TELULAR CORP
Form 10-Q
May 10, 2005

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2005.

OR

o **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 0-23212

Telular Corporation
(Exact name of Registrant as specified in its charter)

Delaware	**36-3885440**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

647 North Lakeview Parkway
Vernon Hills, Illinois
60061
(Address of principal executive offices)
(Zip Code)

(847) 247-9400
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes	No
x	o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes	No
x	o

The number of shares outstanding of the Registrant s common stock, par value $.01, as of March 31, 2005, the latest practicable date, was 13,295,278 shares.

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TELULAR CORPORATION
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share data)

	March 31, 2005	September 30, 2004
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 17,272	$ 22,677
Trade accounts receivable, less allowance for doubtful accounts of $202 and $192 at March 31, 2005 and September 30, 2004, respectively	13,498	12,844
Inventories, net	10,491	10,636
Prepaid expenses and other current assets	501	222
Total current assets	41,762	46,379
Property and equipment, net	2,792	3,130
Other assets:		
Goodwill	2,554	2,554
Other intangible assets, less accumulated amortization of $1050 and $750 at March 31, 2005 and September 30, 2004, respectively	1,950	2,250
Other	54	53
Total other assets	4,558	4,857
Total assets	$ 49,112	$ 54,366
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Trade accounts payable	$ 4,530	$ 6,382
Accrued liabilities	3,563	3,183
Total current liabilities	8,093	9,565
Stockholders equity:		
Common stock; $.01 par value; 75,000,000 shares authorized; 13,295,278 and 13,265,893 outstanding at March 31, 2005 and September 30, 2004, respectively	133	133
Additional paid-in capital	152,279	152,189
Deficit	(111,393)	(107,521)
Total stockholders equity	41,019	44,801
Total liabilities and stockholders equity	$ 49,112	$ 54,366

See accompanying notes

TELULAR CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except share data)
(Unaudited)

	Three Months Ended March 31,	
	2005	**2004**
Revenue		
Net product sales	$ 10,840	$ 22,668
Service revenue	2,243	1,926
Total revenue	13,083	24,594
Cost of sales		
Net product cost of sales	9,041	16,682
Service cost of sales	1,263	1,145
Total cost of sales	10,304	17,827
Gross margin	2,779	6,767
Engineering and development expenses	1,661	1,721
Selling and marketing expenses	2,469	2,730
General and administrative expenses	1,501	1,370
Amortization	150	150
Income (loss) from operations	(3,002)	796
Other income, net	62	2
Income (loss) before income taxes	(2,940)	798
Income taxes, net of tax benefit		
Net income (loss)	$ (2,940)	$ 798
Net income (loss) per common share:		
Basic	$ (0.22)	$ 0.06
Diluted	$ (0.22)	$ 0.06
Weighted average number of common shares outstanding:		
Basic	13,293,338	13,087,478
Diluted	13,293,338	13,990,119

See accompanying notes

TELULAR CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except share data)
(Unaudited)

	Six Months Ended March 31,	
	2005	**2004**
Revenue		
Net product sales	$ 22,293	$ 37,129
Service revenue	4,443	3,813
Total revenue	26,736	40,942
Cost of sales		
Net product cost of sales	17,433	27,721
Service cost of sales	2,515	2,397
Total cost of sales	19,948	30,118
Gross margin	6,788	10,824
Engineering and development expenses	3,321	3,680
Selling and marketing expenses	4,605	5,131
General and administrative expenses	2,541	2,413
Amortization	300	300
Loss from operations	(3,979)	(700)
Other income, net	107	15
Loss before income taxes	(3,872)	(685)
Income taxes, net of tax benefit		
Net loss	$ (3,872)	$ (685)
Net loss per common share:		
Basic	$ (0.29)	$ (0.05)
Diluted	$ (0.29)	$ (0.05)
Weighted average number of common shares outstanding:		
Basic	13,285,909	13,020,954
Diluted	13,285,909	13,020,954

See accompanying notes

TELULAR CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
(Dollars in thousands)
(Unaudited)

	Common Stock	Additional Paid-In Capital	Deficit	Total Stockholders Equity
Balance at September 30, 2004	$ 133	$ 152,189	$ (107,521)	$ 44,801
Net loss for period from October 1, 2004 to March 31, 2005			(3,872)	(3,872)
Stock options exercised		82		82
Stock issued in connection with services and compensation		8		8
Balance at March 31, 2005	**$ 133**	**$ 152,279**	**$ (111,393)**	**$ 41,019**

See accompanying notes

TELULAR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Six Months Ended March 31, 2005	Six Months Ended March 31, 2004
Operating Activities:		
Net loss	$ (3,872)	$ (685)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	697	714
Amortization	300	300
Provision for inventory obsolescence	1,131	189
Common stock issued for services and compensation	8	16
Changes in assets and liabilities:		
Trade accounts receivable	(654)	(10,211)
Inventories	(986)	1,900
Prepaid expenses and other	(280)	(36)
Trade accounts payable	(1,852)	2,033
Accrued liabilities	380	845
Net cash used in operating activities	(5,128)	(4,935)
Investing Activities:		
Acquisition of property and equipment	(359)	(695)
Net cash used in investing activities	(359)	(695)
Financing Activities:		
Proceeds from the exercise of stock options	82	1,594
Net cash provided by financing activities	82	1,594
Net decrease in cash and cash equivalents	(5,405)	(4,036)
Cash and cash equivalents, beginning of period	22,677	23,861
Cash and cash equivalents, end of period	$ 17,272	$ 19,825

See accompanying notes

TELULAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2005
(Unaudited, dollars in thousands, except share data)

1. Basis of Presentation

The accompanying unaudited 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 Article 10 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. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. In the opinion of management, the accompanying financial statements include all adjustments considered necessary for a fair presentation. Operating results for the six months ended March 31, 2005, are not necessarily indicative of the results that may be expected for the full fiscal year ending September 30, 2005. For additional information, please refer to the consolidated financial statements and the footnotes included in the Annual Report on Form 10-K for the fiscal year ended September 30, 2004.

2. Earnings Per Share

Basic earnings per share of common stock is computed by dividing net earnings by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share of common stock is computed by dividing net earnings by the weighted average number of shares of common stock and common stock equivalents, which relate entirely to the assumed exercise of stock options and warrants. In the event of a net loss for the period, both basic and diluted earnings per share of common stock are computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. The inclusion of common stock equivalents in the computation of diluted loss per share of common stock in the event of net loss is considered antidilutive. Weighted average number of shares of common stock outstanding for computation of basic earnings per share was 13,293,338 and 13,087,478, and diluted earnings per share was 13,293,338 and 13,990,119, for the three months ended March 31, 2005 and 2004, respectively. Weighted average number of shares of common stock outstanding for computation of basic and diluted earnings per share was 13,285,909 and 13,020,954, for the six months ended March 31, 2005 and 2004, respectively.

The shares outstanding used to compute diluted earnings per share for the three months ended March 31, 2005, exclude outstanding options to purchase 317,059 shares of common stock. The shares outstanding used to compute diluted earnings per share for the six months ended March 31, 2005 and 2004 exclude outstanding options to purchase 314,531 and 909,268 shares of common stock, respectively. The options were excluded because their inclusion in the computation would have been antidilutive.

3. Stock Based Compensation

In December 2004, Financial Accounting Standard Board (FASB) issued FASB Statement No. 123 (revised in 2004), Share-Based Payment (SFAS 123R), which requires that all share-based payments to employees, including the grants of employee stock options, be recognized in the financial statements based on their fair values. This statement is effective for public companies at the beginning of the first annual period beginning after June 15, 2005, and accordingly Telular Corporation (the Company) will adopt this statement on October 1, 2005. The Company is in the process of determining the impact that adopting this statement will have on its financial statements for the year ended September 30, 2006 and the related interim periods of that year. If the Company adopted this statement for the three month and six month interim periods ended March 31, 2005, the Company would have recognized an additional $255 and $625 expense, respectively, based on the fair value of the stock options granted (See pro forma information below).

TELULAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2005
(Unaudited, dollars in thousands, except share data)

Effective January 1, 2003, the Company adopted Statement of Financial Accounting Standards 148, Accounting for Stock-Based Compensation - Transition and Disclosure (SFAS 148), which requires that pro forma information regarding net income (loss), earnings per share and stock-based employee compensation be presented in interim financial information for any period in which stock-based employee awards are outstanding. The Company s pro forma information is as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	**2004**	**2005**	**2004**
Net income (loss) as reported	$ (2,940)	$ 798	$ (3,872)	$ (685)
Less stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(255)	(369)	(625)	(577)
Pro forma net income (loss)	$ (3,195)	$ 429	$ (4,497)	$ (1,262)
Net income (loss) per share:				
Basic as reported	$ (0.22)	$ 0.06	$ (0.29)	$ (0.05)
Basic pro forma	$ (0.24)	$ 0.03	$ (0.34)	$ (0.10)
Diluted as reported	$ (0.22)	$ 0.06	$ (0.29)	$ (0.05)
Diluted pro forma	$ (0.24)	$ 0.03	$ (0.34)	$ (0.10)

4. Inventories

The components of inventories consist of the following (000 s):

	March 31, 2005	September 30, 2004
	(unaudited)	
Raw materials	$ 5,366	$ 5,328
Finished goods	7,731	6,806
	13,097	12,134
Less: reserve for obsolescence	2,606	1,498
	$ 10,491	$ 10,636

The March 31, 2005, reserve for obsolescence includes a $831 special charge to cost of sales during the second quarter of fiscal year 2005, to adjust net inventories from cost to market value. (See Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations)

5. Commitments

During fiscal year 2002, the Company entered into an agreement with Plexus Services Corporation relating to the manufacturing of circuit card assemblies and final assemblies of the Company s products. Either party may terminate the agreement upon 90 days prior written notice to the other party. As of March 31, 2005, the Company had $2,859 in open purchase commitments pursuant to this agreement.

TELULAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2005
(Unaudited, dollars in thousands, except share data)

6. Redeemable Preferred Stock and Preferred Stock

On March 31, 2005 and September 30, 2004, the Company had 21,000 shares of $0.01 par value Redeemable Preferred Stock authorized and none outstanding and 9,979,000 shares of $0.01 par value Preferred Stock authorized and none outstanding.

7. Segment Disclosures

The Company, which is organized on the basis of products and services, has two reportable business segments, Fixed Wireless Terminals and Security Products. The Company designs, develops, manufactures and markets both fixed wireless terminals and security products. Fixed wireless terminals provide the capability to connect standard wireline telecommunications customer premises equipment with cellular-type transceivers for use in wireless communication networks. Security products provide wireless backup systems for commercial and residential alarm systems.

Summarized below are the Company s revenue and net income (loss) by reportable segment:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	**2004**	**2005**	**2004**
Revenue				
Fixed Wireless Terminals	$ 9,287	$ 21,412	$ 19,079	$ 34,300
Security Products	3,796	3,182	7,657	6,642
	$ 13,083	$ 24,594	$ 26,736	$ 40,942
Net Income (Loss)				
Fixed Wireless Terminals	$ (3,181)	$ 864	$ (4,674)	$ (393)
Security Products	241	(66)	802	(292)
	$ (2,940)	$ 798	$ (3,872)	$ (685)

For the three months ended March 31, 2005, two customers, located in Guatemala and Mexico accounted for 31% and 27%, respectively, of the fixed wireless terminal revenue and two customers, both located in the USA accounted for 46% and 11%, respectively, of the security products revenue. For the three months ended March 31, 2004, four customers, located in Venezuela, Mexico, El Salvador and Guatemala accounted for 28%, 22%, 16% and 12%, respectively, of the fixed wireless terminal revenue and two customers, both located in the USA accounted for 46% and 13%, respectively, of the security products revenue.

Export sales of fixed wireless terminals represented 75% and 94% of total fixed wireless revenue for the second quarter of fiscal year 2005 and 2004, respectively. Export sales of security products were insignificant for the second quarter of fiscal year 2005 and 2004.

For the six months ended March 31, 2005, two customers, located in Mexico and Guatemala accounted for 48% and 20%, respectively, of the fixed wireless terminal revenue and two customers, both located in the USA accounted for 45% and 11%, respectively, of the security products revenue. For the six months ended March 31, 2004, four customers, located in Venezuela, Mexico, El Salvador and Guatemala accounted for 25%, 14%, 13% and 13%, respectively, of the fixed wireless terminal revenue and two customers, both located in the USA accounted for 47% and 12%, respectively, of the security products revenue.

Export sales of fixed wireless terminals represent 82% and 90% of total fixed wireless revenue for the first six months of fiscal year 2005 and 2004, respectively. Export sales of security products were insignificant for the first six months of fiscal year 2005 and 2004.

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Overview

Telular Corporation (the Company) designs, develops, manufactures and markets products based on its proprietary interface technologies. These products provide the capability to connect standard telecommunications equipment, including standard telephones, fax machines, data modems and alarm panels with wireless communication networks in the cellular and PCS frequency bands (collectively cellular). Bridging the gap between wireline customer premises equipment and cellular networks, these technologies provide the Company s products with the look and feel of the wireline network, providing critical communications and security needs in a variety of environments. Addressing the needs of voice, fax, data and security, the Company s business segments are divided across two primary product lines: PHONECELL®, a line of Fixed Cellular Terminals and Fixed Cellular Desktop Phones (collectively Fixed Cellular Terminals or FCTs), and TELGUARD®, a line of Wireless Security Products.

The growth of the FCT business in any market is dependent to a considerable extent upon the growth of cellular telephone service in that market as a cost-effective alternative to or substitute for landline telephone systems. Consequently, in managing the business and making decisions about where to invest resources, the Company s management collects data and follows trends in the following areas of the cellular industry:

- The cost of cellular airtime rates to consumers
- The cost of cellular equipment technology and components
- The capabilities of deployed cellular systems
- The number of cellular operators in a given market
- Operating characteristics of worldwide cellular operators
- The number of deployed cellular networks using the same technology
- Consumer attitudes toward cellular technology
- Competitive and substitute products in the market place
- Global economic conditions and economic conditions in key markets for Fixed Cellular
- Telephony regulation in key markets for Fixed Cellular

Based upon trends noted from data collected in the industry, such as improved economic conditions in Latin America and Local Number Portability in the USA, the Company believes that the market for cellular FCTs will experience substantial growth over the next five years.

The Company generates most of its revenue by making and selling products. It recognizes revenue when its products ship from various manufacturing locations to customers. The Company tracks its revenue in two business segments: Fixed Cellular Terminals and Wireless Security Products.

Although the Company has a broad base of customers worldwide, much of its revenue is generated from large contracts, the timing of which is often unpredictable.

The Company s operating expense levels are based in large part on expectations of future revenues. If anticipated sales in any fiscal quarter do not occur as expected, expenditure and inventory levels could be disproportionately high, and the Company s operating results for that fiscal quarter, and potentially for future fiscal quarters, could be adversely affected. Certain factors that could significantly impact expected results are described in Cautionary Statements attached as Exhibit 99 to Company s Form 10-K for the fiscal year ended September 30, 2004.

Results of Operations

Second quarter fiscal year 2005 compared to second quarter fiscal year 2004

Net product sales. Net product sales of $10.8 million for the three months ended March 31, 2005, decreased 52% compared to the same period last year. Sales of PHONECELL® products decreased 58%, or $12.1 million, to $9.3 million during the second quarter of fiscal year 2005 compared to the same period of fiscal year 2004. These decreases were primarily the result of the absence of shipments to customers in El Salvador and Venezuela combined with reduced shipments to a customer in Mexico. Sales of TELGUARD® products during the second quarter of fiscal year 2005 of $1.6 million increased 24% compared to the same period last year. The increase is primarily the result of additional shipments to two of the Company s largest customers.

Service Revenue. Service revenue increased 17% to $2.2 million during the second quarter of fiscal year 2005 from $1.9 million during the same period last year. The increase is primarily the result of the increase in TELGUARD products sold during the second quarter of fiscal year 2005.

Gross margin. Gross margin for the three months ended March 31, 2005 of $2.8 million, or 21% of total revenue, compares to $6.8 million, or 28% of total revenue, for the same period last year. The decrease in gross margin is the result of lower sales combined with a special charge during the second quarter of fiscal year 2005 for $0.8 million to adjust inventories from cost to market value. This adjustment is the result of new information from the market that indicates that in some cases inventories are valued above market or the quantity on hand exceeds market requirements. The decrease in gross margin as a percentage of total revenue is the result of the adjustment of inventories from cost to market value.

Selling and marketing expenses. Selling and marketing expenses of $2.5 million for the three months ended March 31, 2005, decreased 10%, or $0.3 million compared to the same period of fiscal year 2004. The decrease is primarily due to lower commissions resulting from the decrease in net product sales.

General and administrative expenses (G&A). G&A for the second quarter of fiscal year 2005 increased $0.1 million, or 10%, from $1.4 million for the same period of fiscal year 2004. The increase is the result of a one-time charge of $0.5 million of termination pay under the employment agreement with the Company s former Chairman and Chief Executive Officer. This was largely offset by lower incentive compensation based on decreased profitability for the second quarter of fiscal year 2005 compared to the same period last year 2004.

Net income (loss). The Company recorded net loss of $2.9 million for the second quarter of fiscal year 2005 compared to net income of $0.8 million for the second quarter of fiscal year 2004. The decrease is primarily the result of lower sales combined with the adjustment of inventories to market value. Net loss in the second quarter from the Fixed Wireless segment of $3.1 million compares to net income of $0.9 million last year. Net income in the second quarter from the Wireless Security Products segment of $0.2 million compares to net loss of $0.1 million last year.

Net income (loss) per Common Share. Net loss per share of ($0.22) for the second quarter of fiscal year 2005 compares to net income per share of $0.06 for the second quarter of fiscal year 2004. The decrease is primarily the result of the lower sales combined with the adjustment of inventories to market value.

First six months fiscal year 2005 compared to first six months fiscal year 2004

Net Product Sales. Net product sales of $22.3 million for the first six months of fiscal year 2005 decreased 40%, or $14.8 million compared to the same period last year. Sales of PHONECELL® products decreased 44%, or $15.2 million, to $19.1 million during the first six months of fiscal year 2005 compared to the same period of fiscal year 2004. These decreases were primarily the result of the absence of shipments to customers in El Salvador and Venezuela partially offset by increased shipments to customer in Mexico. Sales of TELGUARD® products during the first six months of fiscal year 2005 of $3.2 million increased 14%, or $0.4 compared to the same period last year. The increase is primarily the result of additional shipments to two of the Company s largest customers.

Service Revenue. Service revenue increased 17% to $4.4 million during the first six months of fiscal year 2005 from $3.8 million during the same period last year. The increase is primarily the result of the increase in TELGUARD products sold during the first six months of fiscal year 2005.

Gross margin. Gross margin decreased 37%, or $4.0 million, for the first six months of fiscal year 2005 compared to the first six months of fiscal year 2004. Gross margin for the six months ended March 31, 2005 of $6.8 million, or 25% of total revenue, compares to $10.8 million, or 26% of total revenue, for the same period last year. The decrease in gross margin is primarily the result of lower sales during the first six months of fiscal year 2005 combined with the special charge to adjust inventories from cost to market value during the second quarter of fiscal year 2005.

Engineering and development expenses. Engineering and development expenses decreased $0.3 million, or 10% to $3.3 million for the first six months of fiscal year 2005 compared to the same period last year. The decrease is due to a reduction in outside contract engineering that was used in the corresponding period of the prior year to augment engineering resources.

Selling and marketing expenses. Selling and marketing expenses of $4.6 million for the first six months of fiscal year 2005, decreased 10%, or $0.5 million compared to the same period of fiscal year 2004. The decrease is primarily due to lower commissions resulting from the decrease in sales.

Net income (loss). The Company recorded a net loss of ($3.9) million for the first six months of fiscal year 2005 compared to net loss of ($0.7) million for the first six months of fiscal year 2004. The increased loss is primarily the result of lower sales in the Fixed Wireless segment this year. A net loss in the first six months from the Fixed Wireless segment of ($4.7) million compares to net loss of ($0.4) million for the first six months of fiscal year 2004. The increased loss is primarily the result of lower sales this year. A net income in the first six months from the Wireless Security Products segment of $0.8 million compares to net loss of ($0.3) million in the corresponding period of last year. The increase is the result of higher sales volume and the cost reductions negotiated with suppliers.

Net income (loss) per Common Share. Net loss per share of ($0.29) for the first six months of fiscal year 2005 compares to net loss per share of ($0.05) for the first six months of fiscal year 2004. The increased loss per share is primarily the result of lower sales in the Fixed Wireless segment to date this year.

Financial Position

Because the Company is actively working to secure very large contracts, it is necessary for the Company to maintain the capability to deliver large volumes of product with relatively short lead times. Consequently, the Company has significant cash reserves, which it also uses to fund operating losses, working capital needs, and capital expenditures. The Company expects accounts receivable and inventories to return to cash in a relatively short period of time. Management regularly reviews net working capital in addition to cash to determine if it has enough cash to operate the business. On March 31, 2005, the Company had $17.3 million in cash and cash equivalents with a working capital surplus of $33.7 million.

The Company used $5.1 million of cash in operations during the first six months of fiscal year 2005 compared to cash used of $4.9 million during the same period of fiscal year 2004. Cash used in operations during the first six months of fiscal year 2005 includes $3.8 million due to the net loss and $2.3 million due to net unfavorable changes in working capital, primarily from a decrease in accounts payable. The decrease in accounts payable is due to reduced purchases caused by lower sales. The decrease in cash from operations during the first six months of the prior year consisted primarily of a $0.7 million net loss and $5.3 million of net unfavorable changes in working capital. The unfavorable working capital changes consisted primarily of a $10.2 million increase in accounts receivable resulting from increased open account sales to customers in North and South America during the prior year. This was partially offset by the combination of a $2.1 million decrease in inventories, a $2.0 million increase in accounts payable and a $0.8 million increase in accrued liabilities. These changes are the primarily the result of increased sales during the second quarter of fiscal year 2004.

The Fixed Wireless segment used $6.0 million of cash in operations during the first six months of fiscal year 2005, while the Wireless Security Products segment generated $0.9 million of cash in operations. During the first six months of fiscal year 2004, the Fixed Wireless segment used $4.7 million of cash in operations, while the Wireless Security Products segment used $0.2 million of cash in operations.

Cash used in investing activities of $0.4 million during the first six months of fiscal year 2005 compares to cash used in investing activities of $0.7 million during the same period of the prior year. The investing activities of both periods consist of capital spending for product testing equipment.

Cash provided by financing activities of $0.1 million during the first six months of fiscal year 2005 compares to cash provided of $1.6 million for the same period last year. The cash provided by financing activities in both years consist of the proceeds from employee stock option exercises.

Based upon its current operating plan, the Company believes its existing capital resources will enable it to maintain its current and planned operations. Cash requirements may vary and are difficult to predict given the nature of the developing markets targeted by the Company. The Company expects to maintain significant levels of cash reserves, which are required to undertake major product development initiatives, expand marketing and sales development worldwide and qualify for large sales opportunities.

To mitigate the effects of currency fluctuations on the Company s results of operations, the Company conducts all of its international transactions in U.S. dollars.

Critical Accounting Policies

The Company s financial statements are based on the selection and application of significant accounting policies, which require management to make significant estimates and assumptions. The Company believes that the following represent the critical accounting policies that currently affect the presentation of the Company s financial condition and results of operations

Reserve for Obsolescence

Significant management judgment is required to determine the reserve for obsolete or excess inventory. The Company currently considers inventory quantities greater than a one-year supply based on current year activity as well as any additional specifically identified inventory to be excess. The Company also provides for the total value of inventories that are determined to be obsolete based on criteria such as customer demand and changing technologies. At March 31, 2005 and September 30, 2004, the inventory reserves were $2.6 million and $1.5 million, respectively. Changes in strategic direction, such as discontinuance or expansion of product lines, changes in technology or changes in market conditions, could result in significant changes in required reserves.

Goodwill

The Company evaluates the fair value and recoverability of the goodwill of each of its business segments whenever events or changes in circumstances indicate the carrying value of the asset may not be recoverable or at least annually. In determining fair value and recoverability, the Company makes projections regarding future cash flows. These projections are based on assumptions and estimates of growth rates for the related business segment, anticipated future economic conditions, the assignment of discount rates relative to risk associated with companies in similar industries and estimates of terminal values. An impairment loss is assessed and recognized in operating earnings when the fair value of the asset is less than its carrying amount.

Income Taxes

The Company recognizes deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Currently, the Company has significant deferred tax assets principally related to net operating losses. Deferred tax assets are reviewed regularly for recoverability, and when necessary, valuation allowances are established based on historical tax losses, projected future taxable income, and expected timing of reversals of existing temporary differences. Valuation allowances have been provided for all deferred tax assets, as management makes assessments about the realizability of such deferred tax assets. Changes in the Company s expectations could result in significant adjustments to the valuation allowances, which would significantly impact the Company s results of operations.

Forward Looking Information

Please be advised that some of the information in this filing presents the Company s intentions, beliefs, judgments and expectations of the future and are forward-looking statements. It is important to note that the Company s actual results could differ materially from these forward looking statements. For example, there are a number of uncertainties as to the degree and duration of the revenue momentum, which could impact the Company s ability to be profitable as lower sales may likely result in lower margins. In addition, product development expenditures, which are expected to benefit future periods, are likely to have a negative impact on near term earnings. Other risks and uncertainties, which are discussed in Exhibit 99 to the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2004, include the following risks: that technological change will render the Company s technology obsolete, that the Company may be unable to protect intellectual property rights in its products, that unfavorable economic conditions could lead to lower product sales, that litigation could have a material adverse effect on the Company s financial position and results of operations, that the Company may be unable to develop new products, that the Company is dependent on suppliers and contractors, that the Company may be unable to maintain quality control, that the developing markets in which the Company conducts business are more volatile and unstable than domestic markets, that the Company is dependent on research and development, that the Company faces the uncertainty of additional funding, that stockholders may experience dilution of ownership interests resulting from financing activities, that the Company s Common Stock price is volatile, that the Company faces intense competition within its industry, including competition from its licensees and new market entrants with cellular phone docking station products and that the development of wireless service is generally uncertain.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes regarding the Company s market risk position from the information provided in its Annual Report on From 10-K for the fiscal year ended September 30, 2004. The quantitative and qualitative disclosures about market risk are discussed in Item 7A-Quantitative and Qualitative Disclosures About Market Risk, contained in the Company s Annual Report on Form 10-K.

Item 4. CONTROLS AND PROCEDURES

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. As of the end of the period covered by this report an evaluation of the effectiveness of the Company s disclosure controls and procedures was carried out under the supervision and with the participation of the Company s management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Based on that evaluation, the CEO and CFO have concluded that the Company s disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic reports with the Securities and Exchange Commission.

During the quarter ended March 31, 2005, there were no changes in the Company s internal controls over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15, each promulgated under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Company is involved in legal proceedings that arose in the ordinary course of its business. While any litigation contains an element of uncertainty, management believes that the outcome of all pending legal proceedings will not have a material adverse effect on the Company s consolidated results of operation or financial position. However, because of the nature and inherent uncertainties of litigation, should the outcome of any legal actions be unfavorable, the Company may be required to pay damages and other expenses, which could have a material adverse effect on the Company s financial position and results of operations.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company s Annual Meeting of Shareholders was held on January 25, 2005. The number of shares issued and outstanding and entitled to vote was 13,276,426. There were present at said meeting, in person or by proxy, shareholders holding 13,042,992 shares of common stock. Such shareholders held 98% of the stock outstanding, and entitled to vote and constituted a quorum.

The following persons received a majority of the votes cast for Directors, specifically stated as:

	For	Withheld
Kenneth E. Millard	12,101,806	941,186
John E. Berndt	12,236,750	806,242
Larry J. Ford	12,160,129	882,863
Daniel D. Giacopelli	12,405,779	637,213
Brian J. Clucas	12,471,998	570,994
Lawrence S. Barker	12,536,270	506,722
Kevin J. Wiley	12,535,620	507,372

The results of the vote on three shareholder proposals submitted to the Company for consideration is as follows:

	For	Against	Withheld
Split Offices of Chairman and CEO	1,142,444	3,718,125	198,596
Adopt Cumulative Voting	1,260,159	3,448,076	350,930
Increase the Size of the Company s Board of Directors from Six to Nine Directors	1,405,907	3,627,035	26,223

All nominees for Director were elected. However, none of the shareholder proposals were approved.

Item 6. EXHIBITS

The following documents are filed as Exhibits to this report:

Number	Description	Reference
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
32	Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

TELULAR CORPORATION

Date May 10, 2005	By:	/s/ JOHN E. BERNDT
		John E. Berndt **Chairman & Chief Executive Officer**
Date May 10, 2005		/s/ JEFFREY L. HERRMANN
		Jeffrey L. Herrmann **Executive Vice President, Chief Operating Officer & Chief Financial Officer**
Date May 10, 2005		/s/ ROBERT L. ZIRK
		Robert L. Zirk **Controller & Chief Accounting Officer**

Exhibit Index

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