

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549  
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1999

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

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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 Number)
-------------------------------------------------------------------------------	----------------------------------------------------------

750 N. COMMONS DRIVE, AURORA, IL (Address of principal executive offices)	60504 (Zip Code)
------------------------------------------------------------------------------	---------------------

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

NOT APPLICABLE

(Former name, former address and former fiscal year,  
if changed since last report)

Indicate by check or mark whether the registrant (1) has filed all reports  
required to be filed by Sections 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 X No .

--- ---

Indicate the number of shares outstanding of each of the issuer's classes of  
common stock, as of the latest practicable date.

Class A Common Stock, \$0.01 Par Value - 17,489,521 shares at October 31, 1999  
Class B Common Stock, \$0.01 Par Value - 19,124,869 shares at October 31, 1999

WESTELL TECHNOLOGIES, INC. AND SUBSIDIARIES  
FORM 10-Q  
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SAFE HARBOR STATEMENT

Certain statements contained under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this 10-Q, which are not historical facts (including, without limitation, statements about future DSL pricing, our expected cost savings, our confidence and strategies and our expectations about new and existing products, our ability to meet our cash requirements for the next twelve months, technologies, opportunities, market growth, demand and acceptance of new and existing products and future commercial deployment of the Company's products such as its DSL systems) are forward looking statements that involve risks and uncertainties. These risks include, but are not limited to, product demand and market acceptance risks (including the future commercial acceptance of the Company's DSL systems by telephone companies and other customers), the impact of competitive products and technologies (such as cable modems and fiber optic cable), competitive pricing pressures, product development, excess and obsolete inventory due to 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 the Company's accounting policies, 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 the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1999 under the section "Risk Factors". The Company 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.

<TABLE>

WESTELL TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

<CAPTION>

ASSETS	March 31, 1999	September 30, 1999	
	-----		
	(unaudited)		
	(in thousands)		
Current assets:			
<S>	<C>	<C>	
Cash and cash equivalents.....	\$ 6,715	\$ 13,605	
Short term investments.....	-	-	
Accounts receivable (net of allowance of \$703,000 and \$759,000, respectively).....	14,132	17,952	
Inventories.....	10,376	11,453	
Prepaid expenses and other current assets.....	1,108	641	
Refundable income taxes.....	60	55	
Deferred income tax asset.....	1,000	1,000	
	-----	-----	
Total current assets.....	33,391	44,706	
	-----	-----	
Property and equipment:			
Machinery and equipment.....	18,561	19,183	

Office, computer and research equipment.....	18,230	18,296
Leasehold improvements.....	2,091	2,153
	-----	-----
	38,882	39,632
Less accumulated depreciation and amortization.....	25,531	27,978
	-----	-----
Property and equipment, net.....	13,351	11,654
Deferred income tax asset and other assets.....	17,665	18,995
	-----	-----
Total assets.....	\$ 64,407	\$ 75,355
	=====	=====

#### LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable.....	\$ 7,616	\$ 5,456
Accrued expenses.....	6,655	6,327
Accrued compensation.....	4,305	4,000
Current portion of long-term debt.....	2,189	1,627
Deferred revenue.....	413	413
	-----	-----
Total current liabilities.....	21,178	17,823
Long-term debt.....	2,625	1,958
Other long-term liabilities.....	1,480	1,709
	-----	-----
Commitments and contingencies		
Convertible debt (net of debt discount of \$1,000,000 as of September 30, 1999).....	-	19,000
Stockholders' equity:		
Class A common stock, par \$0.01.....	169	175
Authorized - 43,500,000 shares		
Issued and outstanding - 16,928,650 shares at March 31, 1999 and 17,489,521 shares at September 30, 1999		
Class B common stock, par \$0.01.....	195	191
Authorized - 25,000,000 shares		
Issued and outstanding - 19,527,569 shares at March 31, 1999 and 19,124,869 shares at September 30, 1999		
Preferred stock, par \$0.01.....	-	-
Authorized - 1,000,000 shares		
Issued and outstanding - none		
Additional paid-in capital.....	97,561	99,543
Cumulative translation adjustment.....	455	703
Accumulated deficit.....	(59,256)	(65,747)
	-----	-----
Total stockholders' equity.....	39,124	34,865
	=====	=====
Total liabilities and stockholders' equity.....	\$ 64,407	\$ 75,355
	=====	=====

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

</TABLE>

<TABLE>

#### WESTELL TECHNOLOGIES, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

<CAPTION>

	Three Months Ended September 30,		Six Months Ended September 30,	
	1998	1999	1998	1999
	-----			
	(unaudited)			
	(in thousands, except per share data)			

<S>	<C>	<C>	<C>	<C>
Equipment sales.....	\$ 17,942	\$ 17,326	\$ 36,328	\$ 34,514
Services.....	4,718	7,678	9,345	14,649

Total revenues.....	22,660	25,004	45,673	49,163
Cost of equipment sales.....	15,210	14,358	28,818	26,246
Cost of services.....	2,852	5,021	5,343	9,786
Total cost of goods sold.....	18,062	19,379	34,161	36,032
Gross margin.....	4,598	5,625	11,512	13,131
Operating expenses:				
Sales and marketing.....	5,261	3,414	10,030	7,112
Research and development.....	6,578	1,619	12,708	5,216
General and administrative.....	3,282	3,377	6,273	6,617
Total operating expenses.....	15,121	8,410	29,011	18,945
Operating loss.....	(10,523)	(2,785)	(17,499)	(5,814)
Other (income) expense, net.....	(348)	(74)	(783)	(51)
Interest expense.....	66	348	156	728
Loss before taxes.....	(10,241)	(3,059)	(16,872)	(6,491)
Benefit for income taxes.....	--	--	--	--
Net loss.....	\$ (10,241)	\$ (3,059)	\$ (16,872)	\$ (6,491)
Net loss per basic and diluted common share...	\$ (0.28)	\$ (0.08)	\$ (0.46)	\$ (0.18)
Average number of basic and diluted common shares outstanding.....	36,422	36,570	36,417	36,519

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

</TABLE>

<TABLE>

WESTELL TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

<CAPTION>

	Six Months Ended September 30,	
	1998	1999
	(unaudited) (in thousands)	
	<S>	<C>
Cash flows from operating activities:		
Net loss.....	\$ (16,872)	\$ (6,491)
Reconciliation of net income to net cash provided by (used in) operating activities:		
Depreciation and amortization.....	3,670	3,562
Stock awards.....	--	--
Deferred taxes.....	--	--
Changes in assets and liabilities:		
Increase in accounts receivable.....	(1,082)	(3,783)
Decrease (increase) in inventory.....	936	(854)
(Increase) decrease in prepaid expenses and deposits.....	(385)	466
Decrease in refundable income taxes.....	9	5
Increase (decrease) in accounts payable and accrued expenses.....	1,079	(2,258)
Decrease in accrued compensation.....	(1,232)	(305)
Decrease in deferred revenues.....	(1)	--
Net cash used in operating activities.....	(13,878)	(9,658)

Cash flows from investing activities:		
Purchases of property and equipment.....	(4,344)	(2,151)
Proceeds from sale of equipment.....	--	431
Increase in other assets.....	(13)	(1,474)
Increase in short term investments.....	(3,366)	-
Land and building construction held for resale.....	--	-
	-----	-----
Net cash used in investing activities.....	(7,723)	(3,194)
	-----	-----
Cash flows from financing activities:		
Repayment of long-term debt and leases payable.....	(837)	(1,229)
Proceeds from issuance of convertible debt.....	--	19,000
Proceeds from the issuance of common stock.....	215	1,983
	-----	-----
Net cash (used in) provided by financing activities.....	(622)	19,754
	-----	-----
Effect of exchange rate changes on cash.....	11	(12)
Net (decrease) increase in cash.....	(22,212)	6,890
Cash and cash equivalents, beginning of period.....	43,515	6,715
	=====	=====
Cash and cash equivalents, end of period.....	\$ 21,303	\$ 13,605
	=====	=====

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

</TABLE>

WESTELL TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended March 31, 1999.

In the opinion of management, the unaudited interim financial statements included herein reflect all adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company's consolidated financial position and the results of operations and cash flows at September 30, 1999, and for all periods presented. The results of operations for the three and six month periods ended September 30, 1999 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2000.

Effective April 1, 1999, in an effort to associate the transfer of title of forward priced DSL product to the customer with the recognition of the loss, the Company began recording losses due to forward pricing upon shipment to the customer. Prior to March 31, 1999, the Company recorded losses due to forward pricing of DSL products based upon orders received. As of April 1, 1999, the Company did not record any cumulative effect of this change in accounting method, as the effects were immaterial.

NOTE 2. COMPUTATION OF NET LOSS PER SHARE

The Company follows the provisions of SFAS No. 128, which requires companies to present basic and diluted earnings per share. The computation of basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share includes the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. The effect of this computation on the number of outstanding shares is antidilutive for the periods ended September 30, 1998, and 1999, and therefore the net loss per basic and diluted earnings per share are the same.

NOTE 3. RESTRUCTURING CHARGE

The Company recognized a restructuring charge of \$1.4 million in the three months ended December 31, 1997 and \$800,000 in the three months ended March 31, 1999. These charges included personnel, facility, and certain development contract costs related to restructuring global operations. As of September 30, 1999, the Company has paid approximately \$1.2 million of the restructuring costs charged in fiscal 1998 and \$832,000 related to the restructuring costs charged in fiscal 1999. During the three months ending December 31, 1999, management anticipates making final restructuring cost payments of approximately \$70,000. At that time, management estimates that the total remaining restructuring charge accrual balance will be approximately \$100,000. This amount will be reversed into income during the three months ending December 31, 1999, since the final payments will be known and completed.

The fiscal 1998 restructuring plan was to decrease costs and streamline operations related to DSL products. The fiscal 1999 restructuring plan was to further decrease costs, primarily by reducing the workforce by approximately 11%, and focus DSL sales efforts on indirect sales to the major phone companies through licensing and OEM arrangements with strategic partners. The Company anticipates the remaining expenditures related to this restructuring reserve to occur by March 31, 2000. The Company expects cost savings of approximately \$5.0 million in fiscal 2000 related to this restructuring.

WESTELL TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

The restructuring charges and their utilization are summarized as follows:

<TABLE>

(in thousands)	Charge Utilized		Balance Charge		Utilized Balance		Utilized Balance	
	fiscal 1998	fiscal March 31, 1998	fiscal 1998	fiscal March 31, 1999	fiscal 1999	fiscal March 31, 1999	fiscal 2000	fiscal Sept. 30, 1999
Employee costs.....	\$ 561	\$ 287	\$ 274	\$ 690	\$ 363	\$ 601	\$ 547	\$ 54
Contract costs.....	736	647	89	--	--	89	--	89
Legal & other costs.....	86	23	63	110	17	156	123	33
Total.....	\$ 1,383	\$ 957	\$ 426	\$ 800	\$ 380	\$ 846	\$ 670	\$ 176

</TABLE>

NOTE 4. INTERIM SEGMENT INFORMATION

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 for Westell Technologies, Inc. Segment information for the three and six month periods ended September 30, 1998 and 1999, are as follows:

<TABLE>

	Telecom Equipment	Telecom Services	Total
Three months ended September 30, 1998			
Revenues.....	\$17,942	\$ 4,718	\$ 22,660
Operating income (loss).....	(11,177)	654	(10,523)
Depreciation and amortization.....	1,483	431	1,914
Total assets.....	70,735	9,816	80,551

Three months ended September 30, 1999

Revenues.....	\$17,326	\$ 7,678	\$ 25,004
Operating income (loss).....	(3,912)	1,127	(2,785)
Depreciation and amortization.....	1,139	564	1,703
Total assets.....	59,823	15,532	75,355
Six months ended September 30, 1998			
Revenues.....	\$36,328	\$ 9,345	\$ 45,673
Operating income (loss).....	(19,174)	1,675	(17,499)
Depreciation and amortization.....	2,784	886	3,670
Total assets.....	70,735	9,816	80,551
Six months ended September 30, 1999			
Revenues.....	34,514	14,649	49,163
Operating income (loss).....	(7,596)	1,782	(5,814)
Depreciation and amortization.....	2,469	1,093	3,562
Total assets.....	59,823	15,532	75,355

</TABLE>

WESTELL TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Reconciliation of Operating loss from continuing operations for the reportable segments to Loss from continuing operations before income taxes:

<TABLE>

	Three months ended September 30,		Six months ended September 30,	
	1998	1999	1998	1999
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Operating loss .....	\$ (10,523)	\$ (2,785)	\$ (17,499)	\$ (5,814)
Other (income) expense, net.....	(348)	(74)	(783)	(51)
Interest expense.....	66	348	156	728
	-----	-----	-----	-----
Loss before income taxes.....	<u>\$ (10,241)</u>	<u>\$ (3,059)</u>	<u>\$ (16,872)</u>	<u>\$ (6,491)</u>

</TABLE>

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS

OF OPERATION

OVERVIEW

Westell Technologies, Inc. ("Westell" or the "Company") derives most of its equipment revenue from the sale of telecommunications equipment that enable telecommunications services over copper telephone wires. The Company offers a broad range of products that facilitate the transmission of high-speed digital and analog data between a telephone company's central office and end-user customers. The Company's service revenues are derived from audio, multi port video and multi media teleconferencing services from the Company's Conference Plus, Inc. subsidiary.

The Company has historically used the following three product categories in its discussion of equipment revenue:

- o DSL PRODUCTS: products based on DSL technologies;
- o T-1 OR DS1 PRODUCTS: products used by telephone companies to enable digital T-1 transmission at approximately 1.5 megabits per second and E-1 transmission at approximately 2.0 megabits per second; and
- o TRADITIONAL OR DS0 PRODUCTS: products used by telephone companies to deliver digital services at speeds ranging from approximately 2.4 to 64 kilobits per second and traditional analog services with 4 kilohertz bandwidth.

Below is a table that compares equipment revenue for the three and six month periods ended September 30, 1998 with the three and six-month periods ended September 30, 1999 by product type:

<TABLE>

(in thousands)	Three months ended:		Six months ended:	
	September 30, 1998	September 30, 1999	September 30, 1998	September 30, 1999
DSL products.....	\$ 2,936	\$ 3,267	\$ 6,332	\$ 5,255
T-1 or DS1 products.....	13,448	12,475	26,739	26,174
Traditional or DS0 products.....	816	873	1,827	1,563
Other equipment.....	742	711	1,430	1,522
<b>Total equipment.....</b>	<b>17,942</b>	<b>\$ 17,326</b>	<b>\$ 36,328</b>	<b>\$ 34,514</b>

</TABLE>

To better reflect the current business model, beginning for the quarter ended June 30, 1999, Westell has decided to use the following new products groupings in its discussion of its equipment revenue:

- o HIGH CAPACITY ("HiCAP"): Products that maintain, repair and monitor circuits used over copper telephone wires in the portion of the phone companies' network connecting the central office with the customers' locations (the "Local Loop"). Products include all of Westell's traditional or DS0 products such as its analog products and a portion of Westell's T-1 or DS1 products which include Network Interface Unit ("NIU") products.
- o TRANSPORT SYSTEMS: Products that contain components that are located both in the phone companies' central offices and customers' locations, creating integrated systems. Products include Westell's DSL product called Supervision, a system comprised of modems and central office shelves and electronics that enable high-speed transmission over copper telephone lines. The Transport Systems business unit also provides SmartLink(TM), a back-up system for wireless or cellular providers, and LinkReach(TM), a joint effort with Lucent to enable high-speed transmission over certain Lucent products.
- o CUSTOMER PREMISE EQUIPMENT ("CPE"): Products that provide high-speed DSL modems that are located at the customers' premises. These products include Westell's WireSpeed(TM) modems that are designed to hook up to single or multiple personal computers and to provide high-speed access.

Below is a table that compares equipment and service revenues for the three and six month periods ended September 30, 1998 with the three and six month periods ended September 30, 1999 by new product groupings:

<TABLE>

(in thousands)	Three months ended:		Six months ended:	
	September 30, 1998	September 30, 1999	September 30, 1998	September 30, 1999
HiCAP.....	\$ 14,399	\$ 12,680	\$ 28,943	\$ 26,504
Transport Systems.....	2,343	2,636	4,997	4,825
CPE.....	1,200	2,010	2,388	3,185
<b>Total equipment.....</b>	<b>17,942</b>	<b>17,326</b>	<b>36,328</b>	<b>34,514</b>
Services.....	4,718	7,678	9,345	14,649
<b>Total revenues.....</b>	<b>\$ 22,660</b>	<b>\$ 25,004</b>	<b>\$ 45,673</b>	<b>\$ 49,163</b>

</TABLE>

Westell's net revenues increased 10.3% in the three months ended September 30, 1999 when compared to the same period last year due to a 62.7% increase in services revenue and increases in equipment revenue of 67.5% and 12.5% from the CPE and Transport Systems business units, respectively. These



increases were partially offset by an 11.9% decrease in revenue from the HiCAP business unit.

The Company's net revenues increased 7.6% in the six months ended September 30, 1999 when compared to the same period last year due to a 56.8% increase in services revenue and a 33.4% increase in equipment revenue from the CPE business unit. These increases were partially offset by decreases of 8.4% and 3.4% from the HiCAP and Transport Systems business units, respectively.

The Company expects to continue to evaluate new product opportunities and engage in extensive research and development activities. This will require the Company to continue to invest heavily in research and development and sales and marketing, which could adversely affect short-term results of operations. Due to the Company's significant ongoing investment in DSL technology, the Company anticipates losses in at least each of the remaining fiscal 2000 quarters. The Company believes that its future revenue growth and profitability will principally depend on its success in increasing sales of DSL products and developing new and enhanced T-1 and other DSL products. The market for DSL products continues to be increasingly competitive. This has caused the Company to offer its DSL products at prices below current production costs (i.e., forward pricing of DSL products). Prior to March 31, 1999, the Company recorded losses due to forward pricing of DSL products based upon orders received. Subsequent to March 31, 1999, in an effort to associate the transfer of title of the DSL product to the customer with the recognition of the loss, the Company began recording losses due to forward pricing on DSL products upon shipment to the customer. As of April 1, 1999, the Company did not record any cumulative effect of this change in accounting method, as the effects were immaterial. During July 1999, the Company received DSL orders from an international and a domestic customer priced below anticipated production costs. The Company recognized a loss with respect to these forward priced orders of \$855,000 in the quarter ended September 30, 1999 and anticipates recognizing an estimated loss with respect to these orders of \$300,000 in the quarter ended December 31, 1999. Management believes that manufacturing costs will decrease when (i) more cost-effective chipsets are available, (ii) product design efficiencies are obtained, and (iii) economies of scale are obtained related to increased volume. The Company could continue to record losses on DSL product sales prior to achieving cost-effective chipsets, product design efficiencies and economies related to volume production that would have a material adverse effect on the Company's business and results of operations.

In the current fiscal year, the majority of the DSL revenue has been generated by shipments of DSL systems used in trials for data applications (i.e., Internet access and work at home) due to the growth in users accessing the World Wide Web through the Internet and the need to increase transmission speed when accessing local area networks and downloading large text graphics and video files. In view of the Company's reliance on the emerging DSL market for growth and the unpredictability of orders and subsequent revenues, 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. Revenues from the Company's analog products (traditional or DSO products) have declined in recent years as telephone companies continue to move from analog to digital transmission services. The Company also expects that revenues from Network Interface Unit ("NIU") products (a T-1/DS1 product) in its new HiCAP product group may decline as telephone companies increase the use of alternative technologies such as HDSL. Failure to increase revenues from new products, whether due to lack of market acceptance, competition, pricing pressures, technological change or otherwise, would have a material adverse effect on the Company's business and results of operations.

#### RESULTS OF OPERATIONS - Periods ended September 30, 1999 compared to periods ended September 30, 1998

Revenues. The Company's revenues increased 10.3% from \$22.7 million in the three months ended September 30, 1998 to \$25.0 million in the three months ended September 30, 1999. The revenue increase in the three month period was primarily due to increased service revenue from the Company's Conference Plus, Inc. subsidiary of \$3.0 million when compared with the same period of the prior year. Equipment revenue from the Company's CPE and Transport systems business units increased by \$810,000 and \$293,000, respectively, when compared with the same three month period of the prior year. The increased teleconference service revenue reflects an increase in call minutes at the Company's Conference Plus, Inc. subsidiary. The increased CPE and Transport Systems equipment revenue was due to overall unit volume increases offset in part by lower average system sale prices resulting primarily from changes in product mix. These increases were offset in part by a decrease of \$1.7 million from the HiCAP business unit. The decrease in HiCAP revenue was due primarily to lower unit shipments of DS1

products as local service providers transition to high speed digital based products for providing service.

The Company's revenues increased 7.6% from \$45.7 million in the six months ended September 30, 1998 to \$49.2 million in the six months ended September 30, 1999. The revenue increase in the six month period was primarily due to increased service revenue from the Company's Conference Plus, Inc. subsidiary of \$5.3 million when compared with the same period of the prior year. Equipment revenue from the Company's CPE business unit increased by \$797,000 and when compared with the same six month period of the prior year. The increased teleconference service revenue reflects an increase in call minutes at the Company's Conference Plus, Inc. subsidiary. The increased CPE equipment revenue was due to overall unit volume increases offset in part by lower average system sale prices resulting primarily from changes in product mix. These increases were off set in part by a decrease of \$2.4 million from the HiCAP business unit. The decrease in HiCAP revenue was due primarily to lower unit shipments of DS1 products as local service providers transition to high speed digital based products for providing service.

Gross Margin. Gross margin as a percentage of revenue increased from 20.3% in the three months ended September 30, 1998 to 22.5% in the three months ended September 30, 1999 and increased from 25.2% in the six months ended September 30, 1998 to 26.7% in the six months ended September 30, 1999. Gross profit margin for the period ended September 30, 1998 was effected by recording \$1.7 million loss due to forward pricing on DSL orders received during the September 1998 quarter. Gross profit margin for the periods ended September 30, 1999 was effected by a \$855,000 loss due to forward pricing on DSL shipments during the September 1999 quarter. To a lesser extent continued pricing pressures and product mix changes for the DS0 and DS1 products also contributed downward pressure on gross profit margin. During the quarter, the Company's Conference Plus, Inc. subsidiary invested in additional infrastructure enhancements to handle increased call minutes which also impacted gross margins.

Sales and Marketing. Sales and marketing expenses decreased 35.1%, or \$1.8 million, to \$3.4 million in the three months ended September 30, 1999 and decreased 29.1%, or \$2.9 million, to \$7.1 million in the six months ended September 30, 1999 when compared to the same period last year. Sales and marketing expenses decreased as a percentage of revenues from 23.2% in the three months ended September 30, 1998 to 13.7% in the three months ended September 30, 1999 and decreased as a percentage of revenues from 22.0% in the six months ended September 30, 1998 to 14.5% in the six months ended September 30, 1999. The decrease in sales and marketing expenses during the three and six month periods was primarily due to cost reductions resulting from management's initiatives undertaken late last fiscal year to streamline DSL sales and marketing efforts. The Company believes that continued investment in sales and marketing will be required to expand its product lines, bring new products to market and service customers.

#### RESULTS OF OPERATIONS - continued

Research and Development. Research and development expenses decreased 75.4%, or \$5.0 million, to \$1.6 million in the three months ended September 30, 1999 and decreased 59.0%, or \$7.5 million, to \$5.2 million in the six months ended September 30, 1999 when compared to the same period last year. Research and development expenses decreased as a percentage of revenues from 29.0% in the three months ended September 30, 1998 to 6.5% in the three months ended September 30, 1999 and decreased as a percentage of revenues from 27.8% in the six months ended September 30, 1998 to 10.6% in the six months ended September 30, 1999. This decrease in research and development expenses was primarily due to the Company receiving \$2.4 million and \$3.1 million during the three and six month periods ended September 30, 1999, respectively, from customers to fund on-going engineering projects, which was offset against research and development expenses. Additional cost savings in the current fiscal year are due to cost reductions resulting from management's restructuring initiatives undertaken late last fiscal year. Additionally, cost savings have resulted from the absence of costs related to the Company's European operation, Westell Europe Limited, which was eliminated earlier in the current fiscal year. The Company believes that a continued commitment to research and development will be required for the Company to remain competitive.

General and Administrative. General and administrative expenses increased 2.9%, from \$3.3 million in the three months ended September 30, 1998 to \$3.4 million in the three months ended September 30, 1999 and increased 5.5%, from \$6.3 million in the six months ended September 30, 1998 to \$6.6 million in the six months ended September 30, 1999. General and administrative expenses decreased as a percentage of revenues from 14.5% in the three months ended September 30,

1998 to 13.5% in the three months ended September 30, 1999 and decreased as a percentage of revenues from 13.7% in the six months ended September 30, 1998 to 13.5% in the six months ended September 30, 1999. The general and administrative expense increase was primarily due to information systems enhancements during the three and six month periods, partially offset by the results from management initiatives and restructuring that took place in the March 1999 quarter to streamline administrative functions both domestically and internationally.

Other (income) expense, net. Other (income) expense, net decreased from \$348,000 in the three months ended September 30, 1998 to \$74,000 in the three months ended September 30, 1999 and decreased from \$783,000 in the six months ended September 30, 1998 to \$51,000 in the six months ended September 30, 1999. Other income is primarily comprised of interest income earned on temporary cash investments, the elimination of minority interest and unrealized gains of losses on intercompany balances denominated in foreign currency.

Interest expense. Interest expense increased from \$66,000 in the three months ended September 30, 1998 to \$348,000 in the three months ended September 30, 1999 and increased from \$156,000 in the six months ended September 30, 1998 to \$728,000 in the six months ended September 30, 1999. Interest expense during the current period is a result of interest incurred on the Company's subordinated secured convertible debentures, Warrants to purchase Class A Common Stock and net obligations outstanding during the period under promissory notes and equipment borrowings.

Benefit for income taxes. There was no Benefit for income taxes recorded for both three and six month periods ended September 30, 1998 and 1999. As in each quarter of fiscal 1999, the Company provided valuation reserves for the entire benefit generated during the three and six month periods of \$1.4 million and \$2.7 million, respectively, since the resulting gross deferred tax asset would have exceeded the value of tax planning strategies available to the Company. The Company will evaluate on a quarterly basis its ability to record a benefit for income taxes in relation to the value of tax planning strategies available in relation to the resulting gross deferred asset.

#### LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 1999, the Company had \$13.6 million in cash and short-term investments which is being invested in short term investments consisting of the highest rated grade corporate commercial paper.

The Company's operating activities used cash of approximately \$9.7 million in the six months ended September 30, 1999, which resulted primarily from a loss from continuing operations before income taxes of \$2.9 million (net of

#### RESULTS OF OPERATIONS - continued

depreciation), increases in accounts receivable and inventory and decreases in accrued compensation, accounts payable and accrued expenses offset partially by a decrease in prepaid expenses.

Capital expenditures for the six month period ended September 30, 1999 were \$2.2 million, all of which was funded by available cash. The Company expects to spend approximately \$3.8 million for the remainder of fiscal year 2000 related to capital equipment expenditures.

At September 30, 1999, the Company's principle sources of liquidity were \$13.6 million of cash and cash equivalents and a secured credit facility that the Company may borrow up to \$16.0 million based upon receivables and inventory levels and up to an additional \$4.1 million under a secured equipment line of credit. Cash and cash equivalents, anticipated funds from operations, along with available credit lines and other resources, are expected to be sufficient to meet cash requirements for the next twelve months. Cash in excess of operating requirements will continue to be invested on a short term basis in federal government agency instruments and the highest rated grade commercial paper.

The Company has committed to binding purchase orders for ADSL products from customers priced below anticipated production costs. The Company expects to ship these products during the third quarter of fiscal 2000. The anticipated loss on these forward priced orders is \$400,000. Approximately \$100,000 of these losses impacted liquidity during the second quarter of fiscal 2000 for the materials and the manufactured products that were in inventory at September 30, 1999. The Company could continue to record losses on DSL product sales if management enters into similar sales arrangements prior to achieving manufacturing cost reductions of DSL products through (i) obtaining more cost effective DSL chipsets, (ii) product design efficiencies and (iii) economies related to volume

production. The Company can not estimate the amounts of possible future forward priced orders or their subsequent effect on liquidity.

The Company has approximately \$4.6 million in income tax credit carryforwards and a tax benefit of \$29.8 million related to a net operating loss carryforward that is available to offset taxable income in the future. The tax credit carryforwards begin to expire in 2008 and the net operating loss carryforward begins 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. Although realization of the deferred tax asset is not assured and the Company has incurred operating losses for the 1996, 1997, 1998, and 1999 fiscal years, management believes that it is more likely than not that it will generate taxable income sufficient to realize the recorded tax benefit associated with future temporary differences, NOL carryforwards and tax credit carryforwards prior to their expiration through a tax planning strategy available to the Company. Management has determined that the strategy is not sufficient to realize all of the deferred tax assets available to the Company and as such, has recorded a valuation allowance of \$17.9 million. On a quarterly basis, management will assess whether it remains more likely than not that the recorded deferred tax asset will be realized. If the tax planning strategy is not sufficient to generate taxable income to recover the deferred tax benefit recorded, an increase in the valuation allowance will be required through a charge to the income tax provision. However, if the Company achieves sufficient profitability or has available additional tax planning strategies to utilize a greater portion of the deferred tax asset, an income tax benefit would be recorded to decrease the valuation allowance.

#### YEAR 2000 COMPLIANCE

The Company determined that portions of its software systems needed to be modified and/or replaced so to properly utilize dates beyond December 31, 1999 (the "year 2000 compliance"). The Company believes that with software upgrades and modifications and with the conversion to new software, the impact of the year 2000 on its computer systems will be mitigated. The implementation of the plan to remediate the Company's Information Technology ("IT") systems, which included efforts to mitigate the impact that the year 2000 will have on the Company, was substantially completed as of March 31, 1999 (the "Project").

The Project included upgrading system software, hardware and processes that are not exclusively related to year 2000 compliance. The Project utilized both internal and external resources. The Company has a full-time manager dedicated to the Project as well as addressing other year 2000 compliance

#### RESULTS OF OPERATIONS - continued

issues. The Project cost for the Company is estimated to be \$1.8 million. These costs are expensed as incurred, except for approximately \$800,000 that was capitalized unrelated to year 2000 compliance. The Company had expensed approximately \$300,000 related this Project, as of March 31, 1999 with the remaining \$700,000 to be expensed over the next two years as operating lease payments come due. The upgrading of system software, hardware and processes was essentially completed as of March 31, 1999, as planned and within previous cost estimates.

The Company has assessed how the year 2000 will impact both internal and external non-IT systems including product compliance, machinery and equipment, engineering support systems and tools, human resource data bases, payroll processing, banking systems, benefit plan third party administrators, and customer systems and vendor compliance. The Company has made an assessment that substantially all products produced by the Company, and systems used by the Company to manufacture products, are year 2000 compliant. The Company is continuing to question customers and vendors to determine whether their systems and products are year 2000 compliant. The Company has received sufficient information from a majority of its customers and vendors that year 2000 compliance of customers or vendors will not materially impact the Company's operations.

The Company has completed its testing of year 2000 compliance of the engineering systems and tools. The engineering systems and tools utilized by the Company that are integral to product development schedules are upgraded annually through license renewals. The current upgrades of the engineering support systems and automated engineering tools are year 2000 compliant. Management believes that year 2000 compliance will not have a significant impact on the Company's development schedules. The Company's human resource database and the

payroll processing systems have been evaluated for year 2000 compliance and were upgraded in order to be year 2000 compliant. The Company has received confirmation that its primary banks and its benefit plan third party administrators systems are or will be year 2000 compliant.

The Company believes that it is proactive in assessing the impact that the year 2000 will have on both its internal and external IT and non-IT systems. Where material and where feasible, the cost of year 2000 compliance has been quantified. The Company is at varying stages of evaluating the impacts of the year 2000 on its business and its results of operations. The Company believes that its actions, evaluations and processes currently undertaken are sufficient to assess and mitigate the impacts that the year 2000 will have on the Company.

The Company has developed a contingency plan for all areas including those that have been determined to be year 2000 compliant to address the effects that the year 2000 may have on its operations. Management believes that its actions, evaluations and processes should provide sufficient time to address the year 2000 risks as they are revealed. Risks related to customer year 2000 noncompliance are not within the Company's control, however, and therefore, the noncompliance of customer systems may materially adversely impact the Company's operations. Year 2000 compliance of the Company's vendors is also not within the control of the Company. However, the Company believes that it will have sufficient time to mitigate vendor year 2000 noncompliance and replace such vendors with vendors that are year 2000 compliant due to the general availability of electrical component material contained in the Company's products.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS.

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Westell is subject to certain market risks, including foreign currency and interest rates. The Company has foreign subsidiaries in Canada 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 fluctuation affecting net investments and earnings denominated in foreign currencies. After the sale of Westell's European subsidiary in June 1999, the Company's future primary exposure is to changes in exchange rates for the U.S. Dollar versus the Canadian dollar and the Irish pound.

### RESULTS OF OPERATIONS - continued

In the 1999 fiscal year, the net change in the cumulative foreign currency translation adjustments account, which is a component of stockholders' equity, was an unrealized gain of \$455,000. The Company also recorded a transaction gain of \$284,000 for fiscal 1998 and a transaction loss of \$729,000 for fiscal 1999 in Other income (expense) for fluctuations on foreign currency rates on intercompany accounts anticipated by management to be settled in the foreseeable future.

As of September 30, 1999, the net change in the cumulative foreign currency translation adjustments account, which is a component of stockholders' equity, was an unrealized gain of \$703,000. The Company also recorded a transaction loss of \$24,000 for the quarter ended September 30, 1999 in Other income (expense) for fluctuations on foreign currency rates on intercompany accounts anticipated by management to be settled in the foreseeable future.

The Company does not have significant exposure to interest rate risk related to its debt obligations, primarily U.S. Dollar denominated. The Company's market risk is the potential loss arising from adverse changes in interest rates. As further described in Note 2 of the Company's 10-k for the period ended March 31, 1999, the Company's debt consists primarily of a floating-rate bank line-of credit. 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 8% to approximately 18%) average interest rate on the Company's debt. If such an increase occurred, the Company would incur approximately \$450,000 per annum in additional interest expense based on the average debt borrowed during the twelve months ended March 31, 1999. 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.

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

On September 17, 1999 the Company held its annual shareholders meeting. Matters put before vote of the security holders were the election of directors and the approval of the issuance of shares of Class A Common Stock issuable upon conversion of \$20,000,000 aggregate principle amount of the Company's 6% Secured Subordinated Convertible debentures Due 2004 and upon the exercise of warrant to purchase 909,091 shares of Class A Common Stock at an exercise price of \$8.9208 per share. The results were as follows based upon total votes cast of 75,721,878:

	For	Withheld
Robert H. Gaynor	75,574,493	213,195
Melvin J. Simon	75,574,493	200,025
Paul A. Dwyer	75,574,512	201,305
Robert C. Penny	75,574,531	203,974
John W. Seazholtz	75,572,655	200,025
Ormand J. Wade	75,574,493	200,045
Issuance of Class A Common Stock:	75,537,797	155,914

ITEM 5. OTHER EVENTS

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- a) The following documents are furnished as an exhibit and numbered pursuant to Item 601 of regulation S-K:

Exhibit 3.2: (Corrected) Amended And Restated By-laws Of Westell Technologies, Inc.  
Exhibit 27: Financial Data Schedule

- b) The registrant was not required to file any reports on Form 8-K for the quarter.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WESTELL TECHNOLOGIES, INC.

(Registrant)

DATE: November 12, 1999

By: ROBERT H. GAYNOR

ROBERT H. GAYNOR  
Chairman of the Board of Directors  
and Chief Executive Officer

By: NICHOLAS C. HINDMAN

NICHOLAS C. HINDMAN  
Interim Chief Financial Officer

AMENDED AND RESTATED  
BY-LAWS  
OF  
WESTELL TECHNOLOGIES, INC.

AMENDED AND RESTATED  
BY-LAWS OF  
WESTELL TECHNOLOGIES, INC.

ARTICLE I  
OFFICES

Section 1. Registered Office. The registered office shall be in the City of Wilmington, County of New Castle, State of Delaware.

Section 2. Other Offices. The corporation may also have offices at such other places both within and without the State of Delaware as the board of directors may from time to time determine or the business of the corporation may require.

ARTICLE II  
MEETINGS OF STOCKHOLDERS

Section 1. Place of Meeting. All meetings of the stockholders for the election of directors shall be held at such place either within or without the State of Delaware as shall be designated from time to time by the board of directors and stated in the notice of the meeting. Meetings of stockholders for any other purpose may be held at such time and place, within or without the State of Delaware, as shall be stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2. Time of Annual Meeting. Annual meetings of stockholders shall be held on the second Wednesday in August if not a legal holiday, and if a legal holiday, then on the next business day following, at 10:00 a.m., or at such other date and time as shall be designated from time to time by the board of directors and stated in the notice of the meeting, at which the stockholders shall elect directors to succeed those whose terms then expire and transact such other business as may properly be brought before the meeting. No stockholder shall have cumulative voting rights.

Section 3. Notice of Annual Meetings. Written or printed notice of the annual meeting stating the place, date and hour of the meeting shall be given to each stockholder entitled to vote at such meeting not less than ten or more than sixty days before the date of the meeting.

Section 4. Voting Lists. The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or if not so specified at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder

who is present.

Section 5. Special Meetings. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the certificate of incorporation, may be called by the chairman of the board or the president and shall be called by the president or secretary at the request in writing of a majority of the board of directors then in office, or at the request in writing of stockholders owning shares having at least a majority of the voting power represented by all of the issued and outstanding capital stock of the corporation. Such request shall state the purpose or purposes of the proposed meeting.

Section 6. Notice of Special Meetings. Written or printed notice of a special meeting stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called, shall be given not less than ten nor more than sixty days before the date of the meeting, to each stockholder entitled to vote at such meeting.

Section 7. Business to be Transacted. Business transacted at any meeting of stockholders shall be limited to the purposes stated in the notice. Any stockholder desiring to nominate an individual to serve as a director of the corporation or desiring to take up any matter at a meeting shall make such nomination or state such business in writing and file such notice with the secretary at least sixty days prior to the meeting date. This provision shall be in addition to any requirement under Rule 14a-8 of Regulation 14A under the Securities Exchange Act of 1934.

Section 8. Quorum and Adjournments. The holders of a majority of the voting power represented by the issued and outstanding Class A Common Stock and the Class B Common Stock, taken together as a single class, and entitled to vote thereat, present in person and represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the certificate of incorporation; provided, however, that with respect to any matter on which any class of stock is entitled to vote separately as a class, the holders of a majority of the voting power represented by the issued and outstanding shares of such class, present in person and represented by proxy, shall constitute a quorum for purposes of such matter. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 9. Vote Required. When a quorum is present at any meeting, the vote of the holders of a majority of the voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which, by express provision of a statute or of the certificate of incorporation, a different vote is required in which case such express provision shall govern and control the decision of such question.

Section 10. Voting Rights. Except to the extent required by statute or the certificate of incorporation, holders of Class A Common Stock and Class B Common Stock shall vote together as a single class, each holder of Class A Common Stock shall at every meeting of the stockholders be entitled to one vote in person or by proxy for each share of Class A Common Stock held by such stockholder, and each holder of Class B Common Stock shall at every meeting of the stockholders be entitled to four votes in person or by proxy for each share of Class B Common Stock held by such stockholder, but no proxy shall be voted on after three years from its date, unless the proxy provides for a longer period.

### ARTICLE III

#### DIRECTORS

Section 1. Number and Term of Office. The number of directors which shall constitute the whole board shall be not less than six nor more than



ten and shall be established from time to time by resolution of the board. No reduction in number of directors shall affect the term of any directors then in office. Except as provided in Section 2 of this Article, each director elected shall hold office until his successor is elected and qualified. Directors need not be stockholders.

Section 2. Vacancies. Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, though less than a quorum, or by a sole remaining director, and the directors so chosen shall hold office until the next annual election and until their successors are duly elected and shall qualify, unless sooner displaced. If there are no directors in office, then an election of directors may be held in the manner provided by statute.

Section 3. General Powers. The business of the corporation shall be managed by its board of directors which may exercise all such powers of the corporation and do all such lawful acts and things as are not by statute or by the certificate of incorporation or these by-laws directed or required to be exercised or done by the stockholders.

#### MEETINGS OF THE BOARD OF DIRECTORS

Section 4. Place of Meetings. The board of directors of the corporation may hold meetings, both regular and special, either within or without the State of Delaware.

Section 5. Regular Meetings. A regular meeting of the board of directors shall be held without other notice than this by-law, immediately after, and at the same place as, the annual meeting of stockholders. The board of directors may provide, by resolution, the time and place, either within or without the State of Delaware, for the holding of additional regular meetings without other notice than such resolution.

Section 6. Special Meetings. Special meetings of the board may be called by the chairman of the board or the president on one day's notice to each director, either personally or by mail or by telegram; special meetings shall be called by the president or secretary in like manner and on like notice on the written request of any two or more directors.

Section 7. Quorum. At all meetings of the board of directors, a minimum of 5 directors shall constitute a quorum for the transaction of business and the act of 80% of the directors present at any meeting duly held at which a quorum is present shall be the act of the board of directors. If a quorum shall not be present at any meeting of the board of directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 8. Resignations. Any director of the corporation may resign at any time by giving written notice to the board of directors, the chairman of the board, the president, or the secretary of the corporation. Such resignation shall take effect at the time specified therein; and, unless tendered to become effective only upon acceptance thereof, the acceptance of such resignation shall not be necessary to make it effective.

Section 9. Removal. At any meeting of the stockholders any director or directors may be removed from office, without assignment of any reason therefor, by a majority of the voting power entitled to vote in elections of directors.

Section 10. Informal Action. Unless otherwise restricted by the certificate of incorporation or these by-laws, any action required or permitted to be taken at any meeting of the board of directors or of any committee thereof may be taken without a meeting, if all members of the board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the board or committee.

Section 11. Presumption of Assent. A director of the corporation who is present at a meeting of the board of directors at which action on any corporate matter is taken shall be conclusively presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof

or shall forward such dissent by registered mail to the secretary of the corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

## COMMITTEES OF DIRECTORS

Section 12. Appointment and Powers. The board of directors may, by resolution passed by a majority of the whole board, designate one or more committees, each committee to consist of one or more of the directors of the corporation, including an Executive Committee, a Compensation Committee and an Audit Committee. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of a committee, to act at the meeting in the place of any such absent or disqualified member. Three (3) members of a committee must be present to constitute a quorum for any committee meeting and the unanimous vote of all committee members present shall be required to approve any matter presented to a committee. Any such committee, to the extent provided in the resolution of the board of directors, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it; but no such committee shall have power or authority in reference to amending the certificate of incorporation, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the corporation's property and assets, recommending to the stockholders a dissolution of the corporation or a revocation of a dissolution, or amending the by-laws of the corporation; and, unless the resolution so provided, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the board of directors.

## COMPENSATION OF DIRECTORS

Section 13. Compensation. The board of directors shall have the authority to fix the compensation of directors. The directors may be paid their expenses, if any, of attendance at each meeting of the board of directors and may be paid a fixed sum for attendance at each meeting of the board of directors or a stated salary as a director. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

## ARTICLE IV

### NOTICES

Section 1. Manner of Notice. Whenever, under the provisions of a statute or of the certificate of incorporation or of these by-laws, notice is required to be given to any director or stockholder, it shall not be construed to mean personal notice, but such notice may be given in writing, by mail, addressed to such director or stockholder, at his address as it appears on the records of the corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Notice to directors may also be given by telegram.

Section 2. Waiver. Whenever any notice is required to be given under the provisions of a statute or of the certificate of incorporation or of these by-laws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

## ARTICLE V

### OFFICERS

Section 1. Number and Qualifications. The officers of the corporation shall be chosen by the board of directors and shall be a chairman of

the board, a vice-president, a secretary and a treasurer. The board of directors may also choose a vice-chairman of the board, a president, additional vice-presidents, and one or more assistant secretaries and assistant treasurers. Any number of offices may be held by the same person, unless the certificate of incorporation or these by-laws otherwise provide.

Section 2. Election. The board of directors, at its first meeting after each annual meeting of stockholders shall choose a chairman of the board, one or more vice-presidents, a secretary, and a treasurer.

Section 3. Other Officers and Agents. The board of directors may appoint such other officers and agents as it shall deem necessary who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the board.

Section 4. Salaries. The salaries of all officers and agents of the corporation shall be fixed by the board of directors or a duly authorized committee of the board.

Section 5. Term of Office. The officers of the corporation shall hold office until their successors are chosen and qualify. Any officer elected or appointed by the board of directors may be removed at any time by the affirmative vote of a majority of the directors then in office. Any vacancy occurring in any office of the corporation shall be filled by the board of directors.

Section 6. Office of the Chairman. The office of the chairman shall consist of the chairman of the board and such other officers as the board shall designate from time to time as members of the office of the chairman. The chairman of the board shall be the chief executive officer of the corporation. The chairman of the board shall have executive authority to see that all orders and resolutions of the board of directors are carried into effect and, subject to the control vested in the board of directors by statute, by the certificate of incorporation or by these by-laws, shall administer and be responsible for the overall management of the business and affairs of the corporation. The chairman of the board shall preside at all meetings of the shareholders and of the board of directors, and in general shall perform all duties incident to the office of the chairman of the board and such other duties as from time to time may be assigned to the chairman of the board by the board of directors. The chairman of the board shall execute bonds, mortgages and other contracts requiring a seal, under the seal of the corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the board of directors to some other officer or agent of the corporation. Other members of the office of the chairman shall have the duties attendant to the other offices that they hold, and any other powers and duties as the board may from time to time prescribe. In the absence of the chairman of the board or in the event of the chairman of the board's inability or refusal to act, the other members of the office of the chairman shall perform the duties of the chairman of the board, and when so acting, shall have all the powers of and be subject to all the restrictions upon the chairman of the board.

Section 7. The Vice-Chairman of the Board. The vice-chairman of the board, if one is elected, shall perform such duties and have such powers as the chief executive officer or the board of directors may from time to time prescribe.

Section 8. The President. The president, if one is elected, shall have such duties and have such powers as the board of directors may from time to time prescribe.

Section 9. The Vice-Presidents. In the absence of all of the members of the office of the chairman or in the event of the absence or inability or refusal to act of all of the members of the office of the chairman, then that vice-president who is not a member of the office of the chairman (or in the event that there be more than one other vice-president who is not a member of the office of the chairman, then any executive vice-president who is not a member of the office of the chairman and then the other vice-president or vice-presidents in the order designated, or in the absence of any designation, then in the order of their election) shall perform the duties of the chairman, and when so acting, shall have all the powers of and be subject to all the restrictions upon the chairman of the board. The vice-presidents shall perform such other duties and have such other powers as the chief executive officer or

the board of directors may from time to time prescribe.

Section 10. The Secretary. The secretary shall attend all meetings of the board of directors and all meetings of the stockholders and record all the proceedings of the meetings of the corporation and of the board of directors in a book to be kept for that purpose and shall perform like duties for the standing committees when required. He shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the board of directors, and shall perform such other duties as may be prescribed by the board of directors or the chief executive officer, under whose supervision he shall be. He shall have custody of the corporate seal of the corporation and he, or an assistant secretary, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by his signature or by the signature of an assistant secretary. The board of directors may give general authority to any other officer to affix the seal of the corporation and to attest the affixing by his signature.

Section 11. The Assistant Secretary. The assistant secretary, or if there be more than one, the assistant secretaries in the order determined by the board of directors (or if there be no such determination, then in the order of their election), shall, in the absence of the secretary or in the event of his inability or refusal to act, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as the chief executive officer or the board of directors may from time to time prescribe.

Section 12. The Treasurer. The treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the corporation in such depositories as may be designated by the board of directors. He shall disburse the funds of the corporation as may be ordered by the board of directors, taking proper vouchers for such disbursements, and shall render to the chairman of the board, the president and the board of directors, at its regular meetings, or when the board of directors so requires, an account of all his transactions as treasurer and of the financial condition of the corporation. If required by the board of directors, he shall give the corporation a bond (which shall be renewed every six years) in the sum and with such surety or sureties as shall be satisfactory to the board of directors for the faithful performance of the duties of his office and for the restoration to the corporation, in the case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the corporation.

Section 13. The Assistant Treasurer. The assistant treasurer, or if there shall be more than one, the assistant treasurers in the order determined by the board of directors (or if there be no such determination, then in the order of their election), shall, in the absence of the treasurer or in the event of his inability or refusal to act, perform the duties and exercise the powers of the treasurer and shall perform such other duties and have such other powers as the chief executive officer or the board of directors may from time to time prescribe.

## ARTICLE VI

### CERTIFICATES OF STOCK, TRANSFERS, AND RECORD DATES

Section 1. Form of Certificates. Every holder of stock in the corporation shall be entitled to have a certificate, signed by, or in the name of the corporation by, the board of directors, or the chairman of the board or the president or a vice-president and the treasurer or an assistant treasurer, or the secretary or an assistant secretary of the corporation, certifying the number of shares owned by him in the corporation. If the corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designation, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the corporation shall issue to represent such class or series of stock, provided that, except as otherwise provided in Section 202 of the Delaware General Corporation Law, in lieu of the foregoing requirements, there may be set forth in full or summarized on the face or back of the certificate

which the corporation shall issue to represent such class or series of stock, a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

Section 2. Facsimile Signatures. Where a certificate is countersigned (1) by a transfer agent other than the corporation or its employee, or (2) by a registrar other than the corporation or its employee, any other signature on the certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

Section 3. Lost Certificates. The board of directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the board of directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representatives, to advertise the same in such manner as it shall require and/or to give the corporation a bond in such sums it may direct to indemnify against any claim that may be made against the corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 4. Transfers of Stock. Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

Section 5. Fixing Record Date. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect or any change, conversion or exchange of stock or for the purpose of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

Section 6. Registered Stockholders. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the Delaware General Corporation Law.

## ARTICLE VII

### GENERAL PROVISIONS

Section 1. Dividends. Dividends upon the capital stock of the corporation, subject to the provisions of the certificate of incorporation, if any, may be declared by the board of directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the corporation's capital stock, subject to the provisions of the certificate of incorporation. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think

proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the directors, in their absolute discretion, think proper, and the directors may modify or abolish any such reserve in the manner in which it was created.

Section 2. Checks. All checks or demands for money and notes of the corporation shall be signed by such officer or officers or such other person or persons as the board of directors may from time to time designate.

Section 3. Fiscal Year. The fiscal year of the corporation, unless otherwise provided by resolution of the board of directors, shall begin on the first day of April in each year and end on the last day of March in each year.

Section 4. Seal. The corporate seal shall be inscribed thereon with the name of the corporation and the words "Corporate Seal, Delaware." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

Section 5. Stock in Other Corporations. Shares of any other corporation which may from time to time be held by this corporation may be represented and voted at any meeting of shareholders of such corporation by the chairman of the board, president or vice-president, or by any proxy appointed in writing by the chairman of the board, president or a vice-president of the corporation, or by any other person or persons thereunto authorized by the board of directors. Shares represented by certificates standing in the name of the corporation may be endorsed for sale or transfer in the name of the corporation by the chairman of the board, president or any vice-president or by any other officer or officers thereunto authorized by the board of directors. Shares belonging to the corporation need not stand in the name of the corporation, but may be held for the benefit of the corporation in the individual name of the treasurer or of any other nominee designated for that purpose by the board of directors.

## ARTICLE VIII

### INDEMNIFICATION

Section 1. Indemnification. (a) Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she is or was a director or officer of the corporation or is or was serving at the request of the corporation as a director, officer, employee, agent or fiduciary of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the corporation to the fullest extent authorized by the Delaware General Corporation Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than such law permitted the corporation to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that, except as provided in paragraph (B) of Article EIGHTH of the corporation's certificate of incorporation with respect to proceedings to enforce rights to indemnification, the corporation shall indemnify any such person in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the board of directors of the corporation. The right to indemnification conferred in this Section shall be a contract right and shall include the right to be paid by the corporation the expenses incurred in defending any such proceeding in advance of its final disposition; provided, however, that, if the Delaware General Corporation Law requires, an advancement of expenses incurred by a person in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person, including, without limitation, service to an employee benefit plan)

shall be made only upon delivery to the corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that the director or officer is not entitled to be indemnified under this Section or otherwise. The corporation may, by action of its board of directors, grant rights to indemnification, and to the advancement of expenses, to employees and agents of the corporation to the fullest extent and with the same scope and effect as the foregoing indemnification of, and advancement of expenses to, directors and officers.

(b) The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Section shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the certificate of incorporation, by-laws, agreement, vote of stockholders or disinterested directors or otherwise.

(c) The corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under Delaware law.

(d) Any amendment, repeal or modification of any provision of this Section by the stockholders or the directors of the corporation shall not adversely affect any right or protection of a director or officer of the corporation existing at the time of such amendment, repeal or modification.

## ARTICLE IX

### AMENDMENTS

These by-laws may be altered, amended or repealed or new by-laws may be adopted by the stockholders or by the board of directors at any regular meeting of the board of directors or of the stockholders or at any special meeting of the board of directors or of the stockholders, if notice of such alteration, amendment, repeal or adoption of new by-laws be contained in the notice of such special meeting of the stockholders.

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