of Grantors as if such provisions had never been in effect; and provided, further, the foregoing exclusion shall in no way be construed so as to limit, impair or otherwise affect the Lender's unconditional, continuing security interest in and to all rights, title and interests of Grantors in or to any payment obligations or other rights to receive monies due or to become due under any such property. Grantors hereby represent and warrant to the Lender that the property excluded from the Collateral pursuant to any of the provisions of this paragraph is not material to the business, operations or financial condition of Grantors or their Subsidiaries, taken as a whole. Upon the Lender's request therefor, each Grantor shall provide the Lender with a schedule of the Intellectual Property that contain any such restrictions of the type set forth in this paragraph. Each Grantor shall give written notice to the Lender prior to entering into any material license, contract, agreement, Intellectual Property or General Intangible containing any such restriction on the grant of a security interest therein. At Lender's request, each Grantor hereby covenants to use its commercially reasonable efforts to obtain any such consents or approvals to the grant of a security interest therein.



SECTION 4. REPRESENTATIONS AND WARRANTIES.

To induce the Lender to enter into the Credit Agreement and to make its extensions of credit to the Borrowers thereunder, each Grantor jointly and severally hereby represents and warrants to the Lender that:

4.1. Title; No Other Liens. Except for Permitted Liens, the Grantors own each item of the Collateral free and clear of any and all Liens or claims of others. No financing statement or other public notice with respect to all or any part of the Collateral is on file or of record in any public office, except filings evidencing Permitted Liens and filings for which termination statements have been delivered to the Lender.

4.2. Perfected First Priority Liens. The security interests granted pursuant to this Agreement (a) upon completion of the filings and other actions specified on Schedule 2 (which, in the case of all filings and other documents referred to on Schedule 2, have been delivered to the Lender in completed and duly executed form) will constitute valid perfected security interests in all of the Collateral in favor of the Lender as collateral security for each Grantor's Obligations, enforceable in accordance with the terms hereof against all creditors of each Grantor and any Persons purporting to purchase any Collateral from each Grantor and (b) are prior to all other Liens on the Collateral in existence on the date hereof except for Permitted Liens for which priority is accorded under applicable law. The filings and other actions specified on Schedule 2 constitute all of the filings and other actions necessary to perfect all security interests granted hereunder.

4.3. Grantor Information. On the date hereof, Schedule 3 sets forth (a) each Grantor's jurisdiction of organization, (b) the location of each Grantor's chief executive office, (c) each Grantor's exact legal name as it appears on its organizational documents and (d) each Grantor's organizational identification number (to the extent a Grantor is organized in a jurisdiction which assigns such numbers) and federal employer identification number.

4.4. Collateral Locations. On the date hereof, Schedule 4 sets forth (a) each place of business of each Grantor (including its chief executive office), (b) all locations where all Inventory and the Equipment owned by each Grantor is kept, except with respect to Inventory and Equipment with a fair market value of less than \$100,000 (in the aggregate for all Grantors) which may be located at other locations and (c) whether each such Collateral location and place of business (including each Grantor's chief executive office) is owned or leased (and if leased, specifies the complete name and notice address of each lessor). No Collateral is located outside the United States or in the possession of any lessor, bailee, warehouseman or consignee, except as indicated on Schedule 4.

4.5. Certain Property. None of the Collateral constitutes, or is the Proceeds of, (a) Farm Products, (b) Health Care Insurance Receivables or (c) vessels, aircraft or any other property subject to any certificate of title or other registration statute of the United States, any State or other jurisdiction.

4.6. Investment Property. (a) The Pledged Equity pledged by each Grantor hereunder constitute all the issued and outstanding equity interests of each Issuer owned by such Grantor or, in the case of any foreign Subsidiary, 65% of all issued and outstanding equity interests of such foreign Subsidiary.

(b) All of the Pledged Equity has been duly and validly issued and is fully paid and nonassessable.

(c) To the knowledge of each Grantor (other than with respect to any Pledged Notes to which a Grantor is a maker), each of the Pledged Notes constitutes the legal, valid and binding obligation of the obligor with respect thereto, enforceable in accordance with its terms (subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing).

(d) Schedule 1 lists all Investment Property owned by each Grantor. Each Grantor is the record and beneficial owner of, and has good and marketable title to, the Investment Property pledged by it hereunder, free of any and all Liens or options in favor of, or claims of, any other Person, except Permitted Liens.

4.7. Receivables. (a) No material amount payable to such Grantor under or in connection with any Receivable is evidenced by any Instrument or Chattel Paper which has not been delivered to the Lender.

(b) No obligor on any Receivable is a governmental authority.

(c) The amounts represented by such Grantor to the Lender from time to time as owing to such Grantor in respect of the Receivables (to the extent such representations are required by any of the Loan Documents) will at all such times be accurate.

4.8. Intellectual Property. (a) Schedule 5 lists all Intellectual Property owned by such Grantor in its own name on the date hereof.

(b) On the date hereof, all material Intellectual Property owned by any Guarantor is valid, subsisting, unexpired and enforceable and has not been abandoned.

(c) Except as set forth in Schedule 5, none of the material Intellectual Property is the subject of any licensing or franchise agreement pursuant to which such Grantor is the licensor or franchisor.

(d) Each Grantor owns and possesses or has a license or other right to use all Intellectual Property as is necessary for the conduct of the businesses of such Grantor, without any infringement upon rights of others which could reasonably be expected to have a Material Adverse Effect.

4.9. Depository and Other Accounts. All depository and other accounts maintained by each Grantor are described on Schedule 6 hereto, which description includes for each such account the name of the Grantor maintaining such account, the

name, address, telephone and fax numbers of the financial institution at which such account is maintained, the account number and the account officer, if any, of such account.

## SECTION 5. COVENANTS.

Each Grantor covenants and agrees with the Lender that, from and after the date of this Agreement until the Secured Obligations shall have been Paid in Full:

5.1. Delivery of Instruments, Certificated Securities and Chattel Paper. If any amount payable under or in connection with any of the Collateral in excess of \$100,000 (in the aggregate for all Grantors) shall be or become evidenced by any Instrument, Certificated Security or Chattel Paper, such Instrument, Certificated Security or Chattel Paper shall be immediately delivered to the Lender, duly indorsed in a manner reasonably satisfactory to the Lender, to be held as Collateral pursuant to this Agreement. In the event that an Unmatured Event of Default or Event of Default shall have occurred and be continuing, upon the request of the Lender, any Instrument, Certificated Security or Chattel Paper not theretofore delivered to the Lender and at such time being held by any Grantor shall be immediately delivered to the Lender, duly indorsed in a manner reasonably satisfactory to the Lender, to be held as Collateral pursuant to this Agreement.

5.2. Maintenance of Perfected Security Interest; Further Documentation. (a) Such Grantor shall maintain the security interest created by this Agreement as a perfected security interest having at least the priority described in Section 4.2 and shall defend such security interest against the claims and demands of all Persons whomsoever.

(b) Such Grantor will furnish to the Lender from time to time statements and schedules further identifying and describing the assets and property of such Grantor and such other reports in connection therewith as the Lender may reasonably request, all in reasonable detail.

(c) At any time and from time to time, upon the written request of the Lender, and at the sole expense of such Grantor, such Grantor will promptly and duly execute and deliver, and have recorded, such further instruments and documents and take such further actions as the Lender may reasonably request for the purpose of obtaining or preserving the full benefits of this Agreement and of the rights and powers herein granted, including (i) filing any financing or continuation statements under the UCC (or other similar laws) in effect in any jurisdiction with respect to the security interests created hereby and (ii) in the case of Investment Property and any other relevant Collateral, taking any actions necessary to enable the Lender to obtain "control" (within the meaning of the applicable UCC) with respect thereto.

5.3. Changes in Locations, Name, etc. Such Grantor shall not, except upon 30 days' prior written notice to the Lender and delivery to the Lender of (a) all additional financing statements and other documents reasonably requested by the Lender as to the validity, perfection and priority of the security interests provided for

herein and (b) if applicable, a written supplement to Schedule 4 showing any additional location at which Inventory or Equipment shall be kept:

- (i) permit any of the Inventory or Equipment to be kept at a location other than those listed on Schedule 4; provided, that up to \$100,000 (in the aggregate for all Grantors) in fair market value of any such Inventory and Equipment may be kept at other locations;
- (ii) change its jurisdiction of organization or the location of its chief executive office from that specified on Schedule 3 or in any subsequent notice delivered pursuant to this Section 5.3; or
- (iii) change its name, identity or corporate structure.

5.4. Notices. Such Grantor will advise the Lender promptly, in reasonable detail, of:

- (a) any Lien (other than Permitted Liens) on any of the Collateral; and
- (b) the occurrence of any other event which could reasonably be expected to have a material adverse effect on the aggregate value of the Collateral or on the Liens created hereby.

5.5. Investment Property. (a) If such Grantor shall become entitled to receive or shall receive any certificate, option or rights in respect of the equity interests of any Issuer, whether in addition to, in substitution of, as a conversion of, or in exchange for, any of the Pledged Equity, or otherwise in respect thereof, such Grantor shall accept the same as the agent of the Lender, hold the same in trust for the Lender and deliver the same forthwith to the Lender in the exact form received, duly indorsed by such Grantor to the Lender, if required, together with an undated instrument of transfer covering such certificate duly executed in blank by such Grantor and with, if the Lender so requests, signature guaranteed, to be held by the Lender, subject to the terms hereof, as additional Collateral for the Secured Obligations. Upon the occurrence and during the continuance of an Event of Default, (i) any sums paid upon or in respect of the Investment Property upon the liquidation or dissolution of any Issuer shall be paid over to the Lender to be held by it hereunder as additional Collateral for the Secured Obligations, and (ii) in case any distribution of capital shall be made on or in respect of the Investment Property or any property shall be distributed upon or with respect to the Investment Property pursuant to the recapitalization or reclassification of the capital of any Issuer or pursuant to the reorganization thereof, the property so distributed shall, unless otherwise subject to a perfected Lien in favor of the Lender, be delivered to the Lender to be held by it hereunder as additional Collateral for the Secured Obligations. Upon the occurrence and during the continuance of an Event of Default, if any sums of money or property so paid or distributed in respect of the Investment Property shall be received by such Grantor, such Grantor shall, until such money or property is paid or delivered to the Lender, hold such money or property in trust for the Lender, segregated from other funds of such Grantor, as additional Collateral for the Secured Obligations.

- (b) Without the prior written consent of the Lender, such Grantor will not (i) vote to enable, or take any other action to permit, any Issuer to issue any equity interests of any nature or

to issue any other securities or interests convertible into or granting the right to purchase or exchange for any equity interests of any nature of any Issuer, except, in each case, as permitted by the Credit Agreement and the other Loan Documents, (ii) sell, assign, transfer, exchange, or otherwise dispose of, or grant any option with respect to, the Investment Property or Proceeds thereof (except pursuant to a transaction expressly permitted by the Credit Agreement and the other Loan Documents) other than, with respect to Investment Property not constituting Pledged Equity or Pledged Notes, any such action which is not prohibited by the Credit Agreement, (iii) create, incur or permit to exist any Lien or option in favor of, or any claim of any Person with respect to, any of the Investment Property or Proceeds thereof, or any interest therein, except for Permitted Liens, or (iv) enter into any agreement or undertaking restricting the right or ability of such Grantor or the Lender to sell, assign or transfer any of the Investment Property or Proceeds thereof, except, with respect to such Investment Property, shareholders' agreements entered into by such Grantor with respect to Persons in which such Grantor maintains an ownership interest of 50% or less.

(c) In the case of each Grantor which is an Issuer, such Issuer agrees that (i) it will be bound by the terms of this Agreement relating to the Investment Property issued by it and will comply with such terms insofar as such terms are applicable to it, (ii) it will notify the Lender promptly in writing of the occurrence of any of the events described in Section 5.5(a) with respect to the Investment Property issued by it and (iii) the terms of Sections 6.3(c) and 6.7 shall apply to such Grantor with respect to all actions that may be required of it pursuant to Section 6.3(c) or 6.7 regarding the Investment Property issued by it.

5.6. Receivables. (a) Other than in the ordinary course of business consistent with its past practice and in amounts which are not material to such Grantor, such Grantor will not (i) grant any extension of the time of payment of any Receivable, (ii) compromise or settle any Receivable for less than the full amount thereof, (iii) release, wholly or partially, any Person liable for the payment of any Receivable, (iv) allow any credit or discount whatsoever on any Receivable or (v) amend, supplement or modify any Receivable in any manner that could adversely affect the value thereof.

(b) Such Grantor will deliver to the Lender a copy of each material demand, notice or document received by it that questions or calls into doubt the validity or enforceability of more than 5% of the aggregate amount of the then outstanding Receivables for all Grantors.

5.7. Intellectual Property. (a) Such Grantor (either itself or through licensees) will (i) continue to use each Trademark material to its business in order to maintain such Trademark in full force free from any claim of abandonment for non-use, (ii) maintain as in the past the quality of products and services offered under such Trademark, (iii) use such Trademark with the appropriate notice of registration and all other notices and legends required by applicable law, (iv) not adopt or use any mark which is confusingly similar or a colorable imitation of such Trademark unless the Lender shall obtain a perfected security interest in such mark pursuant to this Agreement, and (v) not (and not permit any licensee or sublicensee thereof to) do any act or knowingly omit to do any act whereby such Trademark may become invalidated or impaired in any way.

(b) Such Grantor (either itself or through licensees) will not do any act, or omit to do any act, whereby any Patent material to its business may become forfeited, abandoned or dedicated to the public.

(c) Such Grantor (either itself or through licensees) (i) will employ each Copyright material to its business and (ii) will not (and will not permit any licensee or sublicensee thereof to) do any act or knowingly omit to do any act whereby any material portion of such Copyrights may become invalidated or otherwise impaired. Such Grantor will not (either itself or through licensees) do any act whereby any material portion of such Copyrights may fall into the public domain.

(d) Such Grantor (either itself or through licensees) will not do any act that knowingly uses any Intellectual Property material to its business to infringe the intellectual property rights of any other Person.

(e) Such Grantor will notify the Lender within fifteen (15) days if it knows, or has reason to know, that any application or registration relating to any material Intellectual Property may become forfeited, abandoned or dedicated to the public, or of any adverse determination or development (including the institution of, or any such determination or development in, any proceeding in the United States Patent and Trademark Office, the United States Copyright Office or any court or tribunal in any country) regarding, such Grantor's ownership of, or the validity of, any material Intellectual Property or such Grantor's right to register the same or to own and maintain the same.

(f) Whenever such Grantor, either by itself or through any agent, employee, licensee or designee, shall file an application for the registration of any Intellectual Property with the United States Patent and Trademark Office, the United States Copyright Office or any similar office or agency in any other country or any political subdivision thereof, such Grantor shall report such filing to the Lender concurrently with the next delivery of financial statements of the Borrowers pursuant to Section 10.1 of the Credit Agreement. Upon the request of the Lender, such Grantor shall execute and deliver, and have recorded, any and all agreements, instruments, documents, and papers as the Lender may request to evidence the Lender's security interest in any Copyright, Patent or Trademark and the goodwill and general intangibles of such Grantor relating thereto or represented thereby.

(g) Such Grantor will take all reasonable and necessary steps to maintain and pursue each application (and to obtain the relevant registration) and to maintain each registration of all material Intellectual Property owned by it.

(h) In the event that any material Intellectual Property is infringed upon or misappropriated or diluted by a third party, such Grantor shall (i) take such actions as such Grantor shall reasonably deem appropriate under the circumstances to protect such Intellectual Property and (ii) if such Intellectual Property is of material economic value, promptly notify the Lender after it learns thereof and, to the extent, in its reasonable judgment, such Grantor determines it appropriate under the circumstances, sue for infringement, misappropriation or dilution, to seek injunctive relief where appropriate and to recover any and all damages for such infringement, misappropriation or dilution.

5.8. Depository and Other Deposit Accounts. Each Grantor shall maintain all of its principal deposit accounts with the Lender. No Grantor shall open any depository or other deposit accounts unless such Grantor shall have given the Lender 10 days' prior written notice of its intention to open any such new deposit accounts. The Grantors shall deliver to the Lender a revised version of Schedule 6 showing any changes thereto within 30 days of any such change. Each Grantor hereby authorizes the financial institutions at which such Grantor maintains a deposit account to provide the Lender with such information with respect to such deposit account as the Lender may from time to time reasonably request, and each Grantor hereby consents to such information being provided to the Lender. Each Grantor will, upon the Lender's request, cause each financial institution at which such Grantor maintains a depository or other deposit account to enter into a bank agency or other similar agreement with the Lender and such Grantor, in form and substance satisfactory to the Lender, in order to give the Lender "control" (as defined in the UCC) of such account. Upon Lender's request to do so following the occurrence and during the continuance of any Event of Default, each Grantor shall direct all Account Debtors to make all payments on the Accounts directly to a bank account maintained with the Lender (the "Lender Controlled Account"). If any Grantor or any director, officer, employee, agent of such Grantor, or any other Person acting for or in concert with such Grantor shall receive any monies, checks, notes, drafts or other payments relating to or as proceeds of Accounts or other Collateral, such Grantor and each such Person shall, so long as an Event of Default has occurred and is continuing, receive all such items in trust for, and as the sole and exclusive property of, the Lender and, immediately upon receipt thereof, shall remit the same (or cause the same to be remitted) in kind to the Lender Controlled Account. The Grantors, jointly and severally, agree to pay all fees, costs and expenses which the Lender incurs in connection with opening and maintaining the Lender Controlled Account and depositing for collection by the Lender any check or other item of payment received by the Lender on account of the Obligations. All of such fees, costs and expenses shall constitute Secured Obligations hereunder and shall be payable to the Lender by the Grantors upon demand. In connection with the foregoing, all checks, drafts, instruments and other items of payment or proceeds of Collateral shall be endorsed by the applicable Grantor to the Lender, and, if that endorsement of any such item shall not be made for any reason, the Lender is hereby irrevocably authorized to endorse the same on such Grantor's behalf. For the purpose of this section, each Grantor irrevocably hereby makes, constitutes and appoints the Lender (and all Persons designated by the Lender for that purpose) as such Grantor's true and lawful attorney and agent-in-fact (a) to endorse such Grantor's name upon said items of payment and/or proceeds of Collateral and upon any Chattel Paper, document, Instrument, invoice or similar document or agreement relating to any Account of the such Grantor or goods pertaining thereto; (b) to take control in any manner of any item of payment or proceeds thereof; and (c) to have access to any lock box or postal box into which any of such Grantor's mail is deposited, and open and process all mail addressed to the such Grantor and deposited therein, in each case during the continuance of any Event of Default. All amounts received in the Lender Controlled Account shall be deemed received by the Lender in accordance with Section 7.1 of the Credit Agreement and applied to Revolving Outstandings. In no event shall any amount be

applied unless and until such amount shall have been credited in immediately available funds to the Lender Controlled Account.

5.9. Other Matters.

(a) Within 30 days after the Closing Date, each of the Grantors shall use commercially reasonable efforts to cause to be delivered to the Lender a Collateral Access Agreement with respect to (a) each bailee with which such Grantor keeps Inventory or other assets as of the Closing Date with a fair market value in excess of \$100,000 and (b) each landlord which leases real property (and the accompanying facilities) to any of the Grantors as of the Closing Date. If any Grantor shall cause to be delivered Inventory or other property in excess of \$100,000 in fair market value to any bailee after the Closing Date, such Grantor shall use commercially reasonable efforts to cause such bailee to sign a Collateral Access Agreement. If any Grantor shall lease any real property or facilities and the value of property of such Grantor located at such leased real property is in excess of \$100,000 in fair market value after the Closing Date, such Grantor shall use commercially reasonable efforts to cause the landlord in respect of such leased property or facilities to sign a Collateral Access Agreement.

(b) Each Grantor authorizes the Lender to, at any time and from time to time, file financing statements, continuation statements, and amendments thereto, without the signature of such Grantor thereon, that describe the Collateral as "all assets" of each Grantor, or words of similar effect, and which contain any other information required pursuant to the UCC for the sufficiency of filing office acceptance of any financing statement, continuation statement, or amendment, and each Grantor agrees to furnish any such information to the Lender promptly upon request. Any such financing statement, continuation statement, or amendment may be signed by the Lender on behalf of any Grantor and may be filed at any time in any jurisdiction as the Lender may reasonably deem necessary or desirable.

(c) Each Grantor shall, at any time and from time and to time, take such steps as the Lender may reasonably request for the Lender (i) to obtain an acknowledgement, in form and substance reasonably satisfactory to the Lender, of any bailee having possession of any of the Collateral, stating that the bailee holds such Collateral for the Lender, (ii) to obtain "control" of any letter-of-credit rights, or electronic chattel paper (as such terms are defined by the UCC with corresponding provisions thereof defining what constitutes "control" for such items of Collateral), with any agreements establishing control to be in form and substance reasonably satisfactory to the Lender, and (iii) otherwise to insure the continued perfection and priority of the Lender's security interest in any of the Collateral and of the preservation of its rights therein. If any Grantor shall at any time, acquire a "commercial tort claim" (as such term is defined in the UCC) in excess of \$100,000, such Grantor shall promptly notify the Lender thereof in writing and supplement Schedule 7, therein providing a reasonable description and summary thereof, and upon delivery thereof to the Lender, such Grantor shall be deemed to thereby grant to the Lender (and such Grantor hereby grants to the Lender) a security interest and lien in and to such commercial tort claim and all proceeds thereof, all upon the terms of and governed by this Agreement.

(d) Without limiting the generality of the foregoing, if any Grantor at any time holds or acquires an interest in any electronic chattel paper or any "transferable record", as that term is defined in Section 201 of the federal Electronic Signatures in Global and National Commerce



Act, or in §16 of the Uniform Electronic Transactions Act as in effect in any relevant jurisdiction, such Grantor shall promptly notify the Lender thereof and, at the request of the Lender, shall take such action as the Lender may reasonably request to vest in the Lender “control” under Section 9-105 of the UCC of such electronic chattel paper or control under Section 201 of the federal Electronic Signatures in Global and National Commerce Act or, as the case may be, §16 of the Uniform Electronic Transactions Act, as so in effect in such jurisdiction, of such transferable record. The Lender agrees with the Grantors that the Lender will arrange, pursuant to procedures reasonably satisfactory to the Lender and so long as such procedures will not result in the Lender’s loss of control, for the Grantors to make alterations to the electronic chattel paper or transferable record permitted under Section 9-105 of the UCC or, as the case may be, Section 201 of the federal Electronic Signatures in Global and National Commerce Act or §16 of the Uniform Electronic Transactions Act for a party in control to make without loss of control, unless an Event of Default has occurred and is continuing or would occur after taking into account any action by any Grantor with respect to such electronic chattel paper or transferable record.

SECTION 6. REMEDIAL PROVISIONS.

6.1. Certain Matters Relating to Receivables. (a) At any time and from time to time after the occurrence and during the continuance of an Event of Default, the Lender shall have the right to make test verifications of the Receivables in any manner and through any medium that it reasonably considers advisable, and each Grantor shall furnish all such assistance and information as the Lender may require in connection with such test verifications. At any time and from time to time after the occurrence and during the continuance of an Event of Default, upon the Lender’s request and at the expense of the relevant Grantor, such Grantor shall cause independent public accountants or others reasonably satisfactory to the Lender to furnish to the Lender reports showing reconciliations, agings and test verifications of, and trial balances for, the Receivables.

(b) The Lender hereby authorizes each Grantor to collect such Grantor’s Receivables, and the Lender may curtail or terminate such authority at any time after the occurrence and during the continuance of an Event of Default. If required by the Lender at any time after the occurrence and during the continuance of an Event of Default, any payments of Receivables, when collected by any Grantor, (i) shall be forthwith (and, in any event, within 2 Business Days) deposited by such Grantor in the exact form received, duly indorsed by such Grantor to the Lender if required, in a collateral account maintained under the sole dominion and control of the Lender, subject to withdrawal by the Lender only as provided in Section 6.5, and (ii) until so turned over, shall be held by such Grantor in trust for the Lender, segregated from other funds of such Grantor. Each such deposit of Proceeds of Receivables shall be accompanied by a report identifying in reasonable detail the nature and source of the payments included in the deposit.

(c) At any time and from time to time after the occurrence and during the continuance of an Event of Default, at the Lender’s request, each Grantor shall deliver to the Lender all original and other documents evidencing, and relating to, the agreements and transactions which gave rise to the Receivables, including all original orders, invoices and shipping receipts.

6.2. Communications with Obligors; Grantors Remain Liable. (a) The Lender in its own name or in the name of others may at any time after the occurrence and during the continuance of an Event of Default communicate with obligors under the Receivables to verify with them to the Lender's satisfaction the existence, amount and terms of any Receivables.

(b) Upon the request of the Lender at any time after the occurrence and during the continuance of an Event of Default, each Grantor shall notify obligors on the Receivables that the Receivables have been assigned to the Lender and that payments in respect thereof shall be made directly to the Lender.

(c) Anything herein to the contrary notwithstanding, each Grantor shall remain liable in respect of each of the Receivables to observe and perform all the conditions and obligations to be observed and performed by it thereunder, all in accordance with the terms of any agreement giving rise thereto. The Lender shall not have any obligation or liability under any Receivable (or any agreement giving rise thereto) by reason of or arising out of this Agreement or the receipt by the Lender of any payment relating thereto, nor shall the Lender be obligated in any manner to perform any of the obligations of any Grantor under or pursuant to any Receivable (or any agreement giving rise thereto), to make any payment, to make any inquiry as to the nature or the sufficiency of any payment received by it or as to the sufficiency of any performance by any party thereunder, to present or file any claim, to take any action to enforce any performance or to collect the payment of any amounts which may have been assigned to it or to which it may be entitled at any time or times.

(d) For the purpose of enabling the Lender to exercise rights and remedies under this Agreement, each Grantor hereby grants to the Lender an irrevocable, nonexclusive license (exercisable without payment of royalty or other compensation to such Grantor) to at any time after the occurrence and during the continuance of an Event of Default, use, license or sublicense any Intellectual Property now owned or hereafter acquired by such Grantor, and wherever the same may be located, and including in such license access to all media in which any of the licensed items may be recorded or stored and to all computer software and programs used for the compilation or printout thereof.

6.3. Investment Property. (a) Unless an Event of Default shall have occurred and be continuing and the Lender shall have given notice to the relevant Grantor of the Lender's intent to exercise its corresponding rights pursuant to Section 6.3(b), each Grantor shall be permitted to receive all cash dividends and distributions paid in respect of the Pledged Equity and all payments made in respect of the Pledged Notes, to the extent permitted in the Credit Agreement, and to exercise all voting and other rights with respect to the Investment Property; provided, that no vote shall be cast or other right exercised or action taken which could reasonably be expected to impair the Collateral or which would be inconsistent with or result in any violation of any provision of the Credit Agreement, this Agreement or any other Loan Document.

(b) If an Event of Default shall occur and be continuing and the Lender shall give notice of its intent to exercise such rights to the relevant Grantor or Grantors, (i) the Lender shall have the right to receive any and all cash dividends and distributions, payments or other Proceeds paid in respect of the Investment Property and make application thereof to the Obligations in

such order as the Lender may determine, and (ii) any or all of the Investment Property shall be registered in the name of the Lender or its nominee, and the Lender or its nominee may thereafter exercise (x) all voting and other rights pertaining to such Investment Property at any meeting of holders of the equity interests of the relevant Issuer or Issuers or otherwise and (y) any and all rights of conversion, exchange and subscription and any other rights, privileges or options pertaining to such Investment Property as if it were the absolute owner thereof (including the right to exchange at its discretion any and all of the Investment Property upon the merger, consolidation, reorganization, recapitalization or other fundamental change in the corporate or other structure of any Issuer, or upon the exercise by any Grantor or the Lender of any right, privilege or option pertaining to such Investment Property, and in connection therewith, the right to deposit and deliver any and all of the Investment Property with any committee, depository, transfer agent, registrar or other designated agency upon such terms and conditions as the Lender may determine), all without liability except to account for property actually received by it, but the Lender shall have no duty to any Grantor to exercise any such right, privilege or option and shall not be responsible for any failure to do so or delay in so doing.

(c) Each Grantor hereby authorizes and instructs each Issuer of any Investment Property pledged by such Grantor hereunder to (i) comply with any instruction received by it from the Lender in writing that (x) states that an Event of Default has occurred and is continuing and (y) is otherwise in accordance with the terms of this Agreement, without any other or further instructions from such Grantor, and each Grantor agrees that each Issuer shall be fully protected in so complying and (ii) unless otherwise expressly permitted hereby, pay any dividends, distributions or other payments with respect to the Investment Property directly to the Lender.

6.4. Proceeds to be Turned Over to Lender. In addition to the rights of the Lender specified in Section 6.1 with respect to payments of Receivables, if an Event of Default shall occur and be continuing, all Proceeds received by any Grantor consisting of cash, checks and other cash equivalent items shall be held by such Grantor in trust for the Lender, segregated from other funds of such Grantor, and shall, forthwith upon receipt by such Grantor, be turned over to the Lender in the exact form received by such Grantor (duly indorsed by such Grantor to the Lender, if required). All Proceeds received by the Lender hereunder shall be held by the Lender in a collateral account maintained under its sole dominion and control. All Proceeds, while held by the Lender in any collateral account (or by such Grantor in trust for the Lender) established pursuant hereto, shall continue to be held as collateral security for the Secured Obligations and shall not constitute payment thereof until applied as provided in Section 6.5.

6.5. Application of Proceeds. At such intervals as may be agreed upon by the Borrowers and the Lender, or, if an Event of Default shall have occurred and be continuing, at any time at the Lender's election, the Lender may apply all or any part of Proceeds from the sale of, or other realization upon, all or any part of the Collateral in payment of the Secured Obligations in such order as the Lender shall determine in its discretion. Any part of such funds which the Lender elects not so to apply and deems not required as collateral security for the Secured Obligations shall be paid over from time to time by the Lender to the applicable Grantor or to whomsoever may be lawfully entitled to receive the same. Any balance of such Proceeds remaining after the Secured Obligations shall have been Paid in Full shall

be paid over to the applicable Grantor or to whomsoever may be lawfully entitled to receive the same.

6.6. Code and Other Remedies. If an Event of Default shall occur and be continuing, the Lender may exercise, in addition to all other rights and remedies granted to it in this Agreement and in any other instrument or agreement securing, evidencing or relating to the Secured Obligations, all rights and remedies of a secured party under the UCC or any other applicable law. Without limiting the generality of the foregoing, the Lender, without demand of performance or other demand, presentment, protest, advertisement or notice of any kind (except any notice required by law referred to below) to or upon any Grantor or any other Person (all and each of which demands, defenses, advertisements and notices are hereby waived), may in such circumstances forthwith collect, receive, appropriate and realize upon the Collateral, or any part thereof, and/or may forthwith sell, lease, assign, give options to purchase, or otherwise dispose of and deliver the Collateral or any part thereof (or contract to do any of the foregoing), in one or more parcels at public or private sale or sales, at any exchange, broker's board or office of the Lender or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery with assumption of any credit risk. The Lender shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption in any Grantor, which right or equity is hereby waived and released. Each Grantor further agrees, at the Lender's request, to assemble the Collateral and make it available to the Lender at places which the Lender shall reasonably select, whether at such Grantor's premises or elsewhere. The Lender shall apply the net proceeds of any action taken by it pursuant to this Section 6.6, after deducting all reasonable costs and expenses of every kind incurred in connection therewith or incidental to the care or safekeeping of any of the Collateral or in any way relating to the Collateral or the rights of the Lender hereunder, including Attorney Costs to the payment in whole or in part of the Secured Obligations, in such order as the Lender may elect, and only after such application and after the payment by the Lender of any other amount required by any provision of law, need the Lender account for the surplus, if any, to any Grantor. To the extent permitted by applicable law, each Grantor waives all claims, damages and demands it may acquire against the Lender arising out of the exercise by it of any rights hereunder. If any notice of a proposed sale or other disposition of Collateral shall be required by law, such notice shall be deemed reasonable and proper if given at least 10 days before such sale or other disposition.

6.7. Registration Rights. (a) If the Lender shall determine to exercise its right to sell any or all of the Pledged Equity pursuant to Section 6.6, and if in the opinion of the Lender it is necessary or advisable to have the Pledged Equity, or that portion thereof to be sold, registered under the provisions of the Securities Act, the relevant Grantor will cause the Issuer thereof to (i) execute and deliver, and cause the directors and officers of such Issuer to execute and deliver, all such instruments and documents, and do or cause to be done all such other acts as may be, in the opinion of the Lender, necessary or advisable to register the Pledged Equity, or that portion thereof to be sold, under the provisions of the Securities Act, (ii) use its best efforts to

cause the registration statement relating thereto to become effective and to remain effective for a period of one year from the date of the first public offering of the Pledged Equity, or that portion thereof to be sold, and (iii) make all amendments thereto and/or to the related prospectus which, in the opinion of the Lender, are necessary or advisable, all in conformity with the requirements of the Securities Act and the rules and regulations of the Securities and Exchange Commission applicable thereto. Each Grantor agrees to cause such Issuer to comply with the provisions of the securities or "Blue Sky" laws of any and all jurisdictions which the Lender shall designate and to make available to its security holders, as soon as practicable, an earnings statement (which need not be audited) which will satisfy the provisions of Section 11(a) of the Securities Act.

(b) Each Grantor recognizes that the Lender may be unable to effect a public sale of any or all the Pledged Equity, by reason of certain prohibitions contained in the Securities Act and applicable state securities laws or otherwise, and may be compelled to resort to one or more private sales thereof to a restricted group of purchasers which will be obliged to agree, among other things, to acquire such securities for their own account for investment and not with a view to the distribution or resale thereof. Each Grantor acknowledges and agrees that any such private sale may result in prices and other terms less favorable than if such sale were a public sale and, notwithstanding such circumstances, agrees that any such private sale shall be deemed to have been made in a commercially reasonable manner. The Lender shall be under no obligation to delay a sale of any of the Pledged Equity for the period of time necessary to permit the Issuer thereof to register such securities or other interests for public sale under the Securities Act, or under applicable state securities laws, even if such Issuer would agree to do so.

(c) Each Grantor agrees to use its best efforts to do or cause to be done all such other acts as may be necessary to make such sale or sales of all or any portion of the Pledged Equity pursuant to this Section 6.7 valid and binding and in compliance with applicable law. Each Grantor further agrees that a breach of any of the covenants contained in this Section 6.7 will cause irreparable injury to the Lender, that the Lender has no adequate remedy at law in respect of such breach and, as a consequence, that each and every covenant contained in this Section 6.7 shall be specifically enforceable against such Grantor, and such Grantor hereby waives and agrees not to assert any defenses against an action for specific performance of such covenants except for a defense that no Event of Default has occurred under the Credit Agreement.

6.8. Waiver: Deficiency. Each Grantor waives and agrees not to assert any rights or privileges which it may acquire under Section 9-626 of the UCC. Each Grantor shall remain liable for any deficiency if the proceeds of any sale or other disposition of the Collateral are insufficient to pay the Secured Obligations in full and the fees and disbursements of any attorneys employed by the Lender to collect such deficiency.

## SECTION 7. THE LENDER.

7.1. Lender's Appointment as Attorney-in-Fact, etc. (a) Each Grantor hereby irrevocably constitutes and appoints the Lender and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of such Grantor and in the

name of such Grantor or in its own name, for the purpose of carrying out the terms of this Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Agreement, and, without limiting the generality of the foregoing, each Grantor hereby gives the Lender the power and right, on behalf of and at the expense of such Grantor, without notice to or assent by such Grantor, to do any or all of the following:

(i) in the name of such Grantor or its own name, or otherwise, take possession of and indorse and collect any checks, drafts, notes, acceptances or other instruments for the payment of moneys due under any Receivable or with respect to any other Collateral and file any claim or take any other action or proceeding in any court of law or equity or otherwise deemed appropriate by the Lender for the purpose of collecting any and all such moneys due under any Receivable or with respect to any other Collateral whenever payable;

(ii) in the case of any Intellectual Property, execute and deliver, and have recorded, any and all agreements, instruments, documents and papers as the Lender may request to evidence the Lender's security interest in such Intellectual Property and the goodwill and general intangibles of such Grantor relating thereto or represented thereby;

(iii) discharge Liens levied or placed on or threatened against the Collateral, and effect any repairs or insurance called for by the terms of this Agreement and pay all or any part of the premiums therefor and the costs thereof;

(iv) execute, in connection with any sale provided for in Section 6.6 or 6.7, any endorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral; and

(v) (1) direct any party liable for any payment under any of the Collateral to make payment of any and all moneys due or to become due thereunder directly to the Lender or as the Lender shall direct; (2) ask or demand for, collect, and receive payment of and receipt for, any and all moneys, claims and other amounts due or to become due at any time in respect of or arising out of any Collateral; (3) sign and indorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications, notices and other documents in connection with any of the Collateral; (4) commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Collateral or any portion thereof and to enforce any other right in respect of any Collateral; (5) defend any suit, action or proceeding brought against such Grantor with respect to any Collateral; (6) settle, compromise or adjust any such suit, action or proceeding and, in connection therewith, give such discharges or releases as the Lender may deem appropriate; (7) assign any Copyright, Patent or Trademark, throughout the world for such term or terms, on such conditions, and in such manner, as the Lender shall in its sole discretion determine; (8) vote any right or interest with respect to any Investment Property; (9) order good standing certificates and conduct lien searches in respect of such jurisdictions or offices as the Lender may deem appropriate; and (10) generally sell, transfer, pledge and make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though the Lender were the absolute owner thereof for all purposes, and do, at the Lender's option and such Grantor's expense, at any time, or from time to time, all acts and things which the Lender deems necessary

to protect, preserve or realize upon the Collateral and the Lender's security interests therein and to effect the intent of this Agreement, all as fully and effectively as such Grantor might do.

Anything in this Section 7.1(a) to the contrary notwithstanding, the Lender agrees that it will not exercise any rights under the power of attorney provided for in this Section 7.1(a) unless an Event of Default shall have occurred and be continuing.

(b) If any Grantor fails to perform or comply with any of its agreements contained herein, the Lender, at its option, but without any obligation so to do, may perform or comply, or otherwise cause performance or compliance, with such agreement.

(c) Each Grantor hereby ratifies all that such attorneys shall lawfully do or cause to be done by virtue hereof. All powers, authorizations and agencies contained in this Agreement are coupled with an interest and are irrevocable until this Agreement is terminated and the security interests created hereby are released.

7.2. Duty of Lender. The Lender's sole duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession shall be to deal with it in the same manner as the Lender deals with similar property for its own account. Neither the Lender nor any of its officers, directors, employees or agents shall be liable for any failure to demand, collect or realize upon any of the Collateral or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of any Grantor or any other Person or to take any other action whatsoever with regard to the Collateral or any part thereof. The powers conferred on the Lender hereunder are solely to protect the Lender's interests in the Collateral and shall not impose any duty upon the Lender to exercise any such powers. The Lender shall be accountable only for amounts that it actually receives as a result of the exercise of such powers, and neither the Lender nor any of its officers, directors, employees or agents shall be responsible to any Grantor for any act or failure to act hereunder.

## SECTION 8. MISCELLANEOUS.

8.1. Amendments in Writing. None of the terms or provisions of this Agreement may be waived, amended, supplemented or otherwise modified except in accordance with Section 14.1 of the Credit Agreement.

8.2. Notices. All notices, requests and demands to or upon the Lender or any Grantor hereunder shall be addressed and effected in the manner provided for in Section 14.3 of the Credit Agreement and each Grantor hereby appoints the Borrower Agent as its agent to receive notices hereunder.

8.3. Indemnification by Grantors. THE GRANTORS, JOINTLY AND SEVERALLY, HEREBY AGREE TO INDEMNIFY, EXONERATE AND HOLD EACH LENDER PARTY FREE AND HARMLESS FROM AND AGAINST ANY AND ALL INDEMNIFIED LIABILITIES, INCURRED BY THE LENDER PARTIES OR ANY OF THEM AS A RESULT OF, OR ARISING OUT OF, OR RELATING TO (A) ANY TENDER OFFER, MERGER, PURCHASE OF EQUITY INTERESTS, PURCHASE OF ASSETS (INCLUDING THE RELATED

TRANSACTIONS) OR OTHER SIMILAR TRANSACTION FINANCED OR PROPOSED TO BE FINANCED IN WHOLE OR IN PART, DIRECTLY OR INDIRECTLY, WITH THE PROCEEDS OF ANY OF THE LOANS, (B) THE USE, HANDLING, RELEASE, EMISSION, DISCHARGE, TRANSPORTATION, STORAGE, TREATMENT OR DISPOSAL OF ANY HAZARDOUS SUBSTANCE AT ANY PROPERTY OWNED OR LEASED BY ANY GRANTOR, (C) ANY VIOLATION OF ANY ENVIRONMENTAL LAWS WITH RESPECT TO CONDITIONS AT ANY PROPERTY OWNED OR LEASED BY ANY GRANTOR OR THE OPERATIONS CONDUCTED THEREON, (D) THE INVESTIGATION, CLEANUP OR REMEDIATION OF OFFSITE LOCATIONS AT WHICH ANY LOAN PARTY OR THEIR RESPECTIVE PREDECESSORS ARE ALLEGED TO HAVE DIRECTLY OR INDIRECTLY DISPOSED OF HAZARDOUS SUBSTANCES OR (E) THE EXECUTION, DELIVERY, PERFORMANCE OR ENFORCEMENT OF THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT BY ANY OF THE LENDER PARTIES, EXCEPT FOR ANY SUCH INDEMNIFIED LIABILITIES ARISING ON ACCOUNT OF THE APPLICABLE LENDER PARTY'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT AS DETERMINED BY A FINAL, NONAPPEALABLE JUDGMENT BY A COURT OF COMPETENT JURISDICTION. IF AND TO THE EXTENT THAT THE FOREGOING UNDERTAKING MAY BE UNENFORCEABLE FOR ANY REASON, EACH GRANTOR HEREBY AGREES TO MAKE THE MAXIMUM CONTRIBUTION TO THE PAYMENT AND SATISFACTION OF EACH OF THE INDEMNIFIED LIABILITIES WHICH IS PERMISSIBLE UNDER APPLICABLE LAW. ALL OBLIGATIONS PROVIDED FOR IN THIS SECTION 8.3 SHALL SURVIVE REPAYMENT OF ALL (AND SHALL BE) SECURED OBLIGATIONS (AND TERMINATION OF ALL COMMITMENTS UNDER THE CREDIT AGREEMENT), ANY FORECLOSURE UNDER, OR ANY MODIFICATION, RELEASE OR DISCHARGE OF, ANY OR ALL OF THE COLLATERAL DOCUMENTS AND TERMINATION OF THIS AGREEMENT.

8.4. Enforcement Expenses. (a) Each Grantor agrees, on a joint and several basis, to pay or reimburse on demand the Lender for all reasonable out-of-pocket costs and expenses (including Attorney Costs) incurred in collecting against any Guarantor under the guaranty contained in Section 2 or otherwise enforcing or preserving any rights under this Agreement and the other Loan Documents.

(b) Each Grantor agrees to pay, and to save the Lender harmless from, any and all liabilities with respect to, or resulting from any delay in paying, any and all stamp, excise, sales or other taxes which may be payable or determined to be payable with respect to any of the Collateral or in connection with any of the transactions contemplated by this Agreement.

(c) The agreements in this Section 8.4 shall survive repayment of all (and shall be) Secured Obligations (and termination of all commitments under the Credit Agreement), any foreclosure under, or any modification, release or discharge of, any or all of the Collateral Documents and termination of this Agreement.

8.5. Captions. Section captions used in this Agreement are for convenience only and shall not affect the construction of this Agreement.



8.6. Nature of Remedies. All Secured Obligations of each Grantor and rights of the Lender expressed herein or in any other Loan Document shall be in addition to and not in limitation of those provided by applicable law. No failure to exercise and no delay in exercising, on the part of the Lender, any right, remedy, power or privilege hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

8.7. Counterparts. This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts and each such counterpart shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Agreement. Receipt by telecopy or electronic transmission of any executed signature page to this Agreement or any other Loan Document shall constitute effective delivery of such signature page.

8.8. Severability. The illegality or unenforceability of any provision of this Agreement or any instrument or agreement required hereunder shall not in any way affect or impair the legality or enforceability of the remaining provisions of this Agreement or any instrument or agreement required hereunder.

8.9. Entire Agreement. This Agreement, together with the other Loan Documents, embodies the entire agreement and understanding among the parties hereto and supersedes all prior or contemporaneous agreements and understandings of such Persons, verbal or written, relating to the subject matter hereof and thereof and any prior arrangements made with respect to the payment by any Grantor of (or any indemnification for) any fees, costs or expenses payable to or incurred (or to be incurred) by or on behalf of the Lender.

8.10. Successors; Assigns. This Agreement shall be binding upon Grantors, the Lender and their respective successors and assigns, and shall inure to the benefit of Grantors and the Lender and the successors and assigns of the Lender. No other Person shall be a direct or indirect legal beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any of the other Loan Documents. No Grantor may assign or transfer any of its rights or Obligations under this Agreement without the prior written consent of the Lender.

8.11. Governing Law. THIS AGREEMENT SHALL BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF ILLINOIS APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE, WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES.

8.12. Forum Selection; Consent to Jurisdiction. ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH THIS AGREEMENT SHALL BE BROUGHT AND MAINTAINED EXCLUSIVELY IN THE COURTS OF THE STATE OF ILLINOIS OR IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF

ILLINOIS; PROVIDED THAT NOTHING IN THIS AGREEMENT SHALL BE DEEMED OR OPERATE TO PRECLUDE THE LENDER FROM BRINGING SUIT OR TAKING OTHER LEGAL ACTION IN ANY OTHER JURISDICTION. EACH GRANTOR HEREBY EXPRESSLY AND IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE STATE OF ILLINOIS AND OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS FOR THE PURPOSE OF ANY SUCH LITIGATION AS SET FORTH ABOVE. EACH GRANTOR FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS BY REGISTERED MAIL, POSTAGE PREPAID, OR BY PERSONAL SERVICE WITHIN OR WITHOUT THE STATE OF ILLINOIS. EACH GRANTOR HEREBY EXPRESSLY AND IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH LITIGATION BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH LITIGATION HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

8.13. Waiver of Jury Trial. EACH GRANTOR AND THE LENDER HEREBY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS AGREEMENT AND ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HERewith AND AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

8.14. Set-off. Each Grantor agrees that the Lender has all rights of set-off and bankers' lien provided by applicable law, and in addition thereto, each Grantor agrees that at any time any Event of Default exists, the Lender may apply to the payment of any Secured Obligations, whether or not then due, any and all balances, credits, deposits, accounts or moneys of such Grantor then or thereafter with the Lender.

8.15. Acknowledgements. Each Grantor hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement and the other Loan Documents to which it is a party;

(b) the Lender has no fiduciary relationship with or duty to any Grantor arising out of or in connection with this Agreement or any of the other Loan Documents, and the relationship between the Grantors, on the one hand, and the Lender, on the other hand, in connection herewith or therewith is solely that of debtor and creditor; and

(c) no joint venture is created hereby or by the other Loan Documents or otherwise exists by virtue of the transactions contemplated hereby among the Grantors and the Lender.

8.16. Additional Grantors. Each Loan Party that is required to become a party to this Agreement pursuant to Section 10.10 of the Credit Agreement shall

become a Grantor for all purposes of this Agreement upon execution and delivery by such Loan Party of a joinder agreement in the form of Annex I hereto.

8.17. Releases. (a) At such time as the Secured Obligations have been Paid in Full, the Collateral shall be released from the Liens created hereby, and this Agreement and all obligations (other than those expressly stated to survive such termination) of the Lender and each Grantor hereunder shall terminate, all without delivery of any instrument or performance of any act by any party, and all rights to the Collateral shall revert to the Grantors. At the request and sole expense of any Grantor following any such termination, the Lender shall deliver to the Grantors any Collateral held by the Lender hereunder, and execute and deliver to the Grantors such documents as the Grantors shall reasonably request to evidence such termination.

(b) If any of the Collateral shall be sold, transferred or otherwise disposed of by any Grantor in a transaction permitted by the Credit Agreement, then the Lender, at the request and sole expense of such Grantor, shall execute and deliver to such Grantor all releases or other documents reasonably necessary or desirable for the release of the Liens created hereby on such Collateral. At the request and sole expense of the Borrowers, a Guarantor shall be released from its obligations hereunder in the event that all the equity interests of such Guarantor shall be sold, transferred or otherwise disposed of in a transaction permitted by the Credit Agreement; provided that the Borrower Agent shall have delivered to the Lender, with reasonable notice prior to the date of the proposed release, a written request for release identifying the relevant Guarantor and the terms of the sale or other disposition in reasonable detail, including the price thereof and any expenses in connection therewith, together with a certification by the Borrower Agent on behalf of the Borrowers stating that such transaction is in compliance with the Credit Agreement and the other Loan Documents.

8.18. Obligations and Liens Absolute and Unconditional. Each Grantor understands and agrees that the obligations of each Grantor under this Agreement shall be construed as a continuing, absolute and unconditional without regard to (a) the validity or enforceability of any Loan Document, any of the Secured Obligations or any other collateral security therefor or guaranty or right of offset with respect thereto at any time or from time to time held by the Lender, (b) any defense, set-off or counterclaim (other than a defense of payment or performance) which may at any time be available to or be asserted by any Grantor or any other Person against the Lender, or (c) any other circumstance whatsoever (with or without notice to or knowledge of any Grantor) which constitutes, or might be construed to constitute, an equitable or legal discharge of any Grantor for the Secured Obligations, in bankruptcy or in any other instance. When making any demand hereunder or otherwise pursuing its rights and remedies hereunder against any Grantor, the Lender may, but shall be under no obligation to, make a similar demand on or otherwise pursue such rights and remedies as it may have against any other Grantor or any other Person or against any collateral security or guaranty for the Secured Obligations or any right of offset with respect thereto, and any failure by the Lender to make any such demand, to pursue such other rights or remedies or to collect any payments from any other Grantor or any other Person or to realize upon any such collateral security or guaranty or to exercise any such right of offset, or any release of any other Grantor or any other Person or any such collateral security, guaranty or right of offset, shall not relieve any

Grantor of any obligation or liability hereunder, and shall not impair or affect the rights and remedies, whether express, implied or available as a matter of law, of the Lender against any Grantor. For the purposes hereof “demand” shall include the commencement and continuance of any legal proceedings.

8.19. Reinstatement. This Agreement shall remain in full force and effect and continue to be effective should any petition be filed by or against Grantor or any Issuer for liquidation or reorganization, should Grantor or any Issuer become insolvent or make an assignment for the benefit of creditors or should a receiver or trustee be appointed for all or any significant part of Grantor’s or and Issuer’s assets, and shall continue to be effective or be reinstated, as the case may be, if at any time payment and performance of the Secured Obligations, or any part thereof, is, pursuant to applicable law, rescinded or reduced in amount, or must otherwise be restored or returned by any obligee of the Secured Obligations, whether as a “voidable preference”, “fraudulent conveyance”, or otherwise, all as though such payment or performance had not been made. In the event that any payment, or any part thereof, is rescinded, reduced, restored or returned, the Secured Obligations shall be reinstated and deemed reduced only by such amount paid and not so rescinded, reduced, restored or returned.

*[signature pages follow]*

Each of the undersigned has caused this Guaranty and Security Agreement to be duly executed and delivered as of the date first above written.

**WESTELL TECHNOLOGIES, INC.**, as a Borrower and Borrower Representative

By: /s/ Amy T. Forster  
Name: Amy T. Forster  
Title: Senior Vice President and Treasurer

**WESTELL, INC.**, as a Borrower

By: /s/ Amy T. Forster  
Name: Amy T. Forster  
Title: Senior Vice President and Treasurer

**TELTREND LLC**, as a Borrower

By: /s/ Amy T. Forster  
Name: Amy T. Forster  
Title: Senior Vice President and Treasurer

**CONFERENCE PLUS, INC.**, as a Borrower

By: /s/ Amy T. Forster  
Name: Amy T. Forster  
Title: Senior Vice President and Treasurer

**THE PRIVATEBANK AND TRUST COMPANY**

By: /s/ William Robertson  
Name: William Robertson  
Title: Managing Director/Senior Vice President

Guaranty and Collateral Agreement Signature Page

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**SCHEDULE 1**

**INVESTMENT PROPERTY**

**A. PLEDGED EQUITY**

<b>Grantor (owner of Record of such Pledged Equity)</b>	<b>Issuer</b>	<b>Pledged Equity Description</b>	<b>Percentage of Issuer</b>	<b>Certificate (Indicate No.)</b>
Westell Technologies, Inc.	Westell, Inc.	Common Stock	100%	1
Westell Technologies, Inc.	Conference Plus, Inc.	Common Stock	100% of Class A and B common stock	CB-1; CA-8, CA-9, CA-15
Westell, Inc.	Teltrend LLC	membership interests	100%	N/A
Westell, Inc.	NoranTel, Inc.	Class A Common Stock	100%	A-1

**B. PLEDGED NOTES**

<b>Grantor (owner of Record of such Pledged Notes)</b>	<b>Issuer</b>	<b>Pledged Notes Description</b>
Subordinated Intercompany Note	Westell Technologies, Inc., Westell, Inc., Conference Plus, Inc. and Teltrend, Inc.	Subordinated Intercompany Note
Westell, Inc.	NoranTel, Inc.	Promissory Note

**C. OTHER INVESTMENT PROPERTY**

<b>Grantor</b>	<b>Investment Property Description</b>
Westell Technologies, Inc.	Money Market Investments

SCHEDULE 2

FILINGS AND PERFECTION

<b>GRANTOR</b>	<b>FILING REQUIREMENT OR OTHER ACTION</b>	<b>FILING OFFICE</b>
Westell Technologies, Inc.	UCC-1	Delaware Secretary of State
Westell, Inc.	UCC-1	Illinois Secretary of State
Teltrend LLC	UCC-1	Delaware Secretary of State
Conference Plus, Inc.	UCC-1	Delaware Secretary of State

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**SCHEDULE 3**

**GRANTOR INFORMATION**

<b>GRANTOR (exact legal name)</b>	<b>STATE OF ORGANIZATION</b>	<b>FEDERAL EMPLOYER IDENTIFICATION NUMBER</b>	<b>ORG. ID #</b>	<b>CHIEF EXECUTIVE OFFICE</b>
Westell Technologies, Inc.	Delaware	36-3154957	0901850	750 North Commons Drive, Aurora, IL 60504
Westell, Inc.	Illinois	36-3093461	5220-980-3	750 North Commons Drive, Aurora, IL 60504
Teltrend LLC	Delaware	13-3476859	3505344	750 North Commons Drive, Aurora, IL 60504
Conference Plus, Inc.	Delaware	36-3618957	2176858	1051 Woodfield Road, Schaumburg, IL 60173

**SCHEDULE 4**

**A. COLLATERAL LOCATIONS**

<b>GRANTOR</b>	<b>COLLATERAL</b>	<b>COLLATERAL LOCATION OR PLACE OF BUSINESS (INCLUDING CHIEF EXECUTIVE OFFICE)</b>	<b>OWNER/LESSOR (IF LEASED)</b>
Westell Technologies, Inc.	Inventory, Equipment, Books and Records, and other tangible and intangible personal property.	750 North Commons Drive, Aurora, IL 60504	WTI(IL) QRS 12-36, Inc. c/o W.P. Carey & Co. LLC 50 Rockefeller Plaza Second Floor New York, NY 10020
Westell, Inc.	Inventory, Equipment, Books and Records, and other tangible and intangible personal property.	750 North Commons Drive, Aurora, IL 60504	WTI(IL) QRS 12-36, Inc. c/o W.P. Carey & Co. LLC 50 Rockefeller Plaza Second Floor New York, NY 10020
Teltrend LLC	Inventory, Equipment, Books and Records, and other tangible and intangible personal property.	750 North Commons Drive, Aurora, IL 60504	WTI(IL) QRS 12-36, Inc. c/o W.P. Carey & Co. LLC 50 Rockefeller Plaza Second Floor New York, NY 10020
Conference Plus, Inc.	Inventory, Equipment, Books and Records, and other tangible and intangible personal property.	1051 Woodfield Road, Schaumburg, IL 60173	Four Columns, Ltd. 1325 N. Sandburg Terrace Chicago, IL 60610-2011

**B. COLLATERAL IN POSSESSION OF LESSOR,  
BAILEE, CONSIGNEE OR WAREHOUSEMAN**

<b>GRANTOR</b>	<b>COLLATERAL</b>	<b>LESSOR/BAILEE/CONSIGNEE/WAREHOUSEMAN</b>
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Westell, Inc. 1000 east 116 <sup>th</sup> Street Carmel, IN 46032	Inventory on Consignment	Telamon Technologies Corp
Westell, Inc. Hsinchu Science Based Industry Park 5F-1, 5 Hsin-an Road Hsinchu, Republic of China	Inventory at Vendor	FoxConn
Westell, Inc. 31 UBI Road 1 Aztech Building Singapore 408694	Inventory at Vendor	Aztech Systems LTD
Westell, Inc. 1251 Nagel Road Batavia, IL 60510	Inventory at Vendor	Enginuity Communication
Westell, Inc. 700 W Mineral Ave Littleton, CO 80120	Inventory on Consignment	Qwest Corp.
Conference Plus, Inc. 711 N. Edgewood Wood Dale, IL 60191	Equipment	SunGard
Conference Plus, Inc. 1000 Commerce Oak Brook, IL	Equipment	AT&T

**SCHEDULE 5**  
**INTELLECTUAL PROPERTY**

Westell Technologies, Inc.

		09/739716	18-Dec-2000	
America			Country: United States of	
		721872215-May-2007		
		<b>Title:</b> System and Method for Providing Call Management Services in a Virtual Private Network Using Voice or Video Over Internet Protocol		
09/636192		10-Aug-2000		
	<b>Country:</b>		United States of America	6718030
				06-Apr-2004
		<b>Title:</b> Virtual Private Network System And Method Using Voice Over Internet Protocol		
		10/225947	22-Aug-2002	
			Country: United States of America	
730500604-Dec-2007				
		<b>Title:</b> System for Allowing A Single Device To Share Multiple Transmission Lines		
			10/103478	21-Mar-2002
	<b>Country:</b>	United States of America	PD02-01	7406117
				29-Jul-2008
		<b>Title:</b> XDSL Multi-Hybrid Modem with Power Spectral Density Shaping		
		ORD	10/097966	
		14-Mar-2002		
	<b>Country:</b>		United States of America	7076030
				11-Jul-2006
		<b>Title:</b> Method and System for Testing XDSL Wiring		
		ORD	10/106271	
		25-Mar-2002		
	<b>Country:</b>		United States of America	7301894
				27-Nov-2007
		<b>Title:</b> Method for Providing Fault Tolerance in an XDSL System		
		ORD	0404430.1	
		27-Feb-2004		
	<b>Country:</b>		United Kingdom	2399710
				22-Mar-2006
	<b>Title:</b> Method for Maintaining Quality of Service for Telephone Calls Routed Between Circuit Switched Networks			
		ORD	09/750406	
		28-Dec-2000		
	<b>Country:</b>		United States of America	7106854
				12-Sep-2006
		<b>Title:</b> XDSL System Having Selectable Hybrid Circuitry		
CIP		10/647817	25-Aug-2003	

	<b>Country:</b>		United States of America	7145943
				05-Dec-2006
	<b>Title:</b>		XDSL System with Improved Impedance	Circuitry
ORD		09/038938		12-Mar-1998
	<b>Country:</b>		United States of America	6115466
				05-Sep-2000
	<b>Title:</b>		Subscriber Line System Having a Dual-Mode Filter for Voice Communications Over a	Telephone Line
CIP		09/083162		22-May-1998
	<b>Country:</b>		United States of America	6144735
				07-Nov-2000
	<b>Title:</b>		Filters for a Digital Subscriber Line System for Voice Communication Over a	Telephone Line
CIP		09/307871		10-May-1999
	<b>Country:</b>		United States of America	6181775
				30-Jan-2001
	<b>Title:</b>		Dual Test Mode Network Interface Unit for Remote Testing of Transmission Line and Customer	Equipment
ORD		09/384441		27-Aug-1999
	<b>Country:</b>		United States of America	6137880
				24-Oct-2000
	<b>Title:</b>		Passive Splitter Filter for Digital Subscriber Line Voice Communication for Complex Impedance	Terminations
CIP		09/433011		03-Nov-1999
	<b>Country:</b>		United States of America	6278769
				21-Aug-2001
	<b>Title:</b>		Signaling Method for Invoking a Test Mode in a Network Interface	Unit
PCT		10/181045		12-Jul-2002
	<b>Country:</b>		United States of America	7092375
				15-Aug-2006
	<b>Title:</b>		Modem Having Flexible Architecture for Connecting to Multiple Channel	Interfaces
		ORD		09/199562
				25-Nov-1998
	<b>Country:</b>		United States of America	6212258
				03-Apr-2001
	<b>Title:</b>		Device for Remotely Testing a Twisted Pair Transmission	Line
		ORD		11/453661
				15-Jun-2006
	<b>Country:</b>		United States of America	7360137
				15-Apr-2008
	<b>Title:</b>		Flash Programmer for Programming NAND Flash and NOR/NAND Combined	Flash
		ORD		08/929019

15-Sep-1997

**Country:** United States of America 6959084  
25-Oct-2005  
**Title:** Network Interface Unit Shelf Assembly With Multi-Positionable Customer Interface  
Module

DES 29/165196  
07-Aug-2002  
**Country:** United States of America D487261  
02-Mar-2004  
**Title:** Ornamental Design For Network Interface  
Unit

ORD 07/841729  
26-Feb-1992  
**Country:** United States of America 5224149  
29-Jun-1993  
**Title:** Testing System for Digital Transmission  
Lines

ORD 07/943859  
11-Sep-1992  
**Country:** United States of America 5680405  
21-Oct-1997  
**Title:** Method And System For Communicating The Status Of A Digital Transmission Line Element During  
Loopback.

CON 08/951121  
16-Oct-1997  
**Country:** United States of America 5889785  
30-Mar-1999  
**Title:** Method And System For Communicating The Status Of A Digital Transmission Line Element During  
Loopback.

CON 09/229532  
13-Jan-1999  
**Country:** United States of America 6151691  
21-Nov-2000  
**Title:** Method And System For Communicating The Status Of A Digital Transmission Line Element During  
Loopback.

CON 09/652881  
31-Aug-2000  
**Country:** United States of America 6453432  
17-Sep-2002  
**Title:** Method And System For Communicating The Status Of A Digital Transmission Line Element During  
Loopback.

ORD 08/680833  
16-Jul-1996  
**Country:** United States of America 5862200  
19-Jan-1999  
**Title:** Ground Fault Detector For T1 Span  
Equipment

CON 09/357612  
20-Jul-1999  
**Country:** United States of America 6477250  
05-Nov-2002

**Title:** Adjustable Hybrid Having Dial Tone Alignment Configuration

CPA  
**Country:** 08/711680 04-Sep-1996  
United States of America 6111949  
29-Aug-2000  
**Title:** Method Of Rapid Automatic Hybrid Balancing

ORD Country: United States of America 6118763 29-May-1998  
Signal Processing Unit for NETWORK INTERFACE UNIT 13-Feb-2001

PENDING PATENT APPLICATIONS-WESTELL TECHNOLOGIES, INC

CON Published 11/498409  
03-Aug-2006  
**Country:** United States of America  
**Title:** System and Method For Providing Call Management Services In A Virtual Private Network Using Voice or Video Over Internet Protocol  
**App. Inventor(s):** Turner, George W.; Noll, William J.; Harrington, Paul V.; Higgins, Rodger D.

ORD Published 11/241465 30-Sep-2005  
**Country:** United States of America  
**Title:** In-Home Voice-Over-Internet-Protocol Telephony Distribution  
**App. Inventor(s):** Pitsoulakis, George; Simanonis, Christopher; Ziermann, Mark S.; Beegle, Mark Joseph

ORD Published 11/516307  
06-Sep-2006  
**Country:** United States of America  
**Title:** System and Method for Optical Network Demarcation  
**App. Inventor(s):** Simanonis, Christopher; Wynard, Daniel

ORD Pending MX/a/2007/005252 02-May-2007  
**Country:** Mexico  
**Title:** Programming Method for Write Buffer and Double Word Flash Programming  
**App. Inventor(s):** Amidon, Greg; Addemir, Samil Asim

06-291-B1 ORD Published 200710102424.9  
08-May-2007  
**Country:** China (People's Republic)  
**Title:** Flash Programmer For Programming NAND Flash And NOR/NAND Combined Flash  
**App. Inventor(s):** Amidon, Greg; Addemir, Samil Asim; Topham, Greg

06-291-B2 ORD Pending MX/a/2007/005250  
02-May-2007  
**Country:** Mexico  
**Title:** Flash Programmer For Programming NAND Flash And NOR/NAND Combined Flash  
**App. Inventor(s):** Amidon, Greg; Addemir, Samil Asim; Topham, Greg

06-291-C1 ORD Published 200710102996.7  
08-May-2007

**Country:** China (People's Republic)

**Title:** Parallel Programming Of Flash Memory During In-Circuit  
Test

**App. Inventor(s):** Amidon, Greg; Addemir, Samil Asim; Topham, Greg

**06-291-C2**

ORD

Pending

MX/a/2007/005251

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02-May-2007

**Country:** Mexico

**Title:** Parallel Programming Of Flash Memory During In-Circuit Test

**App. Inventor(s):** Amidon, Greg; Addemir, Samil Asim; Topham, Greg

06-973-A

ORD  
18-Sep-2007

Published

11/857282

**Country:** United States of America

**Title:** Active Cooling of Outdoor Enclosure Under Solar Loading

**App. Inventor(s):** Duquette, Ed; Patel, Minesh; Walker, Tony; Wynard, Daniel; Cors, Craig; Lantz, Greg

07-197-A

ORD  
07-Nov-2007

Published

11/936529

**Country:** United States of America

**Title:** Apparatus And Method For Optimizing Use Of A Modem Jack

**App. Inventor(s):** Simanonis, Christopher

07-525-A

ORD  
22-May-2008

Pending

12/125540

**not published**

**Country:** United States of America

**Title:** -----

**App. Inventor(s):** -----

28-Nov-2006 ORD

Country: United States of America Published US-2008-0125100-A1 29-May-2008

Mobile Device for Outbound Personality Portability

26-Sep-2007 ORD Pending not published 11/862,042

Country: United States of America

Title:-----

**Trademarks:**

Country	Trademark	Serial No.	Filing Date	Registration No.	Registration Date
United States	ENVOY SERVICE MANAGEMENT SYSTEM	76/607,227	August 12, 2004	2,980,692	August 2, 2005
United States	WESTELL SHADE	77/21846	June 28, 2007	3,421,821	May 6, 2008
United States	LITELINE	76/631,730	February 22, 2005	3,052,931	January 31, 2006
United States	PROLINE	76/631,988	February 23, 2005	3,057,024	February 7, 2006
United States	SMARTLINK	75/240,503	February 12, 1997	2,606,249	August 13, 2002

United States	VIRTUAL EDGE	77/228150	July 12, 2007	3,425,790	May 13, 2008
United States	ULTRALINE	76/556,681	November 3, 2003	3,002,376	September 27, 2005
United States	VERSALINK	76/607,226	August 12, 2004	3,252,144	June 12, 2007
United States	W (STYLIZED)	76/185,198	December 22, 2000	2,573,273	May 28, 2002
United States	W (STYLIZED)	75/119,518	June 4, 1996	2,199,214	October 27, 1998
European Community	W (STYLIZED)	000181651	April 1, 1996	181651	February 1, 1999
United States	W WESTELL (STYLIZED)	76/185,274	December 22, 2000	2,597,390	July 23, 2002
United States	WESTELL	76/185,273	December 22, 2000	2,597,389	July 23, 2002
United States	WESTELL	75/119,519	June 4, 1996	2,165,080	June 16, 1998
European Community	WESTELL	000181289	April 1, 1996	181289	November 16, 1998

United States POWERSPAN 76/576,391 February 17, 2004 34 27261 May 13, 2008

United States WIRESPEED 75/617,451 January 8, 2005 2929058 March 1, 2005

PENDING APPLICATIONS:

NETWORKED HOMELIFE 77/510,576 Filed June 28, 2008

ULTRAVOICE 77/654,457 Filed November 7, 2008

OSPLANT SYSTEMS 77/609,681 Filed January 22, 2008

**Material Unregistered Trademarks:**

TRILINK

**Copyrights:**

None.

**Material Intellectual Property Licenses:**

Licensee	Licensor	Description	Effective Date
Westell Technologies, Inc.	Jungo	UltraLine Series 3	August, 2008
Westell Technologies, Inc.	Radvision	Software for Trilink technology	February 27, 2004
Westell Technologies, Inc.	ADA (now Actura)	OSPlant product	October 28, 1998
Westell Technologies, Inc.	FinePoint	OSPlant product	December 23, 2002
Westell Technologies, Inc.	WindRiver	Wstl product	July 24, 2003

**Conference Plus, Inc.****Patents:**

None.

**Trademarks:**

Country	Trademark	Serial No.	Filing Date	Registration No.	Registration Date
United States	CONFERENCE PLUS	75/943,995	March 14, 2000	2,616,418	September 10, 2002
United States	CONFERENCEANYTIME	76/558,511	November 13, 2003	2,963,673	June 28, 2005
United States	CONFERENCEPASSCODE	76/558,513	November 13, 2003	2,963,674	June 28, 2005
United States	CPI CONFERENCE PLUS, INC. (AND DESIGN)	74/107,344	October 19, 1990	1,703,753	July 28, 1992
United States	ENHANCEMENTSPLUS	76/558,514	November 13, 2003	2,963,675	June 28, 2005
United States	VIEWPLUS	76/558,517	November 13, 2003	3360135	12/25/2007
United States	WEBPLUS	76/558,515	November 13, 2003	2,920,511	January 25, 2005

**Material Unregistered Trademarks:**

Pending applications: SHAREPORTAL

**Copyrights:**

None.

**Material Intellectual Property Licenses:**

None.

Westell, Inc.

**Patents:**

Country	Patent	Appln. No.	Filing Date	Patent No.	Issue Date
United States	Router-based domain name system proxy agent using address translation	09/310,188	May 12, 1999	6,480,508	November 12, 2002
United States	Multi-variate system having an intelligent telecommunications interface with automatic adaptive delay distortion equalization (and related method)	08/413,421	March 30, 1995	5,555,285	September 10, 1996

**Trademarks:**

Country	Trademark	Serial No.	Filing Date	Registration No.	Registration Date
United States	200 MECHANICS (STYLIZED)	74/470,915	December 17, 1993	1,991,591	August 6, 1996
United States	ASTS	75/697,390	May 4, 1999	2,582,781	June 18, 2002
United States	CELLPAK	75/041,456	January 11, 1996	2,847,581	June 1, 2004
United States	TELTREND	74/132,896	January 23, 1991	1,666,561	December 3, 1991

**Material Unregistered Trademarks:**

None.

**Copyright Registrations:**

Country	Copyright	Registration No.	Registration Date
United States	Westell Software Algorithms for Signal to Guard Detection	93-634	June 29, 1993
United States	Westell Supplier Audit	TX-3-508-858	March 8, 1993
United States	Westell Supplier Survey	TX-3-514-817	January 11, 1993

**Material Unregistered Copyrights:**

None.

**Material Intellectual Property Licenses:**

None.

Teltrend LLC**Patents:**

Country	Patent	Appln. No.	Filing Date	Patent No.	Issue Date
United States	High density telephone network interface unit	08/833,860	April 10, 1997	5,907,614	May 25, 1999
United States	High density telephone network interface unit	08/649,303	May 17, 1996	5,631,956	May 20, 1997
United States	Floating digital loop carrier telephone interface	08/255,176	June 7, 1994	5,566,239	October 15, 1996
United States	Noise-tolerant address transmission system for digital telecommunication network	08/193,946	February 9, 1994	5,437,023	July 25, 1995
United States	Remote terminal channel unit for telephone transmission lines	08/282,426	July 28, 1994	5,422,950	June 6, 1995
United States	Trans-hybrid loss compensator for on hook transmission	08/056,413	May 3, 1993	5,357,569	October 18, 1994

**Trademarks:**

None.

**Copyrights:**

None.

**Material Intellectual Property Licenses:**

None.

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SCHEDULE 6

DEPOSITARY AND OTHER DEPOSIT ACCOUNTS

GRANTOR	FINANCIAL INSTITUTION	ACCOUNT NUMBER
Westell Technologies, Inc.	Bank of America	5800334111
Teltrend LLC	Bank of America	5590001482
Westell, Inc.	Bank of America	5590041447
Conference Plus, Inc.	Bank of America	5800077975
Conference Plus, Inc.	Bank of America	5590041462
Conference Plus, Inc.	Bank of America	5800503103
Conference Plus, Inc.	ABN AMRO Canadian Account	460131883541
Westell, Inc.	Bank of America	2238361113BCS
Conference Plus, Inc.	Bank of America	2238716713BMZ

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SCHEDULE 7

**COMMERCIAL TORT CLAIMS**

None.

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ANNEX I

FORM OF JOINDER TO GUARANTY AND SECURITY AGREEMENT

This JOINDER AGREEMENT (this "Agreement") dated as of \_\_\_\_\_ is executed by the undersigned for the benefit of The PrivateBank and Trust Company (the "Lender") in connection with that certain Guaranty and Security Agreement dated as of March 5, 2009 among the Grantors party thereto and the Lender (as amended, restated, supplemented or modified from time to time, the "Guaranty and Security Agreement"). Capitalized terms not otherwise defined herein are being used herein as defined in the Guaranty and Security Agreement.

Each Person signatory hereto is required to execute this Agreement pursuant to Section 8.16 of the Guaranty and Security Agreement.

In consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, each signatory hereby agrees as follows:

1. Each such Person assumes all the obligations of a Grantor and a Guarantor under the Guaranty and Security Agreement and agrees that such person or entity is a Grantor and a Guarantor and bound as a Grantor and a Guarantor under the terms of the Guaranty and Security Agreement, as if it had been an original signatory to such agreement. In furtherance of the foregoing, such Person hereby assigns, pledges and grants to the Lender a security interest in all of its right, title and interest in and to the Collateral owned thereby to secure the Secured Obligations.

2. Schedules 1, 2, 3, 4, 5, 6, 7 and 8 of the Guaranty and Security Agreement are hereby amended to add the information relating to each such Person set out on Schedules 1, 2, 3, 4, 5, 6, 7 and 8 respectively, hereof. Each such Person hereby makes to the Lender the representations and warranties set forth in the Guaranty and Security Agreement applicable to such Person and the applicable Collateral and confirms that such representations and warranties are true and correct after giving effect to such amendment to such Schedules.

3. In furtherance of its obligations under Section 5.2 of the Guaranty and Security Agreement, each such Person agrees to deliver to the Lender appropriately complete UCC financing statements naming such person or entity as debtor and the Lender as secured party, and describing its Collateral and such other documentation as the Lender (or its successors or assigns) may require to evidence, protect and perfect the Liens created by the Guaranty and Security Agreement, as modified hereby. Each such Person acknowledges the authorizations given to the Lender under the Section 5.10(b) of the Guaranty and Security Agreement and otherwise.

4. Each such Person's address for notices under the Guaranty and Security Agreement shall be the address of the Borrower Agent set forth in the Credit Agreement and each such Person hereby appoints the Borrower Agent as its agent to receive notices hereunder.

5. This Agreement shall be deemed to be part of, and a modification to, the Guaranty and Security Agreement and shall be governed by all the terms and provisions of the Guaranty and Security Agreement, with respect to the modifications intended to be made to such agreement, which terms are incorporated herein by reference, are ratified and confirmed and shall continue in full force and effect as valid and binding agreements of each such person or entity enforceable against such person or entity. Each such Person hereby waives notice of the Lender's acceptance of this Agreement. Each such Person will deliver an executed original of this Agreement to the Lender.

[add signature block for each new Grantor]

Exhibit 21.1

**SUBSIDIARIES OF REGISTRANT**

Subsidiary	Jurisdiction of Incorporation
Westell, Inc.	Illinois
Conference Plus, Inc.	Delaware
Conference Plus Global Services, Ltd.	Ireland
TLT Merger LLC	Delaware
Noran Tel, Inc.	Saskatchewan

**Exhibit 23.1**

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-57810, No. 333-79407, No. 333-100625, No. 333-39201 and No. 333-66772, and Form S-8 No. 333-155211, No.333-32646, No. 333-105926, and No. 333-119620) of Westell Technologies, Inc. and in their related Prospectuses of our reports dated June 12, 2009, with respect to the Consolidated Financial Statements and schedule of Westell Technologies, Inc. and the effectiveness of internal control over financial reporting of Westell Technologies, Inc. included in this Annual Report (Form 10-K) for the year ended March 31, 2009.

/s/ Ernst & Young LLP

Chicago, Illinois  
June 12, 2009

**CERTIFICATION**

I, Richard S. Gilbert, certify that:

- (1) I have reviewed this annual report on Form 10-K for the period ended March 31, 2009 of the Company;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
- (4) The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
- (5) The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls over financial reporting.

Date: June 15, 2009

/s/ RICHARD S. GILBERT

Richard S. Gilbert  
Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATION**

I, Brian S. Cooper, certify that:

- (1) I have reviewed this annual report on Form 10-K for the period ended March 31, 2009 of the Company;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
- (4) The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
- (5) The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls over financial reporting.

Date: June 15, 2009

/s/ BRIAN S. COOPER  
Brian S. Cooper  
Chief Financial Officer

**Exhibit 32**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

We, Richard S. Gilbert, Chief Executive Officer of Westell Technologies, Inc. (the "Company") and Brian S. Cooper, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

The Annual Report on Form 10-K of the Company for the fiscal period ended March 31, 2009 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company as of and for the periods covered in the Report.

/s/ RICHARD S. GILBERT

Richard S. Gilbert

June 15, 2009

/s/ BRIAN S. COOPER

Brian S. Cooper

June 15, 2009

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.