May 21, 2014

Westell Technologies Reports Fourth Quarter and Annual Results

Revenue was $24.4 million for the fourth quarter and $102 million for the full year

AURORA, Ill.--(BUSINESS WIRE)-- Westell Technologies, Inc. (NASDAQ: WSTL), a global leader of intelligent site management, in-building wireless, cell site optimization, and outside plant solutions, today announced results for its fiscal fourth quarter and full year ended March 31, 2014.

Consolidated revenue for the fourth quarter was $24.4 million, led by revenue of $17.4 million for the Westell segment, including record quarterly sales of tower mounted amplifiers (TMAs) and distributed antenna systems (DAS) interface panels. Consolidated revenue for the full year was $102.1 million, comprised of $52.2 million for the Westell segment, $46.2 million for the Kentrox segment, and $3.7 million for the Cellular Specialties, Inc. (CSI) segment, which was acquired on March 1, 2014.

Cash and short-term investments were $51.4 million at March 31, 2014, compared to $86.8 million at December 31, 2013. During the fourth quarter, the Company used $37.2 million of cash to acquire CSI. For the fourth quarter and full year 2014, the Company generated cash from operations of $0.9 million and $1.6 million, respectively.

"Fiscal 2014 was a great year for Westell Technologies.We met or exceeded our stated goals including achieving $102 million in annual revenue, 41% consolidated gross margin, positive operating cash flow, and significant organic and inorganic growth in the wireless market," said Rick Gilbert, Chairman and CEO of Westell Technologies. "Our performance in fiscal 2014, the full integration of Kentrox into Westell, and our recent acquisition of CSI, provides us with a solid foundation for fiscal 2015 and an innovative portfolio of solutions for our customers at the wireless network edge."

On a GAAP basis, the Company recorded net income in the quarter ended March 31, 2014 of $4.9 million or $0.08 per share, compared to a net loss of $38.2 million or $0.66 per share in the year-ago quarter. For the year ended March 31, 2014, the Company recorded net income of $5.4 million or $0.09 per share, compared to a net loss of $44.0 million or $0.73 per share in the prior year. The fiscal 2014 fourth quarter and full year included non-cash acquisition-related tax accounting benefits of $9.1 million. The prior year comparative periods included non-cash tax and goodwill impairment charges totaling $36.9 million.

On a non-GAAP basis, the Company recorded a net loss in the quarter ended March 31,

2014 of $1.3 million or $0.02 per share, compared to a net loss of $0.1 million or $0.00 per share in the year-ago quarter. For the year ended March 31, 2014, the Company recorded non-GAAP net income of $7.6 million or $0.13 per share, compared to a net loss of $3.2 million or $0.05 per share in the prior year. The primary items excluded from the Company's non-GAAP results were related to acquisitions, stock-based compensation, and taxes. For a complete GAAP to non-GAAP reconciliation and other information related to non-GAAP measures, please refer to the schedule at the end of this release.

Westell Segment

For the fourth quarter ended March 31, 2014, Westell segment revenue was a record $17.4 million, up 65% from $10.5 million in the third quarter. The sequential increase was driven by continued strong demand for the new wireless product lines in this segment as TMAs and DAS panels each achieved record high revenues this quarter. Gross profit was $5.8 million and gross margin was 33.2%, compared to $3.4 million and 32.6% in the prior quarter. Gross profit and gross margin increased due to the higher revenue, partly offset by higher excess and obsolete inventory costs. Westell R&D expenses were $1.8 million, compared to $1.6 million last quarter. As a result, Westell segment profit was $3.9 million, compared to $1.8 million in the third quarter.

For the full year ended March 31, 2014, Westell segment revenue was $52.2 million, up 35% from $38.8 million in the prior year, driven by the growth of the TMA and DAS panel product lines. Gross profit was $17.1 million and gross margin was 32.7% compared to $13.3 million and 34.3% in the prior year. Gross profit increased due to the higher revenue, while gross margin was down due primarily to higher excess and obsolete inventory costs. Westell R&D expenses were $6.9 million, compared to $5.9 million last year. As a result, Westell segment profit was $10.1 million, compared to $7.4 million in fiscal 2013.

Kentrox Segment

For the fourth quarter ended March 31, 2014, Kentrox segment revenue was $3.4 million, down 77% from $14.7 million in the third quarter. The expected sequential decrease was due to the completion of major projects in the prior quarter. Gross profit was $1.4 million and gross margin was 41.4%, compared to $8.8 million and 59.8% in the prior quarter (gross margin this quarter was 52.3% excluding acquisition-related adjustments). Gross profit and gross margin decreased due primarily to the lower revenue. Kentrox R&D expenses were $1.0 million, compared to $0.9 million last quarter. As a result, Kentrox segment profit was $0.4 million, compared to $7.9 million in the third quarter.

For the full year ended March 31, 2014, Kentrox segment revenue was $46.2 million (Kentrox was acquired on April 1, 2013). Gross profit was $23.5 million and gross margin was 50.9%. Kentrox R&D expenses were $3.8 million. As a result, Kentrox segment profit was $19.7 million.

CSI Segment

For the month ended March 31, 2014, CSI segment revenue was $3.7 million. Gross profit was $1.4 million and gross margin was 37.1% (51.9% excluding an adjustment to revalue certain inventories at market prices as required under acquisition accounting). R&D expenses were $0.6 million. As a result, segment profit was $0.7 million.

Conference Call Information

Management will discuss financial and business results during the quarterly conference call on Thursday, May 22, 2014, at 9:30 AM Eastern Time. Investors may quickly register online in advance of the call at http://www.conferenceplus.com/westell. After registering, participants receive a dial-in number, passcode and personal identification number (PIN) to automatically place them into the audio conference. Those not wishing to register may participate by dialing +1 (888) 206-4065 no later than 9:15 AM Eastern Time, and using confirmation number 37185935. International participants may dial +1 (630) 827-5974.

This news release and related information that may be discussed on the conference call, will be posted on the Investor News section of Westell's website: http://www.westell.com. An archive of the entire conference will be available on the site via Digital Audio Replay by approximately 1:00 PM Eastern Time after the call ends. The replay of the conference also may be accessed by dialing +1 (888) 843-7419 or +1 (630) 652-3042 and entering 9663 271#.

About Westell

Westell Technologies, Inc., headquartered in Aurora, Illinois, is a global leader of intelligent site management, in-building wireless, cell site optimization, and outside plant solutions focused on wireless innovation at your network's edge. The comprehensive solutions Westell provides enable service providers, tower operators, and other network operators to reduce operating costs and improve network performance. With millions of products successfully deployed worldwide, Westell is a trusted partner for transforming networks into high quality, reliable systems. For more information, please visit www.westell.com.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995

Certain statements contained herein that are not historical facts or that contain the words "believe," "expect," "intend," "anticipate," "estimate," "may," "will," "plan," "should," or derivatives thereof and other words of similar meaning are forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those expressed in or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, product demand and market acceptance risks, need for financing and capital, economic weakness in the United States (U.S.) economy and telecommunications market, the effect of international economic conditions and trade, legal, social and economic risks (such as import, licensing and trade restrictions), the impact of competitive products or technologies, competitive pricing pressures, customer product selection decisions, product cost increases, component supply shortages, new product development, excess and obsolete inventory, commercialization and technological delays or difficulties (including delays or difficulties in developing, producing, testing and selling new products and technologies), the ability to successfully consolidate and rationalize operations, the ability to successfully identify, acquire and integrate acquisitions, the effect of the Company's accounting policies, retention of key personnel and other risks more fully described in the Company's SEC filings, including the Form 10-K for the fiscal year ended March 31, 2013, under Item 1A - Risk Factors. The Company undertakes no obligation to publicly update these forward-looking statements to reflect current events or circumstances after the date hereof, or to reflect the occurrence of unanticipated events, or otherwise.

Financial Tables to Follow:

Westell Technologies, Inc.

Condensed Consolidated Statement of Operations

(Amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,		Twelve Months Ended March 31,	
	2014	2013	**2014**	2013
Revenue	**$ 24,421**	$ 10,663	**$ 102,073**	$ 38,808
Gross profit	**8,524**	4,013	**41,958**	13,325
Gross margin	**34.9 %**	37.6 %	**41.1 %**	34.3 %
Operating expenses:				
Sales & marketing	**3,851**	1,924	**14,663**	7,492
Research & development	**3,494**	1,556	**11,339**	5,928
General & administrative	**3,827**	2,473	**14,027**	9,310
Intangibles amortization	**1,320**	235	**4,908**	887
Restructuring	**62**	—	**335**	149
Goodwill impairment [1]	**—**	2,884	**—**	2,884
Total operating expenses	**12,554**	9,072	**45,272**	26,650
Operating income (loss)	**(4,030)**	(5,059)	**(3,314)**	(13,325)
Other income (expense), net	**7**	41	**(56)**	175
Income (loss) before income taxes and discontinued operations	**(4,023)**	(5,018)	**(3,370)**	(13,150)
Income tax benefit (expense)	**8,907** [2]	(32,611) [3]	**8,782** [2]	(29,392) [3]
Net income (loss) from continuing operations	**4,884**	(37,629)	**5,412**	(42,542)
Loss from discontinued operations, net of income tax [3]	**(6)**	(529)	**(45)**	(1,496)
Net income (loss)	**$ 4,878**	$ (38,158)	**$ 5,367**	$ (44,038)
Basic net income (loss) per share:				
Basic net income (loss) from continuing operations	**$ 0.08**	$ (0.65)	**$ 0.09**	$ (0.71)
Basic net income (loss) from discontinued operations	**—**	(0.01)	**—**	(0.02)
Basic net income (loss)	**$ 0.08**	$ (0.66)	**$ 0.09**	$ (0.73)

Diluted net income (loss) per share:				
Diluted net income (loss) from continuing operations	**$0.08**	$(0.65)	**$0.09**	$(0.71)
Diluted net income (loss) from discontinued operations	**—**	(0.01)	**—**	(0.02)
Diluted net income (loss)	**$0.08**	$(0.66)	**$0.09**	$(0.73)
Weighted-average number of shares outstanding:				
Basic	**59,109**	58,154	**58,786**	59,944
Diluted	**60,971**	58,154	**60,048**	59,944

(1) The Company recorded a non-cash charge of $2.9 million during the fourth quarter of fiscal 2013 to record the impairment of the full carrying value of the Company's goodwill. Based on financial market considerations, a history of recent losses and other factors, the Company's goodwill did not pass a two-step goodwill impairment valuation test, resulting in the impairment charge.

(2) In fiscal year 2014, the Company acquired Kentrox and CSI in stock transactions. Deferred tax liabilities of $9.1 million resulted from the acquisitions relating primarily to acquired intangible assets. The Company's anticipated ability to realize deferred tax assets from the reversal of these deferred tax liabilities resulted in a partial reversal of valuation allowance related to the Company's deferred tax assets. Income tax expense, excluding the impact of the acquisitions noted above, was primarily from state income tax expense in non-unitary states and state taxes based on gross margin, not taxable income.

(3) In fiscal year 2013, the Company considered both the positive and negative evidence available to assess its ability to realize the value of its deferred tax assets. The Company considered negative factors, which include recent losses and a forecasted cumulative loss position, as well as positive evidence consisting primarily of projected future earnings. The Company concluded that the negative evidence outweighed the objectively verifiable positive evidence. As a consequence, the Company increased the valuation allowance reserve and tax expense by $34.0 million. This reserve, taken together with the tax contingency reserve, had the effect of reserving in full all of the Company's deferred tax assets as of March 31, 2013.

Westell Technologies, Inc.

Condensed Consolidated Balance Sheets

(Amounts in thousands)

(Unaudited)

	March 31, 2014	March 31, 2013
Assets:		
Cash and cash equivalents	**$ 35,793**	$ 88,233
Restricted cash	**—**	2,500
Short-term investments	**15,584**	24,349
Accounts receivable, net	**15,851**	6,689
Inventories	**24,436**	12,223
Prepaid expenses and other current assets	**1,975**	1,804
Deferred income tax asset	**899**	—
Land held-for-sale	**1,044**	—
Total current assets	**95,582**	135,798
Property and equipment, net	**1,946**	1,081
Goodwill	**30,697**	—
Intangible assets, net	**32,356**	5,063
Other non-current assets	**393**	495
Total assets	**$ 160,974**	$ 142,437
Liabilities and Stockholders' Equity:		
Accounts payable	**$ 6,726**	$ 4,126
Accrued expenses	**7,813**	3,953
Contingent consideration	**2,067**	—
Deferred revenue	**1,774**	—
Total current liabilities	**18,380**	8,079
Deferred revenue non-current	**787**	—
Tax contingency reserve long-term	**1,072**	305
Contingent consideration long-term	**574**	2,333
Other non-current liabilities	**528**	643
Total liabilities	**21,341**	11,360
Total stockholders' equity	**139,633**	131,077
Total liabilities and stockholders' equity	**$ 160,974**	$ 142,437

Westell Technologies, Inc.

Condensed Consolidated Statement of Cash Flows

(Amounts in thousands)

(Unaudited)

	Twelve Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net income (loss)	**$ 5,367**	$ (44,038)
Reconciliation of net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	**5,530**	1,381
Goodwill impairment	**—**	2,884
Stock-based compensation	**1,871**	1,407
Restructuring	**335**	149
Deferred taxes	**(9,312)**	29,865
Other	**41**	(8)
Changes in assets and liabilities:		
Accounts receivable	**(2,139)**	(979)
Inventories	**457**	(2,002)
Accounts payable and accrued liabilities	**(1,081)**	(183)
Other	**528**	(601)
Net cash provided by (used in) operating activities	**1,597**	(12,125)
Cash flows from investing activities:		
Net purchases of short-term investments and debt securities	**8,765**	(9,894)
Acquisitions, net of cash acquired	**(66,170)**	(2,524)
Purchases of property and equipment, net	**(443)**	(379)
Proceeds from sale of assets	**—**	15
Changes in restricted cash	**2,500**	4,951
Net cash provided by (used in) investing activities	**(55,348)**	(7,831)
Cash flows from financing activities:		
Purchase of treasury stock	**(359)**	(12,733)
Proceeds from stock options exercised	**1,677**	87
Net cash provided by (used in) financing activities	**1,318**	(12,646)
(Gain) loss of exchange rate changes on cash	**(7)**	3
Net increase (decrease) in cash	**(52,440)**	(32,599)
Cash and cash equivalents, beginning of period	**88,233**	120,832
Cash and cash equivalents, end of period	**$ 35,793**	$ 88,233

Westell Technologies, Inc.

Segment Statement of Operations

(Amounts in thousands)

(Unaudited)

	Three Months Ended March 31, 2014			
	CSI [1]	**Kentrox**	**Westell**	**Total**
Revenue	**$ 3,676**	**$ 3,362**	**$ 17,383**	**$ 24,421**
Cost of revenue	**2,312**	**1,971**	**11,614**	**15,897**
Gross profit	**1,364**	**1,391**	**5,769**	**8,524**
Gross margin	**37.1 %**	**41.4 %**	**33.2 %**	**34.9 %**
Operating expenses:				
Research & development	**625**	**1,021**	**1,848**	**3,494**
Segment profit	**$ 739**	**$ 370**	**$ 3,921**	**5,030**
Sales & marketing				**3,851**
General & administrative				**3,827**
Intangible amortization				**1,320**
Restructuring				**62**
Operating loss				**(4,030)**
Other income				**7**
Income tax benefit				**8,907**
Net income from continuing operations				**$ 4,884**

	Three Months Ended March 31, 2013	
	Westell	Total
Revenue	$ 10,663	$ 10,663
Cost of revenue	6,650	6,650
Gross profit	4,013	4,013
Gross margin	37.6 %	37.6 %
Operating expenses:		
Research & development	1,556	1,556
Segment profit	$ 2,457	2,457
Sales & marketing		1,924
General & administrative		2,473
Intangible amortization		235
Goodwill impairment [2]		2,884
Operating loss		(5,059)
Other income		41
Income tax benefit		(32,611)
Net loss from continuing operations		$ (37,629)

(1) The results of operations relating to CSI are included in the Company's Consolidated Financial Statements from the March 1, 2014, acquisition date.

(2) The Company recorded a non-cash charge of $2.9 million during the fourth quarter of fiscal year 2013 to record the impairment of the full carrying amount of the Company's goodwill.

Westell Technologies, Inc.

Segment Statement of Operations

(Amounts in thousands)

(Unaudited)

	Twelve Months Ended March 31, 2014			
	CSI [1]	**Kentrox**	**Westell**	**Total**
Revenue	**$ 3,676**	**$ 46,174**	**$ 52,223**	**$ 102,073**
Cost of revenue	**2,312**	**22,657**	**35,146**	**60,115**
Gross profit	**1,364**	**23,517**	**17,077**	**41,958**
Gross margin	**37.1 %**	**50.9 %**	**32.7 %**	**41.1 %**
Operating expenses:				
Research & development	**625**	**3,778**	**6,936**	**11,339**
Segment profit	**$ 739**	**$ 19,739**	**$ 10,141**	**30,619**
Sales & marketing				**14,663**
General & administrative				**14,027**
Intangible amortization				**4,908**
Restructuring				**335**
Operating loss				**(3,314)**
Other loss				**(56)**
Income tax benefit				**8,782**
Net income from continuing operations				**$ 5,412**

	Twelve Months Ended March 31, 2013	
	Westell	Total
Revenue	$ 38,808	$ 38,808
Cost of revenue	25,483	25,483

Gross profit	13,325		13,325	
Gross margin	34.3	%	34.3	%
Operating expenses:				
Research & development	5,928		5,928	
Segment profit	$ 7,397		7,397	
Sales & marketing			7,492	
General & administrative			9,310	
Intangible amortization			887	
Restructuring			149	
Goodwill impairment [2]			2,884	
Operating loss			(13,325	)
Other income			175	
Income tax expense			(29,392	)
Net loss from continuing operations			$ (42,542	)

(1) The results of operations relating to CSI are included in the Company's Consolidated Financial Statements from the March 1, 2014, acquisition date.

(2) The Company recorded a non-cash charge of $2.9 million during the fourth quarter of fiscal year 2013 to record the impairment of the full carrying value of the Company's goodwill.

Westell Technologies, Inc.

Reconciliation of GAAP to non-GAAP Financial Measures

(Amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,		Twelve Months Ended March 31,	
	2014	2013	**2014**	2013
GAAP net income (loss)	**$ 4,878**	$ (38,158)	**$ 5,367**	$ (44,038)
Adjustments:				
Inventory fair value step-up [1]	**833**	—	**2,160**	—
Deferred revenue adjustment [1]	**169**	—	**2,089**	—
Amortization of intangibles [2]	**1,320**	235	**4,908**	887
Income taxes [3]	**(9,146)**	34,032	**(9,146)**	34,032

Restructuring [4]	**62**	—	**335**	149
Stock-based compensation [5]	**578**	363	**1,871**	1,407
Goodwill impairment [6]	**—**	2,884	**—**	2,884
Loss from discontinued operations [7]	**6**	529	**45**	1,496
Total adjustments	**(6,178)**	38,043	**2,262**	40,855
Non-GAAP net income (loss)	**$ (1,300)**	$ (115)	**$ 7,629**	$ (3,183)
GAAP net income (loss) per common share:				
Basic	**$ 0.08**	$ (0.66)	**$ 0.09**	$ (0.73)
Diluted	**$ 0.08**	$ (0.66)	**$ 0.09**	$ (0.73)
Non-GAAP net income (loss) per common share:				
Basic	**$ (0.02)**	$ —	**$ 0.13**	$ (0.05)
Diluted	**$ (0.02)**	$ —	**$ 0.13**	$ (0.05)
Average number of common shares outstanding:				
Basic	**59,109**	58,154	**58,786**	59,944
Diluted	**60,971**	58,154	**60,048**	59,944

	Three Months Ended March 31,		Twelve Months Ended March 31,	
	2014	2013	**2014**	2013
GAAP operating expenses	**12,554**	9,072	**45,272**	26,650
Adjustments:				
Amortization of intangibles [2]	**(1,320)**	(235)	**(4,908)**	(887)
Restructuring [4]	**(62)**	—	**(335)**	(149)
Stock-based compensation [5]	**(560)**	(356)	**(1,818)**	(1,380)
Goodwill impairment [6]	**—**	(2,884)	**—**	(2,884)
Total adjustments	**(1,942)**	(3,475)	**(7,061)**	(5,300)
Non-GAAP operating expense	**10,612**	5,597	**38,211**	21,350

	Three Months Ended March 31, 2014			
	Revenue	Gross Profit	Gross Margin	
GAAP - Kentrox	$ 3,362	$ 1,391	41.4	%
Inventory fair value step-up [1]	—	288		
Deferred revenue adjustment [1]	169	169		
Non-GAAP - Kentrox	$ 3,531	$ 1,848	52.3	%

Three Months Ended March 31, 2014

	Revenue	Gross Profit	Gross Margin
GAAP - CSI	$ 3,676	$ 1,364	37.1 %
Inventory fair value step-up (1)	—	545	
Non-GAAP - CSI	$ 3,676	$ 1,909	51.9 %

	Twelve Months Ended March 31, 2014		
	Revenue	Gross Profit	Gross Margin
GAAP - consolidated	$ 102,073	$ 41,958	41.1 %
Inventory fair value step-up (1)	—	2,160	
Deferred revenue adjustment (1)	2,089	2,089	
Non-GAAP - consolidated	$ 104,162	$ 46,207	44.4 %

The Company prepares its financial statements based on U.S. Generally Accepted Accounting Principles (GAAP). This schedule reconciles the Company's GAAP net income to adjusted or non-GAAP net income. Management believes that these non-GAAP results provide meaningful supplemental information to investors, indicate the Company's core performance, and facilitate comparison of results across reporting periods. The Company uses these non-GAAP measures when evaluating its financial results. Non-GAAP measures should not be viewed as a substitute for the Company's GAAP results.

(1) On April 1, 2013 and on March 1, 2014, the Company purchased Kentrox and CSI, respectively, which required the step-up of certain assets to fair value, which resulted in cost that will not recur once those assets have fully settled. The adjustments remove the increased costs associated with the third-party sales of inventory that was stepped-up and the step-down on acquired deferred revenue that was recognized in the three and twelve months ended March 31, 2014.

(2) Amortization of intangibles is a non-cash expense arising from the acquisition of intangible assets.

(3) In fiscal year 2014, the Company acquired Kentrox and CSI in stock transactions. Deferred tax liabilities of $9.1 million resulted from the acquisitions relating primarily to acquired intangible assets. The Company's anticipated ability to realize deferred tax assets from the reversal of these deferred tax liabilities resulted in a partial reversal of valuation allowance related to the Company's deferred tax assets. The fiscal year 2014 adjustment removes the related income tax benefit. The Company is in a full valuation allowance in fiscal year 2014. The fiscal year 2013 adjustment removes the tax benefits recorded in fiscal year 2013 to reflect the tax result had the Company been in a full valuation allowance in fiscal year 2013.

(4) Restructuring expenses are not directly related to the ongoing performance of our fundamental business operations.

(5) Stock-based compensation is a non-cash expense incurred in accordance with share-based compensation accounting.

(6) The Company recorded a non-cash charge of $2.9 million during the fourth quarter of fiscal 2013 to record the impairment of the full carrying value of the Company's goodwill.

(7) Historical results of operations of the CNS division and ConferencePlus are presented as discontinued operations.

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Source: Westell Technologies, Inc.