

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended September 30, 2008

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 0-23212

Telular Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

36-3885440
(I.R.S. employer
identification no.)

311 South Wacker Drive, Suite 4300, Chicago, Illinois 60606-6622
(Address of principal executive offices and zip code)

(312) 379-8397
(Registrant's telephone number, including area code)

Securities registered pursuant to 12(b) of the Act:

Title of Each Class	Name of each exchange on which registered
Common Stock, \$.01 Par Value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

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

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

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 [X] No []

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange.

Large accelerated filer	[]	Accelerated filer	[X]
Non-accelerated filer (Do not check if a smaller reporting company)	[]	Smaller reporting company	[]

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

As of March 31, 2008, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$51,407,000 (based upon the closing sales price of such stock as reported by The NASDAQ Stock Market LLC on such date). The number of shares outstanding of the registrant's Common Stock as of December 8, 2008, the latest practicable date, was 18,466,876 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the close of the registrant's fiscal year ended September 30, 2008 are incorporated by reference in Part III of this Form 10-K.

PART I

(Dollar In Thousands, Except Per Share Data)

ITEM 1. BUSINESS

OVERVIEW

Telular Corporation (Telular or the Company) designs, develops and distributes products and services that utilize wireless networks to provide data and voice connectivity among people and machines. Telular's product and service offerings take advantage of the pervasiveness and data transport capabilities of wireless networks in order to facilitate communications among people and machines. Oftentimes, the Company's products and services replace the wireline network while providing the added flexibility of wireless connectivity.

Telular was established in 1986 when it acquired the intellectual property rights for its cellular interface concept and methodology. Historically, Telular provided Fixed Cellular Terminals (FCTs) and Fixed Cellular Phones (FCPs) to markets in North America and in developing countries around the world. Today, while Telular continues to develop FCTs, it is emphasizing the development of FCTs that work in conjunction with software systems to provide integrated event monitoring and reporting services for machine-to-machine (M2M) applications. M2M applications take advantage of wireless networks to improve process efficiency in areas such as supply chain management, security monitoring, meter reading, vehicle tracking and many other commercial and industrial situations.

COMPANY STRATEGY

Strategically, Telular is focused on M2M market segments in which the Company can provide a differentiated product and service offering using wireless networks to facilitate supply chain efficiencies. Telular invests in solutions that uniquely meet a customer's need to utilize remote telemetry using technology similar to its market-leading TELGUARD security solution. In addition, Telular continues to sell FCT products that function on a standalone basis and enable end users to transmit voice, data and fax information over commercial wireless networks.

The most recent M2M application currently offered by the Company is tank level monitoring. Through its October 2008 acquisition of SupplyNet Communications, Inc., Telular added approximately 13,000 tanks to its subscription base for monitoring services. The Telular tank monitoring solution, TankLink, combines a specially designed cellular communicator, wireless data services and a web-based application into a single offering which allows end-users to remotely monitor the level of product contained in each tank vessel. This information commonly feeds a vendor managed inventory (VMI) program that improves the efficiency and timeliness of product delivery while optimizing the amount of product held by customers at any given time. Most of the Company's existing tank monitoring systems are installed in the fuels and lubricants space. Additional market segments served include industrial chemicals, food additives, and waste water treatment.

The Company's TELGUARD products and service generate a majority of Telular's revenue. TELGUARD service combines a specialized terminal unit with Telular's message center to provide real-time transport of alarm signals from residential and commercial locations to an alarm company's central monitoring station. Alarm monitoring companies purchase the products and cellular service from Telular and resell them to end users in order to provide a wireless backup for the conveyance of alarm signals, which are typically sent over traditional wireline phone networks. Increasingly, the Company's TELGUARD solution is being used as the primary means for the transmission of alarm signals as end users eliminate traditional phone lines in favor of voice-over-IP (VoIP) over broadband and cellular telephones.

Telular's standalone FCT business targets both commercial and residential consumers, who use FCTs for voice, fax, and Internet access over the wireless networks. Distribution outside the United States is typically through direct sales to large wireless carriers who certify the FCT equipment for use on their networks and then sell and distribute FCT products directly to end users through their existing distribution channels for wireless handsets. At its most basic level, an FCT allows users to simultaneously plug in a standard telephone, fax machine and a computer data line, which the FCT then makes functional over the wireless phone network. In the United States, FCTs are most often used for remote or mobile applications in which cellular service is available but broadband Internet connectivity is not. For example, FCTs are used by public safety agencies to provide connectivity for mobile command centers. In Latin America, Telular FCTs are used

more extensively due to the fact that traditional wireline telephone and broadband networks were not built as extensively as in the United States, but cellular systems have been widely implemented. One key application for FCTs in Latin America is for Least Cost Routing (LCR). LCR is the process of routing calls according to the most favorable tariff rates. An FCT enables a private branch exchange (PBX) to consider cellular rates while computing the lowest possible tariff for an outbound phone call.

Telular operates as a single-segment enterprise for financial reporting purposes. For financial information about geographic areas, see “Note 14. Major Customers” and “Note 15. Export Sales” to the consolidated financial statements of Telular set forth in Item 8 of this Form 10-K.

GEOGRAPHICAL MARKETS

Currently, the vast majority of M2M tank applications served by Telular are located within the United States. These installations span the entire country and the Company expects to expand over time into other countries, particularly in Latin America where it has strong relationships with the leading wireless carriers.

TELGUARD products and service are currently sold only in the United States, although the Company plans to expand service to other North American countries during fiscal 2009.

The Company currently focuses its FCT sales efforts in North and South America, but also has sales in Africa, Asia and the Middle East.

TECHNOLOGY

Integral to our success in the FCT space is our experience in creating intelligent interfaces enabling ordinary telecommunications equipment to operate on wireless phone networks. Bridging the gap between wireline customer premises equipment and cellular networks, the intelligent interface provides Telular’s products with the “look and feel” of the wireline network, providing critical communications and security needs in a variety of environments. The lack of dial tone on the cellular network is a key difference from the wireline network. The generation of a standard dial tone, along with off-hook signal detection and other common wireline signals, are key benefits provided by our products.

RESEARCH AND DEVELOPMENT AND PRODUCT LINES

Telular has built a core competency in developing products which enable devices such as standard telephones, fax machines and computers to utilize both GSM-based and CDMA-based wireless phone networks. In addition, our M2M and TELGUARD solutions operate in conjunction with real-time, transaction processing servers which receive data, transform the data, and immediately forward the result to our customers. The M2M tank level monitoring and TELGUARD security solutions are a combination of hardware product design along with software system design. In both cases, the software system is capable of high-volume, real-time transaction processing of mission critical data (security alarms and tank fill levels). Such integrated hardware and software system solutions will be the focus of our research and development activities going forward and will be further applied to the event monitoring space.

Because our products operate on a coordinated basis with wireless phone networks, Telular works closely with major carriers to certify our products on their networks. In many cases, the carriers themselves are our customers and they sell and distribute our products to end users upon certification. Based on this need to work closely with the major wireless phone carriers, Telular has developed strong working relationships with these carriers as customers and solution partners.

Research and development activities sponsored by the Company for the years ended September 30, 2008, 2007, and 2006, were \$4,448, \$6,076, and \$2,636, respectively, and are included in engineering and development expense. There are no customer sponsored research and development activities included in any of those years.

The following details areas of product delivery and research during fiscal 2008 and anticipated in fiscal 2009.

M2M SOLUTIONS – During 2008, Telular developed an integrated, M2M event monitoring system consisting of two new hardware products as well as a message processing engine, database and customer portal. Pending market

development activities in early 2009, the Company expects to further refine this base-level M2M system solution for additional vertical markets. The October 1, 2008, acquisition of SupplyNet Communications, Inc. brought the Company a successful wireless communicator product line for tank level monitoring. Enhancements to this hardware and its supporting message center will be made during 2009.

TELGUARD - Telular's engineering team continues to update the TELGUARD digital product portfolio by addressing the growing demand and technology changes in the electronics security market. In fiscal 2008, Telular re-engineered its message processing system, including the upgrade of all hardware servers on which the system operates. In addition, the Company introduced TELGUARD DIGITAL TG-11 which integrates more directly with key security panels and should improve the Company's competitive position with regard to these panels from both a price and functionality perspective. In fiscal 2009, Telular will further enhance its Telguard services by improving the Telguard online portal and introducing other system enhancements.

TERMINALS – In fiscal 2008, we launched a new FCT called SX7T, which include 3G radio technologies (HSDPA and EVDO). These radio technologies take advantage of the cellular network's evolution to those standards that offer high speed data for improved data networking and faster Internet access. In addition, the new SX6T GSM terminal for 2G networks was introduced in late 2008 and is undergoing certification testing at numerous potential carrier customers. The Company currently expects to focus its 2009 Terminals development activity on further enhancements to its 2G terminal product line.

SALES, MARKETING SERVICE AND SUPPORT

Domestic Sales

In the United States, Telular markets both its TELGUARD and other FCT products through an Atlanta-based sales group. TELGUARD customers are security system distributors and security service dealers that the Company sells to on a direct basis. The Company utilizes a significant number of manufacturer's representatives to manage approximately 3,500 customer relationships for the Telguard products. Other FCT customers are the large cellular carriers and dealers and Value Added Resellers (VARs) dedicated to niche market applications that the Company sells to on a direct basis. In fiscal 2008, the Company's domestic revenues were \$56,786, or 86% of total revenues.

International Sales

Our international sales team is based in Miami and covers key markets such as Latin America. These markets include significant cellular carrier customers in countries such as Mexico and Venezuela. In addition, Telular has built strong relationships with distributors and VARs in a number of these and other markets. In fiscal 2008, the Company's international revenues were \$9,368, or 14% of total revenues.

Service and Support

Telular believes that providing customers with comprehensive product service and support is critical to maintaining a competitive position in the mobile telecommunications equipment industry. Telular offers warranty and repair service for its products through three primary methods: (1) advance replacement kits shipped with orders, (2) in-house service and technical support, and (3) authorized third-party service centers in various regions of the world.

MAJOR CUSTOMERS

In fiscal 2008, the Company derived 31% of its total revenues from ADT, a major U.S. securities systems provider, and 13% of its total revenue from ADI, a large U.S. distributor of security systems and related products.

MANUFACTURING

Telular's products are manufactured by contract manufacturers in China and the United States who make our products and test them with proprietary testing equipment that Telular provides. We also write manufacturing procedures and conduct comprehensive quality control and quality assurance surveillance during the manufacturing process. Quality programs are

a high priority at Telular and our contract manufacturers are ISO 9001:2000 certified. Telular also contracts with a variety of suppliers to buy several critical components of its products, including certain cellular transceivers.

EXECUTIVE OFFICERS

The executive officers of Telular and their ages as of December 15, 2008 are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Joseph A. Beatty	45	President, Chief Executive Officer and Director
Jonathan M. Charak	39	Senior Vice President, Chief Financial Officer and Secretary
George S. Brody	54	Senior Vice President, Telguard and Terminals
Robert L. Deering	50	Controller, Treasurer and Chief Accounting Officer

Joseph A. Beatty has served as President, Chief Executive Officer and Director since January 2008 and Chief Financial Officer and Secretary from May 2007 to March 2008. From June 2003 until June 2006, he was President and Chief Executive Officer of Concourse Communications Group, a privately-held developer and operator of distributed antenna systems and airport Wi-Fi networks. From November 1996 until February 2001, Mr. Beatty was a co-founder and the CFO of Focal Communications Corporation, a competitive local exchange carrier that is now part of Level 3 Communications. Earlier in his career, Mr. Beatty was a securities analyst and also held numerous technical management positions for a local exchange carrier. Mr. Beatty has a BS in Electrical Engineering and an MBA in Finance. In addition, he is a Chartered Financial Analyst.

Jonathan M. Charak has served as Senior Vice President, Chief Financial Officer and Secretary since March 2008. From January 2007 through February 2008, he served as the Chief Financial Officer of Vanderbilt Financial, LLC. From June 2003 through October 2006, Mr. Charak was Chief Financial Officer at Concourse Communications Group, LLC. Prior to that, Mr. Charak served as Chief Financial Officer of Language Stars, LLC and as Controller at iFulfillment, Inc., both of which were early stage high growth companies. Mr. Charak began his career with 9 years of experience in the audit practice of Arthur Andersen LLP. Mr. Charak has a B.S. degree in Accounting from Indiana University and has a CPA certificate.

George S. Brody has served as Senior Vice President, Telguard and Terminals since June 2003. Previously, Mr. Brody worked as a consultant in the telecommunications industry from 2002 to 2003. From 2000 to 2002, Mr. Brody was Vice President of Sales and Marketing for Evolution Networks, Inc. From 1995 to 2000, Mr. Brody served as Vice President, Sales and Marketing for Philips Electronics. Prior to that he was Vice President, Worldwide Marketing for Burle Industries (1987-1995). Mr. Brody began his career at RCA in 1978.

Robert L. Deering was appointed Controller, Treasurer and Chief Accounting Officer in October 2005. Mr. Deering had previously been the Corporate Controller for VASCO Data Security International, Inc. from June 2002 to October 2005. Prior to that he was the Controller for various technology and manufacturing companies. Mr. Deering began his career in public accounting at PricewaterhouseCoopers in 1979. He has a BA in Accounting and has a CPA certificate.

EMPLOYEES

The Company has 85 full time employees, of which 43% are in sales, customer service and marketing, 12% in manufacturing support, 27% in engineering and product development and 18% in finance and administration. None of the Company's employees are represented by organized labor.

COMPETITION

Telular believes its advantages over the competition include:

Better focus/commitment –Telular's only business is Fixed Cellular Terminals and related event monitoring services. Many of our largest competitors sell a much broader line of equipment, software and services.

More experience – Telular has been in the Fixed Cellular business for 20 years. We have deployed FCTs in more than 130 countries worldwide, reflecting the quality, reliability and innovation of our products.

Broader product line – Telular offers products that operate on the world’s major cellular air-interface standards and is developing additional products for the latest generation, 3G networks.

Service and support – Telular provides customers with comprehensive product service and support. It is our commitment to providing superior quality and service that differentiates us from our competition.

There are several firms that compete with the Company’s TELGUARD products and services. These primary competitors include: Honeywell, Numerex, DSC and Alarm.com. Telular believes it has a significant portion of the market share for digital cellular alarm communicators, having introduced the first such device in March 2006. Demand for digital communicators has increased markedly since mid-2007, although it is difficult to predict whether this increased demand is sustainable over the long term.

Telular’s TELGUARD hardware products will only interface with the Company’s proprietary message center, which interprets and forwards any alarms received to the Company’s security monitoring customers in near real-time. The Company believes its competitive advantages for this service are the fact that its hardware products interface with the vast majority of alarm panels on the market and that installers can quickly activate the hardware and service.

With regard to the other terminal products sold by Telular, there are a large number of competitors that manufacture and sell FCTs. They range from large, global companies such as Ericsson to small, electronics manufacturers in China. Much of the demand for these terminals is outside the United States and demand is concentrated among the large wireless carriers that operate in various countries around the world. Competition is based on reputation, features and pricing. The Company’s products sell well in Latin America and Telular is able to realize an acceptable selling price due to Telular’s reputation for quality products in that region.

The Fixed Cellular industry consists of domestic and international equipment companies, including Ericsson Radio Systems AB, Huawei Technologies Co., Ltd., LG Electronics, ZTE Corporation, Axesstel, Inc., Honeywell International Inc., Tyco International Ltd. and Numerex Corporation.

Telular has granted a license for its patents to Ericsson Radio Systems AB and currently faces competition for FCT sales from Ericsson Radio Systems AB.

PATENTS AND OTHER INTELLECTUAL PROPERTY

PATENTS

With respect to its intelligent interface technology, Telular currently has 25 issued patents that are currently active and 1 pending patent application in the United States, as well as 4 foreign patents (and no pending foreign applications). Telular has successfully defended some of its patents in court. These law suits have not had a material effect on the Company’s financial position.

Although Telular believes its intelligent interface can be adapted to accommodate emerging wireless technologies, there can be no assurance that these new applications will fall within the scope of the existing patent protection.

TRADEMARKS AND OTHER PROPRIETARY INFORMATION

Telular has 7 registered U.S. trademarks, which are: Telular (block), TELULAR plus design, CELJACK, Hexagon Logo, PHONECELL, TELGUARD and WiPATH. Telular has 1 new pending US trademark application (for “Lose the Line Keep the Connection”). In addition, Telular has 4 registered Mexican trademarks covering the names and logos used for some of its products. Telular has a total of 29 foreign trademark registrations and 1 foreign application.

AVAILABLE INFORMATION

Internet Address

Telular's Internet address is www.telular.com.

Filings with the Securities and Exchange Commission

Telular makes available free of charge through a link on its Internet website its Code of Ethics, Audit Committee Charter, Compensation Committee Charter, Nominating and Governance Committee Charter, annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13 (a) or 15 (d) of the Exchange Act as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission.

ITEM 1A. RISK FACTORS

Telular hereby incorporates by reference the risk factors included in Exhibit 99, Cautionary Statements, filed as an exhibit to this annual report on Form 10-K.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following is a list of properties that Telular leases:

	Functions	Location	Lease Dates		Square Footage	Renewal Options
			Commencement	Termination		
Corporate Headquarters	Sales, marketing, operations administration, finance and general administrations	Chicago, Illinois	February 2007	February 2014	11,700	No
Terminal and Security Products Operations and Engineering	Sales, marketing, operations and general administration for terminal products and product research and development	Atlanta, Georgia	November 2007	December 2012	15,154	No
International Sales Office	Sales	Weston, Florida	October 1999	December 2009	1,700	Yes

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in legal proceedings, which 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, cash flows or financial position.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended September 30, 2008.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET PRICE OF AND DIVIDENDS ON COMMON STOCK

The Company's Common Stock trades publicly on the NASDAQ National Market System under the symbol WRLS. The following table sets forth the quarterly high and low sales prices for each quarter of fiscal year 2008 and 2007, as reported by NASDAQ. Such quotations reflect inter-dealer prices without retail markup, markdown or commissions and may not necessarily represent actual transactions.

	QUARTER ENDED DURING FISCAL YEAR 2008			
	<u>December 31</u>	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>
High	\$8.59	\$6.84	\$3.88	\$3.89
Low	\$5.47	\$2.50	\$2.78	\$1.99

	QUARTER ENDED DURING FISCAL YEAR 2007			
	<u>December 31</u>	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>
High	\$4.22	\$4.37	\$5.10	\$7.50
Low	\$2.00	\$3.23	\$3.07	\$4.55

On December 8, 2008, there were approximately 239 shareholders of record, approximately 5,409 beneficial shareholders and 18,466,876 shares of Common Stock outstanding. The Company has not paid any dividends since its inception and does not intend to pay any dividends on its Common Stock in the foreseeable future.

TREASURY SHARES

On July 25, 2008, the Company's Board authorized the purchase of up to \$5,000,000 of Telular's Common Stock at prices to be determined at management's discretion. During the fourth quarter of fiscal 2008, the Company purchased 383,207 shares of Telular's Common Stock as follows:

Issuer Purchase of Equity Securities		
<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>
August 2008 (August 7 - August 25)	383,207	\$ 2.94

TELULAR CORPORATION COMMON STOCK PERFORMANCE GRAPH

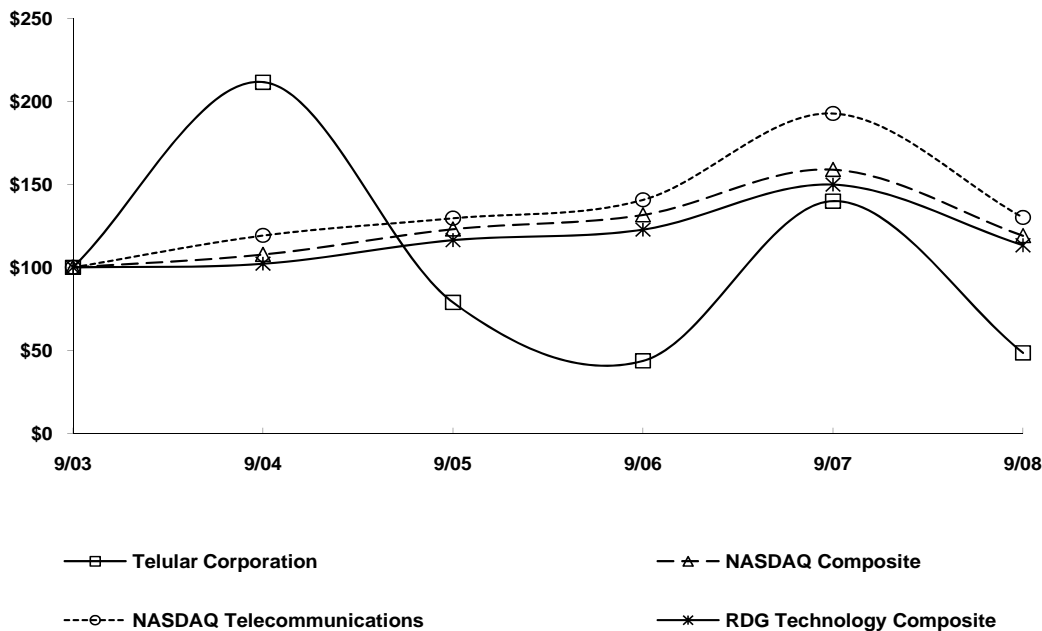
The following Performance Graph and related information shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.

The Telular Corporation Common Stock Performance Graph compares total shareholder returns of the Company since September 30, 2003, to three indices: the NASDAQ Stock Market (U.S.) Index, the NASDAQ Telecommunications Index and the Research Data Group (RDG) Technology Composite Index. The total return calculations assume the reinvestment of dividends, although dividends have never been declared for the Company's stock, and are based on the returns of the component companies weighted according to their capitalizations as of the end of each monthly period. The NASDAQ Stock Market (U.S.) Index tracks the aggregate return of all equity securities traded on the NASDAQ National Market System (the NMS). The NASDAQ Telecommunications Index tracks the aggregate return of equity securities of telecommunications companies traded on the NASDAQ National Market System (the NMS). The Research Data Group Technology Index tracks the aggregate return of technology companies, including electronics, medical and other related technology industries.

The Company's Common Stock is traded on the NMS and is a component of the NASDAQ Stock Market (U.S.) Index. The Company's stock price on the last trading day of its fiscal year, September 30, 2008, was \$2.41.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Telular Corporation, The Nasdaq Composite Index,
The Nasdaq Composite Index And The RDG Technology Composite Index



*\$100 invested on 9/30/03 in stock & index-including reinvestment of dividends.
Fiscal year ending September 30.

ITEM 6. SELECTED FINANCIAL DATA

The following table is a summary of certain condensed statement of operations and balance sheet information of the Company. The table lists historical financial data of the Company for the fiscal years ended September 30, 2008, 2007, 2006, 2005 and 2004. The selected financial data were derived from audited financial statements. The summary should be read in conjunction with financial statements and notes thereto appearing in Item 8 of this report.

	Year ended September 30,				
	(In thousands, except share data)				
	2008 (a)	2007 (a)	2006	2005	2004
Results of Operations:					
Total revenue	\$ 66,154	\$ 74,507	\$ 45,706	\$ 33,489	\$ 49,578
Income (loss) from continuing operations	6,101	5,625	(644)	(4,507)	2,105
Income (loss) from discontinued operations	(7,480)	(7,571)	(11,174)	(6,375)	(2,808)
Net loss	\$ (1,379)	\$ (1,946)	\$ (11,818)	\$ (10,882)	\$ (703)
Per Share Data:					
Basic and dilutive:					
Income (loss) from continuing operations	\$ 0.32	\$ 0.31	\$ (0.04)	\$ (0.34)	\$ 0.16
Income (loss) from discontinued operations	\$ (0.39)	\$ (0.42)	\$ (0.66)	\$ (0.47)	\$ (0.21)
Net loss	\$ (0.07)	\$ (0.11)	\$ (0.70)	\$ (0.81)	\$ (0.05)
As of September 30 - balance sheet data:					
Total assets	\$ 47,969	\$ 55,608	\$ 57,937	\$ 53,499	\$ 54,366
Current loans payable	-	-	3,313	-	-
Stockholders' equity	40,167	38,366	38,812	43,792	44,801

(a) In July 2007, the Company formulated a plan to sell the net assets of its FCP segment and exit the fixed cellular phone market. During the third quarter of fiscal 2008, the Company determined it would be unable to secure a buyer for the FCP segment and made a strategic decision to abandon the FCP segment effective June 30, 2008. As a result, the FCP segment has been segregated and classified as discontinued operations and amounts for all periods presented have been restated to reflect this classification.

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

INTRODUCTION

Telular Corporation (Telular or the Company) designs, develops, and distributes products and services that utilize wireless networks to provide data and voice connectivity among people and machines. Telular's product and service offerings take advantage of the pervasiveness and data transport capabilities of wireless phone networks in order to replace functionality historically provided by wireline communications networks. Bridging the gap between traditional, wireline equipment and wireless phone networks, the Company's products and services replace the wireline network while providing the added flexibility and security of wireless connectivity.

The Company generates most of its revenue by designing, producing and selling products and through the delivery of machine-to-machine (M2M) and event monitoring services, such as its TELGUARD service, which can be included with certain of the Company's terminal products. In addition, the Company distributes its standalone Fixed Cellular Terminal

(FCT) products in Latin America and the United States. Telular recognizes revenue when its products ship from various manufacturing locations to customers and when services are performed. Although the Company has a wide base of customers in the Western Hemisphere, much of its revenue is generated from a small number of major customers and via 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 quarter do not occur as expected, expenditure and inventory levels could be disproportionately high, and the Company's operating results for that quarter, and potentially for future quarters, could be adversely affected. Certain factors that could significantly impact expected results are described in Cautionary Statements that are set forth in Exhibit 99.

The market for the Company's products is primarily in North and South America and consists of a number of vertical applications ranging from wireless residential and commercial alarm systems addressed by TELGUARD to Internet access provided by PHONECELL FCTs. The FCT market is addressed primarily through indirect channels consisting of distributors, representatives and agents along with in-house sales and customer support teams. A direct sales model is utilized for certain large customers.

During June 2008, Telular abandoned its Fixed Cellular Phone (FCP) segment after unsuccessfully marketing this unit for sale. Many of the segment's assets were parts and finished goods inventory which were sold prior to abandonment of the segment on June 30, 2008. Currently, Telular is collecting certain receivables owed as a result of FCP product sales during 2008.

The Company believes that its future success depends on its ability to continue to meet customers' needs through product innovation, including the creation of event monitoring services that can be sold with products. Research and development activities sponsored by the Company for the years ended September 30, 2008, 2007 and 2006 were \$4,448, \$6,076 and \$2,636, respectively.

Telular's engineering team continues to develop M2M hardware products and software systems and to expand the TELGUARD digital product portfolio by addressing the growing demand and technology changes in the electronics security market. In fiscal 2008, the Company has designed and developed the TELGUARD DIGITAL TG-11 model for certain vendor panels in the security industry. In addition, Telular completed development of the SX7T terminal, which will carry voice, data, and fax services over 3G wireless networks. The Company is also devoting resources in marketing and engineering to research, specify and develop products and services for additional event monitoring applications outside of the security industry.

Fabrication of Telular's products is accomplished through contract manufacturing. Contract manufacturers in China and the United States make and test all hardware products.

The Fixed Cellular industry consists of domestic and international equipment companies, including Ericsson Radio Systems AB, Huawei Technologies Co., Ltd., LG Electronics, ZTE Corporation, Axesstel, Inc., Honeywell International Inc., Tyco International Ltd. and Numerex Corporation.

Telular has granted a license for its patents to Ericsson Radio Systems AB and currently faces competition for FCT sales from Ericsson.

With respect to its interface technology, the Company currently has 25 issued patents and 1 pending patent applications in the United States, as well as 4 issued foreign patents. The Company has successfully defended some of its patents in court.

RESULTS OF OPERATIONS
(In Thousands, Except Share Data)

Fiscal Year 2008 Compared to Fiscal Year 2007

Revenues and Costs of Sales

	<u>2008</u>	<u>2007</u>	<u>Change</u>	
			<u>Amount</u>	<u>Percentage</u>
Net product sales				
Telguard	\$ 28,391	\$ 40,694	\$ (12,303)	-30%
Terminal	<u>17,542</u>	<u>16,442</u>	<u>1,100</u>	7%
Total product revenues	45,933	57,136	(11,203)	-20%
Service revenues	<u>20,221</u>	<u>17,371</u>	<u>2,850</u>	16%
Total revenues	66,154	74,507	(8,353)	-11%
Cost of sales				
Products	31,805	40,539	(8,734)	-22%
Services	<u>9,817</u>	<u>9,169</u>	<u>648</u>	7%
	<u>41,622</u>	<u>49,708</u>	<u>(8,086)</u>	-16%
Gross margin	<u>\$ 24,532</u>	<u>\$ 24,799</u>	<u>\$ (267)</u>	

Revenues

Total product revenues decreased 20% in fiscal 2008 due to decreased sales of our Telguard products. Our dealers and distributors increased their inventory during the fourth quarter of fiscal 2007 and the first two quarters of fiscal year 2008 anticipating a stronger demand to convert from analog to digital. As that demand waned and the housing market continued to weaken, our customers reduced their purchases during the last half of fiscal 2008. Terminal product sales increased primarily due to sales increases in the domestic market.

The increase in service revenues is a result of the increase in the activation of monitoring services related to additional Telguard unit sales in the fourth quarter of fiscal 2007 and the first six months of fiscal 2008. Activations, which are dependent on Telguard unit installations, will lag behind the sales of those units.

Cost of Sales

Total cost of sales decreased 16% in fiscal 2008. This was due to both a decrease in the volume of sales and to decreased cost of manufacturing products and delivering services.

Product cost of sales as a percentage of revenues was 69% for fiscal 2008 as compared to 71% for fiscal 2007. This 2% decrease was attributed to decreased manufacturing costs.

Service cost of sales as a percentage of revenue decreased from 53% in fiscal 2007 to 49% in fiscal 2008. This was primarily due to the lower cost of providing digital services as a result of the transition from analog services.

Operating Expenses

	<u>2008</u>	<u>2007</u>	<u>Change</u>		<u>% of Revenues</u>	
			<u>Amount</u>	<u>Percentage</u>	<u>2008</u>	<u>2007</u>
Engineering and development	\$ 5,171	\$ 6,930	\$ (1,759)	-25%	8%	9%
Selling and marketing	6,287	6,157	130	2%	9%	8%
General and administrative	7,283	6,114	1,169	19%	11%	8%
	<u>\$18,741</u>	<u>\$ 19,201</u>	<u>\$ (460)</u>		<u>28%</u>	<u>25%</u>

Engineering and Development

The decrease of 25% in engineering and development costs was primarily due to a reduction in payroll related expenses of \$1,578, a reduction of \$144 in facility costs as a result of moving the engineering function from New York to Atlanta, and a reduction in prototype and supplies costs of \$261, partially offset by an increase of \$224 in recruiting cost to replace engineers who did not move to Atlanta. Payroll related costs decreased in fiscal 2008 because of the elimination of one-time expenses in fiscal 2007 related to costs associated with a reduction in workforce of \$661 and savings from reduced engineering staff of \$917.

Selling and Marketing

Selling and marketing costs increased 2% in fiscal 2008 primarily due to increased payroll related expenses of \$780 from increased staff in marketing, sales and product support, a \$158 increase in facility costs as a result of moving to a new location in Atlanta and an increase of \$172 in targeted co-op marketing expenses related to the Telguard products, partially offset by a decrease in external commissions of \$980 related to reduced sales volumes.

General and Administrative (G&A)

G&A costs increased 19% in fiscal 2008 primarily due to increased legal and professional fees of \$538, increased payroll related costs of \$450 as a result of severance paid to terminated officers and non-cash compensation related to stock option modifications, an \$89 increase in bank fees and insurance costs, partially offset by a decrease in facility costs as a result of moving the corporate headquarters to Chicago.

Other Income

Other income for fiscal 2008 increased by \$283 compared to fiscal 2007. This increase was primarily due to a \$139 increase in interest income as a result of increased cash balances throughout the year, a decrease in interest expense of \$105 as a result of reducing the Company's borrowings to \$0 and a \$39 decrease in various other miscellaneous expense items during the year.

Income Taxes

The Company recorded no income tax benefit for both fiscal years 2008 and 2007 due to the uncertainty of the realizability of its deferred tax assets.

Discontinued Operations

The loss from discontinued operations of \$7,480 for the fiscal 2008 decreased \$91 from a loss of \$7,571 for fiscal 2007. Sales decreased significantly as the Company exited the FCP market and sold its remaining inventory. During the third quarter of fiscal 2008, the Company determined that it would be unable to find a buyer for the FCP business unit. As a result, the Company made a strategic decision to abandon the FCP business unit effective June 30, 2008. The majority of the assets of the business have been disposed of. The remaining assets consist of trade accounts receivable of \$4,583, inventory held for warranty purposes, which has been fully reserved for, and \$126 of test equipment which the Company intends to sell at auction. The following table summarizes the activity of the discontinued operations for the fiscal years 2008 and 2007. Also, see Note 3 of the Notes to Consolidated Financial Statements.

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>Percentage</u>
Revenues	\$ 7,544	\$ 20,931	\$ (13,387)	-64%
Cost of sales	<u>11,252</u>	<u>20,357</u>	<u>(9,105)</u>	-45%
Gross margin	(3,708)	574	(4,282)	
Engineering and development	-	723	(723)	-100%
Selling and marketing	767	3,313	(2,546)	-77%
Amortization	-	3,149	(3,149)	-100%
Impairment loss	1,711	563	1,148	204%
Loss on asset disposals	1,083	-	1,083	> 100%
Other	211	397	(186)	-47%
	<u>\$ (7,480)</u>	<u>\$ (7,571)</u>	<u>\$ 91</u>	

Net Loss

The Company recorded a net loss of \$1,379 or \$0.07 per share for fiscal 2008 compared to a net loss of \$1,946 or \$0.11 per share for fiscal 2007. The decrease in net loss was primarily due to the result of increased margins due to improved product mix and a reduction of manufacturing cost and containment of operational costs.

Fiscal Year 2007 Compared to Fiscal Year 2006

Revenues and Costs of Sales

	<u>2007</u>	<u>2006</u>	<u>Change</u>	
			<u>Amount</u>	<u>Percentage</u>
Net product sales				
Telguard	\$40,694	\$ 21,630	\$ 19,064	88%
Terminal	16,442	12,932	3,510	27%
Total product revenues	<u>57,136</u>	<u>34,562</u>	<u>22,574</u>	65%
Service revenues	17,371	11,144	6,227	56%
Total revenues	<u>74,507</u>	<u>45,706</u>	<u>28,801</u>	63%
Cost of sales				
Products	40,539	26,175	14,364	55%
Services	9,169	5,937	3,232	54%
	<u>49,708</u>	<u>32,112</u>	<u>17,596</u>	55%
Gross margin	<u>\$24,799</u>	<u>\$ 13,594</u>	<u>\$ 11,205</u>	

Revenues

Total product revenues increased 65% in fiscal year 2007 as compared to fiscal year 2006, reflecting increases in sales of both Telguard and terminal products. The increase in sales of Telguard products is due to increased market penetration and an increase in the number of customers switching from analog security devices to digital. The increase in terminal product sales reflects increased sales volume in the Central American/Latin American (CALA) and United States markets.

The increase in service revenue is a result of the increase in the activation of monitoring services related to additional Telguard unit sales.

Cost of Sales

The increase in cost of sales in fiscal year 2007 as compared fiscal year 2006 represents a combination of increased sales volume and a better product mix. As a percentage of revenues, cost of sales declined to 67% in fiscal 2007 from 70% in fiscal 2006, reflecting the increase in sales of the lower cost Telguard digital products.

Operating Expenses

	2007	2006	Change		% of Revenues	
			Amount	Percentage	2007	2006
Engineering and development	\$ 6,930	\$ 3,935	\$ 2,995	76%	9%	9%
Selling and marketing	6,157	4,575	1,582	35%	8%	10%
General and administrative	6,114	6,101	13	< 1%	8%	13%
	<u>\$ 19,201</u>	<u>\$ 14,611</u>	<u>\$ 4,590</u>		<u>25%</u>	<u>32%</u>

Engineering and Development

The increase of 76% in engineering and development costs reflects increased expenditures related to the development of new products in both the Telguard and terminal product lines and to improvements in the technologies incorporated in existing product. Engineering and development expenses were 9% of total revenues in each fiscal year.

Selling and Marketing

Selling and marketing expenses increased 35% primarily due to increased salary expenses of \$690 related to technical support and internal marketing personnel, increased commission expenses of \$320, both for internal sales representatives and independent agents, as a result of increased product sales, increased co-op marketing expenses of \$350, related specifically to products, increased professional fees related to product repairs of \$205 and a \$17 increase in various expenses. As a percentage of revenues, selling and marketing expenses declined to 8% in fiscal 2007 from 10% in fiscal 2006.

General and Administrative (G&A)

G&A expenses increased slightly in fiscal year 2007 as compared to fiscal year 2006. In 2007, the Company increased expenditures related to professional fees and realized savings from the elimination of manufacturing overhead, which was charged to G&A in fiscal 2006, as a result of cessation of manufacturing operations at the Company's headquarters during fiscal 2006. Additionally, facility and phone expenses declined, year over year, following the move to the new corporate headquarters in February 2007. G&A expenses also declined as a percentage of revenue from 13% to 8%.

Other Income

Other income for fiscal year 2007 is comprised of interest income of \$279 offset by interest expense of \$107 and franchise taxes of \$145. Other income decreased by \$346 over fiscal year 2006 primarily due to a settlement of a 2001 insurance claim in fiscal year 2006.

Income Taxes

The Company recorded no income tax benefit for both fiscal years 2007 and 2006 due to the uncertainty of the realizability of its deferred tax assets.

Discontinued Operations

In fiscal 2007, the Company formulated a plan to sell the net assets of its FCP segment and exit the fixed cellular phone market. The loss from discontinued operations decreased in fiscal 2007 by \$3,603, or 32%, primarily due to the reduction of operating expenses from \$15,256 in fiscal year 2006 to \$8,145 in fiscal year 2007. These reductions were offset by a reduction in sales margin of \$3,508, as a result of reduced selling prices. Operating expenses decreased as a result of a decrease in engineering and development expenses of \$2,899, a reduction in selling and marketing expenses of \$2,670, and a reduction in amortization expense and goodwill impairment charges of \$1,939, offset by an increase in other expenses of \$397. The following table summarizes the activity of the discontinued operations for the fiscal years 2007 and 2006.

	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>Percentage</u>
Revenues	\$ 20,931	\$ 47,394	\$ (26,463)	-56%
Cost of sales	<u>20,357</u>	<u>43,312</u>	<u>(22,955)</u>	-53%
Gross margin	574	4,082	(3,508)	
Engineering and development	723	3,622	(2,899)	-80%
Selling and marketing	3,313	5,983	(2,670)	-45%
Amortization	3,149	1,606	1,543	96%
Impairment loss	563	4,045	(3,482)	-86%
Other	397	-	397	> 100%
	<u>\$ (7,571)</u>	<u>\$ (11,174)</u>	<u>\$ 3,603</u>	

Net Loss

The Company recorded a net loss of \$1,946 or \$0.11 per share for fiscal 2007 compared to a net loss of \$11,818 or \$0.70 per share for fiscal 2006. The decrease in net loss is due primarily to the Company re-aligning its focus in fiscal 2007 on its terminals and Telguard products and services, which have a higher margin contribution than the discontinued phone products.

LIQUIDITY AND CAPITAL RESOURCES

Management regularly reviews the Company's net working capital and available borrowings in addition to its cash and cash equivalent balance to determine if it has enough cash to operate the business. On September 30, 2008, the Company had cash and cash equivalents of \$21,168 and net working capital of \$36,009, compared to cash and cash equivalents of \$10,254 and net working capital of \$34,642 a year earlier. The Company can draw upon a Loan and Security Agreement with SVB Silicon Valley Bank (SVB) that provides an aggregate working capital line of credit up to \$10,000. Management expects trade accounts receivable and inventory to turn into cash in short periods of time. As such, given the level of cash and cash equivalents, trade accounts receivable, inventory and available borrowings, management believes the Company has adequate resources to fund current and planned operations. The tables below discuss the liquidity components of continuing operations for fiscal years 2008 and 2007.

Fiscal 2008

The Company generated cash of \$7,084 from continuing operations during fiscal year 2008 compared to cash generated of \$1,566 during the same period of fiscal 2007. The components of the change for fiscal 2008 are as follows:

\$ 6,101	Income from continuing operations; cash provided.
2,388	Non-cash expenses: \$1,705 from stock based compensation; \$674 depreciation expenses; \$9 loss on disposal of fixed assets.
12,819	The decrease in trade accounts receivable is due primarily to the collection during the period of outstanding balances at September 30, 2007 and timely customer payments on sales made during fiscal 2008.
(6,507)	The increase in inventory reflects the buildup of Telguard and terminal inventory as the Company anticipated stronger sales in the fourth quarter of fiscal 2008. Inventory levels decreased substantially in the fourth quarter of fiscal 2007 as a result large sale of Telguard units to customers who were anticipating the conversion of cellular networks to digital from analog.
(6,913)	Trade accounts payable primarily consists of amounts due to Telular's contract manufacturers. To assure timely production of inventory to meet customers needs, these accounts are kept current. That process, in addition to the payments made to our contract manufacturers in the first quarter of fiscal 2008 for the production to support the increased sales in the fourth quarter of fiscal 2007, led to the reduction in trade accounts payable.
(804)	Net cash used in other working capital items primarily due to a \$850 increase in notes receivable related to a temporary cash advance to related party. The note receivable has been repaid in October 2008.
<u>\$ 7,084</u>	Total cash provided by continuing operations

Fiscal 2007

The Company generated cash of \$1,566 from continuing operations during fiscal year 2007 compared to cash used of \$886 during the same period of fiscal 2006. The components of the change for fiscal 2007 are as follows:

\$ 5,625	Income from continuing operations; cash provided.
1,716	Non-cash expenses: \$924 from stock based compensation; \$732 depreciation expenses; \$60 loss on disposal of fixed assets.
(8,403)	The increase in trade accounts receivable is due primarily to the increased sales volume; a 64% increase in fourth quarter fiscal 2007 sales over the same period of fiscal 2006.
(1,023)	The increase in inventory reflects the buildup of Telguard and terminal inventory in response to increased customer demand in the fourth quarter of fiscal 2007.
2,497	Trade accounts payable primarily consists of amounts due to Telular's contract manufacturers. The increase is due to increased production as a result of significant sales increase in the fourth quarter of fiscal 2007.
1,154	Net cash provided by other working capital items primarily due to a \$973 increase in accrued liabilities resulting from liabilities that fluctuate directly with sales volumes such as internal and external commissions.
<u>\$ 1,566</u>	Total cash provided by continuing operations

The Company generally requires its foreign customers to prepay, obtain letters of credit or qualify for export credit insurance underwritten by third party credit insurance companies prior to making international shipments. Such prepayments, letters of credit and credit insurance are not obtained for orders from our Venezuelan customers, which may represent a material portion of customer receivables at any given time. Also, to mitigate the effects of currency fluctuations on the Company's results of operations, the Company conducts all of its international transactions in US dollars.

The following table sets forth our total contractual cash obligations as of September 30, 2008:

Contractual Cash Obligations	Total	Payments Due by Period			
		Less than 1 year	1-3 years	4-5 years	After 5 years
Operating leases	\$ 3,785	\$ 716	\$ 2,225	\$ 783	\$ 61
Purchase Commitments	5,190	5,190	-	-	-
Total contractual cash obligations	<u>\$ 8,975</u>	<u>\$ 5,906</u>	<u>\$ 2,225</u>	<u>\$ 783</u>	<u>\$ 61</u>

Purchase commitments are for purchases made in the normal course of business to meet operational requirements, consisting primarily of raw materials and finished goods inventory. The Company expects to satisfy these commitments primarily from cash from the revenues generated by the delivery of backlogged orders.

CRITICAL ACCOUNTING POLICIES

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

On an on-going basis, management evaluates its estimates and judgments, including those related to the net realizable value of inventories and intangible assets. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies, among others, affect the presentation of the Company's financial condition and results of operations

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make payment for products and services. The Company evaluates the collectability of customer receivables by considering the payment history and the financial stability of its customers. If the Company believes that an account receivable may not be collected, a charge is recorded. The Company maintains trade accounts receivable in both continuing and discontinued operations. At September 30, 2008 and 2007, the allowance for doubtful accounts related to trades accounts receivable from continuing operations was \$39 and \$40, respectively.

Reserve for Obsolescence

Significant management judgment is required to determine the reserve for obsolete or excess inventory. The Company generally 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 September 30, 2008 and 2007, the inventory reserves were \$84 and \$551, 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 goodwill at least annually or whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. 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 terminals 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 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, due to uncertainty in the realizability of such deferred tax assets. Future profitable operations and changes in the Company's expectations could result in significant adjustments to the valuation allowances, which would significantly impact the Company's net income.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The discussion of recently issued accounting pronouncements is hereby incorporated by reference from Item 8, notes to consolidated financial statements.

OUTLOOK

The statements contained in this outlook are based on current expectations. These statements are forward looking, and actual results may differ materially.

The Company expects to expend most of its market and product development resources on the M2M space, while continuing to capitalize on its favorable market position in the domestic security alarm market by virtue of its well-regarded TELGUARD offering. Due to uncertainties in international markets and pending new product introductions, the Company is unable to forecast results and resource allocations for FCT products.

The amount and frequency of product shipments to the Company's largest customers depends on many factors, including market conditions and agreements with other suppliers. The outcome of pending and future negotiations for orders with such customers and the timing of shipments may have a significant impact on the Company's future revenues and profitability.

FORWARD-LOOKING INFORMATION

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Company also includes certain estimates, projections and other forward-looking statements in its reports and in other publicly available material. Statements regarding expectations, including performance assumptions and estimates relating to capital requirements, as well as other statements that are not historical facts, are forwarding-looking statements.

These statements reflect management's judgments based on currently available information and involve a number of risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. With respect to these forward-looking statements, management has made assumptions regarding, among other things, customer growth and retention, pricing, operating costs and the economic environment.

The words "estimate", "project", "intend", "expect", "believe", "target" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are found throughout Management's Discussion and Analysis. The reader should not place undue reliance on forward-looking statements, which speak only as of the date of this report. The Company is not obligated to publicly release any revisions to forward-looking statements to reflect events after the date of this report or unforeseen events. Other risks and uncertainties are discussed in Exhibit 99 to this 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company frequently invests available cash and cash equivalents in short term instruments such as certificates of deposit, commercial paper and money market accounts. Although the rate of interest paid on such investments may fluctuate over time, each of the Company's investments is made at a fixed interest rate over the duration of the investment. All of these investments have maturities of less than 90 days. The Company believes its exposure to market risk fluctuations for these investments is not material as of September 30, 2008.

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of trade accounts receivable. To reduce its exposure to the credit risks of international customers, the Company generally seeks payment prior to shipment, receives irrevocable letters of credit that are confirmed by U.S. banks, or purchases commercial credit insurance. In some instances, the Company extends credit to foreign customers without the protection of prepayment, letters of credit or credit insurance. The Company performs ongoing credit evaluations and charges amounts to operations when they are determined to be uncollectible.

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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

1. The following financial statements are included in this document.

Reports of Independent Registered Public Accounting Firm	22
Consolidated Balance Sheets as of September 30, 2008 and 2007	24
Consolidated Statements of Operations for the years ended September 30, 2008, 2007 and 2006.....	25
Consolidated Statements of Stockholders' Equity for the years ended September 30, 2008, 2007 and 2006.....	26
Consolidated Statements of Cash Flows for the years ended September 30, 2008, 2007 and 2006.....	27
Notes to Consolidated Financial Statements	28

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Telular Corporation

We have audited the accompanying consolidated balance sheets of Telular Corporation as of September 30, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2008. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Telular Corporation at September 30, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 20 to the financial statements, the Company adopted Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in the Current Year Financial Statements* effective October 1, 2006.

We also have audited, in accordance with the standards of the Public Accounting Oversight Board (United States), the effectiveness of Telular Corporation's internal control over financial reporting as of September 30, 2008, based on the criteria established in the *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated December 10, 2008 expressed an unqualified opinion thereon.

Chicago, Illinois
December 10, 2008

The image shows a handwritten signature in black ink that reads "Ernst + Young LLP". The signature is written in a cursive, flowing style.

Ernst & Young LLP

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Telular Corporation

We have audited Telular Corporation's internal control over financial reporting as of September 30, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Telular Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Telular Corporation maintained, in all material respects, effective internal control over financial reporting as of September 30, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Telular Corporation as of September 30, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2008 of Telular Corporation and our report dated December 10, 2008, expressed an unqualified opinion thereon.

Chicago, Illinois
December 10, 2008



Ernst & Young LLP

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

	September 30,	
	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 21,168	\$ 10,254
Restricted cash	-	340
Trade accounts receivable, net	6,904	19,723
Inventories, net	10,007	3,500
Prepaid expenses and other current assets	1,023	108
Assets of discontinued operations	4,709	17,959
Total current assets	43,811	51,884
Property and equipment, net	2,016	1,391
Other assets:		
Goodwill	2,043	2,043
Other	99	290
Total other assets	2,142	2,333
Total assets	\$ 47,969	\$ 55,608
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$ 2,701	\$ 9,614
Accrued liabilities	4,286	4,366
Liabilities of discontinued operations	815	3,262
Total current liabilities	7,802	17,242
Stockholders' equity:		
Common stock; \$.01 par value; 75,000,000 shares authorized; 19,343,819 and 18,524,039 shares issued at September 30, 2008 and 2007, respectively	194	185
Additional paid-in capital	175,456	171,158
Deficit	(134,356)	(132,977)
Treasury stock, at cost; 383,207 and 0 shares at September 30, 2008 and 2007, respectively	(1,127)	-
Total stockholders' equity	40,167	38,366
Total liabilities and stockholders' equity	\$ 47,969	\$ 55,608

See accompanying notes

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

	Year ended September 30,		
	2008	2007	2006
Revenue			
Net product sales	\$ 45,933	\$ 57,136	\$ 34,562
Service revenue	20,221	17,371	11,144
Total revenue	66,154	74,507	45,706
Cost of sales			
Net product cost of sales	31,805	40,539	26,175
Service cost of sales	9,817	9,169	5,937
Total cost of sales	41,622	49,708	32,112
Gross margin	24,532	24,799	13,594
Operating Expenses			
Engineering and development expenses	5,171	6,930	3,935
Selling and marketing expenses	6,287	6,157	4,575
General and administrative expenses	7,283	6,114	6,101
Total operating expenses	18,741	19,201	14,611
Income (loss) from operations	5,791	5,598	(1,017)
Other income, net	310	27	373
Income (loss) from continuing operations before income taxes	6,101	5,625	(644)
Provision for income taxes	-	-	-
Income (loss) from continuing operations	6,101	5,625	(644)
Loss from discontinued operations, net of income taxes	(7,480)	(7,571)	(11,174)
Net loss	\$ (1,379)	\$ (1,946)	\$ (11,818)
Net income (loss) per common share:			
Basic			
Continuing operations	\$ 0.32	\$ 0.31	\$ (0.04)
Discontinued operations	\$ (0.39)	\$ (0.42)	\$ (0.66)
Net loss	\$ (0.07)	\$ (0.11)	\$ (0.70)
Diluted			
Continuing operations	\$ 0.32	\$ 0.31	\$ (0.04)
Discontinued operations	\$ (0.39)	\$ (0.42)	\$ (0.66)
Net loss	\$ (0.07)	\$ (0.11)	\$ (0.70)
Weighted-average number of common shares outstanding:			
Basic	19,145,132	18,211,553	16,903,487
Diluted	19,145,132	18,211,553	16,903,487

See accompanying notes

TELULAR CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(In Thousands)

	Common Stock and Additional Paid-In Capital		Deficit	Treasury Stock		Total Stockholders' Equity
	Amount	Shares		Amount	Shares	
Balance at September 30, 2005	\$ 162,195	16,111	\$ (118,403)	\$ -	-	\$ 43,792
Comprehensive income:						
Net loss for the year ended September 30, 2006	-	-	(11,818)	-	-	(11,818)
Stock issued in connection with purchase of business unit	5,505	1,932	-	-	-	5,505
Cost associated with the sale of common stock in a private placement	(21)	-	-	-	-	(21)
Warrants issued to secure working capital loan	356	-	-	-	-	356
Stock based compensation expense	937	-	-	-	-	937
Stock options exercised	51	20	-	-	-	51
Stock issued in connection with services received	10	3	-	-	-	10
Balance at September 30, 2006	169,033	18,066	(130,221)	-	-	38,812
Cumulative effect of adjustments resulting from the adoption of SAB No. 108						
	-	-	(810)	-	-	(810)
Adjusted balance at October 1, 2006	169,033	18,066	(131,031)	-	-	38,002
Comprehensive income:						
Net loss for the year ended September 30, 2007	-	-	(1,946)	-	-	(1,946)
Stock issued in connection with purchase of business unit	563	151	-	-	-	563
Stock based compensation expense	877	-	-	-	-	877
Stock options exercised	823	288	-	-	-	823
Restricted stock award	47	19	-	-	-	47
Balance at September 30, 2007	171,343	18,524	(132,977)	-	-	38,366
Comprehensive income:						
Net loss for the year ended September 30, 2008	-	-	(1,379)	-	-	(1,379)
Stock based compensation expense	1,653	-	-	-	-	1,653
Stock options exercised	1,807	412	-	-	-	1,807
Warrants exercised	795	395	-	-	-	795
Restricted stock award	52	13	-	-	-	52
Treasury stock purchased	-	-	-	(1,127)	(383)	(1,127)
Balance at September 30, 2008	\$ 175,650	19,344	\$ (134,356)	\$ (1,127)	(383)	\$ 40,167

See accompanying notes

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

	Year ended September 30,		
	2008	2007	2006
Operating Activities:			
Net loss	\$ (1,379)	\$ (1,946)	\$ (11,818)
Less loss from discontinued operations	(7,480)	(7,571)	(11,174)
Income (loss) from continuing operations	<u>6,101</u>	<u>5,625</u>	<u>(644)</u>
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities			
Depreciation	674	732	1,106
Loss on disposal of operating assets	9	60	37
Stock based compensation expense - stock options	1,653	877	937
Stock based compensation expense - restricted stock	52	47	-
Common stock issued for services	-	-	10
Changes in assets and liabilities, net of effects of acquisition:			
Trade accounts receivable	12,819	(8,403)	(6,830)
Inventories	(6,507)	(1,023)	1,661
Prepaid expenses and other assets	(724)	181	182
Trade accounts payable	(6,913)	2,497	3,344
Accrued liabilities	(80)	973	(689)
Net cash provided by (used in) operating activities of continuing operations	<u>7,084</u>	<u>1,566</u>	<u>(886)</u>
Investing Activities:			
Acquisition of property and equipment	(1,090)	(845)	(478)
Decrease (increase) in restricted cash	340	(340)	-
Proceeds from sale of marketable securities	-	-	12,075
Net cash (used in) provided by investing activities of continuing operations	<u>(750)</u>	<u>(1,185)</u>	<u>11,597</u>
Financing Activities:			
Proceeds from working capital line of credit	-	5,737	10,065
Payments on working capital line of credit	-	(9,050)	(6,752)
Expenditures related to the issuance of common stock	-	-	(21)
Proceeds from the exercise of stock options	1,807	823	51
Proceeds from the exercise of warrants	795	-	-
Purchase of treasury stock, at cost	(1,127)	-	-
Net cash provided by (used in) financing activities of continuing operations	<u>1,475</u>	<u>(2,490)</u>	<u>3,343</u>
Cash Flows of Discontinued Operations:			
Net cash provided by (used in) operating activities of discontinued operations	2,799	5,596	(16,781)
Net cash provided by (used in) investing activities of discontinued operations	306	(32)	(497)
Net cash provided by (used in) discontinued operations	<u>3,105</u>	<u>5,564</u>	<u>(17,278)</u>
Net increase (decrease) in cash and cash equivalents	10,914	3,455	(3,224)
Cash and cash equivalents, beginning of period	<u>10,254</u>	<u>6,799</u>	<u>10,023</u>
Cash and cash equivalents, end of period	<u>\$ 21,168</u>	<u>\$ 10,254</u>	<u>\$ 6,799</u>

See accompanying notes

TELULAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Share Data)

1. Description of Business

Telular Corporation (Telular or the Company) designs, develops, and distributes products and services that utilize wireless networks to provide data and voice connectivity among people and machines. Telular's product and service offerings take advantage of the pervasiveness and data transport capabilities of wireless networks in order to facilitate communications among people and machines. Oftentimes, the Company's products and services replace the wireline network while providing the added flexibility of wireless connectivity.

2. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Telular-Adcor Security Products, Inc. and Telular International, Inc. All intercompany balances and transactions have been eliminated.

Revenue Recognition

Product sales and associated costs are recognized at the time of shipment of products which is when title transfers. Service revenue is recognized when the services are performed. Royalty revenue, which is based on a percentage of sales by the licensee, is recognized by the Company upon notification of sales by the licensee.

Cash Equivalents

Cash equivalents consist of highly liquid investments that have maturities of three months or less at the date of purchase. Cash equivalents are stated at cost, which approximates fair value.

Restricted Cash

Beginning in February 2003, the Venezuelan government imposed restrictions on the acquisition and payment of foreign currencies. On June 27, 2007, the Company entered into a Guaranty Agreement (the "Agreement") with Digitel, one of its customers located in Venezuela. Under the Agreement, Digitel recognized its debt to the Company of \$340 related to unpaid invoices and deposited \$340 with the Company. The Agreement stipulated that the funds shall not be applied or used by the Company as total or partial payment of any unpaid invoices unless, within 180 days of the date of the Agreement, payment is not approved and made by the Venezuelan government. Under the Agreement, if such a payment on the unpaid invoice had been made before December 24, 2007, the Company would have been required to return the funds to Digitel.

During the first quarter of fiscal 2008, payment was received for \$269 of the open invoices and the same amount of restricted cash was returned to Digitel. During the second quarter of fiscal 2008, the Company offset the remaining \$71 of the restricted cash against unpaid invoices.

Financial Instruments

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. The credit risks related to cash and cash equivalents are limited to the Company's investments of cash in money market funds and the possibility that the per unit value of these funds may decline below \$1.00. The Company regularly reviews the investments that are included in the money market funds it invests in and, when appropriate, limits its credit risk by diversifying its investments. At September 30, 2008, the Company had approximately 23% of its cash and cash equivalents invested in U.S. Treasury Reserves. Credit risks with respect to trade accounts receivables are limited due to the diversity of customers comprising the Company's customer base. For international sales, the Company generally receives payment in advance of shipment, irrevocable letters of credit that are confirmed by U.S. banks or purchases international credit insurance to reduce its credit risk. The Company performs ongoing credit evaluations and charges amounts to operations when they are determined to be uncollectible.

TELULAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Share Data)

Inventories and Reserve for Obsolescence

Inventories are carried at the lower of cost or market and are charged to cost of sales based on first in, first out (FIFO) costing. The Company records a reserve for obsolete or excess inventory. The Company generally considers inventory quantities greater than a one-year supply based on current year activity as well as any additional specifically identified inventory to be in excess of needs. 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.

Goodwill

The Company accounts for goodwill and intangible assets in accordance with Statement of Financial Accounting Standards 142, "Goodwill and Other Intangible Assets" (SFAS 142). Goodwill represents the excess of cost over fair value of net assets of purchased businesses. The Company does not amortize goodwill. The Company evaluates the impairment of goodwill each year in the third quarter or whenever events or changes in circumstances indicate that the carrying value may not be recoverable based on the fair value of the reporting unit.

The Company reviews for impairment of other intangible assets whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The Company evaluates recoverability of other intangible assets by comparing the carrying amount of the intangible assets to future net undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets calculated using a discounted future cash flow analysis. If one or more of the following indicators of impairment have occurred, the Company measures the impairment based on a projected discounted cash flow using a discount rate that incorporates the risk inherent in the cash.

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for the overall business;
- Significant negative industry or economic trends; and,
- Significant decline in Telular's stock price for a substantial period.

On May 8, 2006, the Company recorded additional goodwill of \$3,534 as a result of the purchase of the fixed wireless division of CSI Wireless, Inc. (CSI). Based upon its June 2006 goodwill impairment test, the Company recorded a goodwill impairment charge of \$4,045 representing all of the goodwill of the fixed cellular phone (FCP) business which, since July 2007, has been accounted for as a discontinued operation (see Note 3).

In the first quarter of fiscal 2007, \$563 of additional purchase price related to the purchase of the fixed wireless division of CSI was recorded as goodwill. The additional goodwill was also deemed to be impaired. Accordingly, the Company recorded a goodwill impairment charge of \$563. The loss on goodwill impairment in fiscal 2007 and 2006 is included in the loss from discontinued operations in the accompanying consolidated statements of operations

Based upon its June 2008 goodwill impairment test, the Company determined that the goodwill of \$2,043 was not impaired.

Intangible Assets

Intangible assets consist of capitalized technology, customer relationships and licensing agreements. These assets are recorded at cost and, prior to July 2007, were being amortized over their estimated lives over a period of 8 months to 5 years, using the straight-line method. All of the intangible assets are part of discontinued operations (see Note 3). Accordingly, the Company ceased amortizing its intangible assets beginning July 1, 2007. All prior amortization expense is included in loss from discontinued operations in the accompanying consolidated statement of operations.

TELULAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Share Data)

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are computed using straight-line methods over the assets' useful lives ranging from 3 to 10 years. Depreciation expense was \$674, \$732 and \$1,106 for 2008, 2007 and 2006, respectively.

Income Taxes

The Company utilizes the liability method of accounting for income taxes whereby it recognizes deferred tax assets and liabilities for future tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets are reduced by a valuation allowance if, based upon management's estimates, it is more likely than not, that a portion of the deferred tax assets will not be realized in a future period. The estimates utilized in the recognition of deferred tax assets are subject to revision in future periods based on new facts or circumstances.

Loss Per Share of Common Stock

Basic loss per share of common stock is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted loss per share of common stock is computed by dividing net loss 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. Weighted average number of shares of common stock outstanding for computation of basic and diluted earnings per share was 19,145,132, 18,211,553, and 16,903,487 in 2008, 2007 and 2006, respectively.

The following stock options and warrants were excluded as being antidilutive from the shares outstanding used to compute diluted loss per share for the years ended September 30:

	2008	2007	2006
Stock options	1,712,342	1,590,073	1,765,009
Warrants	2,523,425	3,020,848	3,020,848
	4,235,767	4,610,921	4,785,857

The weighted average exercise prices of the stock options for 2008, 2007 and 2006 were \$4.85, \$4.67 and \$4.52, respectively.

Stock-Based Compensation

The Company has an officer and employee stock incentive plan, a non-employee director stock incentive plan and outside of the plans several stock option agreements (See Note 13). The Company calculates the cost of stock options grants based on their grant date fair value and recognizes these costs over the vesting period. The fair value of stock options granted and warrants issued is estimated at the grant date or issuance date using a Black-Scholes stock option valuation model. Key factors in determining the valuation of a grant under the Black-Scholes model are: a volatility factor of the expected market price of the Company's common stock, a risk-free interest rate, a dividend yield on the Company's common stock and the expected term of the option.

TELULAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Share Data)

For the years ended September 30, 2008, 2007 and 2006, the Company valued stock options granted using the Black-Scholes valuation method using the following assumptions:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Volatility	70%	69% - 73%	73% - 75%
Expected term	4.0 yrs	4.0 yrs	4.5 yrs
Risk free interest rate	3.69% - 4.40%	4.61% - 4.96%	4.32% - 5.01%
Dividend yield	0.0%	0.0%	0.0%

The Company recognized stock-based compensation expense as follows for the years ended September 30:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Stock-based compensation:			
Stock options	\$ 1,653	\$ 877	\$ 937
Restricted stock	52	47	-
	<u>\$ 1,705</u>	<u>\$ 924</u>	<u>\$ 937</u>

Fair Value of Financial Instruments

At September 30, 2008 and 2007, the Company's financial instruments included cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities. The carrying values reported in the consolidated balance sheet for these financial instruments approximate their fair values.

Research and Development Costs

Research and development costs for the years ended September 30, 2008, 2007 and 2006, were \$4,448, \$6,076 and \$2,636, respectively, and are included in engineering and development expense.

Shipping and Handling Costs

Shipping and handling costs of \$326, \$321, and \$499 were included in cost of sales for the years ended September 30, 2008, 2007 and 2006, respectively.

Warranty

The Company provides warranty coverage for a period of 15 months on terminal products and 24 months on event monitoring products from the date of shipment. A provision for warranty expense is recorded at the time of shipment and adjusted quarterly based on historical warranty experience.

TELULAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Share Data)

The following table is a summary of the Company's accrued warranty obligation for continuing operations.

	September 30,	
	2008	2007
Balance at the beginning of the period	\$ 83	\$ 90
Warranty expense during the period	334	439
Warranty payments made during the period	(321)	(446)
Balance at the end of the period	\$ 96	\$ 83

Use of Estimates

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.

Reclassifications

As described in Note 3, the amounts in the accompanying Consolidated Balance Sheets, the Consolidated Statements of Operations and the Consolidated Statements of Cash Flows have been restated to reflect the discontinuance of the FCP segment. Additionally, certain operating expenses and the increase in restricted cash have been reclassified in the prior years to be consistent with the current year presentation.

Recently Issued Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*. SFAS No. 141 (revised 2007) replaces SFAS No. 141, *Business Combinations*, and applies to all transactions or other events in which an entity obtains control of one or more businesses and combinations achieved without the transfer of consideration. This statement is effective for fiscal years beginning on or after December 15, 2008. We do not anticipate this pronouncement will have a significant impact on our results of operations or financial position.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with US GAAP for nongovernmental entities. The Company does not expect the adoption of SFAS No. 162 to have a material effect on its results of operations or financial position.

3. Discontinued Operations

During July 2007, the Company formulated a plan to sell the net assets of its FCP segment and exit the cellular phone market. In accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*, (SFAS 144), the Company designated the assets and liabilities of this segment as "held for sale". The assets and liabilities in this disposal group were measured at the lower of their carrying value or fair value less cost to sell and were separately identified in the Consolidated Balance Sheets at September 30, 2007. During the third quarter of fiscal 2008, the Company determined it would be unable to secure a buyer of the FCP business unit. As a result, the Company made a strategic decision to abandon the FCP business effective June 30, 2008. The majority of the assets of the business have been disposed of. The remaining assets consist of trade accounts receivable of \$4,583, inventory held for warranty purposes, which has been fully reserved for, and \$126 of test equipment which the Company intends to sell at auction. The remaining assets and liabilities are separately identified in the Consolidated Balances Sheets at September 30, 2008.

TELULAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Share Data)

The following table summarizes certain operating data for discontinued operations for the years ended September 30:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenues	\$ 7,544	\$ 20,931	\$ 47,394
Cost of sales	11,252	20,357	43,312
Total operating expenses	<u>3,772</u>	<u>8,145</u>	<u>15,256</u>
Loss from discontinued operations	<u>\$ (7,480)</u>	<u>\$ (7,571)</u>	<u>\$(11,174)</u>

The following table summarizes the components of discontinued operations reported on the Consolidated Statements of Cash Flows for the years ended September 30:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating Activities:			
Loss from discontinued operations	\$ (7,480)	\$ (7,571)	\$ (11,174)
Adjustments to reconcile loss to net cash provided by (used in) operating activities:			
Depreciation	-	718	690
Amortization	-	3,149	1,606
Intangible impairment loss	1,098	-	-
Goodwill impairment loss	-	563	4,045
Fixed asset impairment loss	613	-	-
Loss on disposal of assets	1,083	256	-
Changes in assets and liabilities:			
Assets of discontinued operations	9,930	11,331	(14,529)
Liabilities of discontinued operations	<u>(2,445)</u>	<u>(2,850)</u>	<u>2,581</u>
Net cash provided by (used in) operating activities	<u>2,799</u>	<u>5,596</u>	<u>(16,781)</u>
Investing Activities:			
Sale of property and equipment	306	-	-
Acquisition of property and equipment	-	(32)	(602)
Purchase of business	-	-	(3,895)
Decrease in restricted cash	-	-	4,000
Net cash provided by (used in) investing activities	<u>306</u>	<u>(32)</u>	<u>(497)</u>
Cash provided by (used in) discontinued operations	<u>\$ 3,105</u>	<u>\$ 5,564</u>	<u>\$ (17,278)</u>

TELULAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Share Data)

The following table summarizes the components of the assets and liabilities from discontinued operations reported in the Consolidated Balance Sheets as of September 30:

	<u>2008</u>	<u>2007</u>
Trade accounts receivable, net	\$ 4,583	\$ 9,962
Inventories, net	-	4,359
Prepaid expenses	-	101
Property and equipment, net	126	2,348
Intangible assets, net	-	1,098
Other assets	-	91
Total assets	<u>\$ 4,709</u>	<u>\$ 17,959</u>
Trade accounts payable	\$ 149	\$ 1,696
Accrued liabilities	666	1,566
Total liabilities	<u>\$ 815</u>	<u>\$ 3,262</u>

Results from discontinued operations reflect directly attributable revenues, cost of sales, engineering expenses and selling and marketing expenses. General and administrative expenses have not been allocated to discontinued operations because those expenses are general to the continuing operations of the Company and would not be expected to be eliminated or reduced as a result of disposing of the FCP segment.

4. Trade Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable represents sales made to customers on credit. An allowance for doubtful accounts is maintained based upon estimated losses resulting from the inability of customers to make payments for goods and services. Trade accounts receivable, net of the allowance for doubtful accounts are as follows:

	<u>September 30,</u>	
	<u>2008</u>	<u>2007</u>
Trade receivables	\$ 6,943	\$ 19,763
Less: allowance for doubtful accounts	(39)	(40)
	<u>\$ 6,904</u>	<u>\$ 19,723</u>

TELULAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Share Data)

5. Inventories

Inventories consist of the following:

	September 30,	
	2008	2007
Raw materials	\$ 1,958	\$ 915
Finished goods	8,133	3,136
	10,091	4,051
Less: reserve for obsolescence	(84)	(551)
	\$ 10,007	\$ 3,500

6. Property and Equipment

Property and equipment consists of the following:

	September 30,	
	2008	2007
Furniture and fixtures	\$ 85	\$ 488
Computer equipment	1,967	2,426
Machinery and equipment	3,002	4,497
Leasehold improvements	363	324
Construction in progress and other	126	11
	5,543	7,746
Less accumulated depreciation	(3,527)	(6,355)
Property and equipment, net	\$ 2,016	\$ 1,391

7. Goodwill and Intangible Assets

Goodwill as of September 30, 2008 and 2007 is as follows:

Balance at September 30, 2006	\$ 2,043
Additional goodwill - FCP	563
Impairment of goodwill - FCP	(563)
Balance at September 30, 2007	2,043
Additional goodwill	-
Impairment of goodwill	-
Balance at September 30, 2008	\$ 2,043

TELULAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Share Data)

All intangible assets are related to the FCP segment and are included in Assets of Discontinued Operations. The balances as of September 30, 2008 and 2007 are as follows:

	2008			2007		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Capitalized technology	\$ 3,840	\$ (3,840)	\$ -	\$ 3,840	\$ (3,240)	\$ 600
Customer relationships	3,070	(3,070)	-	3,070	(2,671)	399
Other	293	(293)	-	293	(194)	99
Total intangible assets	\$ 7,203	\$ (7,203)	\$ -	\$ 7,203	\$ (6,105)	\$ 1,098

In accordance with SFAS 144, the Company ceased amortizing the intangible assets related to the discontinued operations of the FCP segment that are held for sale. The \$1,098 remaining net value of intangibles as of September 30, 2007, was written off as of June 30, 2008 as a result of the Company's decision to abandon the FCP segment.

8. Accrued Liabilities

Accrued liabilities consists of the following:

	September 30,	
	2008	2007
Payroll and benefits expense	\$ 1,770	\$ 1,621
Royalties	558	447
Other	1,958	2,298
	\$ 4,286	\$ 4,366

9. Line of Credit

On June 27, 2006, the Company entered into a two year Loan and Security Agreement (the Agreement) with Silicon Valley Bank (SVB). The Agreement provided for two borrowing facilities: a non-recourse accounts receivable purchase facility and a working capital line of credit secured by accounts receivable based upon eligible accounts receivable at 80% of their face value. Each component of the Agreement had a credit limit of \$10,000 and the Agreement, in aggregate, had a credit limit of \$15,000. Interest charged under the loan could vary from SVB's prime rate to SVB's prime rate plus 2%. As of September 30, 2007, the Company had no outstanding borrowings. This Agreement expired on June 27, 2008.

In connection with the Agreement, the Company issued 320,856 warrants to purchase the Company's Common Stock. The warrants were immediately exercisable at \$1.87 per share and were valued at \$356 using the Black-Scholes pricing model. The value of the warrants was recorded as a loan origination fee and was amortized over the term of the Agreement. During the first quarter of fiscal 2008, SVB exercised all of their outstanding warrants in a cash-less transaction and were issued 218,641 shares of the Company's Common Stock.

On September 23, 2008 the Company entered into a new two year Loan and Security Agreement (the New Agreement) with Silicon Valley Bank (SVB). The New Agreement provides for a \$5,000 base facility and an accordion option that permits Telular to obtain an additional \$5,000. Borrowings under the New Agreement are secured by all of the assets of Telular and

TELULAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Share Data)

will be based on the level of eligible accounts receivable. The Company has the option under the loan to have interest calculated on SVB's prime rate (with a floor of 5%) up to a maximum of prime plus 0.5% or calculated on the current LIBOR rate up to a maximum of LIBOR plus 3%. As of September 30, 2008, the Company had no outstanding borrowings.

In connection with the New Agreement, the Company recorded \$49 as a loan origination fee which is being amortized over the term of the New Agreement.

10. Income Taxes

The Company did not record any U.S. federal or state income tax provision or benefit for fiscal year 2008, 2007 and 2006 due to the net operating loss generated in each year.

At September 30, 2008, the Company had net operating loss carryforwards of approximately \$128,304 for income tax purposes that begin expiring in 2009.

On October 1, 2007, the Company adopted FIN 48, which prescribes a comprehensive model for the financial statement recognition, measurement, classification and disclosure of uncertain tax positions. In the first step of the two-step process prescribed in the interpretation, the Company evaluates the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. In the second step, the Company measures the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement.

The Company determined that there is a less than 50% likelihood that its research and development (R&D) tax credits would be sustained upon audit as the Company has not completed gathering the necessary documentation required by the taxing authority to substantiate the credit. The Company has classified \$2,834 of the valuation allowance for deferred tax assets as a tax reserve for an uncertain tax position. This has no impact on the Company's effective tax rate. The Company is in the process of gathering the necessary data to potentially support the R&D credit claimed.

The Company does not include interest and penalties related to income taxes, including unrecognized tax benefits, within the provision for income. This policy did not change as a result of implementing FIN 48.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets are as follows:

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	September 30,	
	2008	2007
Deferred tax assets:		
Reserve for inventory obsolescence	\$ 32	\$ 552
Allowance for doubtful accounts	15	18
Fixed assets	150	-
Intangible assets	450	3,284
Research and development tax credits	2,834	2,834
Non-cash compensation	774	440
Net operating loss carryforwards	52,911	49,540
Accrued liabilities	216	376
Other	108	109
Total deferred tax assets	<u>57,490</u>	<u>57,153</u>
Less valuation allowance	<u>57,490</u>	<u>57,153</u>
Net deferred tax assets	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The Company has provided a full valuation allowance on the deferred tax assets due to the uncertainty of their realizability. The valuation allowance increased by \$337 during fiscal 2008, due principally to the increase in the net operating loss carryforwards of \$3,371, a decrease in intangible assets of \$2,834, a decrease in the reserve for inventory obsolescence of \$520, and an increase in non-cash compensation of \$334.

The Company files income tax returns in the U.S. federal jurisdiction and in various state jurisdictions. As of September 30, 2008, the Company is no longer subject to U.S. federal examination by taxing authorities for years prior to 2005. Income tax returns for fiscal years 2005, 2006 and 2007 are still open for examination. However, utilization of net operating loss carryforwards that were generated in years prior to 2005, may result in a prior tax year being open for IRS examination. The Company is subject to examination by the Franchise Tax Board and the Texas State Comptroller for fiscal years 2004 through 2007. The Company has concluded New York state audit for years 2004 through 2006. Tax years 2005 through 2008 remain open to examination by multiple state taxing jurisdictions.

Based on Internal Revenue Code Section 382, changes in the ownership of the Company may limit the utilization of net operating loss carryforwards of the Company.

11. Commitments

The Company occupies certain facilities and rents certain equipment under various lease agreements expiring at various dates through February 28, 2015. Rent expense for continuing operations for the years ended September 30, 2008, 2007, and 2006 was \$690, \$751 and \$915, respectively. Future minimum obligations for continuing operations under noncancelable operating leases are as follows:

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<u>Fiscal Year</u>	
2009	\$ 716
2010	715
2011	750
2012	760
2013	535
Thereafter	309
	<u>\$ 3,785</u>

During fiscal 2006, the Company entered into an agreement with ACT Electronics, Inc. (ACT) under which ACT will provide fulfillment services and manufacture 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 September 30, 2008, the Company had \$2,311 in open purchase commitments pursuant to this agreement.

During fiscal 2006, the Company entered into an agreement with Speedy-Tech Electronics Ltd. (Speedy) relating to the manufacturing of final assemblies of the Company's products. Either party may terminate the agreement upon 90 days prior written notice to the other party. Under the agreement, the Company has the right to offset amounts due to the Company from Speedy against amounts owed to Speedy by the Company. As of September 30, 2008, the Company had \$1,975 in open purchase commitments pursuant to this agreement.

12. Redeemable Preferred Stock and Preferred Stock

At September 30, 2008 and 2007, 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.

13. Capital Stock and Stock Options

On September 2, 2005, the Company sold 2,650,000 shares of its Common Stock for \$9,275 (\$9,202 net of offering costs), in a private placement that was exempt from the registration requirements of the Securities Act of 1933 pursuant to Regulation D. The Company subsequently filed a registration statement on Form S-3 under the Securities Act of 1933, which was declared effective by the Securities and Exchange Commission on October 21, 2005. In addition to the Common Stock, the Company also issued Series A Warrants for a total of 1,324,996 shares of Common Stock at a strike price of \$4.50 per share and Series B Warrants exercisable for a total of 1,324,996 shares of Common Stock at a strike price of \$5.00 per share. Both the Series A and Series B Warrants vested six months from the closing date, expire on September 2, 2010 and are callable by the Company based on the performance of the Company's Common Stock price. The Warrants were valued using the Black-Scholes pricing model. Of the net proceeds from the sale, \$2,717 was allocated to the Series A Warrants and \$2,594 was allocated to the Series B Warrants. During fiscal 2008, 176,567 of the Series A Warrants were exercised, leaving 1,148,429 outstanding.

On July 25, 2008, the Company's Board approved a plan to repurchase up to \$5,000 of the Company's common stock on the open market. As of September 30, 2008, 383,207 shares were repurchased at a cost of \$1,127.

In connection with a Loan and Security Agreement with Wells Fargo Business Credit Inc. (Wells Fargo) entered into during fiscal year 2000 that was repaid on December 30, 2002, the Company issued warrants to Wells Fargo convertible into 50,000 shares of the Company's Common Stock. The warrants, which remain outstanding, have a strike price of \$16.29 per share and do not have an expiration date.

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The Company has a Stock Incentive Plan, a 2008 Employee Stock Incentive Plan, and a Non-employee Director Stock Incentive Plan (collectively the Plans). Under the Plans, options to purchase shares of Common Stock may be granted to all officers, employees and non-employee directors. Stock options have been granted at exercise prices as determined by the Compensation Committee of the Board of Directors to all officers, employees and non-employee directors of the Company pursuant to the Plans. These stock options vest immediately or over a period of up to three years. All stock options, if not exercised or terminated, expire either on the sixth or the tenth anniversary of the date of grant. In addition, the Plans provide for the issuance of Common Stock or Common Stock equivalents to employees for their work related performance.

The following table summarizes the number of Common Shares reserved and available for issuance under the Plans at September 30, 2008:

	<u>Reserved</u>	<u>Available to Issue</u>
Stock Incentive Plan	3,450,000	286,679
2008 Employee Stock Incentive Plan	500,000	500,000
Non-employee Director Stock Incentive Plan	500,000	77,701

Common stock issued to non-employees for services performed was 0 shares, 0 shares and 2,983 shares in 2008, 2007 and 2006, respectively. The Company issued restricted stock to its directors for their services of 13,165 shares, 18,482 shares and 0 shares in 2008, 2007 and 2006, respectively.

The following table displays all stock option activity as of September 30, 2008 including stock options granted under the Plans and the Stock Option Agreements.

	<u>2008</u>		<u>2007</u>		<u>2006</u>	
	<u>Options (000's)</u>	<u>Weighted- Average Exercise Price</u>	<u>Options (000's)</u>	<u>Weighted- Average Exercise Price</u>	<u>Options (000's)</u>	<u>Weighted- Average Exercise Price</u>
Outstanding at beginning of the year	1,590	\$ 4.67	1,765	\$ 4.52	1,719	\$ 7.93
Granted	916	5.81	453	3.66	892	2.72
Exercised	(411)	4.39	(288)	2.86	(21)	2.47
Canceled	(383)	6.88	(340)	4.07	(825)	9.73
Outstanding at end of the year	<u>1,712</u>	<u>\$ 4.85</u>	<u>1,590</u>	<u>\$ 4.67</u>	<u>1,765</u>	<u>\$ 4.52</u>

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The following table summarizes information about options outstanding at September 30, 2008:

Range of Exercise Prices	Outstanding as of September 30, 2008 (000's)	Weighted- Average Remaining Contractual Life (in years)	Outstanding Weighted- Average Exercise Price	Exercisable as of September 30, 2008 (000's)	Exercisable Weighted- Average Exercise Price
\$1.95 - 3.50	593	5.00	\$ 2.96	248	\$ 2.66
3.51 - 6.58	592	5.05	4.50	445	4.61
6.59 - 7.99	512	5.16	7.28	83	6.70
8.00 - 16.45	15	1.92	11.13	15	11.13
	<u>1,712</u>	<u>5.04</u>	<u>\$ 4.85</u>	<u>791</u>	<u>\$ 4.34</u>

14. Major Customers

For the year ended September 30, 2008, the Company derived approximately \$28,868 (44%) of its total revenues from two customers located in the United States, and trade accounts receivable from these customers totaled \$1,091 at September 30, 2008. For the years ended September 30, 2007 and 2006, the Company derived approximately \$32,209 (43%), and \$18,097 (40%), respectively, of its total revenues from one customer located in the United States. Trade accounts receivable from this customer totaled \$9,453 at September 30, 2007.

15. Export Sales

The Company exports its products to three regions around the world: Central American/Latin American (CALA), Europe/Africa (EA) and Asia/Middle East (AME). Export sales for the years ended September 30, 2008, 2007 and 2006 are summarized in the table below.

	Export Sales by Region				Domestic	Total Sales
	CALA	EA	AME	Total		
Fiscal 2008 sales	\$ 8,574	\$ 677	\$ 117	\$ 9,368	\$ 56,786	\$ 66,154
Region's sales as % of total export sales	91.52%	7.23%	1.25%	100.00%		
Region's sales as % of Total Company sales	12.96%	1.02%	0.18%	14.16%	85.84%	100.00%
Fiscal 2007 sales	\$ 8,368	\$ 1,126	\$ 244	\$ 9,738	\$ 64,769	\$ 74,507
Region's sales as % of total export sales	85.92%	11.57%	2.51%	100.00%		
Region's sales as % of Total Company sales	11.23%	1.51%	0.33%	13.07%	86.93%	100.00%
Fiscal 2006 sales	\$ 5,201	\$ 1,728	\$ 514	\$ 7,443	\$ 38,263	\$ 45,706
Region's sales as % of total export sales	69.88%	23.22%	6.90%	100.00%		
Region's sales as % of Total Company sales	11.38%	3.78%	1.12%	16.28%	83.72%	100.00%

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16. Contingencies

The Company is involved in various 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 such proceedings will not have a material adverse effect on the Company's consolidated results of operations, cash flows or financial position.

17. Employee Benefit Plan

The Company sponsors a defined contribution plan under section 401(k) of the Internal Revenue Code. The plan covers substantially all employees of the Company. The Company may match employee contributions on a discretionary basis. There were no Company matches and therefore no amounts charged against operations related to the Company's defined contribution plan for the years ended September 30, 2008, 2007 and 2006.

18. Supplemental Disclosures of Cash Flow Information

	For the Year ended September 30,		
	2008	2007	2006
Supplemental disclosure of cash flow information:			
Interest paid	\$ 2	\$ 107	\$ 91
Supplemental disclosure of non-cash investing and financing activities:			
Common stock issued to CSI in connection with acquisition - 1,931,745 shares	\$ -	\$ -	\$ 5,505
Common stock issued to CSI in connection with the earn-out provisions of the Purchase Agreement - 150,990 shares	\$ -	\$ 563	\$ -
Restricted common stock awarded as director compensation - 13,165 and 18,482 shares, respectively	\$ 52	\$ 47	\$ -
Increase in additional paid-in capital related to warrants issued to secure working capital line of credit - 320,856 warrants	\$ -	\$ -	\$ 356

19. Quarterly Results of Operations (Unaudited)

The following is a summary of the quarterly results of operations for the years ended September 30, 2008 and 2007.

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	Three months ended,			
	December 31	March 31	June 30	September 30
Fiscal year 2008				
Total revenues	\$ 19,726	\$ 19,613	\$ 15,312	\$ 11,503
Gross margin	7,047	7,629	5,241	4,615
Income from continuing operations	2,247	2,485	644	725
Loss from discontinued operations	(565)	(2,178)	(4,737)	-
Net income (loss)	1,682	307	(4,093)	725
Basic income (loss) per common share:				
Continuing operations	\$ 0.12	\$ 0.13	\$ 0.03	\$ 0.04
Discontinued operations	\$ (0.03)	\$ (0.11)	\$ (0.24)	\$ -
Net income (loss)	\$ 0.09	\$ 0.02	\$ (0.21)	\$ 0.04
Diluted income (loss) per common share:				
Continuing operations	\$ 0.11	\$ 0.13	\$ 0.03	\$ 0.04
Discontinued operations	\$ (0.03)	\$ (0.11)	\$ (0.24)	\$ -
Net income (loss)	\$ 0.08	\$ 0.02	\$ (0.21)	\$ 0.04
Fiscal year 2007				
Total revenues	\$ 14,763	\$ 16,890	\$ 16,502	\$ 26,352
Gross margin	5,005	5,332	5,597	8,865
Income from continuing operations	248	288	1,391	3,698
Loss from discontinued operations	(2,327)	(2,108)	(976)	(2,160)
Net income (loss)	(2,079)	(1,820)	415	1,538
Basic income (loss) per common share:				
Continuing operations	\$ 0.01	\$ 0.02	\$ 0.07	\$ 0.20
Discontinued operations	\$ (0.13)	\$ (0.12)	\$ (0.05)	\$ (0.12)
Net income (loss)	\$ (0.12)	\$ (0.10)	\$ 0.02	\$ 0.08
Diluted income (loss) per common share:				
Continuing operations	\$ 0.01	\$ 0.02	\$ 0.07	\$ 0.19
Discontinued operations	\$ (0.13)	\$ (0.12)	\$ (0.05)	\$ (0.11)
Net income (loss)	\$ (0.12)	\$ (0.10)	\$ 0.02	\$ 0.08

Due to rounding in earnings per share, the sum of the quarters may not be equal to the full year.

20. Cumulative Effect Adjustment to Retained Earnings

In September 2006, the SEC released Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in the Current Financial Statements (SAB 108). SAB 108 provides guidance on how the effects of the carryover or reversal of prior year financial statement misstatements should be considered in quantifying a current year misstatement. Specifically, SAB 108 requires that companies quantify errors using both a balance sheet (iron curtain) and income statement (rollover) approach and evaluate whether either approach results in a misstated amount that, when all relevant quantitative and qualitative factors are considered, is material. Prior practice allowed the evaluation of materiality on the basis of either the balance sheet or the income statement approach, but did not require both. In years prior to fiscal 2007, the Company recorded certain service revenues in the period in which they were invoiced, though they related to services yet to be performed and the Company recorded costs associated with providing those services in the period subsequent to when they were incurred. The Company believes that these revenues and costs were recorded in error. These errors were deemed to be immaterial prior to fiscal year 2007, but after applying the guidance under SAB 108, the cumulative effect of these errors was determined to be material to fiscal year 2007. In evaluating materiality and determining the appropriateness of applying SAB 108 to these errors, the Company

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considered materiality both qualitatively and quantitatively as prescribed by the SEC's Staff Accounting Bulletin No. 99. As a result, an after-tax adjustment of \$810 was made to decrease the opening balance of retained earnings as of October 1, 2006.

21. Subsequent Events

On October 1, 2008, the Company announced the acquisition of SupplyNet Communications, Inc. (SupplyNet). The Company paid approximately \$3,000 for all of the outstanding common stock of SupplyNet. SupplyNet provides label and branded tank monitoring solutions for petroleum logistics and chemical companies.

During October 2008, the assets of ACT Electronics, Inc. (ACT), one of the Company's contract manufacturers (see Note 11), were purchased by Ayrshire Electronics, LLC (Ayrshire). Ayrshire continues to manufacture products for Telular under the original agreement executed with ACT.

PART III

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are 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 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decision-making regarding required disclosure. As of the end of the period covered by this report management carried out, with the participation of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), an evaluation of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective.

During the quarter ended September 30, 2008, there were no significant 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 under the Exchange Act that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States.

Processes have been updated and new ones put into place governing our internal controls but because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any

evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2008, using the criteria set forth by the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Company's management concluded that, as of September 30, 2008, the Company's internal control over financial reporting was effective based on those criteria.

The Company's independent registered public accounting firm, Ernst & Young LLP, issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of September 30, 2008. That attestation report is included herein.

ITEM 9B. OTHER INFORMATION

None.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

Pursuant to General Instruction G(3), reference is made to the information contained under the caption Election of Directors in the Company's definitive proxy statement for the Annual Meeting of Shareholders to be held February 3, 2009, which is incorporated herein.

The Directors' names and occupations are listed in the Company's definitive proxy statement for the Annual Meeting of Shareholders to be held February 3, 2009. Names and information about executive officers are provided in Item 1 of this filing.

The Company has adopted a Code of Ethics for Senior Financial Officers that covers the principal executive officer, the principal financial officer and the principal accounting officer. This Code is available on the Company's website at www.telular.com/profile/codes.asp or a copy can be obtained free of charge by mailing a request to the Company's headquarters at 311 South Wacker Drive, Suite 4300, Chicago, Illinois 60606-6622.

ITEM 11. EXECUTIVE COMPENSATION

Pursuant to General Instruction G(3), reference is made to the information contained under the caption Executive Compensation in the Company's definitive proxy statement for the Annual Meeting of Shareholders to be held February 3, 2009, which is incorporated herein.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Pursuant to General Instruction G(3), reference is made to the information contained under the caption Security Ownership of Certain Beneficial Owners and Management in the Company's definitive proxy statement for the Annual Meeting of Shareholders to be held February 3, 2009, which is incorporated herein.

Further, for the information required by Item 201(d) of Regulation S-K, reference is made to the information contained under the caption "Option Exercise and Fiscal Year-End Option Values" in the Company's definitive proxy statement for the Annual Meeting of Shareholders to be held February 3, 2009, which is incorporated herein.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Pursuant to General Instruction G(3), reference is made to the information contained under the caption Certain Transactions in the Company's definitive proxy statement for the Annual Meeting of Shareholders to be held February 3, 2009, which is incorporated herein.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Pursuant to General Instruction G(3), reference is made to the information contained under the caption Independent Public Accountants in the Company's definitive proxy statement for the Annual Meeting of Shareholders to be held February 3, 2009, which is incorporated herein.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

- (a) 1. The following financial statements are included in Part II, Item 8 of this Form 10-K.
 Reports of Independent Registered Public Accounting Firm
 Consolidated Balance Sheets as of September 30, 2008 and 2007
 Consolidated Statements of Operations for the years ended September 30, 2008, 2007 and 2006
 Consolidated Statements of Stockholders' Equity for the years ended September 30, 2008, 2007 and 2006
 Consolidated Statements of Cash Flows for the years ended September 30, 2008, 2007 and 2006
 Notes to Consolidated Financial Statements
2. The following financial statement schedule, Schedule II – Valuation and Qualifying Accounts for the years ended September 30, 2008, 2007 and 2006 is filed as part of this report. All other financial statement schedules have been omitted because they are not applicable or are not required or the information required to be set forth therein is included in the financial statements or notes thereto contained in Part II, Item 8 of this annual report.

Schedule II – Valuation and Qualifying Accounts

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Period Ended September 30, 2008					
Accumulated amortization of intangible assets	\$ 6,105	\$ 1,098 (1)	\$ -	\$ (7,203) (2)	\$ -
Valuation allowance of deferred tax asset	57,153	337 (3)	-	-	57,490
Reserve for inventory obsolescence	551	19	-	(486) (4)	84
Allowance for doubtful accounts	40	61	-	(62) (5)	39
Period Ended September 30, 2007					
Accumulated amortization of intangible assets	\$ 2,956	\$ 3,149 (1)	\$ -	\$ -	\$ 6,105
Valuation allowance of deferred tax asset	55,822	1,331 (3)	-	-	57,153
Reserve for inventory obsolescence	922	328	-	(699) (4)	551
Allowance for doubtful accounts	185	(54) (6)	-	(91) (5)	40
Period Ended September 30, 2006					
Accumulated amortization of intangible assets	\$ 1,350	\$ 1,606 (1)	\$ -	\$ -	\$ 2,956
Valuation allowance of deferred tax asset	51,268	4,554 (3)	-	-	55,822
Reserve for inventory obsolescence	2,285	245	-	(1,608) (4)	922
Allowance for doubtful accounts	95	90	-	-	185

- (1) Amortization of intangibles includes impairment charges. All charges are included in loss from discontinued operations.
- (2) Intangible assets related to the discontinued operations were written-off when that business unit was abandoned during the third quarter of fiscal 2008.

- (3) Amount represents the change in the valuation amount for deferred taxes due principally to the origination and utilization of net operating loss carryforwards. The valuation amount reflects the net tax effects of temporary differences between the carry amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.
- (4) Inventory disposed.
- (5) Accounts receivable written-off.
- (6) Reversal of previously charged expense for the allowance for doubtful accounts.

3. Exhibits

<u>Number</u>	<u>Description</u>	<u>Reference</u>
3.1	Certificate of Incorporation	Filed as Exhibit 3.1 to Registration Statement No. 33-72096 (the Registration Statement)
3.2	Amendment No. 1 to Certificate of Incorporation	Filed as Exhibit 3.2 to the Registration Statement
3.3	Amendment No. 2 to Certificate of Incorporation	Filed as Exhibit 3.3 to the Registration Statement
3.4	Amendment No. 3 to Certificate of Incorporation	Filed as Exhibit 3.4 to Form 10-Q filed February 16, 1999
3.5	Amendment No.4 to Certificate of Incorporation	Filed as Exhibit 3.5 to Form 10-Q filed February 16, 1999
3.6	By-Laws	Filed as Exhibit 3.4 to the Registration Statement
4.1	Certificate of Designations, Preferences, and Rights of Series A Convertible Preferred Stock	Filed as Exhibit 99.2 Form 8-K filed April 25, 1997
10.1	Nonqualified Stock Option Agreement, dated as of October 31, 2000, by and between the Company and Larry J. Ford	Filed as Exhibit 4.9 to Registration Statement on Form S-8, Registration No. 333-61970 filed May 31, 2001
10.2	Nonqualified Stock Option Agreement, dated as of October 26, 1999, by and between the Company and Larry J. Ford	Filed as Exhibit 4.10 to Registration Statement on Form S-8, Registration No. 333-61970 filed May 31, 2001
10.3	Nonqualified Stock Option Agreement, dated as of October 31, 2000, by and between the Company and John E. Berndt	Filed as Exhibit 4.15 to Registration Statement on Form S-8, Registration No. 333-61970 filed May 31, 2001
10.4	Nonqualified Stock Option Agreement, dated as of October 26, 1999, by and between the Company and John E. Berndt	Filed as Exhibit 4.16 to Registration Statement on Form S-8, Registration No. 333-61970 filed May 31, 2001

10.5	Nonqualified Stock Option Agreement, dated as of October 30, 2001, by and between the Company and John E. Berndt	Filed as Exhibit 10.41 to Form 10-K filed December 21, 2001
10.6	Nonqualified Stock Option Agreement, dated as of October 30, 2001, by and between the Company and Larry J. Ford	Filed as Exhibit 10.42 to Form 10-K filed December 21, 2001
10.7	Telular Corporation Non-employee Directors' Stock Incentive Plan	Filed as Exhibit 10.22 to Form 10-Q filed February 14, 2003
10.8	Amendment to Warrants dated November 11, 2007	Filed as Exhibit 10.1 to Form 8-K Filed on November 15, 2007
10.9	Second Amended and Restated Employment Agreement with Michael J. Boyle dated December 7, 2007	Filed as Exhibit 10.1 to Form 8-K filed December 6, 2007
10.10	Employment Agreement with Joseph A. Beatty dated December 14, 2007	Filed as Exhibit 10.1 to Form 8-K filed December 19, 2007
10.11	Retention and Severance Agreement with Jonathan M. Charak dated March 17, 2008	Filed as Exhibit 10.1 to Form 8-K filed on March 19, 2008
10.12	Retention and Severance Agreement with George S. Brody dated July 29, 2008	Filed as Exhibit 10.1 to Form 8-K Filed on August 4, 2008
21	Subsidiaries of Registrant	Filed herewith
23	Consent of Ernst & Young LLP	Filed herewith
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
32.1	Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
99	Cautionary Statements	Furnished herewith

(1) Certain portions of this exhibit have been omitted and filed separately with the United States Securities and Exchange Commission pursuant to a request for confidential treatment. The omitted portions have been replaced by an * enclosed by brackets ([*]).

SIGNATURES

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

Telular Corporation

Date: December 15, 2008

By: /s/ JOSEPH A. BEATTY
Joseph A. Beatty
President & Chief Executive Officer

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ JOSEPH A. BEATTY</u> Joseph A. Beatty	President, Chief Executive Officer and Director	December 15, 2008
<u>/s/ JONATHAN M. CHARAK</u> Jonathan M. Charak	Senior Vice President, Chief Financial Officer and Secretary	December 15, 2008
<u>/s/ ROBERT L. DEERING</u> Robert L. Deering	Chief Accounting Officer	December 15, 2008
<u>/s/ JOHN E. BERNDT</u> John E. Berndt	Chairman of the Board	December 15, 2008
<u>/s/ LAWRENCE S. BARKER</u> Lawrence S. Barker	Director	December 15, 2008
<u>/s/ BETSY J. BERNARD</u> Betsy J. Bernard	Director	December 15, 2008
<u>/s/ BRIAN J. CLUCAS</u> Brian J. Clucas	Director	December 15, 2008
<u>/s/ LARRY J. FORD</u> Larry J. Ford	Director	December 15, 2008
<u>/s/ M. BRIAN MCCARTHY</u> M. Brian McCarthy	Director	December 15, 2008

Exhibit Index

<u>Number</u>	<u>Description</u>	<u>Reference</u>
21	Subsidiaries of Registrant	Filed herewith
23	Consent of Ernst & Young LLP	Filed herewith
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
32.1	Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith
99	Cautionary Statements	Furnished herewith

SUBSIDIARIES OF REGISTRANT

The registrant, Telular Corporation, is a Delaware corporation. The registrant's subsidiaries are:

1. Telular - Adcor Security Products, Inc., a Georgia corporation.
2. Telular International, Inc., an Illinois corporation.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8) pertaining to Telular Corporation Sixth Amended and Restated Stock Incentive Plan, Telular Corporation First Amended and Restated Non-Employee Director Stock Incentive Plan and Telular Corporation 2008 Employee Stock Incentive Plan of our reports dated December 10, 2008, with respect to the consolidated financial statements and schedule of Telular Corporation and the effectiveness of internal control over financial reporting of Telular Corporation, included in the Annual Report on Form 10-K for the year ended September 30, 2008.

Ernst & Young LLP

Chicago, Illinois
December 10, 2008

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

I, Joseph A. Beatty, certify that:

1. I have reviewed this annual report on Form 10-K of Telular Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15f and 15d-15f) for the Registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: December 15, 2008

/s/ Joseph A. Beatty
Joseph A. Beatty
President & Chief Executive Officer

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

I, Jonathan M. Charak, certify that:

1. I have reviewed this annual report on Form 10-K of Telular Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15f and 15d-15f) for the Registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: December 15, 2008

/s/ Jonathan M. Charak
Jonathan M. Charak
Senior Vice President & Chief Financial Officer

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

This certification is provided pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies this Annual Report of Telular Corporation (the "Company") on Form 10-K for the period ended September 30, 2008 (the "Report").

I, Joseph A. Beatty, President & Chief Executive Officer of the Company, and I, Jonathan M. Charak, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Joseph A. Beatty
Joseph A. Beatty
President & Chief Executive Officer
December 15, 2008

/s/ Jonathan M. Charak
Jonathan M. Charak
Senior Vice President and Chief Financial Officer
December 15, 2008

RISK FACTORS

(In Thousands, Except Per Share Data)

You should carefully consider the following risks before you decide to buy our common stock. If any one of these risks or uncertainties were to occur, our business, financial condition, results and performance could be seriously harmed and/or the price of our common stock might significantly decrease.

Unfavorable economic events including competitive pricing pressure in our target markets could lead to lower sales of our products.

Sales of our products depend on the growth of the Fixed Cellular telecommunications industry in general and increased demand for Fixed Cellular products worldwide. The Company has identified significant growth opportunities in a variety of markets, such as the machine-to-machine (M2M) market. Each of these markets will develop at a different pace, and the sales cycle for these markets is likely to be several months or quarters.

Pricing for Fixed Cellular Terminals has been declining along with pricing in general for telecommunications equipment and other technology products. We believe that these pricing trends will continue in the future and perhaps accelerate, particularly if large companies with greater purchasing power enter the market or other competitors enter the market with lesser quality products or improper license rights.

In addition, unfavorable general economic conditions in any market will have a negative effect on sales in that market. Because economic conditions in one region often affect conditions globally, unfavorable general economic conditions in one market or region might result in damage to industry growth and demand in other markets as well.

The decline in the U.S. housing market may negatively impact sales and profitability of the Company's Telguard products and services. Since end users oftentimes purchase security systems and associated cellular alarm communicators, such as Telguard, when they are moving into a new residence, a slowdown in the housing sector could cause purchase of Telguard products and services to slow or decline. Furthermore, if general economic conditions slow or if a recession occurs, end users may choose to eliminate the protection offered by Telguard services as consumers re-examine discretionary expenditures.

Similarly, the adoption rate for our non-Telguard, M2M solutions are oftentimes dependent upon the prices at which we are able to sell our products and services relative to the potential cost savings which end users anticipate. If we are unable to continually reduce our M2M solution pricing, we may not experience sufficient demand for our M2M products and solutions. Furthermore, if customers cannot obtain financing to fund the upfront purchase of such products and services, our M2M sales, growth rates, and profitability may be negatively impacted.

The intense competition in the Fixed Cellular telecommunications industry could prevent us from achieving or sustaining profitability.

The market for fixed cellular products is extremely competitive, and we may not be able to successfully compete with other companies already in the market or with new companies that enter the market. Our competitors in this market include:

- LG Electronics;
- Axesstel, Inc.;
- Ericsson;
- Huawei Technologies Co., Ltd.;

- ZTE Corporation;
- Numerex Corporation;
- Honeywell International, Inc.; and
- Tyco International, Ltd.

Many of these competitors have greater resources than us in many areas critical to succeeding in the industry, including:

- financial resources;
- manufacturing capabilities;
- name recognition;
- research and development capabilities;
- technical expertise;
- sales and marketing resources; and
- distribution channels.

Further, these competitors may be able to:

- select more accurately the new or emerging technologies desired by the market;
- respond more rapidly than we can to new or emerging technologies;
- respond more rapidly than we can to changes in customer requirements;
- devote greater resources than we do to research and development efforts;
- promote their products more effectively, including selling their products at a loss in order to obtain market share or bundling their products with other products that we do not offer in order to promote an end-to-end solution for their customers that we cannot match; and
- obtain components and manufacture and sell products at lower prices as a result of efficiencies of scale or purchasing power, thereby rendering our products non-competitive or forcing us to sell our products at reduced or negative gross margins.

Because of these advantages our competitors may succeed in developing products that are more effective, desirable and/or cheaper than ours or that render our products and technology obsolete. They also may have better and more efficient marketing and distribution structures.

In addition, we have granted non-exclusive, royalty bearing licenses to Ericsson, which permits Ericsson to produce and sell products using our technology that compete with ours. Because this company has greater resources than we do, they may be able to sell similar products more effectively than we can.

Our success depends on the growth and availability of wireless telecommunications services in the markets we target.

Currently, some of our largest potential markets for Fixed Cellular Terminals are developing countries. Our success depends to a large extent on the continued growth and increased availability of cellular and other wireless telecommunications services in these countries and the availability of such services at competitive prices. Construction of wireless systems in these countries may be delayed for a variety of reasons, including government regulation, general economic factors, the availability of funding and other competitive factors. These factors may also limit or delay purchases of equipment used to provide voice and data services, such as our products. If system construction and equipment purchases in these countries are not made or are delayed, the demand for our products in these countries will be limited or delayed. Similarly, if the cost of using wireless telecommunications services in these countries is not cost effective, the demand for our products may be limited. In some cases, service providers purchase our products from us and resell them to their end users at reduced prices. If those providers cease to be willing to provide these subsidies, our revenues may decline if end users cannot afford our products.

While wireless telecommunication systems in the United States are more developed than in many other markets that we target, continued expansion of wireless infrastructure in the United States is still important for the growth of our sales of Fixed Cellular Terminals in the United States. As is the case with conditions in other target markets, there is no guarantee that wireless telecommunications systems will continue to develop.

Our efforts to increase the focus of our production, marketing and sales efforts to the Machine-to- Machine market may not be successful.

The success of our current efforts to increase our focus on the M2M market will depend on our ability to develop and market solutions that are attractive to customers and to control our costs for those solutions. We cannot assure that these efforts will be successful.

If we cannot sustain profitable operations, we may not be able to obtain the funding we need to operate our business.

Historically, the Company has incurred significant operating losses. We incurred a net loss of \$1,379 for the year ended September 30, 2008; \$1,946 for the year ended September 30, 2007; and \$11,818 for the year ended September 30, 2006. Achieving profitability will require us to increase our revenues, control our costs, and increase the focus of our sales to product lines with higher margins. We cannot guarantee that we will be successful in achieving profitability or that we will do so within any specific time frame.

Our ability to continue operations depends on having adequate funds to cover our expenses. Our current operating plan provides for significant expenditures for research and development of new products, development of new markets for our products, and marketing programs for our products. At September 30, 2008, we had \$21,168 in cash and cash equivalents and a working capital surplus of \$36,009. Based on our current operating plan, we believe that existing capital resources will allow us to maintain our current and planned operations.

However, our cash requirements may vary and are difficult to predict. We target markets in developing countries for product sales, and the nature of these markets makes it difficult to predict revenues. Events that we cannot anticipate, economic and political factors and our customers' ability to execute their plans, may result in order cancellations which may increase our capital needs. In addition, from time to time, we are required to post letters of credit that are collateralized with our cash to support purchase orders we place with our vendors. The effect of posting such letters of credit is that some of our cash becomes restricted and unavailable for our working capital needs until such time as the letters of credit expire. Also, it is difficult to predict the amount of royalty income we will receive from our licensees. Thus, actual cash requirements may be greater than currently anticipated.

Accordingly, we may not have adequate funds to cover our expenses. If this were the case, we would need to find other financing sources to provide the necessary funds, such as public or private sales of our equity or debt securities. We cannot assure you that if we needed additional funds we would be able to obtain them or obtain them on terms we find

acceptable. If we could not obtain the necessary financing we may cut back operations, which might include the scaling back or elimination of research and development programs.

We have one highly significant customer and the loss of this particular customer may seriously harm our business.

ADT, a customer of our Telguard products and services, represented 31% of our total revenue in fiscal 2008. If this customer chooses to use fewer of our products or stops using our products in total, our financial results could be materially impacted.

Our operating results may fluctuate greatly on a quarterly and annual basis, which may cause the price of our common stock to be volatile.

Our quarterly and annual operating results may fluctuate greatly due to numerous factors, many of which are beyond our control. Factors that could affect our quarterly and annual operating results include those listed below as well as others listed in this “Risk Factors” section:

- our reliance on large volume orders from only a few customers for most of our product sales, which may result in volatility when those orders are filled and not immediately followed by comparable orders;
- variations in our distribution channels;
- the mix of products we sell;
- general economic conditions in our target markets;
- the timing of final product approvals from our customers or regulators;
- the timing of orders from and shipments to major customers;
- the timing of new product introductions by us or our competitors;
- changes in our pricing policies and the pricing policies of our suppliers and our competitors;
- changes in the terms of our arrangements with customers and suppliers;
- the availability and cost to us of the key components for our products;
- ability of our customers to accurately forecast demand for our products by their end users;
- delays or failures to fulfill orders for our products on a timely basis;
- our inability to accurately forecast our manufacturing needs;
- change in the financial position of our manufacturers;
- an increase in product warranty returns or in our allowance for doubtful accounts;
- operational disruptions, such as transportation delays or failures of our order processing system;
- the timing of personnel hirings; and
- delays in the introduction of new or enhanced versions of our existing products or market acceptance of these products.

A substantial portion of our sales in a given quarter may depend on obtaining orders for products to be manufactured and shipped in the same quarter in which those orders are received. As a result of these factors, period-to-period comparisons of our operating results may not be meaningful, and you should not rely on them as an indication of our future performance. In addition, our operating results may fall below the expectations of public market analysts or investors. In this event, our stock price could decline significantly. These period-to-period fluctuations may contribute to the volatility in the price of our common stock, as described below.

We rely on cellular networks for service revenue that may be affected by the following:

- service may be interrupted or limited due to carrier transmission limitations caused by atmospheric, terrain, other natural or artificial conditions adversely affecting transmission.
- interruption of service due to cellular carrier equipment modification, upgrades, repairs and other similar activities.
- service may be limited based on available coverage.
- interruption of service may occur between various cellular network and participating carriers.
- carriers disclaim all liability of any nature to customers, whether direct, indirect, incidental or consequential, arising out of our customer's use of their service.

In the event that we experience significant cellular networks delays or interruption of service, we would have difficulty maintaining customers and our revenues could decline substantially and harm our business.

Corr Wireless Communications, LLC currently provides a majority of our network capability. A network malfunction or a contractual dispute between us and this carrier or among this carrier and other major U.S. carriers could materially impact the operation of our services and/or our financial results.

Our common stock price has been extremely volatile, and extreme price fluctuations could negatively affect your investment.

The market price of our common stock has been extremely volatile. Since October 1, 1999, the price of our common stock has ranged from a high of \$32.00 to a low of \$1.00 per share.

Publicized events and announcements may have a significant impact on the market price of our common stock. For example, the occurrence of any of the following events could have the effect of temporarily or permanently driving down the price of our common stock:

- shortfalls in our revenue or net income;
- the results of product trials or the introduction of new products by us or our competitors;
- market conditions in the telecommunications, technology and emerging growth sectors; and
- rumors related to us or our competitors.

In addition, the stock market from time to time experiences extreme price and volume fluctuations that particularly affect the market prices for emerging growth and technology companies, like Telular, and which often are unrelated to the operating performance of the affected companies. These broad fluctuations may negatively affect your ability to sell your shares at a price equal to or greater than the price you paid. In addition, a decrease in the price of our common stock could cause it to be delisted from the NASDAQ National Market.

Technology changes rapidly in our industry and our future success will depend on our ability to keep pace with these changes and meet the needs of our customers.

The telecommunications industry is characterized by rapid technological advances, evolving industry standards, changing customer needs and frequent new product introductions and enhancements. The fixed cellular telecommunications industry also is experiencing significant technological change. The introduction of products embodying new technologies and the emergence of new industry standards could render our existing products and technology obsolete and unmarketable. The process of developing new technology and products is complex, uncertain and expensive, and success depends on a number of factors, including:

- proper product definition;
- component cost;
- resolving technical hurdles;
- timely completion and introduction to the market;
- differentiation from the products of our competitors; and
- market acceptance of our products.

We may not be successful in developing and marketing new products and enhancements or we may experience difficulties that prevent development of products and enhancements in a timely manner. In addition, our products may fail to meet the needs of the marketplace or achieve market acceptance. Any of these circumstances would seriously harm our results and financial condition.

Our results depend on our ability to develop and introduce new products into existing and emerging markets and to reduce the costs to produce existing products.

The process of developing new technology is complex and uncertain, and if we fail to accurately predict the changing needs of our customers and emerging technological trends, our results and financial condition may suffer. We must commit significant resources, including those contracted from third parties, to develop new products before knowing whether our investments will result in products the market will accept. There can be no assurance that we will successfully identify new product opportunities, develop and bring new products to market in a timely manner, and achieve market acceptance of our products, or that products and technologies developed by others or new industry standards will not render our products or technologies obsolete or noncompetitive. Furthermore, we may not successfully execute on new product opportunities because of technical hurdles that we or our contractors fail to overcome in a timely fashion. This could result in competitors providing a solution before we do, and loss of market share, revenues and earnings.

Products from our investments in research and development of new products may not be realized for an extended period of time, if at all.

The Company has made significant investments in research and development for new products, services and technologies. Significant revenue from these investments may not be achieved for a number of years, if at all. Further, we may be required to purchase licenses from third parties in connection with the development of new products and these licenses may not be available on commercially reasonable terms, or at all. Even if we successfully introduce new products and technologies, our products may not be accepted by the market, we may be unable to sell our products at prices that are sufficient to recover our investment in developing those new products. Moreover, if these products are profitable, gross profit for these products may not be as high as the margins historically experienced for our other products.

We must devote substantial resources to research and development to remain competitive and we may not have the resources to do so.

For us to be competitive, we must continue to dedicate substantial resources to research and development of new products and enhancements of current and future products as described above. If we are unable to devote sufficient resources to fund necessary research and development or if our research and development efforts are unsuccessful such failure may have a material adverse effect on our business and our stock price may decline.

From time-to-time we face litigation that could significantly damage our business and financial condition.

In the telecommunications equipment and other high technology industries, litigation increasingly has been used as a competitive tactic by both established companies seeking to protect their position in the market and by emerging companies attempting to gain access to the market. In this type of litigation, complaints may be filed on various grounds, such as:

- antitrust;
- breach of contract;
- trade secret;
- copyright or patent infringement;
- patent or copyright invalidity; and
- unfair business practices.

We are currently defending ourselves against several such claims. Whether or not they have any merit, we incur substantial expense and management's attention may be diverted from operations. This type of litigation also may cause confusion in the market and make our licensees and distributors reluctant to commit resources to our products. Any of these effects could have a significant negative impact on our business and financial condition. In particular, an adverse result from intellectual property litigation could force us to do one or more of the following:

- cease selling, incorporating or using products that incorporate the challenged intellectual property;
- obtain a license from the holder of the infringed intellectual property right, which license may not be available on reasonable terms, if at all; and
- redesign products that incorporate the disputed technology.

If we are forced to take any of the foregoing actions, we could face substantial costs and shipment delays and our business could be seriously harmed. Although we carry general liability insurance, our insurance may not cover potential claims of this type or be adequate to indemnify us for all liability that may be imposed.

In addition, it is possible that our customers or end users may seek indemnity from us in the event that our products are found or alleged to infringe the intellectual property rights of others. Any such claim for indemnity could result in substantial expenses to us that could harm our operating results. Our largest customer is entitled to indemnification for such claims and has, in fact, sought such indemnification recently based on notice of infringement provided to this customer and to the Company by a party that has recently begun litigation against the Company and our customer based on this infringement claim.

Although our patents have been successfully defended in courts in the United States and New Zealand, rulings in such cases may not apply to new products. In the event that any of our patents or other intellectual property rights were

deemed invalid or were determined not to prohibit competing technologies as a result of litigation, our competitive position may be significantly harmed.

We rely on third parties to manufacture our products and others to manufacture components for our products.

We use subcontractors to manufacture our products and product components, such as cellular transceivers and radio modules, and to assemble our products, such as Fixed Cellular Terminals. In the past, we experienced delays in receiving subcontracted components and assembled products that resulted in delays in our ability to deliver products. We may experience similar delays in the future.

Our inability to obtain sufficient quantities of raw materials and key components when required could result in delays or reductions in product shipments and increased costs for affected parts. In addition, production capacity constraints at our subcontractors could prevent us from meeting production obligations.

Delays in product deliveries for any reason or our failure to deliver products could significantly harm customer relationships and result in the loss of potential sales. Delivery delays or failures could also be subject to litigation.

We rely on limited or sole sources for many of our components, and the loss of any such sources may adversely impact our business.

It is not always possible to maintain multiple qualified suppliers for all of our components and subassemblies. As a result, some key components are purchased only from a single supplier or a limited number of suppliers. If demand for a specific component increases, we may not be able to obtain an adequate supply of that component in a timely manner. In addition, if our suppliers experience financial or other difficulties, the availability of these components could be limited. It could be difficult, costly and time-consuming to obtain alternative sources for these components or to change product designs to make use of alternative components. If we are unable to obtain a sufficient supply of components, if we experience any interruption in the supply of components or if the cost of our components increases, our ability to meet scheduled product deliveries could be harmed, which could result in lost orders, harm to our reputation and reduced revenues.

Several of our sole sourced components in existing products are at end-of-life from their manufacturers. We are attempting to source more of these components using brokers in the secondary market but expect that we may run out of these components for several of our products during fiscal 2009. While we plan to design replacement products with available components, we can not assure you that we will successfully redesign these products and retain the revenue associated with the existing products which are subject to end-of-life components.

Our costs may increase if we are unable to accurately forecast our needs.

Lead times for ordering components from our manufacturers vary significantly and depend on various factors, such as the specific supplier, contract terms and demand for and availability of a component at a given time. If our forecasts are less than our actual requirements, we may not be able to obtain products in a timely manner. Furthermore, if we cannot produce our products in a timely manner, the liquidated damages provisions in some of our contracts with our customers may result in our selling our products at a loss. If our forecasts are too high, we and our manufacturer will be unable to use the components that were purchased based on our forecasts. The cost of the components used in our products tends to drop rapidly as volumes increase and technologies mature. Therefore, if we are unable to use components purchased based on our forecasts, our cost of producing products may be higher than our competitors'. Excess components or inventory will tie up working capital and cause us to incur storage and other carrying costs, which may cause us to borrow additional funds that may not be available on commercially reasonable terms. Further, excess components or inventory not used or sold in a timely manner may become obsolete, causing write-offs or write-downs, which could seriously harm our results of operations.

Quality control problems could harm our sales.

We believe that our products currently meet high standards of quality. We have instituted quality-monitoring procedures. Most of our major subcontractors also have quality control procedures in place and are ISO-9001:2000 compliant, but could experience quality control problems. If this occurs, the quality of our products could suffer, which could significantly harm product sales.

We may experience long sales cycles for our products, as a result of a variety of factors.

Our sales cycle depends on the length of time required for adoption of new technologies in our target markets. In addition, the period between our initial contact with a potential customer and its decision to purchase our products is relatively long. The evaluation, testing, acceptance, proposal, contract negotiation, funding and implementation process can extend over many months. Based on our limited operating history, it generally takes us between three and nine months to complete a sale to a customer. However, in certain instances the sales cycle may be substantially longer. If our sales cycle unexpectedly lengthens in general or for one or more large orders, the timing of our revenues and results of operations could be harmed, which in turn could reduce our revenues in any quarter. Therefore, period-to-period comparisons of our results of operations may not necessarily be meaningful, and these comparisons should not be relied upon as indications of future performance. Further, sales cycles that are longer than we expect likely will harm our ability to generate sufficient cash to cover our working capital requirements for a given period.

We operate in developing markets, which may subject us to volatile conditions not present in the United States.

Developing countries are some of our largest potential markets. As we expand our operations and products in these countries, our business and performance could be negatively affected by a variety of factors and conditions that businesses operating in the United States generally do not have to contend with, such as:

- foreign currency exchange fluctuations and instability of foreign currencies;
- political or economic instability and volatility in particular countries or regions;
- limited protection for intellectual property;
- difficulties in complying with foreign regulatory requirements applicable to our operations and products;
- difficulties in obtaining domestic and foreign export, import and other governmental approvals, permits and licenses and compliance with foreign laws, including employment laws;
- difficulties in staffing and managing international operations, including work stoppages or strikes and cultural differences in the conduct of business, labor and other workforce requirements and inadequate local infrastructure;
- trade restrictions or higher tariffs, quotas, taxes and other market barriers;
- transportation delays and difficulties of managing international distribution channels;
- longer payment cycles for, and greater difficulty in collecting accounts receivable; and
- public health emergencies such as SARS and avian bird flu.

To date, our sales have not been negatively affected by currency fluctuations. We currently seek prepayment, letters of credit or qualification for export credit insurance underwritten by the U.S. Export-Import Bank or other third-party insurers on a substantial portion of our international orders, but some international customers are granted open credit terms and we are exposed to some international credit risk. We also try to conduct all of our international transactions in U.S. dollars to minimize the effects of currency fluctuations. However, as our international operations grow, foreign exchange fluctuations and foreign currency inflation may pose greater risks for us and we may need to develop and

implement additional strategies to manage these risks. If we are not successful in managing these risks our business and financial condition could be seriously harmed.

Certain Company patents have expired, and patent protection for other Company products is not available in all markets.

The original principal United States patent for the Company's system for interfacing a standard telephone set with a radio expired on September 18, 2004. Although the Company holds other relevant United States and foreign patents, core aspects of our technology are not covered by patent protection. As a result, a competitor may be able to develop technologies that are substantially similar to our products, which would have a material adverse effect on our business and future prospects.

It also is possible that a competitor may independently develop and/or patent technologies that are substantially equivalent to or superior to our technology. If this happens, our patents will not provide protection and our competitive position may be significantly harmed.

As we expand our product line or develop new uses for our products, these products or uses may be outside the protection provided by our current patents and other intellectual property rights. In addition, if we develop new products or enhancements to existing products we cannot assure you that we will be able to obtain patents to protect them. Even if we do get patents for new products, these patents may not provide meaningful protection. Any patent that we may obtain will expire, and it is possible that it may be challenged, invalidated or circumvented.

In some countries outside of the United States, patent protection is not available. Moreover, some countries that do allow registration of patents do not provide meaningful redress for violations of patents. As a result, protecting intellectual property in these countries is difficult. In addition, neither we nor any known competitors in the past obtained patent protection for our core intelligent interface technology in many countries, including the principal countries of Western Europe, and we and those competitors are now legally barred from obtaining patents in these countries.

In countries where we do not have patent protection or where patents provide little, if any, protection, we have to rely on other factors to differentiate our products from our competitors' products.

Although we believe our products are superior to those of competitors, it may be easier for competitors to sell products similar to ours in countries where we do not have meaningful patent protection. This could result in a loss of potential sales.

We may initiate claims or litigation against third parties in the future for infringement of our proprietary rights or to determine the scope and validity of our proprietary rights or the proprietary rights of competitors. These claims could result in costly litigation and divert the efforts of our technical and management personnel. As a result, our operating results could suffer and our financial condition could be harmed.

We may not address successfully the problems encountered in connection with any potential future acquisitions.

We expect to continue to consider opportunities to acquire or make investments in other technologies, products and businesses that could enhance our capabilities, complement our current products or expand the breadth of our markets or customer base. We have limited experience in acquiring other businesses and technologies. Potential and completed acquisitions and strategic investments involve numerous risks, including:

- problems assimilating the purchased technologies, products or business operations;
- problems maintaining uniform standards, procedures, controls and policies;
- unanticipated costs associated with the acquisition;

- diversion of management’s attention from our core business;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering new markets in which we have no or limited prior experience; and
- potential loss of key employees of acquired businesses.

If we fail to properly evaluate and execute acquisitions and strategic investments, our management team may be distracted from our day-to-day operations, our business may be disrupted and our operating results may suffer. In addition, if we finance acquisitions by issuing equity or convertible debt securities, our stockholders would be diluted.

Delaware law and our charter documents may inhibit a potential takeover bid that would be beneficial to common stockholders.

Delaware law and our certificate of incorporation may inhibit potential acquisition bids for Telular common stock at a price greater than the market price of the common stock. We are subject to the anti-takeover provisions of the Delaware General Corporation Law, which could delay, deter or prevent a change of control of Telular or make this type of transaction more difficult. In addition, our board of directors does not need the approval of common stockholders to issue shares of preferred stock having rights that could significantly weaken the voting power of the common stockholders and, as a result, make a change of control more difficult.

Sales of common stock issuable on the exercise of outstanding and contemplated options and warrants may depress the price of the common stock.

As of September 30, 2008, there were options granted to employees and directors to purchase 1,712,342 shares of the Company’s common stock. Options to purchase 791,414 of these shares were exercisable at that time. The exercise prices for the exercisable options range from \$1.95 to \$16.45 per share, with a weighted average exercise price of \$4.34. Options to purchase the remaining 920,928 shares will become exercisable over the next two years. The exercise prices for the options that are not yet exercisable have a weighted average exercise price of \$5.30.

In connection with a credit facility with Wells Fargo Bank (“Wells”) that matured on December 31, 2002, we issued to Wells warrants to purchase 50,000 shares of common stock at an exercise price of \$16.29 per share. In connection with the private placement of 2,650,000 shares to certain shareholders on September 2, 2005, we issued warrants to purchase 1,324,996 shares of the Company’s common stock at an exercise price of \$4.50 per share and an additional 1,324,996 shares at an exercise price of \$5.00 per share. Finally, in connection with entering into a two-year Loan and Security Agreement and a Non-Recourse Receivable Purchase Agreement with Silicon Valley Bank (“SVB”) on June 27, 2006, we issued warrants to purchase 320,856 of the Company’s common stock at an exercise price of \$1.87 per share. In the future we may issue additional shares of common stock, convertible securities, options and warrants.

The issuance of shares of common stock issuable upon the exercise of options or warrants could cause substantial dilution to holders of common stock. It also could negatively affect the terms on which we could obtain equity financing.

During fiscal 2008, SVB exercised 320,856 warrants in a cash-less transaction for 218,641 shares of the Company’s Common Stock. Additionally, certain shareholders, in connection with the September 2, 2005 private placement, exercised warrants for 176,567 shares of the Company’s Common Stock. Also, during fiscal 2008, holders of warrants issued in the private placement of common stock on September 2, 2005 exercised 395,208 warrants for common stock of the Company.

Certain former holders of our 5% Series A Convertible Preferred Stock believe that we did not issue them enough common stock on conversion of their preferred stock.

Under the terms of our 5% Series A Convertible Preferred Stock, on October 18, 1999, all of the 11,350 outstanding shares of preferred stock automatically were converted into approximately 2.1 million shares of common stock at the minimum conversion price of \$8.00 per common share specified in the terms. In Form SC-13G filings with the Securities and Exchange Commission in October and December 1999, certain of the previous holders noted that, based upon their interpretation of Mandatory Conversion formula, the holders were entitled to an aggregate of approximately 4.2 million additional shares. We do not agree with this interpretation, and we have notified these holders of our position. If we were required to issue these shares it would cause substantial dilution to our stockholders.