

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

FORM 10-K

(Mark One)

- Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended March 31, 2006 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 N. Commons Drive, Aurora, Illinois 60504
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(630) 898-2500**

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Class A Common Stock, \$0.01 par value**

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 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. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

The registrant estimates that the aggregate market value of the registrant's Class A Common Stock held by non-affiliates (within the meaning of the term under the applicable regulations of the Securities and Exchange Commission) on September 30, 2005 (based upon an estimate that 72% 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 National Market on that date) was approximately \$204 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 June 2, 2006, 55,607,834 shares of the registrant's Class A Common Stock were outstanding and 14,741,872 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.

The following documents are incorporated into this Part III Form 10-K (and any amendments thereto) by reference:

Portions of the Proxy Statement for 2006 Annual Meeting of Stockholders.

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

Certain statements contained in this Annual Report of Form 10-K including, without limitation, statements containing the words "believe," "goal," "on track," "anticipate," "committed" "expectation," "expect," "estimate", "await," "continue," "intend," "may," "will," "should," and similar expressions are forward looking statements that involve risks and uncertainties. The Company can give no assurance that the expectations reflected in the forward-looking statements will prove to be correct. These risks include, but are not limited to, product demand and market acceptance risks, need for financing, any economic downturn in the U.S. economy and telecom market, the impact of competitive products or technologies, competitive pricing pressures, product development, excess and obsolete inventory, new product development, 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) and other risks more fully described in this Form 10-K for the fiscal year ended March 31, 2006 under the section "Risk Factors". These statements are not guarantees of future performance. Westell undertakes no obligation to release publicly the result of any revisions to these forward looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. At any time when the Company makes forward-looking statements, it desires to take advantage of the "safe harbor" which is afforded such statements under the Private Securities Litigation Reform Act of 1995.

PART I

ITEM 1. BUSINESS

Westell Technologies, Inc., (the "Company") was incorporated in Delaware in 1980 and its headquarters are located at 750 North Commons Drive, Aurora, Illinois. The Company is comprised of two segments: equipment sales and teleconference services. In the equipment segment, the Company designs, manufactures, markets and services a broad range of digital and legacy analog products used by telephone companies and other telecommunications service providers to deliver broadband services over both existing copper telephone wires and fiber that connect end users to a telephone company's central office. The central office is a telephone company building where subscriber lines are joined to switching equipment that can connect subscribers to each other. The copper wires and fiber that connect users to these central offices are part of the telephone companies' networks and are commonly referred to as the local loop or the local access network.

The equipment manufacturing segment consists of two product lines: Customer Networking Equipment (CNE) products and Network Service Access (NSA) products. The CNE product line includes broadband and digital subscriber line (DSL) technology products that allow the transport of high-speed data over the local loop and enable telecommunications companies to provide broadband services over existing copper infrastructure and fiber. The Company's NSA product line consists of manageable and non-manageable T1 transmission equipment, associated mountings and special service plugs for the legacy copper telephone network. On December 29, 2005, the Company acquired 100% of the common stock of HyperEdge Corporation, a manufacturer of network service access products. Westell realizes the majority of its revenues from the North American market.

The Company's service segment is comprised of a 91.5% owned subsidiary, Conference Plus, Inc. Conference Plus provides audio, video, and web conferencing services. Businesses and individuals use these services to hold voice, video or web conferences with many people at the same time. Conference Plus sells its services directly to large customers, including Fortune 1000 companies, and serves other customers indirectly through its private reseller program.

Revenues and total assets from Westell's two reportable segments and product groups 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,					
	2006		2005		2004	
Revenue:		%		%		%
CNE products	\$194,782	69%	\$183,384	68%	\$135,704	58%
NSA products	43,319	15%	42,481	16%	54,736	23%
Total Telecom equipment	238,101	84%	225,865	84%	190,440	81%
Telecom services	45,070	16%	44,398	16%	45,299	19%
Total revenue	\$283,171		\$270,263		\$235,739	
Assets:						
Telecom equipment	\$174,131	91%	\$160,416	89%	\$109,493	84%
Telecom services	17,682	9%	19,674	11%	20,288	16%
Total assets	\$191,813		\$180,090		\$129,781	

Financial information for each of the Company's business and operations by geographic area and segments is located in Note 12 of the consolidated financial statements included in this Annual Report and is incorporated herein by reference.

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 47.8% of the voting control of the Company as of June 2, 2006. 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 52.7% of the voting stock and therefore effectively control the Company.

The Company's Products

The equipment segment of the Company's business consists of two product lines, offering a broad range of products that facilitate the broadband transmission of high-speed digital and analog data between a telephone company's central office and end-user customers. These two product lines are:

- *Customer Networking Equipment (CNE)*: Westell's family of broadband products enable the transport of high-speed data over existing local telephone lines and allow telecommunications companies to provide broadband services using their current copper infrastructure. The Company's broadband products also enable residential, small business and Small Office Home Office (SOHO) users to network multiple computers, telephones and other devices to access the Internet. Digital Subscriber Lines (DSL) products make up the majority of the revenue in this product group.
- *Network Service Access (NSA)*: Westell's NSA product family consists of manageable and non-manageable T1 transmission equipment for telephone services, along with an array of flexible T1 product mountings and a new Intelligent Ethernet Network Interface Unit. These products along with their associated cables and connectors serve as a point of demarcation between the telephone service and the end users equipment. The T1 transmission equipment termed Network Interface Units (NIU) and the associated T1 mounting products make up the majority of revenue from this product group.

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. Increasing competition, in terms of the number of entrants and their size, and increasing size of the Company's customers because of past mergers, continues to exert downward pressure on prices for the Company's products. The Company has also elected to eliminate some products and exit some markets based on an analysis of current and future prospects.

Digital subscriber line (DSL) technology uses complex modulation methods to enable high-speed services over copper phone lines. Current DSL equipment allows the simultaneous transmission of data at speeds up to 8 megabits

per second when receiving information on the Internet, or 140 times faster than standard 56k modem dial up service, and up to 1 megabits per second when sending information on the Internet, or 17 times faster than standard 56k modem dial up service, while also providing standard analog telephone service over a single pair of copper wires. Current DSL equipment operates at distances of up to 18,000 feet from the telephone company's central office. A new DSL standard termed ADSL2+ has been introduced and is now being deployed by service providers. ADSL2+ increases downstream speed to 24 megabits per second while extending the reach of the equipment to potentially from 18,000 to 22,000 feet in certain circumstances. To increase the data rate of ADSL2+ for IPTV video applications, carriers are bonding ADSL2+ pairs together to double the speed of standard ADSL2+. Additionally, a higher-speed standard, VDSL2, is now being introduced and some limited deployment has begun. VDSL2 is targeted at IPTV solutions with a maximum data rate of 100Mbps on loops shorter than 3,000 feet. Westell has evolved its product line and introduced new products that support these new ADSL2/2+, bonded and VDSL standards. These new standards improve delivery of new services like Voice over Internet Protocol (VoIP) and Video in addition to high-speed internet.

With DSL technology, a user can talk on the telephone and simultaneously transmit high-speed data over the same copper phone line. DSL products enable telephone companies to provide interactive multimedia services over copper wire while simultaneously carrying traditional telephone services, thus mitigating the need for the consumers to install second lines to provide these services. DSL technology is also known as Asymmetric Digital Subscriber Line (ADSL and ADSL2+) when it refers to products that provide the ability to send and receive information at varying speeds.

The DSL connection or link is comprised of a DSL Access Multiplexer (DSLAM) and equipment at the users location referred to as customer premise equipment (CPE). The DSLAM is a piece of equipment that typically resides in telephone companies' central offices. It aggregates, or multiplexes, multiple DSL access lines into a telephone company's high-speed line back to its core or central network. As network service providers increase deployment of DSL based services, the need for DSL line concentration at the central offices increases. The CPE is typically a small device enabling DSL services that is found adjacent to a personal computer.

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

<u>Product</u>	<u>Description</u>	<u>Applications</u>
LiteLine™ ADSL2+ Modem	Customer premise 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 offers Network Address Translation (NAT) routing and a built-in firewall. NAT is a method of connecting multiple computers to the Internet (or any other IP network) using one IP address. NAT routing also provides security for devices on the local area network (LAN).	Enables residential and SOHO customers of ADSL service to connect a PC to the ADSL service for basic 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 remote 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 than the LiteLine™ product.
VersaLink™ Gateway	A fully featured, versatile gateway device that combines an ADSL2+ modem along with wired Ethernet, 802.11g WiFi wireless and optional VersaPort™ fiber access for home or small businesses.	Enables residential, SOHO, and small businesses to network their broadband services to multiple PCs and other computing devices with wired and wireless access.
Westell MediaStation™	A converged, IP-enabled device that is capable of delivering media rich voice, video and data content simultaneously to subscribers. Multi-function device comes in four models; WMG, WMG-AV, WMT and WMT-AV. The products contain such capabilities as DSL modem, 802.11g wireless router, cordless telephone, color touch screen and Windows CE operating system.	Verizon One™, is the first Westell MediaStation™ commercial offering. This is a customized version of the Westell Media Gateway designed for Verizon. This version offers customers Internet access, cordless 5.8Ghz telephony, wired and wireless networking, home info service kiosk, video applications and personal planner.

NSA *Products*. Westell’s NSA products provide telephone companies with products to transport, maintain and improve the reliability of services over copper and fiber lines in the local access network. The following table sets forth a list of the Company's principal NSA products and their applications:

<u>Product</u>	<u>Description</u>	<u>Applications</u>
NIU-PM (Network Interface Unit with Performance Monitoring)	Network Interface Unit with Performance Monitoring that stores circuit performance and maintenance information for a single T1 circuit.	Provides a “demarcation point” or hand-off between the telephone company equipment and customer’s equipment on T1 circuits. The 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. Additionally, it creates an opportunity for preventive maintenance activities by the telephone company to improve their customer satisfaction.
NIU Mountings	NIU Mountings are electronic enclosures with connectorized backplanes that house NIUs and NIU PM units.	Deployed by telephone company at their customer’s premise locations to terminate their T1 circuits.
DS3 products	DS3 Network Interface Units with and without Performance Monitoring capability along with the Mountings to house these plug-in cards.	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 customer premise locations.
T1 Repeaters	T1 Office and Line Repeaters.	Facilitates the extension of T1 service to subscribers that are more than 3000 feet* from the central office and those that are served beyond a fiber multiplexer. (*Distance will vary based on gauge of copper wire)
VirtualEdge™	A flexible ethernet cable connectivity panel that offers wall or rack mount capability within a single chassis design. It also offers use with Cat5E cable, copper, GigE fiber and Coax cable.	Provides a physical demarcation for services at the customer premise. Mounting and connector flexibility provides customers multiple applications, and minimizes space required in equipment rooms.

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 expanding its product offerings in the equipment segment from basic high speed broadband to more sophisticated applications such as networking, wireless and converged services. Westell works closely with its current and potential customers as part of the product development process.

In fiscal 2005, the Company received \$900,000 from customers to fund engineering projects which was offset in part by a \$300,000 expense for engineering performed by a third party. The \$600,000 was offset against research and development expenses. The Company did not receive any funding from customers for engineering projects in fiscal 2004 or 2006. The Company capitalized \$1.9 million in software development costs in fiscal 2005. The Company did not capitalize any software development costs in fiscal 2004 or 2006. In fiscal 2006, 2005 and 2004 the Company spent approximately \$20.3 million, \$15.9 million and \$17.4 million on research and development activities, net of customer funding and software capitalization.

Westell'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's research and development personnel are organized into product development teams. Each product development team is generally responsible for sustaining technical support of existing products, decreasing manufacturing costs, conceiving new products in cooperation with other groups within the Company and adapting standard products or technology to meet new customer needs. In particular, each product development team is charged with implementing the Company's engineering strategy of reducing product costs for each succeeding generation of the Company's products in an effort to be a highly valued, superior quality provider, without compromising functionality or serviceability.

The Company believes that the key to this strategy is choosing an initial architecture for each product that enables engineering innovations to result in performance enhancements and future cost reductions. Westell's products are designed in conjunction with input from procurement and manufacturing personnel to reduce costs. The Company believes it has a quality record that is grounded in a solid interface and transference of knowledge between design and manufacturing teams. Successful execution of this strategy also requires that the Company continue to attract and recruit highly qualified engineers.

The Company's products are subject to industry wide standardization organizations which include the DSL Forum, the American National Standards Institute ("ANSI") in the United States and the European Telecommunications Standards Institute ("ETSI") which are responsible for specifying transmission standards for telecommunications technologies. The industry transmission standard for ADSL adopted by ANSI and ETSI is based upon Discrete Multitone Technology (DMT). DMT is technology that allows digital information to be sent at high-speeds over copper phone lines and prevents the digital information from interfering with other services provided on the same copper phone line. Westell incorporates DMT technology into its DSL products. The Company has not developed a DMT transceiver technology for its product offerings and is dependent on transceiver technologies sourced from third parties. The Company has established multiple strategic relationships with transceiver technology vendors for DSL chipsets to be used in ADSL systems by the Company. Absent the proper relationships with key silicon chipset vendors, the Company's products may not comply with standards set forth by ANSI and ETSI. Should customers require standards based products containing transceiver technology not available to the Company under reasonable terms and conditions, the Company's business and results of operations would be materially and adversely affected.

The following table lists the principal products currently under development along with their description and expected application:

<u>Product</u>	<u>Description</u>	<u>Applications</u>
UltraLine II™ Home DSL Router	An easy to use line of high-performance routers with enhanced software designed to support secure, high-quality, multicast IP video delivery over a variety of WAN access methods.	Offers users the ability to utilize multiple wired and wireless broadband applications, particularly video and IPTV, while managing service quality and security preferences.
TriLink™ Gateway	Integrated gateway device offering Voice over IP (VoIP), ADSL2+ modem with Quality of Service, wired Ethernet, 802.11g WiFi router and VersaPort2 uplink port for fiber or LAN access.	Provides home or small businesses with new VoIP service with traditional telephone voice service as backup, and wired / wireless networking without the need to purchase multiple devices.
TriLink™ IMS Gateway	Integrated gateway device offering Voice over IP (VoIP) in an IMS network, ADSL2+ modem with Quality of Service, wired Ethernet, 802.11g WiFi router and VersaPort2 uplink port for fiber or LAN access.	In addition to the VoIP software features of the TriLink™ Gateway, the TriLink™ IMS product includes unique Westell IMS software features allowing carriers to offer support fixed mobile convergence (FMC) services.

The Company anticipates that it will generate revenue from the products listed in the above table in fiscal year 2007 and fiscal year 2008. However, there can be no assurance that the Company will be able to introduce such products as planned.

Customers

The Company's principal customers historically have been large Regional Bell Operating Companies (RBOCs) within the United States. In addition, Westell 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, Internet service providers, and business enterprises. Revenues from international customers represented approximately \$7.5 million, \$8.4 million and \$6.3 million of the Company's revenues in fiscal 2006, 2005 and 2004, respectively, accounting for 2.7%, 3.1% and 2.7% of the Company's revenues in such periods.

The Company depends, and will continue to depend, on the Regional Bell Operating Companies (RBOCs) and other independent local exchange carriers for substantially all of its revenues. Sales to the RBOCs accounted for 78.1%, 77.5% and 76.8% of the Company's revenues in fiscal 2006, 2005 and 2004, respectively. Sales to the Company's largest three customers, Verizon, BellSouth and AT&T (formerly SBC) accounted for 50.7%, 17.9% and 7.9% of the Company's revenues in fiscal 2006, respectively. Consequently, the Company's future success will depend upon the timeliness and size of future purchase orders from the RBOCs, the product requirements of the RBOCs, the financial and operating success of the RBOCs and the success of the RBOCs' services that use the Company's products. Any attempt by an RBOC or other telephone company access providers to seek out additional or alternative suppliers or to undertake the internal production 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. Each customer provides the Company with purchase orders for units on an as-needed basis.

The RBOCs and the Company's other customers are significantly larger than, and are 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 telephone companies, the Company must undergo lengthy approval and purchase processes, which are discussed in the section, captioned "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 had 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 traditional NSA products are sold directly to the service providers or in some cases to distributors who service these carriers. The Company's CNE products are sold directly to telephone carriers, to distributors who service these carriers and to Internet service providers who provide DSL services. The Company believes that the DSL 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 telephone companies, 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 in the local access network and often longer for products based on new technologies. Accordingly, the Company is continually submitting successive generations of its current products as well as new products to its customers for approval.

Although the telephone company 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.

Technical Trial. A number of telephone lines are equipped with the product 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 systems than technical trials because systems are deployed at several locations in the telephone company's network. This stage gives telephone companies an opportunity to establish procedures, train employees to install and maintain the new product and to obtain more feedback on the product from a wider range of operations personnel.

Commercial Deployment. Commercial deployment usually involves substantially greater numbers of systems and locations than the marketing trial stage. In the first phase of commercial deployment, a telephone company initially installs the equipment in select locations for select applications. This phase is followed by general deployment involving greater numbers of systems and locations. Commercial deployment does not usually mean that one supplier's product is purchased for all of the telephone companies' needs throughout the system as telephone companies often rely upon multiple suppliers to ensure 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.

Technical Support

Westell 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. Although, to date, the Company has not experienced any significant product returns or indemnification claims under these contracts, any such claims or returns could have 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 two years for CNE products and seven to ten years for NSA 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.

Manufacturing

The Company performs the majority of its manufacturing at its facility in Aurora, Illinois. The Company is positioned to activate a subcontractor to produce CNE products if demand were to significantly increase. The Company subcontracts the production of a portion of its NSA products. Reliance on third-party subcontractors involves several risks, including the potential absence of adequate capacity and reduced control over product quality, delivery schedules, manufacturing yields and costs.

The Company has purchase contracts with suppliers of material components. Most purchased items are standard commercial components available from multiple suppliers. There are also single-sourced components needed to produce products. One of the single-sourced items in broadband consists of the license to run an operating platform. There are a number of other suppliers in the market that could supply the Company with this same technology, 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. Broadband product sales accounted for 68.8% of revenue in fiscal 2006. All purchase contracts are short term in nature with the exception of three long-term commitments to purchase memory chips.

A substantial portion of the Company's shipments in any fiscal period can relate to orders for products received in that period. Westell's domestic Manufacturing Processes are also registered to TL9000, as well as to ISO9001:2000. Further, a significant percentage of orders, such as Network Interface Units, or NIUs, may require delivery within 48 hours. To meet this demand, the Company maintains raw materials inventory and finished goods inventory at its manufacturing facilities. In addition, the Company maintains some finished goods 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 reoccurring risk that the inventory it holds may become obsolete.

Competition

The markets for the Company's products are intensely competitive and the Company expects competition to increase in the future, especially in the rapidly changing markets for broadband products. Westell's primary competitors vary by market segment. The Company's principal competitors with respect to its NSA products are Adtran, ADC Telecommunications and Pulsecom. The Company's principal competitors with respect to its CNE broadband products are primarily Siemens Information and Communication Network Inc. (Efficient), Netopia Inc., 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 DSL products in North America. However, many of the Company's competitors are significantly larger 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 resulting from U.S. based operations including manufacturing and product development. The Company expects that new competitive pressure from Asian based manufactures will continue downward pressure on pricing.

Additional competition is seen from products that increase the efficiency of digital transmission over copper wire such as fiber, wireless, cable modems and other products delivering broadband digital transmission. Telephone companies face competition from cable operators, new local access providers and wireless service providers that are capable of providing high speed digital transmission to end users. At the end of 2005, 24 million customers used cable modems in the U.S. in contrast to 18.5 million DSL subscribers. By 2009, according to Infonetics, a service that provides industry trend data, is forecasting there to be 35.6 million cable modem users in North America versus 41.4 million DSL users resulting in a 54% market share for DSL modems. In addition, the deployment of products and technologies for copper wire may also reduce the demand for NSA products currently manufactured by the Company. The deployment of HDSL2 and HDSL4 systems in the U.S. reduces telephone companies' need for T-1 repeaters, which results in a decrease in demand for Westell's T-1 products such as its Network Interface Units. The Company believes that the domestic market for some of its older, low speed NSA transmission products is decreasing, and will likely continue to decrease, as high capacity digital transmission becomes less expensive and more widely deployed. See the risk factor captioned "Our products face competition from other existing products, products under development and changing technology, and if we do not remain competitive, our business will suffer and we may not remain profitable".

Teleconference Services

Conference Plus, Inc., founded in 1988, is a full service conferencing company that manages and hosts specific software and applications relating to conferencing and meeting services. Conference Plus is an 91.5% owned subsidiary of Westell and manages its teleconferencing and meeting services through its main operations center in Schaumburg, Illinois and a facility in Dublin, Ireland. Conference Plus services generated \$45.1 million, \$44.4 million and \$45.3 million in revenues in fiscal 2006, 2005 and 2004, respectively.

Conference Plus allows multiple individuals, organizations and/or businesses to conduct conference calls using a combination of voice, video or web such as graphs or spreadsheets. Conference Plus offers conference call services that can include a blend of audio, graphics, spreadsheets or other documents that can be carried over and archived on the Internet to enhance the traditional voice conference call. By enabling the sharing of this blend of information, Conference Plus 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. Teleconference 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.

Conference Plus is distinguished by three strategies:

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

Diverse Distribution Channels

Conference Plus 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 half of Conference Plus' revenues come from indirect commercial teleconferencing services to customers who market or use Conference Plus services under their own brand name. Such companies choose to outsource and private label audio, web and video teleconferencing services to maintain continuity, save costs and focus on their core competencies. By selling into indirect or resale customers, Conference Plus effectively increases the size of their sales organization without incurring the expense necessary with a direct sales force.

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

State of the Art Network and Integrated Systems

A critical part of Conference Plus' approach is its state of the art network and integrated systems. Conference Plus 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. Conference Plus has deployed equipment in carrier Points-of-Presence to take advantage of the higher capacity and the lower cost structure available with such deployments.

Conference Plus has built an integrated reservations, scheduling and billing system called Conferencing and Reservation Billing System ("CRBS") that is a significant differentiator in the conferencing market. CRBS allows Conference Plus to leverage its operations on a global basis. This reliable and scalable system is seamlessly integrated in the operational environment from the point of reservation through the billing process. This integration allows Conference Plus 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.

Conference Plus 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. Conference Plus has also tightly integrated with third party suppliers of web conferencing services to enhance our audio and video services. In addition to making these services available to customers, Conference Plus 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 large enterprise customers where branding can help drive corporate adoption.

Conference Plus has also begun leveraging the capabilities of CRBS for certain large scale conferencing deployments where the technology can simplify and streamline the usage, billing and cost accounting services for select customers.

International Reach

As customers globalize their telecommunications services, Conference Plus has expanded its operational presence internationally to meet these needs. In addition to its main operational centers in Schaumburg, Illinois and Dublin, Ireland, Conference Plus has teleconferencing bridges located in Chicago, Illinois, Broadview, Illinois and London, England. Conference Plus is able to serve the teleconferencing needs of customers headquartered anywhere in the world through these facilities. The Conference Plus facility in Dublin, Ireland was established in 1998 to help meet

the growing demand for global conferencing service. The international market for teleconferencing is expected to grow as a result of deregulation and improved networks with associated reductions in end user costs.

Conference Plus' 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, Conference Plus. Conference Plus depends on two customers to provide a significant percent of its revenues. A loss of one of these customers would have a material adverse effect on Conference Plus's business. Prior to selling its services, Conference Plus must 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 technologies such as video or data teleconferencing or which represent a new strategic direction for the customer, as in the case with private labeling teleconference services for a large reseller.

Competition in the teleconferencing business is intense and Conference Plus expects that competition will increase due to low barriers of entry and recent entrants into the audio teleconferencing service market. Many of Conference Plus' competitors, including InterCall, AT&T, Verizon, Premiere Global and British Telecom, have much greater name recognition, more extensive customer service and marketing capabilities and substantially greater financial, technological and personnel resources than Conference Plus. There can be no assurance that Conference Plus 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 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 on which service providers conduct their business may impede the Company's penetration of certain markets. The Telecommunications Act of 1996 lifted certain restrictions on the 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".

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 our unpatented proprietary know-how. The Company regards some of its technology as proprietary and the Company has been granted 26 patents and has an additional 24 U.S. patents pending relating to its NSA and CNE 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. 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. Without third party transceiver technologies, such as DMT technology, the Company would not be able to produce any of its DSL systems. Consequently, if the Company's third party transceiver suppliers fail to deliver transceivers that meet the Company's requirements or fail to deliver transceivers that meet industry standards and other alternative sources of

DSL transceiver technology are not available to the Company at commercially acceptable terms, then 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 has resulted in the need 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 carrier product approval and purchase cycles, the technology may be obsolete by the time the Company completes the product approval and purchase cycles.

Employees

As of March 31, 2006, the Company had 858 full-time employees. Westell and HyperEdge's domestic equipment manufacturing business combined had a total of 586 full-time employees, consisting of 129 in sales, marketing, distribution and service, 110 in research and development, 312 in manufacturing and 35 in administration. Conference Plus had a total of 256 full-time employees. Westell Limited had a total of 16 full-time employees. The Company's employees are not represented by a collective bargaining agreement nor has the Company ever experienced any work stoppage. The Company believes its relationship with its employees is good.

Available Information

The SEC maintains an internet site, 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. Westell maintains a corporate governance page on the Company's website. This website includes, among other items, the Code of Conduct, Audit Committee Charter and Nominating Committee Charter. The corporate governance information can be found at 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.

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

Although we have had sixteen consecutive profitable quarters, in the past, due to our significant ongoing investment in DSL and other new technology, we incurred losses through fiscal 2002. Through fiscal 2002, we incurred operating losses, net losses and negative cash flow on both an annual and quarterly basis. The Company had an accumulated deficit of \$234.0 million as of March 31, 2006.

We believe that our future revenue growth and profitability will depend on:

- creating sustainable product and service sales opportunities;
- lowering our CNE and NSA product costs through design and manufacturing enhancements and volume efficiencies; and
- developing new and enhanced products and services.

In addition, we expect to continue to evaluate new product opportunities. As a result, we will continue to invest heavily 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 remain profitable in the future.

Our stock price is volatile and could drop unexpectedly.

Like many technology stocks, our stock has demonstrated and likely will continue to demonstrate extreme 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; and
- Conditions and trends in the data communications and Internet-related industries.

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 litigation.

We have and could face securities class 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 have 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 be meritorious in any such litigation, we could incur substantial legal costs and management's attention and resources could be diverted from our business that could cause our business to suffer.

Due to the rapid technological changes in our industry, our products may become obsolete before we can realize significant revenues from our products, which 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 results 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 unexpected short commercial life and/or 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. For example, the Company recognized an inventory adjustment to net realizable value and charges for excess and obsolete inventory of \$13.9 million during fiscal year 2002. 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 below production costs to take into account the expectation of large future volumes and corresponding reduction of manufacturing 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; and
- we achieve economies of scale related to increased volume.

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

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

The markets for our products are characterized by:

- intense competition within the DSL market and from other industries such as cable and wireless industries;
- rapid technological advances;
- evolving industry standards;
- changes in end-user requirements;
- frequent new product introductions and enhancements; and
- evolving customer requirements and service offerings.

New products introductions or changes in services offered by telephone companies or over the Internet could render our existing products and products under development obsolete and unmarketable. Specifically, the drive by telephone companies to offer new VoIP, IPTV, Video and FMC services will cause the current products to be replaced with newer, more compatible technology. Further, we believe that the domestic market for many of our traditional T-1 products is decreasing, and will likely continue to decrease, as high capacity digital transmission becomes less expensive and more widely deployed. For example, our Network Interface Unit product revenue decreased 0.7% in fiscal 2006 and an additional 24.6% in fiscal 2005. Our future success will largely depend upon our ability to continue to enhance and upgrade our existing products, such as T-1 and DSL, and to successfully develop and market new products.

In addition, our current product offerings primarily enable telephone companies to deliver communications over copper telephone wires in the local access network. Telephone companies also face competition in the delivery of digital communications from cable operators, new telephone companies, and wireless service providers. If end users

obtain their high-speed data transmission services from these alternative providers, then the overall demand for our DSL products will be impaired.

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, American National Standards Institute and the European Telecommunications Standards Institute are responsible for setting transceiver technology standards for DSL and other products. We are dependent on transceiver technologies from third parties to manufacture our products. If transceiver technologies needed for standards-based products are not available to us in a timely manner and under reasonable terms, then our revenues would significantly decrease and our business and operating results would suffer significantly.

In addition, the introduction of competing standards or implementation specifications could result in confusion in the market and delay decisions regarding deployment of our products. Delay in the announcement of standards would materially and adversely impact our product sales and would severely harm our business.

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. For example, our ability to produce DSL products is dependent upon third party transceiver technologies. Our licenses for DSL transceiver technology are nonexclusive and the transceiver technologies have been licensed to numerous other manufacturers. If our DSL transceiver licensors fail to deliver commercially ready or standards compliant transceiver solutions to us and other alternative sources of DSL transceiver technologies are not available to us at commercially acceptable terms, then our business and operating results would be significantly harmed.

Any impairment in our relationships with the licensors of technologies used in our products would force us to find other developers on a timely basis or develop our own technology. For example, it would take us approximately nine months to reengineer the product and subsequently get product approval from customers if the Company lost its existing licenses to the DSL technology and operating platform used in its DSL products. 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 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 are 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. For example, it would take the Company approximately nine months to reengineer the product and subsequently get product approval from customers if the Company lost its existing licenses to the DSL technology and operating platform used in its DSL products.

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.

We have few long term contracts or arrangement 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-cancelable 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, then our business would also be harmed.

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

The rising 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 product developments 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 to 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 develop new products 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 three 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 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 DSL 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; availability and pricing of key components;
- write-offs for obsolete inventory; and
- the other risks that are contained in this "Risk Factors" section.

Due to fluctuations in quarterly results, we believe that period-to-period comparisons of our quarterly operating results are not necessarily meaningful. 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. As

long as we continue to depend on DSL products and new products, there is substantial risk of widely varying quarterly results, including the so-called “missed quarter” relative to investor expectations.

We may experience delays in the deployment of new products.

Our past sales have resulted from our ability to anticipate changes in technology, industry standards and telephone company 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 telecommunications industry;
- our customers’ lengthy product approval and purchase processes; and
- 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 manufacturing resources necessary to continue to successfully develop new products or to otherwise successfully respond to changing technology standards and telephone company 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 DSL market 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 us and can offer a wider array of different products and services required for a telephone company’s business than we do.

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

- Forward pricing of products;
- Early announcements of competing products;
- Bids that bundle DSL products with other product and service offerings; and
- 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 are based on anticipated future revenues and are relatively fixed in the short-term. Therefore, we 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 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 high-speed telecommunications products 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 large Regional Bell Operating Companies as well as other telephone carriers including smaller local telephone carriers and new alternative telephone carriers, for substantially all of our revenues. Sales to the Regional Bell Operating Companies accounted for approximately 78.1%, 77.5% and 76.8% of our revenues in fiscal 2006, 2005 and 2004, respectively. Consequently, our future success will depend upon:

- the timeliness and size of future purchase orders from the Regional Bell Operating Companies;
- the product requirements of the Regional Bell Operating Companies;
- the financial and operating success of the Regional Bell Operating Companies; and
- the success of the Regional Bell Operating Companies' services that use our products.

The Regional Bell Operating 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 Regional Bell Operating 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 a Regional Bell Operating Company or our other customers to seek out additional or alternative suppliers or to undertake the internal production of products 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 product sales and materially and adversely affect our business.

Conference Plus's customer base is very concentrated as its top ten customers represent a large portion of total revenue. Customers of Conference Plus have expanded their requirements for our services, but there can be no assurance that such expansion will increase in the future. Additionally, Conference Plus's 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 Conference Plus's customers will not bring some portion or all of their conferencing and meeting services in-house. Conference Plus must continually provide higher quality, lower cost services to provide maintain and grow its customer base. Any loss of a major account, would have a material adverse effect on Conference Plus. In addition, any merger or acquisition of a major customer could have a material adverse effect on Conference Plus.

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

Prior to selling products to telephone companies, 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 such as DSL products. 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;
- priorities of telephone companies;
- telephone companies' budgets; and
- regulatory issues affecting telephone companies.

The requirement that telephone companies obtain FCC or state regulatory approval for most new telephone company 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.

Many of our customers are 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.

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, governments of the United Kingdom, Canada, Australia and numerous other countries 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 two years for CNE products and seven to ten years for NSA 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 errors 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. Although historically we have not experienced material problems with product defects, recalls, returns or indemnification claims, if such claims exceed our reserves for such claims, 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, 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. Westell has 55,607,834 shares of common stock outstanding as of June 2, 2006. Options to purchase 9,098,258 shares of class A common stock, 7,370,396 of which are currently exercisable, are also outstanding on June 2, 2006. 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 on 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.

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; or
- 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.

Our operations could be impacted by business interruptions such as fire, flood, power loss and other events beyond our control. We have a detailed disaster recovery plan and business interruption insurance but these may not be sufficient to fully cover losses that may occur.

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.

Conference Plus's large competitors could adversely affect Conference Plus's ability to maintain or increase its market share.

Conference Plus 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. Conference Plus's ability to sustain growth and performance is dependent on its:

- maintenance of high quality standards and low cost position;
- international expansion;
- marketing and sales effectiveness; and
- 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 June 2, 2006, 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 47.8% 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 52.7% of the voting stock. 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 property leases consist of the following:

Location	Purpose	Square footage	Termination year
Aurora, IL	Office and manufacturing	185,000	2017
Batavia, IL	Office and manufacturing	25,000	2006
Basingstoke, England	Office	4,250	2010
Schaumburg, IL	Office, Conferencing Services	41,860	2011
Dublin, Ireland	Office, Conferencing Services	2,000	2024

The Basingstoke lease has an early termination clause that allows the Company to exit the lease at 12 and 24 months with a 6 month lease penalty. Although the Company's Aurora, Illinois manufacturing facility is currently operating below maximum capacity, the Company utilizes third-party subcontractors to help fulfill fluctuations in customer demands that could be at times beyond the manufacturing capacity of the Aurora facility. The Company has a plan to expand the manufacturing capacity of its Aurora facility when and if that is necessary.

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 National 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 National Market.

	High	Low
Fiscal Year 2005		
First Quarter ended June 30, 2004	\$8.32	\$4.46
Second Quarter ended September 30, 2004	5.28	3.59
Third Quarter ended December 31, 2004	7.02	4.92
Fourth Quarter ended March 31, 2005	7.86	5.20
Fiscal Year 2006		
First Quarter ended June 30, 2005	\$6.73	\$5.04
Second Quarter ended September 30, 2005	7.15	3.56
Third Quarter ended December 31, 2005	4.95	3.64
Fourth Quarter ended March 31, 2006	4.90	3.94
Fiscal Year 2007		
First Quarter through June 2, 2006	\$4.15	\$2.55

As of June 2, 2006, there were approximately 840 holders of record of the outstanding shares of Class A Common Stock and 6 holders of record of Class B Common Stock.

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.

ITEM 6. SELECTED FINANCIAL DATA.

The following selected consolidated financial data as of March 31, 2006, 2005, 2004, 2003 and 2002 and for each of the five fiscal years in the period ended fiscal year 2006 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.

	Fiscal Year Ended March 31, (in thousands, except per share data)				
Statement of Operations Data:	2006	2005	2004	2003	2002
Revenues	\$ 283,171	\$ 270,263	\$ 235,739	\$ 210,021	\$ 239,823
Cost of goods sold	197,372	189,063	155,998	146,261	205,793
Gross margin	85,799	81,200	79,741	63,760	34,030
Operating expenses:					
Sales and marketing	24,852	22,211	20,242	16,017	19,883
Research and development	20,274	15,911	17,385	16,483	22,444
General and administrative	16,543	17,368	17,506	17,513	24,028
Goodwill and intangible amortization	1,386	1,335	1,455	1,766	25,560
Goodwill impairment	--	--	--	--	97,500
Restructuring charge	443	(793)	698	1,678	6,258
Total operating expenses	63,498	56,032	57,286	53,457	195,673
Gain on sale of product line	--	1,453	--	--	--
Operating profit (loss)	22,301	26,621	22,455	10,303	(161,643)
Other income, net	974	896	615	262	172
Interest expense	(12)	(60)	(743)	(2,648)	(5,564)
Income (loss) before income taxes and minority interest	23,263	27,457	22,327	7,917	(167,035)
Income tax expense (benefit)	10,112	(12,757)	(12,923)	372	--
Minority Interest	304	520	373	271	394
Net income (loss)	\$ 12,847	\$ 39,694	\$ 34,877	\$ 7,274	\$ (167,429)
Net income (loss) per basic share	\$ 0.18	\$ 0.58	\$ 0.52	\$ 0.11	\$ (2.60)
Average number of basic common shares outstanding	69,938	68,473	66,858	64,925	64,317
Net income (loss) per diluted share	\$ 0.18	\$ 0.56	\$ 0.49	\$ 0.11	\$ (2.60)
Average number of diluted common shares outstanding	71,622	71,042	70,667	65,126	64,317
Balance Sheet Data (at end of period):					
Working capital	\$ 76,542	\$ 53,249	\$ 26,171	\$ 7,116	\$ 16,811
Total assets	191,813	180,090	129,781	109,474	126,153
Current debt	51	318	3,416	17,057	11,186
Total debt	61	318	3,742	34,817	50,655
Total stockholders' equity	157,276	139,658	91,765	43,493	36,273

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 Network Service Access (NSA) product lines, particularly the sale of Network Interface Unit (NIU) products and related products. NIU products accounted for approximately 10%, 10% and 15% of revenues in fiscal years 2006, 2005 and 2004, respectively. The Company introduced its first DSL products in fiscal 1993 and these products accounted for approximately 69%, 68% and 58% of revenues in fiscal 2006, 2005 and 2004, respectively. NIU products and DSL products are the two major products within the Company's telecom equipment business. Telecom equipment constituted approximately 84%, 84% and 81% of revenues in fiscal 2006, 2005 and 2004, respectively. The Company has also provided audio teleconferencing services since fiscal 1989, which constituted approximately 16%, 16% and 19% of revenues in fiscal 2006, 2005 and 2004, respectively. Westell realizes the majority of its revenues from the North American market.

The Company is comprised of two segments: telecommunications equipment manufacturer and teleconference services bureau.

The equipment manufacturing segment of the Company's business consists of two product lines, offering a broad range of products that facilitate the broadband transmission of high-speed digital and analog data between a telephone company's central office and end-user customers. These two product lines are:

- *Customer Networking Equipment (CNE)*: Westell's family of broadband products enable the transport of high-speed data over existing local telephone lines and allow telecommunications companies to provide broadband services using their current copper infrastructure. The Company's broadband products also enable residential, small business and Small Office Home Office (SOHO) users to network multiple computers, telephones and other devices to access the Internet. Digital Subscriber Lines (DSL) products make up the majority of the revenue in this product group.
- *Network Service Access (NSA)*: Westell's NSA product family consists of manageable and non-manageable T1 transmission equipment for telephone services, and an array of mounting products used for connecting telephone wires and cables, and special service plugs. The T1 transmission equipment termed Network Interface Units (NIU) and the associated NIU mounting products make up the majority of revenue from this product group.

The Company's teleconference service segment is comprised of a 91.5% owned subsidiary, Conference Plus, Inc. Conference Plus provides audio, video, and web conferencing services. Businesses and individuals use these services to hold voice, video or web conferences with many people at the same time. Conference Plus sells its services directly to large customers, including Fortune 1000 companies, and serves other 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 size of the Company's customers because of past mergers, continues to exert downward pressure on prices for the Company's products. The Company expects average selling prices on its CNE products to decline less than 20% in fiscal year 2007.

On November 18, 2005, SBC (now AT&T Inc.) acquired AT&T Corp. In the fiscal year ended March 31, 2006, sales to AT&T Inc. generated approximately 7.9% of the Company's total revenues, 0.5% in the equipment segment (primarily NSA products excluding sales made to AT&T Inc. through minority business enterprises) and 7.4% for the services segment. The largest customer of Conference Plus is AT&T Inc. and offers services similar to

Conference Plus. The Company is unable to predict at this time how the merger will impact the Company's results of operations in the future.

On March 5, 2006 AT&T Inc. and BellSouth announced an agreement to merge the two companies. The merger indicated that the merger is subject to approval by shareholders of both companies as well as regulatory authorities and is subject to other customary closing conditions. The merger is expected to close within calendar 2006 or early 2007. BellSouth is the Company's second largest customer. The Company is unable to predict at this time how the merger will impact the Company's results from operations in the future.

The Company's customer base is highly concentrated and comprised primarily of the Regional Bell Operating Companies (RBOCs), 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 cover 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 is focusing on expanding its product offerings in the equipment segment from basic high speed broadband to more sophisticated applications such as VoIP, in-premise networking; wireless/wireline convergence, IMS (IP Multimedia Subsystem) and FMC (Fixed Mobile Convergence); video / IPTV and multifunctional broadband appliances. 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. The Company expects to increase spending in research and development and sales and marketing by approximately 25% in fiscal year 2007 compared to fiscal year 2006 to take advantage of these market opportunities. In view of the Company's reliance on the DSL 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 CNE equipment manufacturing segment, the Company is focusing on the evolving broadband demand, which includes increased bandwidth, richer application sets, converged capabilities and higher complexity. The Company has introduced products including the Westell MediaStationsTM, UltraLineTM, ProLineTM, VersaLinkTM, and TriLinkTM, which are targeted at the home networking, small office/home office (SOHO) and small business markets. The Company continues to support the multimedia always-on-broadband appliance gateway product Verizon One. The Company has multiple evaluations and is entering trials for TriLinkTM, TriLinkTM IMS, UltraLineIITM and the Westell MediaStationTM, a variation of the Verizon One product marketed outside of the United States. The Company continues to focus on expanding existing and new products into the international market consisting primarily of Europe and Canada.

The Company expects the overall NSA market to decline annually by approximately 10% as the transition to high-speed digital service continues. This decline could impact the Company's future revenue. The Company acquired 100% of the common stock of HyperEdge Corporation, on December 29, 2005 with the goal of strengthening its position in the NSA market. With the addition of HyperEdge the Company hopes to increase its market share in mountings and NIU's. The Company also plans to invest in new product areas to compliment wireless and fiber applications.

Critical Accounting Policies

The Company uses estimates and judgements 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.

Accounts receivable

The Company sells products primarily to various telecommunications providers and distributors. Sales to these customers have varying degrees of collection risk associated with them. Judgment is required in assessing the realization of these receivables based on aging, historical experience and customer's financial condition.

Inventory reserves

The Company reviews ending inventory for excess quantities and obsolescence based on its best estimates of future demand, product lifecycle status and product development plans. The Company also evaluates ending inventory for lower of cost or market. 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. The commitments are at market rates and normally do not extend beyond one year. Should there be a dramatic decline in revenues, as there was in fiscal 2002, 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.

Valuation Allowance for Deferred Tax Assets

The Company has significant deferred tax assets that resulted primarily from historically generated net operating losses. A valuation allowance has been provided for a portion of these deferred tax assets that management believes it is more likely than not that will not be utilized. The Company assesses the realizability of deferred tax assets through an analysis of projected future taxable income in the jurisdictions where the deferred tax assets reside.

Goodwill and Intangibles

Accounting rules require that the Company evaluate goodwill for impairment annually. The Company determined that it operated in two reporting units for the purpose of completing the impairment test of goodwill. These reporting units are telecom equipment and telecom services. The Company utilizes the comparison of its market capitalization and third party appraisal of its telecom services reporting unit to book value as an indicator of potential impairment. The Company performed its annual impairment test in the fourth quarter of fiscal 2006. These tests showed no impairment of goodwill. 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 amounts 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.

Software Development

The Company accounts for software development costs under FAS86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*. The Company reviews software development to determine when technological feasibility is reached. At such time, development costs will be capitalized as intangible assets. These intangible assets will be amortized over the product life once the product is available for customer use. At of March 31, 2006, the Company had \$413,000 in capitalized costs.

New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123R, *"Share-Based Payment"* ("SFAS 123R"). Under this new standard, companies will no longer be able to account for share-based compensation transactions using the intrinsic value method in accordance with APB 25. Instead, companies will be required to account for such transactions using a fair-value method and recognize the expense over the service period. On April 14, 2005, the Securities and Exchange Commission announced the adoption of a rule that defers the required effective date of SFAS 123R for registrants to the beginning of the first fiscal year beginning after June

15, 2005. The Company will adopt this statement in the first quarter of its 2007 fiscal year using the modified prospective method. The adoption of SFAS 123R is expected to result in an additional pre-tax expense of \$1.0 million in fiscal year 2007 plus an amount to be determined for options granted in the fiscal year.

Results of Operations

The following table sets forth the percentage of revenues represented by certain items in the Company's statements of operations for the periods indicated:

	Fiscal Year Ended March 31,		
	2006	2005	2004
Equipment	84.1%	83.6%	80.8%
Services	15.9	16.4	19.2
Total revenues	100.0	100.0	100.0
Cost of equipment	61.7	62.0	54.9
Cost of services	8.0	8.0	11.3
Total cost of goods sold	69.7	70.0	66.2
Gross margin	30.3	30.0	33.8
Operating expenses:			
Sales and marketing	8.8	8.2	8.6
Research and development	7.2	5.9	7.4
General and administrative	5.8	6.4	7.4
Intangible amortization	0.5	0.5	0.3
Restructuring charge	0.1	(0.3)	0.6
Total operating expenses	22.4	20.7	24.3
Gain on sale of product line	0.0	0.5	0.0
Operating income	7.9	9.8	9.5
Other income, net	0.3	0.3	0.3
Interest expense	(0.0)	(0.0)	(0.3)
Income before income taxes and minority interest	8.2	10.1	9.5
Income tax expense (benefit)	3.6	(4.7)	(5.5)
Minority interest	0.1	0.2	0.2
Net income	4.5%	14.6%	14.8%

Fiscal Years Ended March 31, 2006, 2005 and 2004

Revenues	Year Ended March 31,			Increase/Decrease	
	2006	2005	2004	2006 vs. 2005	2005 vs. 2004
(in thousands)					
Consolidated revenue	\$ 283,171	\$ 270,263	\$ 235,739	\$ 12,908	\$ 34,524
Equipment revenue:					
CNE	194,782	183,384	135,704	11,398	47,680
NSA	43,319	42,481	54,736	838	(12,255)
Total equipment revenue	238,101	225,865	190,440	12,236	35,425
Services revenue	45,070	44,398	45,299	672	(901)

In fiscal year 2006 consolidated revenues increased 4.8%. Revenue in the equipment segment increased 5.4% comprising of a 6.2% increase in CNE product revenue and 2.0% increase in NSA product sales. The increase in CNE product revenue was due to a 24.1% increase in unit volume offset in part by a 17.4% decrease in the average selling price per unit. The increase in NSA was due to the inclusion of approximately \$4.6 million of revenue resulting from the acquisition of HyperEdge. Without the acquisition, revenue would have decreased by \$3.7 million or 8.8%. This decrease in revenue is due primarily to \$2.3 million of non-recurring revenue noted below that was present in fiscal year 2005 and not in fiscal year 2006. In addition, the overall decrease in NSA product revenue is due to reduced demand resulting from the migration by telephone companies to high-speed digital transmission products. Revenue in the services segment increased by 1.5% in fiscal year 2006. This increase was due to an increase in minutes billed offset in part by lower revenue per minute at the Company's Conference Plus, Inc. subsidiary. In fiscal year 2005 consolidated revenues increased 14.6%. Revenue in the equipment segment increased 18.6% comprising of a 35.1% increase in CNE product revenue offset in part by a 22.4% decrease in NSA product sales. NSA product revenue in the fiscal year 2005 included an \$883,000 contractual settlement from a customer, \$900,000 of non-recurring revenue and approximately \$500,000 of revenue from a product line subsequently sold. The increase in CNE revenue was due to a 37% increase in units sold and offset in part by a 4.6% decrease in average sell price per unit. The decrease in NSA revenue was due to price reductions and the transition by telephone companies to networks that deliver high speed digital transmission services. The decrease in NSA product revenue was also impacted by the sale of Data Station Termination product lines that occurred in the first quarter of fiscal 2005. Revenue in the services segment decreased 2.0% due to less revenue per call minute offset in part by an increase in minutes at the Company's Conference Plus, Inc. subsidiary.

Gross Margin	Year Ended March 31,			Increase/Decrease	
	2006	2005	2004	2006 vs. 2005	2005 vs. 2004
Consolidated Margin	30.3%	30.0%	33.8%	0.3%	(3.8)%
Equipment Margin	26.6%	25.9%	32.0%	0.7%	(6.1)%
Service Margin	49.9%	51.0%	41.3%	(1.1)%	9.7%

The improved gross margin in the equipment segment in fiscal year 2006 was due primarily to improvements in material costs. An \$883,000 and \$875,000 contractual settlement positively impacted the fiscal 2005 and 2004 equipment gross margin, respectively, that had no corresponding cost of sales. Fiscal year 2005 gross margins were negatively impacted by \$3.8 million of expediting costs from the VersaLink™ product. Fiscal 2004 also benefited from reduced per unit material, labor, and handling costs, particularly in the CNE product group that resulted from a 45% increase in unit volume. The gross margin in the services segment decrease in fiscal year 2006 was due primarily to increased overhead costs related to credit card fees, maintenance and web outsourcing costs. Services margin improved in fiscal year 2005 due to lower long distance rates and the absence of a contract termination charge of \$775,000 that was present in fiscal year 2004. The Company believes continued pricing pressures and continued reduction of NSA sales affecting its equipment segment could continue to adversely impact margins in the future. It is the Company's strategy to offset the effects of these anticipated price reductions with continued cost reductions and introducing new products that have higher sales prices and margins.

Sales and Marketing

(in thousands)	Year Ended March 31,			Increase/Decrease	
	2006	2005	2004	2006 vs.	2005 vs.
				2005	2004
Consolidated sales and marketing expense	\$ 24,852	\$ 22,211	\$ 20,242	\$ 2,641	\$ 1,969
Equipment sales and marketing expense	16,453	16,087	15,411	366	676
Services sales and marketing expense	8,399	6,124	4,831	2,275	1,293

Sales and marketing expenses were 8.8%, 8.2% and 8.6% of revenues, in fiscal year 2006, 2005 and 2004 respectively. Sales and marketing expense in the equipment segment increased in fiscal year 2006 due primarily to the acquisition of HyperEdge. The services segment sales and marketing expense increase in fiscal year 2006 was due primarily to 25% more employees hired to increase sales made directly to end users at Conference Plus. The equipment segment sales and marketing expense increase in fiscal year 2005 was due primarily to increased use of temporary consulting and labor. The services segment sales and marketing expense increase in fiscal year 2005 was due to an increase in the number of sales and marketing employees. Sales and marketing expense is expected to increase in fiscal year 2007, primarily in the equipment segment. 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.

Research and Development

(in thousands)	Year Ended March 31,			Increase/Decrease	
	2006	2005	2004	2006 vs.	2005 vs.
				2005	2004
Consolidated research and development expense	\$ 20,274	\$ 15,911	\$ 17,385	\$ 4,363	\$ (1,474)
Equipment research and development expense	18,467	14,290	15,977	4,177	(1,687)
Services research and development expense	1,807	1,621	1,408	186	213

Research and development expenses in fiscal 2006, 2005 and 2004 were 7.2%, 5.9% and 7.4% of revenues, respectively. Research and development expenses are incurred primarily in the equipment segment of the business. The fiscal year 2006 increase was due primarily to \$1.9 million of software capitalization in fiscal year 2005 that offset engineering expenses. No such offset occurred in fiscal 2006. In addition, the Company spent an additional \$1.3 million on outside engineering services and there were approximately 11% more engineering employees in fiscal 2006 compared to 2005 that resulted in \$725,000 more salary expense for the year. The increase in engineering service and employees was primarily to support the development of the Verizon One and video transport products. The fiscal year 2005 decrease was due primarily to software capitalization of \$1.9 million. In addition, the Company received \$900,000 from customers to fund engineering projects which was offset in part by a \$300,000 expense for engineering performed by a third party in fiscal 2005. There were no customer funded engineering projects in fiscal 2004 or fiscal 2006. The Company believes that research and development expenses will increase in fiscal year 2007 as the Company continues to focus on VoIP, in-premise networking, wireless/wireline convergence including IMS (IP Multimedia Subsystem) and FMC (Fixed Mobile Convergence), video / IPTV and multifunctional broadband appliances, user interfaces and other broadband applications.

General and Administrative

(in thousands)	Year Ended March 31,			Increase/Decrease	
	2006	2005	2004	2006 vs.	2005 vs.
				2005	2004
Consolidated general and administrative expense	\$ 16,543	\$ 17,368	\$ 17,506	\$ (825)	\$ (138)
Equipment general and administrative expense	10,401	10,855	10,846	(454)	9
Services general and administrative expense	6,142	6,513	6,660	(371)	(147)

General and administrative expenses in fiscal 2006, 2005 and 2004, respectively, were 5.8%, 6.4% and 7.4% of revenues, respectively. The fiscal year 2006 decrease in general and administrative expenses in the equipment segment was due primarily to lower franchise and sales and use tax expense. The fiscal year 2006 decrease in general and administrative expenses in the services segment was due primarily to lower bad debt expense and professional services expenses. The fiscal year 2005 decrease resulted from the services segment of the business. The equipment segment expenses in fiscal year 2005 were flat overall with reductions in legal and bad debt expense offset by increases in professional services expense resulting from Sarbanes Oxley compliance costs.



Intangible amortization. Intangible amortization was \$1.4 million, \$1.3 million and \$1.5 million in fiscal 2006, 2005 and 2004, respectively. The intangibles consist of product technology related to the March 17, 2000 acquisition of Teltrend Inc. and product technology and customer relationships related to the December 29, 2005 HyperEdge Inc. acquisition.

Restructuring charge. The Company recognized a restructuring expense of \$443,000 in the third quarter of fiscal year 2006. This charge included personnel costs relating to the termination of 17 employees at Westell Inc. As of March 31, 2006, \$107,000 of these accrued costs remain unpaid.

On December 29, 2005, the Company acquired 100% of the stock of HyperEdge Corporation. The Company is currently implementing a restructuring plan to combine and streamline the operations of the companies to achieve synergies related to the manufacture and distribution of common NSA product lines. The Company estimates the costs of employee terminations, which were recorded as liabilities assumed in the acquisition, to be \$300,000. Approximately 17 employees are estimated to be impacted by this plan. Any adjustments to this plan will be accounted for in accordance with SFAS No. 141. As of March 31, 2006, \$8,000 of these costs have been paid leaving an unpaid balance of \$292,000.

The Company recognized a restructuring expense of \$698,000 in fiscal year 2004. This restructuring resulted from realigning the product focus due to product performance issues at Westell Limited that caused a workforce reduction of approximately 5 employees. In the quarter ended March 31, 2005, \$248,000 of these charges were reversed as the Company was able to resolve these performance issues. As of March 31, 2006 no amounts remain unpaid.

The Company recognized restructuring expense of \$2.6 million in fiscal year 2003. This charge included personnel and facility costs related primarily to the closing of a Conference Plus, Inc. facility and personnel and facility charges at Westell Limited. Approximately 25 employees were impacted by these reorganizations. In fiscal year 2005, the Company terminated a lease that was partially reserved for in the 2003 restructuring. This termination resulted in the reversal of \$545,000 of restructuring for facility costs. As of March 31, 2006 no amounts remain unpaid.

A table that summarizes the restructuring charges and their utilization can be found in Note 13 to the Consolidated Financial Statements of the Company and is incorporated herein by reference.

Other income, net. Other income, net was \$974,000, \$896,000 and \$615,000 million for fiscal years 2006, 2005, and 2004, respectively. Other income, net was primarily comprised of interest income earned on temporary cash investments and unrealized gains or losses on intercompany balances denominated in foreign currency. The increases in fiscal year 2006 over 2005 was due to higher levels of cash invested at better interest rates offset in part by an unrealized loss recorded on intercompany balances denominated in British Pounds. The increase in fiscal year 2005 over 2004 was due to higher levels of cash invested at higher interest rates and an unrealized gain recorded on intercompany balances denominated in British Pounds.

Interest Expense. Interest expense was \$12,000, \$60,000 and \$743,000 for fiscal 2006, 2005 and 2004, respectively. The decrease in interest expense during each year is a result of lower obligations outstanding during the period under promissory notes, capital leases and vendor debt.

Income Taxes. Income tax expense was \$10.1 million in fiscal year 2006. The Company increased its valuation allowance by \$1.4 million in fiscal year 2006 to reserve for a portion of the state net operating loss carryforward that the Company expects to expire prior to usage. An income tax benefit of \$12.8 million and \$12.9 million was recorded in fiscal years 2005 and 2004, respectively. The benefit in fiscal year 2005 and 2004 was the result of the Company reducing its valuation allowances when it was determined that the deferred tax assets that were previously reserved could be realized through the generation of future taxable income.

Minority Interest. Minority interest expense was \$304,000, \$520,000 and \$373,000 in fiscal years 2006, 2005 and 2004, respectively. Minority interest expense is the minority shareholders' share of income at 91.5% owned subsidiary, Conference Plus Inc.

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 2006				Fiscal 2005			
	June 30, 2005	Sept. 30, 2005	Dec. 31, 2005	Mar. 31, 2006	June 30, 2004	Sept. 30, 2004	Dec. 31, 2004	Mar. 31, 2005
(in thousands, except per share amounts)								
Revenue	\$ 75,641	\$ 66,316	\$ 68,149	\$ 73,065	\$ 56,172	\$ 61,399	\$ 74,451	\$ 78,241
Gross margin	22,643	20,459	20,914	21,782	18,546	19,279	20,558	22,817
Net income	4,149	3,023	3,165	2,510	3,287	4,370	3,663	28,374
Net income per common share:								
Basic	\$0.06	\$0.04	\$0.05	\$0.04	\$0.05	\$0.06	\$0.05	\$0.41
Diluted	\$0.06	\$0.04	\$0.04	\$0.04	\$0.05	\$0.06	\$0.05	\$0.40

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. Factors which have had an influence on and may continue to influence the Company's results of operations in a particular quarter include 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.

Because the Company generally ships products within a short period after receipt of an order, the Company typically does not have a material backlog of unfilled orders, and revenues in any quarter are substantially dependent on orders booked in that quarter. 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, 2006, the Company had \$40.9 million in cash and cash equivalents consisting primarily of the highest rated grade corporate commercial paper. At March 31, 2006, the Company had no amounts outstanding and \$27.9 million available under its secured revolving credit facility.

At March 31, 2006, the Company had a secured revolving credit facility that provided for maximum borrowings of up to \$30 million. The term on the credit facility expires on June 30, 2006. This asset based revolving credit facility provides for total borrowings based upon 85% of eligible accounts receivable and 30% of eligible inventory not to exceed \$3.1 million as of March 31, 2006. The \$3.1 million inventory limitation is reduced by \$0.1 million on the first day of each month. The amount available under the revolving credit facility at March 31, 2006 was \$27.9 million. Borrowings under this facility provide for the interest to be paid by the Company at the prime rate or LIBOR rate plus 2.5%. This credit facility contains covenants regarding EBITDA, tangible net worth and maximum capital expenditures. The Company was in compliance with these covenants on March 31, 2006 and expects to comply with these covenants for the term of the debt. The Company is in the process of renegotiating this credit facility and expects to have a new facility with more favorable terms in place by June 30, 2006.

The Company's operating activities generated cash of \$31.7 million, \$21.3 million and \$27.7 million in fiscal 2006, 2005, and 2004 respectively. Cash generated by operations in fiscal 2006 resulted primarily from net income, non-cash depreciation and amortization, decreases in deferred tax assets and inventory and was offset in part by the decrease in accounts payable. Cash generated by operations in fiscal 2005 resulted primarily from net income, non-cash depreciation and amortization, increase in accounts payable and tax benefit received from the exercise of employee stock options and was offset in part by the increase in deferred tax assets and inventories. Cash generated by operations in fiscal 2004 resulted primarily from net income, non-cash depreciation and amortization and tax benefit received from the exercise of employee stock options and was offset in part by the increase in deferred tax assets and inventories.

The Company's investing activities used \$19.0 million, \$5.2 million and \$5.2 million in fiscal 2006, 2005 and 2004 respectively. In fiscal 2006, the Company used cash of \$14.0 million to acquire HyperEdge Corporation. Capital expenditures in fiscal 2006, 2005 and 2004 were \$4.5 million, \$6.7 million and \$5.3 million, respectively. The equipment segment capital expenditures in fiscal 2004, 2005, and 2006 were \$3.1 million, \$5.8 million and \$4.0 million, respectively. The capital expenditures in the equipment segment were primarily for machinery and research and development equipment purchases. The services segment capital expenditures in fiscal 2006, 2005 and 2004 were \$1.4 million, \$0.9 million and \$1.3 million, respectively. These expenditures were primarily for teleconference bridge equipment.

At March 31, 2006 the Company's principle sources of liquidity were \$40.9 million of cash and the secured revolving credit facility under which the Company was eligible to borrow up to an additional \$27.9 million based upon receivables and inventory levels. Cash in excess of operating requirements, if any, will be invested on a short-term basis primarily in the highest rated grade commercial paper. The Company believes cash on hand and generated from operations will satisfy its future cash requirements for the next twelve months.

Future obligations and commitments consisted of the following:

(in thousands)	Payments due by fiscal year						Total
	2007	2008	2009	2010	2011	Thereafter	
Debt and capital leases	\$ 51	\$ 10	\$ --	\$ --	\$ --	\$ --	\$ 61
Purchase obligations	41,289	3,001	794	652	217	--	45,953
Future minimum lease payments for operating leases	3,183	2,838	2,795	2,833	2,877	14,453	28,979
Future obligations and commitments	\$ 44,523	\$ 5,849	\$ 3,589	\$ 3,485	\$ 3,094	\$ 14,453	\$ 74,993

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

The Company had deferred tax assets of approximately \$68.1 million at March 31, 2006. The Company has recorded a valuation allowance reserve of \$9.5 million to reduce the recorded net deferred tax asset to \$58.6 million.

The net operating loss carryforwards begin to expire in 2012. 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Westell is subject to certain market risks, including foreign currency and interest rates. The Company has foreign subsidiaries in the United Kingdom and Ireland that develop and sell products and services in those respective countries. The Company is exposed to potential gains and losses from foreign currency fluctuations affecting net investments and earnings 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 \$898 in additional other expense based on the ending intercompany balance outstanding at March 31, 2006. The Company's future primary exposure is to changes in exchange rates for the U.S. dollar versus the British Pound Sterling and the Euro.

As of March 31, 2006, the balance in the cumulative foreign currency translation adjustment account, which is a component of stockholders' equity, was an unrealized loss of \$241,000.

The Company does not have significant exposure to interest rate risk related to its debt obligations, which are primarily U.S. Dollar denominated. The Company's risk is the potential increase in interest expense arising from adverse changes in interest rates. The Company's debt consisted primarily of term notes and capital leases. Market risk is estimated as the potential decrease in pretax earnings resulting from a hypothetical increase in interest rates of 10% (i.e. from approximately 3.5% to approximately 3.9%) average interest rate on the Company's debt. If such an increase occurred, the Company would incur approximately \$1,200 per annum in additional interest expense based on the average debt borrowed during the twelve months ended March 31, 2006. The Company does not feel such additional expense is significant. The Company does not currently use any derivative financial instruments relating to the risk associated with changes in interest rates.

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 auditors set forth on pages 42-64 of this report. The Consolidated Financial Statement schedule listed under Item 15(a)2, is set forth on page 65 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, 2006, 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, 2006 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, 2006.

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 assessment of the effectiveness of our internal control over financial reporting as of March 31, 2006 has been audited by Ernst and Young, LLP, an independent registered public accounting firm, as stated in its report which is included on page 43.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

(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 2006 under the caption "Election of Directors 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 2006 under the caption "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 our principal executive officer, principal financial officer and principal accounting officer. The Company has filed a copy of this Code of Business Conduct at Exhibit 14.1 to this Form 10-K. This Code of Business Conduct is also publicly available on our website at 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 these senior executives. Copies of the Code of Business Conduct will be provided free of charge upon written request directed to the Secretary of the Company.

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 2006 under the caption "Compensation of Directors and Executive Officers," and "Report of the Compensation Committee of the Board of Directors," 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 2006 under the caption "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

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 2006 under the caption "Certain Relationships and Related 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 section entitled "Fees to the Company's Auditors" in our Proxy Statement for the annual meeting to be held in September 2006.

PART IV

ITEM 15. EXHIBITS AND, FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements

The consolidated financial statements of Westell Technologies, Inc. at March 31, 2006 and 2005 and for each of the three fiscal years in the period ended March 31, 2006, together with the Report of Independent Auditors, are set forth on pages 42 through 64 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, 2004, 2005 and 2006 as applicable:

Schedule II - Valuation and Qualifying Accounts - page 65

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 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005).
- 4.1 Form of Stock Purchase Warrant dated April 15, 1999 by and among Westell Technologies, Inc., Castle Creek Technology Partners LLC (409,091 shares), Marshall Capital Management, Inc. (272,727 shares), and Capital Ventures International (227,273 shares) (incorporated herein by reference to Westell Technologies, Inc.'s Report on Form 8-K dated April 20, 1999).
- 4.2 Form of Warrant granted to certain Penny family trusts on June 29, 2001 (incorporated herein by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended March 31, 2001).
- 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 (incorporated herein by reference to Exhibit 10.7 to Westell Technologies, Inc.'s Registration Statement on Form S-1, as amended, Registration No. 33-98024).
- *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).
- *10.10 Severance Agreement between Conference Plus, Inc. and Tim Reedy.
- 10.11 Lease dated September 25, 1995 between Westell-Meridian LLC and Westell, Inc. (incorporated herein by reference to Exhibit 10.11 to Westell Technologies, Inc.'s Registration Statement on Form S-1, as amended, Registration No. 33-98024)
- 10.12 Amended and Restated Loan and Security Agreement dated August 31, 2000 among LaSalle National Bank, Harris Bank National Association, Westell Technologies, Inc., Westell, Inc., Westell International, Inc., Conference Plus, Inc. and Teltrend, Inc. (incorporated by reference to Exhibit 10.12 to Company's Annual Report on Form 10-K for the year ended March 31, 2001).
- 10.15 Revolving Note dated as of June 29, 2001 payable to LaSalle National Bank and made by Westell Technologies, Inc., Westell, Inc., Westell International, Inc.,

- Conference Plus, Inc. and Teltrend, Inc. (incorporated by reference to Exhibit 10.15 to Company's Annual Report on Form 10-K for the year ended March 31, 2001).
- 10.16 Amended and Restated Loan and Security Agreement dated June 29, 2001 among LaSalle National Bank, Westell Technologies, Inc., Westell, Inc., Westell International, Inc., Conference Plus, Inc. and Teltrend, Inc. (incorporated by reference to Exhibit 10.16 to Company's Annual Report on Form 10-K for the year ended March 31, 2001).
- 10.18 Lease dated December 10, 1993 between LaSalle National Trust, N.A., as Trustee under Trust Agreement dated August 1, 1979, known as Trust No. 101293, and Westell Incorporated, as amended and modified (incorporated herein by reference to Exhibit 10.18 to the Company's Form 10-K for fiscal year ended March 31, 1996).
- 10.19 Amendment to Amended and Restated Loan and Security Agreement dated February 15, 2001 among LaSalle National Bank, Harris Trust and Savings Bank, Westell Technologies, Inc., Westell, Inc., Westell International, Inc., Conference Plus, Inc., and Teltrend, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the period ended December 31, 2000).
- 10.20 Amendment to Amended and Restated Loan and Security Agreement dated April 13, 2001 among LaSalle National Bank, Harris Trust and Savings Bank, Westell Technologies, Inc., Westell, Inc., Westell International, Inc., Conference Plus, Inc., and Teltrend, Inc. (incorporated by reference to Exhibit 10.18 to the Company's Report on Form 8-K filed on April 17, 2001).
- 10.21 Sixth Amendment to the Amended and Restated Loan and Security Agreement dated as of June 29, 2001 among LaSalle National Bank, Harris Trust and Savings Bank, the Company, Westell, Inc., Westell International, Inc., Conference Plus, Inc. and Teltrend, Inc. (incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended March 31, 2002).
- 10.22 Amendment To Amended And Restated Loan And Security Agreement dated as of October 30, 2001, among LaSalle Bank National Association, Westell Technologies, Inc., Westell International, Inc., Conference Plus, Inc. and Teltrend, Inc. (incorporated herein by reference to Exhibit 10.22 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).
- *10.23 Severance Agreement date June 28, 2001, by and between Westell, Inc and E. Van Cullens (incorporated herein by reference to Exhibit 10.23 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).
- *10.24 Employment Letter dated June 28, 2001 between Westell Technologies, Inc. and E. Van Cullens (incorporated herein by reference to Exhibit 10.24 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).
- 10.25 Seventh Amendment to the Amended and Restated Loan and Security Agreement dated as of June 26, 2003 among LaSalle National Bank, the Company, Westell, Inc, Westell International, Inc. Conference Plus, Inc. and Teltrend, Inc. (incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended March 31, 2003).
- 10.26 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).
- 10.27 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)
- 10.28 Form of Stock Option 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 October 12, 2004)

- 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 (incorporated by reference to Exhibit 21.1 to the Company's Annual Report on Form 10-K for the year ended March 31, 2001).
- 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 Schedules

The financial statement schedules 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 14, 2006.

WESTELL TECHNOLOGIES, INC.

By /s/ E. Van Cullens
E. Van Cullens
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 14, 2006.

<u>Signature</u>	<u>Title</u>
<u>/s/ Nicholas C. Hindman, Sr.</u> Nicholas C. Hindman, Sr.	Chief Financial Officer, Treasurer and Senior Vice President (Principal Financial Officer and Principal Accounting Officer)
<u>/s/ E. Van Cullens</u> E. Van Cullens	President, Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ John W. Seazholtz</u> John W. Seazholtz	Chairman of the Board of Directors
<u>/s/ Paul A. Dwyer</u> Paul A. Dwyer	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/ Roger L. Plummer</u> Roger L. Plummer	Director
<u>/s/ Bernard F. Sergesketter</u> Bernard F. Sergesketter	Director
<u>/s/ Melvin J. Simon</u> Melvin J. Simon	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, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2006. 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, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, 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.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Westell Technologies, Inc.'s internal control over financial reporting as of March 31, 2006, 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 9, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Chicago, Illinois
June 9, 2006

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Westell Technologies, Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of March 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company'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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, 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, management's assessment that the Company maintained effective internal control over financial reporting as of March 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2006, 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, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2006 and our report dated June 9, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Chicago, Illinois
June 9, 2006

WESTELL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

(In thousands, except share and per share amounts)

	March 31,	
	2006	2005
Current assets:		
Cash and cash equivalents	\$ 40,928	\$ 26,350
Investments	1,287	610
Accounts receivable (net of allowance of \$246, and \$278 respectively)	30,121	30,167
Inventories	23,918	26,419
Prepaid expenses and other current assets	3,607	2,806
Deferred income tax asset	7,540	3,980
Total current assets	107,401	90,332
Property and equipment:		
Machinery and equipment	45,347	44,505
Office, computer and research equipment	26,282	25,270
Leasehold improvements	8,811	8,810
	80,440	78,585
Less accumulated depreciation and amortization	66,157	62,067
Property and equipment, net	14,283	16,518
Goodwill	10,613	6,990
Intangibles, net	7,866	6,893
Deferred income tax asset and other assets	51,650	59,357
Total assets	\$ 191,813	\$ 180,090

WESTELL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
LIABILITIES AND STOCKHOLDERS' EQUITY
(In thousands except share amounts)

	March 31,	
	2006	2005
Current liabilities:		
Accounts payable	\$ 14,880	\$ 19,671
Accrued expenses	6,926	7,962
Accrued compensation	8,280	7,898
Deferred revenue	722	1,234
Current portion of long-term debt	51	318
Total current liabilities	30,859	37,083
Long-term debt	10	--
Other long-term liabilities	829	809
Total liabilities	31,698	37,892
Minority interest	2,839	2,540
Stockholders' equity:		
Class A common stock, par \$0.01	556	542
Authorized - 109,000,000 shares		
Issued and outstanding - 55,607,834 shares at March 31, 2006 and 54,240,298 shares at March 31, 2005		
Class B common stock, par \$0.01	147	147
Authorized - 25,000,000 shares		
Issued and outstanding - 14,741,872 shares at March 31, 2006 and March 31, 2005		
Preferred stock, par \$0.01	--	--
Authorized - 1,000,000 shares		
Issued and outstanding - none		
Deferred compensation	(1,751)	(2,476)
Additional paid-in capital	392,843	389,242
Treasury stock at cost - 93,100 shares	(247)	(247)
Cumulative translation adjustment	(241)	(672)
Accumulated deficit	(234,031)	(246,878)
Total stockholders' equity	157,276	139,658
Total liabilities and stockholders' equity	<u>\$191,813</u>	<u>\$ 180,090</u>

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

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

	Year ended March 31,		
	2006	2005	2004
Equipment sales	\$ 238,101	\$ 225,865	\$ 190,440
Services	45,070	44,398	45,299
Total revenues	<u>283,171</u>	<u>270,263</u>	<u>235,739</u>
Cost of equipment sales	174,088	167,376	129,265
Inventory reserve adjustments	707	(54)	148
Cost of services	22,577	21,741	26,585
Total cost of goods sold	<u>197,372</u>	<u>189,063</u>	<u>155,998</u>
Gross margin	<u>85,799</u>	<u>81,200</u>	<u>79,741</u>
Operating expenses:			
Sales and marketing	24,852	22,211	20,242
Research and development	20,274	15,911	17,385
General and administrative	16,543	17,368	17,506
Intangible amortization	1,386	1,335	1,455
Restructuring	443	(793)	698
Total operating expenses	<u>63,498</u>	<u>56,032</u>	<u>57,286</u>
Gain on sale of product line	--	1,453	--
Operating income	<u>22,301</u>	<u>26,621</u>	<u>22,455</u>
Other income, net	974	896	615
Interest expense	(12)	(60)	(743)
Income before minority interest and income taxes ..	<u>23,263</u>	<u>27,457</u>	<u>22,237</u>
Income taxes	10,112	(12,757)	(12,923)
Minority interest	304	520	373
Net income	<u>\$ 12,847</u>	<u>\$ 39,694</u>	<u>\$ 34,877</u>
Net income per common share:			
Basic	<u>\$ 0.18</u>	<u>\$ 0.58</u>	<u>\$ 0.52</u>
Diluted	<u>\$ 0.18</u>	<u>\$ 0.56</u>	<u>\$ 0.49</u>
Weighted average number of common shares outstanding:			
Basic	<u>69,938</u>	<u>68,473</u>	<u>66,858</u>
Diluted	<u>71,622</u>	<u>71,042</u>	<u>70,667</u>

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

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

	Comprehensive Income	Common Stock Class A	Common Stock Class B	Additional Paid-in Capital	Cumulative Translation Adjustment	Deferred Compensation	Accum. Deficit	Treasury Stock	Total Stockholders' Equity
Balance, March 31, 2003		\$ 460	\$ 190	\$ 364,661	\$ (168)	\$ 46	\$ (321,449)	\$ (247)	\$ 43,493
Net income	\$ 34,877	--	--	--	--	--	34,877	--	34,877
Translation adjustment	(317)	--	--	--	(317)	--	--	--	(317)
Total comprehensive income	\$ 34,560								
Deferred compensation		--	--	--	--	(46)	--	--	(46)
Class B stock converted to class A stock		43	(43)	--	--	--	--	--	--
Options and warrants exercised including tax benefit		29	--	13,729	--	--	--	--	13,758
Balance, March 31, 2004		\$ 532	\$ 147	\$ 378,390	\$ (485)	\$ --	\$ (286,572)	\$ (247)	\$ 91,765
Net income	\$ 39,694	--	--	--	--	--	39,694	--	39,694
Translation adjustment	(187)	--	--	--	(187)	--	--	--	(187)
Total comprehensive income	\$ 39,507								
Options and warrants exercised including tax benefit		6	--	8,036	--	--	--	--	8,042
Shares sold under Employee Stock Purchase Plan		0	--	137	--	--	--	--	137
Restricted stock grant		4	--	2,679	--	(2,476)	--	--	207
Balance, March 31, 2005		\$ 542	\$ 147	\$ 389,242	\$ (672)	\$ (2,476)	\$ (246,878)	\$ (247)	\$ 139,658
Net income	\$ 12,847	--	--	--	--	--	12,847	--	12,847
Translation adjustment	431	--	--	--	431	--	--	--	431
Total comprehensive income	\$ 13,278								
Options and warrants exercised including tax benefit		13	--	3,273	--	--	--	--	3,286
Shares sold under Employee Stock Purchase Plan		1	--	204	--	--	--	--	205
Deferred compensation						849	--	--	849
Restricted stock grant		0	--	124	--	(124)	--	--	--
Balance, March 31, 2006		\$ 556	\$ 147	\$ 392,843	\$ (241)	\$ (1,751)	\$ (234,031)	\$ (247)	\$ 157,276

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



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

	2006	2005	2004
Cash flows from operating activities:			
Net income	\$12,847	\$ 39,694	\$ 34,877
Reconciliation of net income to net cash provided by			
operating activities:			
Depreciation and amortization	9,476	9,209	9,324
Sale of product line	--	(1,453)	--
Deferred compensation	849	206	--
(Gain) loss on sale of fixed assets	(119)	77	191
Restructuring	(89)	(1,741)	(916)
Deferred Taxes	8,438	(18,820)	(18,585)
Minority interest	304	520	373
Tax benefit received on stock option exercises	1,344	5,741	5,506
Changes in assets and liabilities:			
Accounts receivable	2,039	(6,467)	(1,491)
Inventory	6,653	(10,344)	(4,232)
Capitalization of software development costs	--	(1,876)	--
Prepaid expenses and other current assets	(1,031)	(466)	(433)
Other assets	107	248	(395)
Accounts payable and accrued expenses	(9,019)	6,340	1,155
Accrued compensation	(81)	474	2,321
Net cash provided by operating activities	31,718	21,342	27,695
Cash flows from investing activities:			
Purchases of property and equipment	(4,489)	(6,720)	(5,311)
Proceeds from the sale of equipment	130	22	75
Sale of product line	87	2,113	--
Purchase of investments	(677)	(610)	--
Acquisition of a business	(14,049)	--	--
Net cash used in investing activities	(18,998)	(5,195)	(5,236)
Cash flows from financing activities:			
Net repayment under revolving promissory notes	--	--	(19,956)
Repayment of long-term debt and leases payable	(331)	(3,424)	(11,119)
Proceeds from stock options and warrants exercised	2,147	2,438	8,206
Net cash provided by (used in) financing activities	1,816	(986)	(22,869)
Effect of exchange rate changes on cash	42	(52)	177
Net increase in cash	14,578	15,109	(233)
Cash and cash equivalents, beginning of period	26,350	11,241	11,474
Cash and cash equivalents, end of period	\$ 40,928	\$ 26,350	\$ 11,241

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

WESTELL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies:

Description of Business

Westell Technologies, Inc. (the "Company") is a holding company. Its wholly owned subsidiaries, Westell, Inc., HyperEdge Corporation and Teltrend LLC design, manufacture and distribute telecommunications equipment which is sold primarily to major telephone companies. Conference Plus, Inc., a 91.5%-owned subsidiary, provides teleconferencing, multipoint video conferencing, broadcast fax and web teleconferencing services to various customers.

Business Acquisition

On December 29, 2005, the Company acquired 100% of the common stock of HyperEdge Corporation, a manufacturer of network service access products, for \$14.0 million in cash. The Company has accrued \$649,000 in estimated transaction costs, including costs for employee severance. The acquisition was accounted for using the purchase method of accounting in accordance with SFAS No. 141 "Business Combinations" ("SFAS No. 141") and accordingly the operating results of HyperEdge have been included in the consolidated financial statements from the acquisition date.

In accordance with SFAS 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 total purchase price was \$14.3 million, including direct acquisition costs of \$349,000. The allocation of the purchase price to the net assets acquired is as follows:

(in thousands)	
Current asset (primarily inventory and accounts receivable)	\$ 5,870
Fixed assets	76
Amortizable intangible assets	3,660
Goodwill	3,623
Deferred income tax asset	4,398
	<hr/>
Total assets acquired	17,627
Current liabilities	(3,204)
Long term debt	(74)
	<hr/>
Total liabilities assumed	(2,978)
	<hr/>
Total purchase price	\$ 14,349
	<hr/>

Amortizable intangible assets consist of \$1.2 million of product technology and \$2.5 million of customer relationships, both with 10 year lives. HyperEdge's products are reported in the revenue category called *Network Service Access (NSA)* for segment reporting. The audited and pro forma results of operations based on historical results of operations including adjustments for interest and amortization, as though HyperEdge were acquired at on April 1, 2004:

(in thousands except per share amounts)	(As Reported) March 31,		(Pro forma Unaudited) March 31,	
	2006	2005	2006	2005
Revenue	\$ 283,171	\$270,263	\$ 300,328	\$ 292,048
Net income	12,847	39,694	12,890	38,306
Basic earnings per share	\$ 0.18	\$ 0.58	\$ 0.18	\$ 0.56
Diluted earnings per share	\$ 0.18	\$ 0.56	\$ 0.18	\$ 0.54

The pro forma results of operations is presented for illustrative proposes 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.

Principals of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents generally consist of cash and commercial paper. The Company invests its excess cash in deposits with major financial institutions and the highest grade commercial paper of companies from a variety of industries. These securities have maturity dates not exceeding three months and can be liquidated at any time without penalty. Such investments are stated at cost, which approximates fair value, and are considered cash equivalents for purposes of reporting cash flows.

Investments

Investments consist primarily of fixed income mutual funds. These investments are accounted for at market prices and are considered available for sale marketable securities. There have been no significant gains or losses on these investments.

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 commercial paper. The Company had cash and cash equivalents in one U.S. bank in excess of federally insured amounts.

Inventories

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

The components of inventories are as follows:

(in thousands)	March 31,	
	2006	2005
Raw material	\$ 16,982	\$ 16,827
Work in process	312	217
Finished goods	10,452	14,507
Reserve for excess and obsolete inventory and net realizable value	(3,828)	(5,132)
	<u>\$ 23,918</u>	<u>\$ 26,419</u>

Accrued purchase commitments totaled \$77,000 and \$87,000 at March 31, 2006 and March 31, 2005, respectively.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the assets which range from 2 to 10 years using the straight-line method for financial reporting purposes and accelerated methods for tax purposes. Leasehold improvements are amortized over the lives of the respective leases, or the useful life of the asset, whichever is shorter. Depreciation expense was \$6.8 million, \$7.7 million and \$7.9 million for fiscal 2006, 2005 and 2004, respectively.

Goodwill and Intangibles

The Company accounts for goodwill and other intangibles under FASB No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 requires that these assets be reviewed for impairment at least annually. Other intangible assets will continue to be amortized over their useful lives. The Company determined that there has been no impairment of goodwill in any of the fiscal years presented. All goodwill and intangibles are related to the equipment segment of the business.

Goodwill increased by \$3.6 million during fiscal 2006 due to the purchase of HyperEdge.

The Company has finite lived intangible assets related to the acquisitions of HyperEdge in fiscal year 2006 and Teltrend in fiscal year 2000. The following table presents details of the Company's intangibles from acquisitions:

(in thousands)	March 31,	
	2006	2005
Gross assets	\$ 36,560	\$ 32,900
Accumulated amortization	(5,306)	(3,920)
Impairment and write off	(23,800)	(23,800)
Net	\$ 7,454	\$ 5,180

These intangibles are being amortized over a period of 5 to 10 years. Finite lived intangible amortization included in expense was \$1.4 million, \$1.3 million and \$1.5 million in fiscal years 2006, 2005 and 2004 respectively. The estimated amortization expense for the next three years is \$1.7 million per year and \$366,000 in years four through ten.

Software Development

The Company accounts for software development costs under FAS86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*. All software related costs related to the equipment segment of the business. The Company capitalized \$1.9 million of software costs in fiscal 2005. Amortization expense of \$1.0 million and \$163,000 was recorded in fiscal 2006 and 2005 respectively in cost of goods sold. An impairment charge of \$300,000 was taken in fiscal year 2006 and is included in cost of goods sold. The capitalized balance was \$412,000 and \$1.7 million as of March 31, 2006 and March 31, 2005, respectively. This intangible will be amortized in fiscal year 2007. Revenue generated from software was \$691,000 and \$160,000 in fiscal 2006 and 2005, respectively.

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 amounts 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.

Net carrying amounts of amortizable intangible assets are as follows:

(in thousands)	March 31,	
	2006	2005
Product technology – Teltrend acquisition	\$ 3,885	\$ 5,180
Product technology- HyperEdge acquisition	1,170	--
Customer relationship- HyperEdge acquisition	2,399	--
Software	412	1,713
Total	\$ 7,866	\$ 6,893

>Revenue Recognition

Revenue is recognized when title has passed to the customer. On certain sales contracts where new products are built to customer specifications, revenue is not recognized until the customer has tested and determined it to function as intended.

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

The Company's subsidiary Conference Plus, Inc. recognizes revenue for conference calls and other services upon completion of the conference call or services.

Shipping and handling

The Company records costs related to shipping and handling expense of \$1.1 million in sales and marketing expense.

Product Warranties

Most of the Company's products carry a limited warranty ranging from one to two years for CNE products and seven to ten years for NSA 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

The Company has elected to follow Accounting Principle Board Opinion No. 25 "Accounting for Stock Issued to Employees" (APB No. 25) and related interpretations in accounting for its employee stock options and awards. Under APB No. 25, employee stock options are valued using the intrinsic method, and no compensation expense is recognized since the exercise price of the options equals or is greater than the fair market value of the underlying stock as of the date of the grant. The following table shows the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement NO. 123, "Accounting for Stock Based Compensation."

(in thousands except per share data)	Fiscal year ended March 31,		
	2006	2005	2004
Net income, as reported.....	\$ 12,847	\$ 39,694	\$ 34,877
Add: Stock based employee compensation expense included in reported net income, net of tax	532	128	--
Deduct: Total stock based employee compensation expense determined under fair value based method for all awards, net of the related tax effect	7,638	2,769	1,898
Pro forma net income	\$ 5,741	\$ 37,053	\$ 32,979
Net income per share:			
Basic as reported.....	\$ 0.18	\$ 0.58	\$ 0.52
Basic Pro forma.....	\$ 0.08	\$ 0.54	\$ 0.49
Diluted as reported	\$ 0.18	\$ 0.56	\$ 0.49
Diluted Pro forma.....	\$ 0.08	\$ 0.52	\$ 0.47

The expense in fiscal year 2006 includes the impact of the Company accelerating vesting on options. See Note 9 for further discussion of the Company's option plans.

Supplemental Cash Flow Disclosures

The following represents supplemental disclosures to the consolidated statements of cash flows:

(in thousands)	March 31,		
	2006	2005	2004
Cash paid for:			
Interest	\$ 7	\$ 75	\$ 1,721
Income taxes	311	557	132

Disclosures about Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument held by the Company:

- Cash and cash equivalents, trade receivables and trade payables: the carrying amounts approximate fair value because of the short maturity of these items.
- Investments in mutual funds, within the rabbi trust, have carrying value which approximate market as of March 31, 2006.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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. Actual results could differ from those estimates. Estimates are used when accounting for the allowance for uncollectable accounts receivable, net realizable value of inventory, product warranty accrued, depreciation, employee benefit plans cost, income taxes, and contingencies, among other things.

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 or losses within Other income (expense), net for fluctuations on foreign currency rates on accounts receivable and cash and for fluctuations on foreign currency rates on intercompany accounts anticipated by management to be settled in the foreseeable future.

New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"). Under this new standard, companies will no longer be able to account for share-based compensation transactions using the intrinsic value method in accordance with APB 25. Instead, companies will be required to account for such transactions using a fair-value method and recognize the expense over the service period. On April 14, 2005, the Securities and Exchange Commission announced the adoption of a rule that defers the required effective date of SFAS 123R for registrants to the beginning of the first fiscal year beginning after June 15, 2005. The Company will adopt this statement in the first quarter of its 2007 fiscal year using the modified prospective method. The adoption of SFAS 123R is expected to result in an additional pre-tax expense of \$1.0 million in fiscal year 2007 plus an amount that has not been determined for options granted in the fiscal year.

In May 2005 the FASB issued FASB Statement No. 154, "Accounting Changes and Error Corrections" (SFAS 154), which replaces Accounting Principles Board Opinion No. 20 "Accounting Changes" and FASB Statement No. 3,

“Reporting Accounting Changes in Interim Financial Statements”. SFAS 154 is effective for fiscal years beginning after December 15, 2005 and requires retrospective application to prior period financial statements of voluntary changes in accounting principle, unless it is impractical to determine either the period-specific effects or the cumulative effect of the change. The Company’s consolidated financial position, results of operations or cash flows will only be impacted by SFAS 154 if we implement a voluntary change in accounting principle or correct accounting errors in future periods.

In January 2005, the Financial Accounting Standards Board (FASB) issued revised Statement of Financial Accounting Standards (SFAS) No. 151, *Inventory Costs*, an amendment of ARB No. 43. The amendments made by SFAS 151 clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. SFAS 151 will be effective for the Company beginning in fiscal year 2007. The impact of SFAS 151 is not expected to have a significant impact to the consolidated financial statements.

Reclassification of Accounts

Certain prior year amounts have been reclassified in order to conform to the current-year presentation.

Note 2. Revolving Credit Agreements:

On March 31, 2006, the Company had a revolving credit facility that provided for maximum borrowings of up to \$30 million. The term on the credit facility expires on June 30, 2006. This asset based revolving credit facility, which was secured by substantially all assets of the Company, provides for total borrowings based upon 85% of eligible accounts receivable and 30% of eligible inventory not to exceed \$3.1 million as of March 31, 2006. The \$3.1 million inventory limitation is reduced by \$0.1 million on the first day of each month. The amount available under the revolving credit facility at March 31, 2006 was \$27.9 million. Borrowings under this facility provide for the interest to be paid by the Company at the prime rate or Libor rate plus 2.5%. This credit facility contains covenants regarding EBITDA, tangible net worth and maximum capital expenditures. The Company was in compliance with these covenants on March 31, 2006 and expects to comply with these covenants for the term of the debt. The Company is in the process of renegotiating this credit facility and expects to have a new facility with more favorable terms in place by June 30, 2006.

Note 3. Long-Term Debt and Notes Payable:

Long-term debt and notes payable consists of the following:

(in thousands)	March 31,	
	2006	2005
Capitalized lease obligations secured by related equipment	\$ 61	\$ 83
Term notes payable	--	235
Total debt and notes payable	61	318
Less current portion	51	318
Long-term debt and notes payable	\$ 10	\$ 0

Future maturities of long-term debt at March 31, 2006 are as follows (in thousands):

2007	\$ 51
2008	\$ 10

In fiscal year 2003, the Company purchased 3.2% of the outstanding shares of common stock of Conference Plus, Inc. from former officers of Conference Plus Inc. for approximately \$1.6 million. The purchase price was based upon the minority interest value set forth in an appraisal of Conference Plus, Inc. obtained by the Company that was completed by an independent financial advisor. The Company issued term notes payable bearing an interest rate of

3.5% per annum to be paid over a one to three year term to finance this stock purchase. These notes were paid in full during fiscal year 2006. At March 31, 2005 there was \$235,000 outstanding under these notes.

Note 4. Convertible Debentures and Warrants:

In April 1999, the Company completed a subordinated secured convertible debenture private placement totaling \$20 million. In connection with the financing, the Company issued five-year warrants for approximately 909,000 shares of Class A Common stock at an exercise price equal to \$8.921 per share, which was approximately 140% of the initial conversion price of the debentures. These warrants were determined to have a fair market value of \$1 million. Subsequently, in December 1999, the Company repriced the warrants from \$8.921 to \$5.92 per share and, due to this debt modification, increased the value of the warrants by approximately \$838,000. The total value of the warrants was approximately \$1.8 million. In fiscal 2005 and 2004, 382,000 and 527,000 warrants were exercised, respectively. The Company issued 266,322 and 97,310 shares of stock relating to these exercises in fiscal 2005 and 2004, respectively. These warrants have been exercised in full and are no longer outstanding.

On June 29, 2001, in consideration of a guarantee given by several shareholders to support the credit facility, the Company granted warrants to purchase 512,820 shares of Class A common stock at an exercise price of \$1.95 per share. The warrants are exercisable at any time until June 29, 2006. All of the warrants were exercised in fiscal year 2006. The Company issued 369,036 shares of stock relating to these exercises and 143,784 warrants were exchanged in lieu of paying cash for the exercise price.

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,		
	2006	2005	2004
Federal:			
Current	\$ 304	\$ 296	\$ 144
Deferred	9,029	(12,015)	(12,016)
	9,333	(11,719)	(11,872)
State:			
Current	25	26	13
Deferred	754	(1,064)	(1,064)
	779	(1,038)	(1,051)
Total	\$ 10,112	\$ (12,757)	\$ (12,923)

The Company utilizes the flow-through method to account for tax credits. In fiscal 2006, 2005 and 2004, the Company generated no tax credits.

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

	Fiscal Year Ended March 31,		
	2006	2005	2004
Statutory federal income tax rate	35.0%	35.0%	34.0%
Meals and entertainment	0.4	0.2	0.4
State income tax, net of federal tax effect	1.9	3.1	3.1
Valuation allowance	3.4	(84.6)	(95.0)
Bad debt in foreign subsidiary	(1.1)	--	--
Other	3.9	(0.2)	(0.4)
	<u>43.5%</u>	<u>(46.5)%</u>	<u>(57.9)%</u>

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

(in thousands)	March 31,	
	2006	2005
Deferred income tax assets:		
Allowance for doubtful accounts	\$ 72	\$ 53
Alternative minimum tax credit	1,442	1,132
Research and development credit carryforward	4,589	4,589
Compensation accruals	923	607
Inventory reserves	1,372	1,725
Warranty reserve	636	662
Net operating loss carryforward	54,637	58,166
Intangibles	1,758	1,785
Other	2,626	1,961
	<u>68,055</u>	<u>70,680</u>
Valuation allowance	(9,475)	(8,060)
Net deferred income tax asset	<u>\$ 58,580</u>	<u>\$ 62,620</u>

Record in consolidated balance sheet as follows:

(in thousands)	March 31,	
	2006	2005
Deferred income tax assets-current	\$ 7,540	\$ 3,980
Deferred income tax assets and other assets – noncurrent	51,040	58,640
Net deferred income tax asset	<u>\$ 58,580</u>	<u>\$ 62,620</u>

The Company has approximately \$6.0 million in income tax credit carryforwards and a \$126.6 million federal net operating loss carryforward that is available to offset taxable income in the future. The tax credit carryforwards begin to expire in 2008. The federal net operating loss carryforward begins to expire in 2012. State net operating loss carryforwards have varying carryforward periods from five to twenty years.

The Company evaluates the need for a valuation allowances on the net deferred tax assets under the rules of SFAS 109 "Accounting for Income Taxes". In fiscal 2006, the Company projects that future taxable income will be sufficient to be able to use a significant portion of the recorded net deferred tax assets. A valuation allowance has been recorded for tax credits and state net operating loss carryforwards that are expected to expire before they can be used. The valuation allowance increased \$1.4 million in fiscal 2006. In fiscal 2005, after the Company's evaluation of its ability to recover deferred tax assets, it was determined that a valuation allowance was no longer required on the majority of the deferred tax assets. In conjunction with the evaluation, the Company reduced the valuation allowance to \$8.1 million as of March 31, 2005.

The American Jobs Creation Act of 2004 (the "AJCA"), signed into law in October 2004, includes a provision that allows the Company to elect to claim a one-time dividend received deduction with respect to a qualifying cash repatriation from its foreign subsidiaries. The Company does not expect to make this election.

Note 6. Commitments:

The Company leases an 185,000 square foot corporate facility in Aurora, Illinois to house manufacturing, engineering, sales, marketing and administration pursuant to a lease that runs through 2017.

The Company also has lease commitments to lease other office and warehouse 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 manufacturing equipment, computer equipment, photocopiers and autos. Total rent expense was \$4.2 million, \$4.4 million and \$4.0 million for 2006, 2005, and 2004, respectively.

Total minimum future rental payments at March 31, 2006 are as follows (in thousands):

2007	\$ 3,183
2008	2,838
2009	2,795
2010	2,833
2011	2,877
Thereafter	14,453
Total minimum lease payments	<u>\$ 28,979</u>

Note 7. Product Warranties:

Most of the Company's products carry a limited warranty ranging from one to two year for CNE products and seven to ten years for NSA products. The specific terms and conditions of those warranties vary depending upon the product sold. Factors that enter into our estimate of our 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 Company reports warranty reserve as both current and long term liabilities. The following table presents the changes in our product warranty reserve:

(in thousands)	Fiscal years ended March 31,		
	2006	2005	2004
Total product warranty reserve at the beginning of the period	\$ 1,806	\$ 1,853	\$ 1,567
Acquired	73	--	--
Warranty expense	812	2,278	1,667
Charged to other accounts	--	--	--
Deductions	(915)	(2,325)	(1,381)
Total product warranty reserve at the end of the period	<u>\$ 1,776</u>	<u>\$ 1,806</u>	<u>\$ 1,853</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.

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. A total of 18,824,908 shares of Common Stock are subject to this Stock Transfer Restriction Agreement.

Shares issued and outstanding

The following table summarizes Common Stock transactions for fiscal years 2004, 2005 and 2006:

(in thousands)	Common Shares Issued and Outstanding		
	Class A	Class B	Treasury
Balance, March 31, 2003	45,966	19,015	(93)
Options Exercised	2,889	--	--
Class B stock converted to Class A	4,274	(4,274)	--
Warrants Exercised	97	--	--
Balance, March 31, 2004	53,226	14,742	(93)
Options Exercised	324	--	--
Shares sold under Employee Stock Purchase Plan	24	--	--
Warrants Exercised	266	--	--
Restricted Stock Grant	400	--	--
Balance, March 31, 2005	54,240	14,742	(93)
Options Exercised	918	--	--
Shares sold under Employee Stock Purchase Plan	55	--	--
Warrants Exercised	369	--	--
Restricted Stock Grant	26	--	--
Balance, March 31, 2006	55,608	14,742	(93)

Note 9. Employee Benefit Plans:

401(k) Benefit Plan

The Company sponsors a 401(k) benefit plan (the "Plan") which covers substantially all of its employees. The Plan is a salary reduction plan that allows employees to defer up to 15% of wages subject to Internal Revenue Service limits. The Plan also allows for Company discretionary and matching contributions. The Company provided for discretionary and matching contributions to the Plan totaling approximately \$1.0 million, \$1.2 million and \$1.2 million for fiscal 2006, 2005 and 2004, respectively.

Employee Stock Purchase Plan

The Company maintains a stock purchase plan that allows participating employees to purchase, through payroll deductions, shares of the Company's Class A Common Stock for 85% of the average of the high and low reported sales prices at specified dates. There are 517,950 shares authorized under the stock purchase plan with 150,915 available for issuance as of March 31, 2006. The weighted average purchase price of shares purchased under the plan in fiscal 2006 was \$3.78.

Employee Stock Incentive Plan

In October 1995, the Company adopted a stock incentive plan (the "1995 SIP Plan") that permits the issuance of Class A Common Stock, restricted shares of Class A Common Stock, nonqualified stock options and incentive stock options to purchase Class A Common Stock, performance awards and stock appreciation rights to

selected employees, officers, non-employee directors of the Company and advisory board members and consultants. No stock awards were issued in fiscal 2006, 2005 or 2004.

During March 2000, as part of the Teltrend acquisition, the Company adopted the following three stock options plans (collectively the "three adopted option plans"): Teltrend Inc. 1995 Stock Option Plan (the "1995 Stock Option Plan"), Teltrend Inc. 1996 Stock Option Plan (the "1996 Stock Option Plan"), and Teltrend Inc. 1997 Non-Employee Director Stock Option Plan (the "1997 Director Option Plan"). Under both the 1995 and 1996 Stock Option Plans nonqualified stock options were granted to key employees. Nonqualified stock options were granted to Non-Employee Directors under the 1997 Director Option Plan.

In September 2004 shareholders 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.

On February 24, 2006, the Company accelerated the vesting of approximately 1.4 million unvested "out of the money" stock options with exercise prices greater than \$6.50 per share which were held by current employees and certain executive officers of the Company. The immediate vesting included a restriction on the resale of the underlying shares of common stock. Under SFAS 123R, the Company will be required to recognize the expense associated with its outstanding unvested stock options beginning in the first quarter of fiscal year 2007. The acceleration of vesting was made to reduce compensation expense that otherwise would be recorded in future periods.

In January 2006 and January 2005 the Company granted 26,100 and 400,000 shares of restricted stock awards under the Westell Technologies, Inc. 2004 Stock Incentive Plan. Vesting of restricted stock is subject to continued employment with the Company. The restricted stock award granted in 2006 will vest in full on March 31, 2007. The restricted stock awards granted in 2005 will vest in full on June 1, 2008 with the exception of 20,000 restricted stock awards that will vest on March 31, 2007 subject to continued services to the Company on that date. Each restricted stock award is 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 period based on the market value of Westell Technologies stock on the date of grant. The market value of the restricted stock awarded in fiscal year 2006 was \$4.73. The Company recorded \$849,000 and \$206,000 of expense in fiscal year 2006 and 2005, respectively, related to these grants.

Under the Company's 2004 SIP Plan, the 1995 SIP Plan, the 1995 Stock Option Plan, the 1996 Stock Option Plan, and the 1997 Director Option Plan ("all stock plans"), 18,500,000 shares were authorized and there were 4.3 million shares available for further issuance at March 31, 2006. The stock option activity under all stock plans is as follows:

	2006		2005		2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding - beginning of year	10,427,415	\$ 5.53	9,536,685	\$ 5.37	11,532,799	\$ 4.60
Granted	302,000	4.64	1,480,700	6.61	1,326,100	7.01
Exercised	(917,808)	2.12	(323,425)	2.96	(2,889,311)	2.84
Expired	--	--	--	--	--	--
Canceled	(610,435)	6.46	(266,545)	9.07	(432,903)	6.82
Outstanding – end of year	9,201,172	\$ 5.78	10,427,415	\$ 5.53	9,536,685	\$ 5.37

The exercise price of the stock options granted is generally established at the market price on the date of the grant. The Company has reserved Class A Common Stock for issuance upon exercise of these options granted.

In computing the fair value of stock options granted as disclosed in Note 1, the fair value of each option is estimated on the date of grant based on the Black-Scholes option pricing model. The following weighted average assumptions were used for grants in fiscal year 2006, 2005 and 2004:

	2006	2005	2004
Expected volatility	89%	95%	98%
Risk-free interest rate	3.9%	3.7%	2.8%
Expected life in years	5	5	7
Expected dividend yield	0.0%	0.0%	0.0%

Options granted to employees' vest over a period from two to five years, upon the earlier of the achievement of company and individual goals established, or 8 years. The weighted average fair value of the options granted during the years ended March 31, 2006, 2005 and 2004 were \$4.64, \$6.61 and \$7.01, respectively.

The following table summarizes information about all stock options outstanding as of March 31, 2006:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding As of 3/31/2006	Remaining Life	Weighted-Average Exercise Price	Number Exercisable As of 3/31/2006	Weighted Average Exercise Price
\$ 1.07-1.95	2,403,482	5.67	\$ 1.51	1,559,707	\$ 1.56
2.00-4.37	2,015,055	5.57	2.98	1,318,199	2.87
4.38-6.71	2,764,700	5.02	5.95	2,221,875	6.17
6.76-21.44	1,941,485	4.76	12.70	1,911,485	12.78
21.44-36.18	76,450	3.93	31.50	76,450	31.50
\$ 1.07-36.18	9,201,172	5.24	\$ 5.78	7,087,716	\$ 6.60

Note 10. Deferred Compensation:

The Company has a deferred compensation program with its Chief Executive Officer that is funded through a rabbi trust. The rabbi trust qualifies as a Variable Interest Entity under *FASB Interpretation No. 46, Consolidation of Variable Interest Entities* and as such is consolidated in the Company's financial statements. Approximately \$1.3 million and \$618,000 of cash has been funded into the rabbi trust as of March 31, 2006 and March 31, 2005 respectively. The Company has recorded a \$1.9 million and \$1.3 million long-term liability to accrue for the deferred compensation liability as of March 31, 2006 and March 31, 2005, respectively. The rabbi trust is subject to the creditors of the Company. All amounts deferred under this compensation program vested on March 31, 2006.

Note 11. Sale of Product Line:

On July 1, 2004, the Company sold its Data Station Termination product lines and specified fixed assets for \$2.2 million to Enginuity Communications Corporation (Enginuity). The Company received \$2.0 million in cash, \$200,000 in the form of a note receivable and provided an unconditional guarantee in the amount of \$1.62 million relating to a 10 year term Enginuity note payable to a third party lender that financed the transaction. Certain owners of Enginuity pledged assets with a fair market value of \$1.5 million and personally guaranteed the note payable. These guarantees will stay in place until the note is paid in full. The Company must pay all amounts due under the note payable upon demand from the lender. The transaction resulted in a net gain on the sale of a product line in the amount of \$1.5 million and an intangible write off of \$439,000. Revenue and pre-tax income of this product line were insignificant in fiscal 2004.

The Company evaluated FIN 46R *Consolidation of Variable Interest Entities* and concluded that Enginuity was a variable interest entity as a result of the debt guarantee. The Company is not considered the primary beneficiary of the variable interest entity therefore consolidation is not required.

The Company assessed its obligation under this guarantee pursuant to the provisions of FIN 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 will evaluate the liability periodically and adjust the value as required. No adjustments in the liability have been made to date.

Note 12. Segment and Related Information:

Operating Segments

Westell's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and market strategy. They consist of:

- 1) A telecommunications equipment manufacturer of local loop access products, and
- 2) A multi-point telecommunications service bureau specializing in audio teleconferencing, multi-point video conferencing, broadcast fax and multimedia teleconference services.

Performance of these segments is evaluated utilizing, revenue, operating income and total asset measurements. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Segment information for the fiscal years ended March 31, are as follows:

(in thousands)	Telcom Equipment	Telcom Service	Consolidated Total
2006			
Revenues	\$ 238,101	\$ 45,070	\$ 283,171
Operating income	16,103	6,198	22,301
Depreciation and amortization	6,739	2,737	9,476
Total assets	174,131	17,682	191,813
2005			
Revenues	\$ 225,865	\$ 44,398	\$ 270,263
Operating income	17,599	9,022	26,621
Depreciation and amortization	5,565	3,644	9,209
Total assets	160,416	19,674	180,090
2004			
Revenues	\$ 190,440	\$ 45,299	\$ 235,739
Operating income	16,564	5,891	22,455
Depreciation and amortization	5,345	3,979	9,324
Total assets	109,493	20,288	129,781

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 2006, 2005 and 2004.

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,		
	2006	2005	2004
Verizon	50.7%	51.9%	42.8%
BellSouth	17.9	16.7	18.0
AT&T	7.9	8.3	13.1

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,	
	2006	2005
Verizon	42.8%	51.0%
BellSouth	15.8	10.0
AT&T	12.4	14.0

Geographic Information

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

(in thousands)	Domestic	International	Total
2006			
Revenues	\$ 275,631	\$ 7,540	\$ 283,171
Operating income (loss)	23,546	(1,245)	22,301
Identifiable assets	187,766	4,047	191,813
2005			
Revenues	\$ 261,907	\$ 8,356	\$ 270,263
Operating income (loss)	26,627	(6)	26,621
Identifiable assets	175,908	4,182	180,090
2004			
Revenues	\$ 229,422	\$ 6,317	\$ 235,739
Operating income (loss)	25,261	(2,806)	22,455
Identifiable assets	127,188	2,593	129,781

International identifiable assets and operating loss are related to Westell Ltd., which is located in the United Kingdom and Conference Plus Global Services, Ltd., which is located in Dublin, Ireland.

Note 13. Restructuring charge:

The Company recognized restructuring expense of \$2.6 million in fiscal year 2003. This charge included personnel and facility costs related primarily to the closing of a Conference Plus, Inc. facility and personnel and facility charges at Westell Limited. Approximately 25 employees were impacted by these reorganizations. In fiscal year 2005, the Company terminated a lease that was partially reserved for in the 2003 restructuring. This termination resulted in the reversal of \$545,000 of restructuring for facility costs. As of March 31, 2006 no amounts remain unpaid.

The Company recognized a restructuring expense of \$698,000 in fiscal year 2004. This restructuring resulted from realigning the product focus due to product performance issues at Westell Limited that caused a workforce reduction of approximately 5 employees. In the quarter ended March 31, 2005, \$248,000 of these charges were reversed as the Company was able to resolve these performance issues. As of March 31, 2006 no amounts remain unpaid.

The Company recognized a restructuring expense of \$443,000 in the third quarter of fiscal year 2006. This charge included personnel costs relating to the termination of 17 employees at Westell Inc. As of March 31, 2006, \$107,000 of these accrued costs remain unpaid.

On December 29, 2005, the Company acquired 100% of the stock of HyperEdge Corporation (see footnote 1). The Company is currently implementing a restructuring plan to combine and streamline the operations of the companies to achieve synergies related to the manufacture and distribution of common NSA product lines. The Company estimates the costs of employee terminations, which were recorded as liabilities assumed in the acquisition, to be \$300,000. Approximately 17 employees are estimated to be impacted by this plan. All terminations are expected to be completed by the second quarter of fiscal year 2007. Any adjustments to this plan will be accounted for in accordance with SFAS No. 141. As of March 31, 2006, \$8,000 of these costs have been paid leaving an unpaid balance of \$292,000.

The restructuring charges and their utilization are summarized as follows:

	Employee related	Legal, other and facility costs	Total
Accrued at March 31, 2003	\$ 769	\$ 2,076	\$ 2,845
Charged	698	--	698
Utilized	769	845	1,614
Accrued at March 31, 2004	698	1,231	1,929
Reversal	261	532	793
Utilized	437	511	948
Accrued at March 31, 2005	0	188	188
HyperEdge acquisition	300	--	300
Charged	398	45	443
Utilized	327	205	532
Accrued at March 31, 2006	371	28	399

Note 14. Other income, net:

Other income, net for the years ended March 31, 2006, 2005 and 2004 was primarily due to interest income and unrealized gains and losses on intercompany balances denominated in foreign currency.

Note 15. Earnings Per Share:

(in thousands, except per share amounts)	Year ended March 31,		
	2006	2005	2004
Basic Earnings per Share:			
Net income	\$12,847	\$ 39,694	\$ 34,877
Average basic shares outstanding	69,938	68,473	66,858
Basic net income per share	\$ 0.18	\$ 0.58	\$ 0.52
Diluted Earnings per Share:			
Net income	\$12,847	\$ 39,694	\$ 34,877
Average basic shares outstanding	69,938	68,473	66,858
Effect of dilutive securities: stock options and warrants	1,684	2,569	3,809
Average diluted shares outstanding	71,622	71,042	70,667
Diluted net income per share	\$ 0.18	\$ 0.56	\$ 0.49

The Company had 4.6 million, 3.9 million and 1.0 million options outstanding as of March 31, 2006, 2005 and 2004, respectively which were not included in the computation of average diluted shares outstanding as they were antidilutive.

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

(In Thousands)	Balance at Beginning of Year	Net Additions Charged to Costs and Expenses	Acquired	Deductions	Balance at End of Year
2006					
Accounts receivable allowances	\$ 278	\$ (16) (2)	\$ 25	\$ (41)	\$ 246
Reserve for excess and obsolete inventory	5,132	707	502	(2,513) (4)	3,828
Deferred tax assets valuation allowance	8,060	786	629	--	9,475
Reserve for returns	70	235	--	(270)	35
2005					
Accounts receivable allowances	\$ 662	\$ (298) (2)	--	\$ (86) (1)	\$ 278
Reserve for excess and obsolete inventory	5,755	(14) (3)	--	(609) (4)	5,132
Deferred tax assets valuation allowance	35,360	(27,300) (5)	--	--	8,060
Reserve for returns	140	117	--	(187)	70
2004					
Accounts receivable allowances	\$ 905	\$ 179	--	\$ (422) (1)	\$ 662
Reserve for excess and obsolete inventory	5,775	1,315	--	(1,335) (4)	5,755
Deferred tax assets valuation allowance	58,932	(23,572) (5)	--	--	35,360
Reserve for returns	210	395	--	(465)	140

(1) Accounts written off, net of recoveries

(2) This item represents a net reserve reversal.

(3) Includes a \$0.6 million reversal of excess and obsolete inventory reserve, as the Company was able to sell inventory at its Westell Limited subsidiary that had been reserved at March 31, 2004.

(4) Inventory scrapped against inventory reserves

(5) Reversal of deferred tax asset valuation allowance

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 33-57810, Form S-3 No. 333-79407, Form S-8 No. 33-99914, Form S-8 No. 333-32646, Form S-8 No. 333-105926, Form S-3 No. 333-100625, Form S-3 No. 333-66772, and Form S-8 No. 333-119620) of Westell Technologies, Inc and in their related Prospectuses of our reports dated June 9, 2006, with respect to the consolidated financial statements and schedule of Westell Technologies, Inc, Westell Technologies, Inc management's assessment of the effectiveness of internal control over financial reporting, 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, 2006.

/s/ Ernst & Young LLP
Chicago, Illinois
June 13, 2006

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, E. Van Cullens, certify that:

- (1) I have reviewed this annual report on Form 10-K for the period ended March 31, 2006 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 control over financial reporting.

Date: June 14, 2006

/s/ E. VAN CULLENS
E. Van Cullens
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Nicholas C. Hindman, Sr., certify that:

- (1) I have reviewed this annual report on Form 10-K for the period ended March 31, 2006 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 control over financial reporting.

Date: June 14, 2006

/s/NICHOLAS C. HINDMAN, Sr.

Nicholas C. Hindman, Sr.

Treasurer, Secretary, Senior Vice President and Chief Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Westell Technologies, Inc. (the "Company") on Form 10-K for the fiscal period ending March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that based on their knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; 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/ E. VAN CULLENS

E. Van Cullens
Chief Executive Officer
June 14, 2006

/s/NICHOLAS C. HINDMAN, Sr.

Nicholas C. Hindman, Sr.
Chief Financial Officer
June 14, 2006

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. The forgoing certification is being furnished to the Securities and Exchange Commission as an exhibit to the Form 10-K and shall not be considered filed as part of the Form 10-K.