

SIERRA WIRELESS INC  
Form 6-K  
August 12, 2010

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 6-K

Report of Foreign issuer

Pursuant to Rule 13a-16 or 15d-16 of the  
Securities Exchange Act of 1934

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For the Month of August 2010

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(Commission File. No 0-30718).

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## SIERRA WIRELESS, INC., A CANADIAN CORPORATION

(Translation of registrant's name in English)

13811 Wireless Way

Richmond, British Columbia, Canada V6V 3A4

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(Address of principal executive offices and zip code)

Registrant's Telephone Number, including area code: **604-231-1100**

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F:

Form 20-F  40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes:  No:

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SIGNATURES

Pursuant to the requirements 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.

Sierra Wireless, Inc.

By: */s/ David G. McLennan*

David G. McLennan, Chief Financial Officer and Secretary

Date: August 12, 2010







## Report to Shareholders

**Strong, broad based demand, combined with lower operating expenses, drove record quarterly revenue and better than expected earnings for the second quarter of 2010, despite industry wide component supply constraints.**

Revenue for the second quarter of 2010 was \$159.1 million, an increase of 18% compared to \$135.3 million in the second quarter of 2009 and an increase of 5% compared to \$151.3 million in the first quarter of 2010. Our record quarterly revenue was driven by strong demand for both Machine-to-Machine ( M2M ) and Mobile Computing products in the quarter. M2M revenue increased to \$83.6 million, up 53% compared to \$54.6 million in second quarter of 2009. Mobile Computing revenue was \$75.5 million, down 6% compared to \$80.7 million in the second quarter of 2009, but up 21% sequentially from the first quarter of 2010.

Our GAAP gross margin was 29%, operating expenses were \$49.7 million, loss from operations was \$3.5 million and our net loss was \$8.6 million, or loss per share of \$0.28, for the second quarter of 2010. On a non-GAAP basis, gross margin was 29.1%, operating expenses were \$41.7 million, earnings from operations were \$4.7 million and net earnings were \$4.4 million, or diluted earnings per share of \$0.14.

Our strong results were under-pinned by continued broad based demand across both the M2M and Mobile Computing markets. And, while delivering strong results, we continued to bolster our strategic position in our key markets with important investments, geographical expansion, new products and new customer wins, all of which fuel our expectations for continued growth and expanding profitability.

## M2M Business

Our M2M business includes AirPrime™ Embedded Modules (excluding revenue from PC OEM customers), AirLink™ Intelligent Gateways and Routers and our AirVantage™ Solutions and Service Delivery Platforms.

The M2M market represents a tremendous opportunity for Sierra Wireless. The market includes a broad range of connected devices and solutions covering consumer electronics as well as industrial and enterprise solutions. ABI Research predicts the global market for connected devices to grow from 32 million units shipped in 2009 to 146 million units in 2014, a compound annual growth rate of 35%.

Our strategic investments in M2M are driving strong results. Our M2M business now contributes more than half of our sales and we have achieved the #1 global market share position in wireless M2M.

In the second quarter of 2010, M2M revenue was \$83.6 million, up 53% compared to the second quarter of 2009 and down 6% compared to the first quarter of 2010. As expected, the sequential decline was due to normalizing channel demand with consumer device customers, following exceptionally high demand in the first quarter. In all other M2M segments, we saw solid sequential growth over the first quarter of 2010.

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AirLink Intelligent Gateways and Routers continued to be a solid contributor, delivering revenue of \$12.2 million in the second quarter of 2010, compared to \$10.2 million in the second quarter of 2009. Growth in this product line was driven by both international expansion and strong contribution from North America.

Our AirVantage services delivery platform also continued to gain momentum during the quarter as we added important new features to the platform, achieved key customer deployment milestones and secured new solution design wins in the energy management and outdoor advertising segments.



## Mobile Computing Business

Our mobile computing business includes AirCard® Mobile Broadband Devices, as well as revenue from our AirPrime Embedded Modules to PC OEM customers.

In the second quarter of 2010, our mobile computing revenue was \$75.5 million, down 6% compared to the second quarter of 2009, and up 21% compared to the first quarter of 2010. Momentum in our AirCard business was particularly strong, driven by new product launches with new and existing operator customers and solid sell through. In the second quarter, we launched our new AirCard 250U 3G/4G device with Sprint and Clear, adding an important new operator customer, while also reinforcing our leading share position at Sprint. We also built on our Overdrive success at Sprint, launching two new variants of our 3G/4G mobile hotspot with both Clear and Time Warner. Furthermore, we made excellent progress on important new AirCard R&D programs for HSPA+, HSPA+ Dual Carrier and LTE. We expect these programs to result in new product launches in the second half of this year and the first half of 2011.

In PC OEM, we are making strong progress in rebuilding our position in the market and have secured important new design wins with Tier 1 and Tier 2 OEMs for platforms scheduled to launch in 2011. We expect to see significant revenue contribution from these design wins throughout 2011.

Overall, we see solid momentum in our mobile computing business and we expect that our strong sell through, new design wins and planned new product launches will drive sequential growth in the third quarter of 2010 and beyond.

## Outlook

In the second quarter of 2010, we delivered record revenue and better than expected earnings. In our M2M business, we secured the leading market share position in this strategic and growing market and continued to extend our lead with new products, new design wins, and enhanced software and services capability. In our Mobile Computing business, we delivered excellent sequential growth, with the launch of new AirCard products and the addition of new operator customers. We also continued to build momentum with PC OEMs, earning strategic design wins with major manufacturers across multiple notebook and module platforms.

Our strategy and strong execution not only helped us to deliver strong results in second quarter, but also positions us well for continued growth and earnings expansion in the periods ahead.

*/s/ Jason W. Cohenour*  
Jason W. Cohenour  
President and Chief Executive Officer

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Certain statements in this report that are not based on historical facts constitute forward-looking statements or forward-looking information within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and applicable Canadian securities laws ( forward-looking statements ). These forward-looking statements are not promises or guarantees of future performance but are only predictions that relate to future events, conditions or circumstances or our future results, performance, achievements or developments and are subject to substantial known and unknown risks, assumptions, uncertainties and other factors that could cause our actual results, performance, achievements or developments in our business or in our industry to differ materially from those expressed, anticipated or implied by such forward-looking statements.

Forward-looking statements in this report include all disclosure regarding possible events, conditions, circumstances or results of operations that are based on assumptions about future economic conditions, courses of action and other future events. We caution you not to place undue reliance upon any such forward-looking statements, which speak only as of the date they are made. These forward-looking statements appear in a number of different places in this report and can be identified by words such as may , estimates , projects , expects , intends , believes , plans , anticipates , continue , growing , expanding , or their negatives or other comparable words. Forward-looking statements include

statements regarding the outlook for our future operations, plans and timing for the introduction or enhancement of our services and products, statements concerning strategies or developments, statements about future market conditions, supply conditions, end customer demand conditions, channel inventory and sell through, revenue, gross margin, operating expenses, profits, forecasts of future costs and expenditures, the outcome of legal proceedings, and other expectations, intentions and plans that are not historical fact. The risk factors and uncertainties that may affect our actual results, performance, achievements or developments are many and include, amongst others, our ability to develop, manufacture, supply and market new products that we do not produce today that meet the needs of customers and gain commercial acceptance, our reliance on the deployment of next generation networks by major wireless operators, the continuous commitment of our customers, and increased competition. These risk factors and others are discussed in our Annual Information Form and Management's Discussion and Analysis of Financial Condition and Results of Operations, which may be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on EDGAR at [www.sec.gov](http://www.sec.gov) and in our other regulatory filings with the Securities and Exchange Commission in the United States and the Provincial Securities Commissions in Canada. Many of these factors and uncertainties are beyond our control. Consequently, all forward-looking statements in this report are qualified by this cautionary statement and we cannot assure you that actual results, performance, achievements or developments that we anticipate will be realized. Forward-looking statements are based on management's current plans, estimates, projections, beliefs and opinions and we do not undertake any obligation to update forward-looking statements should the assumptions related to these plans, estimates, projections, beliefs and opinions change, except as required by law.

## Management's Discussion and Analysis of

### Financial Condition and Results of Operations

*The following Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) provides information for the three and six months ended June 30, 2010, and up to and including August 10, 2010. This MD&A should be read together with our audited consolidated financial statements and the accompanying notes for the year ended December 31, 2009 (the consolidated financial statements ). The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ( U.S. GAAP ). Except where otherwise specifically indicated, all amounts in this MD&A are expressed in United States dollars.*

*We have prepared this MD&A with reference to National Instrument 51-102 Continuous Disclosure Obligations of the Canadian Securities Administrators. Under the U.S./Canada Multijurisdictional Disclosure System, we are permitted to prepare this MD&A in accordance with the disclosure requirements of Canada, which requirements are different than those of the United States.*

*Certain statements in this MD&A constitute forward-looking statements or forward-looking information within the meaning of applicable securities laws. You should carefully read the cautionary note in this MD&A regarding forward-looking statements and should not place undue reliance on any such forward-looking statements. See Cautionary Note Regarding Forward-Looking Statements .*

*Additional information related to Sierra Wireless, Inc., including our consolidated financial statements and our Annual Information Form, may be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on EDGAR at [www.sec.gov](http://www.sec.gov).*

## Overview

We provide leading edge wireless solutions for the machine-to-machine ( M2M ) and mobile computing markets. We develop and market a range of products that include wireless modems for mobile computers, embedded modules and software for original equipment manufacturers ( OEMs ), intelligent wireless gateway solutions for industrial, commercial and public safety applications, and an innovative platform for delivering device management and end-to-end application services. We also offer professional services to OEM customers during their product development and launch process, leveraging our expertise in wireless design, software, integration and certification to provide built-in wireless connectivity for mobile computing devices and M2M solutions. Our products, services and solutions connect people, their mobile computers and machines to wireless voice and mobile broadband networks around the world.

Our acquisition of Wavecom S.A. ( Wavecom ), a global leader in wireless M2M solutions headquartered in Issy-les-Moulineaux, France, on February 27, 2009 enhances our product and service offering in the global M2M market by adding highly sophisticated wireless module platforms and solutions which integrate all of the necessary software and hardware on embedded devices that can be used for a wide variety of applications. The result of the combination of Sierra Wireless and Wavecom is a global leader that is uniquely positioned to benefit from the anticipated growth in the wireless M2M and mobile computing markets. We expect the acquisition to significantly expand and diversify our position in the global M2M market, broaden our product offerings and increase our scale and capabilities in Europe and Asia.

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We believe that the markets for mobile broadband connectivity and wireless M2M solutions have strong growth prospects. We believe that the key growth enablers for these markets include the continued deployment of mobile broadband networks around the world, aggressive promotion of mobile broadband services by wireless operators, growing strategic focus on M2M services by wireless operators and expanding end customer awareness of the availability of such services and their benefits.

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Our expanded line-up of M2M wireless solutions is used by a wide range of OEMs and enterprises to wirelessly enable their products and solutions. Our M2M customers cover a broad range of industries including consumer electronics, networking equipment, automotive, energy, security, transaction processing, industrial control and monitoring, fleet management and public safety.

Our mobile computing products are used by businesses, consumers and government organizations to enable mobile broadband access to the Internet, e-mail, remote databases and corporate and consumer applications.

We sell our products primarily through indirect channels including wireless operators, OEMs, distributors and value added resellers.

On December 2, 2008, we announced an all-cash offer to purchase all of the ordinary shares and OCEANE convertible bonds ( OCEANES ) of Wavecom. The total value of the transaction was approximately 218.0 million. We made a cash offer of 8.50 per share of Wavecom and 31.93 per OCEANE. The transaction was implemented by way of concurrent but separate public tender offers in both France and the United States for all Wavecom shares, all American Depository Shares ( ADSs ) representing Wavecom shares and all OCEANES issued by Wavecom. On February 27, 2009, we completed our acquisition of 84.32% of the outstanding shares and 99.97% of the outstanding OCEANES of Wavecom, representing 90.57% of the voting rights of Wavecom. Following a statutory re-opening of the tender offer and our purchase of Wavecom shares on the market, we increased our ownership of the voting rights of Wavecom from 90.57% to 95.4% and, on April 29, 2009, completed our acquisition of all of the remaining Wavecom shares, except for certain shares held by employees that are subject to a hold period, and OCEANES by way of a squeeze-out. The Wavecom shares and OCEANES have been delisted from the Euronext and the ADSs have been delisted from the NASDAQ Global Market ( Nasdaq ).

On January 29, 2009, prior to the acquisition of Wavecom, we implemented an expense reduction program that was completed during the first quarter of 2009 and included the elimination of 56 positions, representing 10% of our workforce. In the first quarter of 2009, we incurred a pre-tax charge of approximately \$1.6 million related to the program, which included \$0.5 million of stock-based compensation expense.

Also prior to our acquisition of Wavecom, Wavecom announced a cost savings program and a proposed reorganization. The first portion of this plan, related to its operations in the United States, began in late 2008. In the second quarter of 2009, the staff reduction program in France related to this reorganization was implemented. A total of 77 positions in France were impacted, with one position remaining to be phased out by the third quarter of 2010. On May 15, 2009, we announced further cost reduction initiatives related to the integration of Wavecom and Sierra Wireless that included combining the research and development ( R&D ) and product operations of both organizations. As a result, the Wavecom location in Research Triangle Park, North Carolina, was closed in the fourth quarter of 2009. R&D activities from this location have been transitioned primarily to the Sierra Wireless location in Carlsbad, California. In the second quarter of 2009, we incurred a pre-tax charge of approximately \$9.0 million related to these initiatives, which included \$0.4 million of stock-based compensation expense. The cost reduction initiatives in the U.S. and France were substantially completed by the first quarter of 2010.

Key factors that we expect will affect our results in the near term are general economic conditions in the markets we serve, the relative competitive position our products have within the wireless operators sales channels in any given period, the availability of components from key suppliers, timing of deployment of mobile broadband networks by wireless operators, wireless technology transitions, the rate of adoption by end-users, the timely launch and ramp up of sales of our new products currently under development, the level of success our OEM customers achieve with sales of embedded solutions to end users and our ability to secure future design wins with both existing and new OEM customers. We expect that product and price competition from other wireless communications device manufacturers will continue to be intense. As a result of these factors, we may experience volatility in our results on a quarter to quarter basis.

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With the acquisition of Wavecom, we have a significantly expanded product line and global roster of sales channels. We expect that Q3 2010 revenue will increase relative to Q2 2010, driven by the sales of recently launched AirCard products and continued strong demand for our products. Specific product and business development initiatives include:

## **M2M Business**

Our M2M business includes our AirPrime Intelligent Embedded Modules (excluding sales to PC OEMs), AirLink Intelligent Gateways and Routers and AirVantage Services Platform and Solutions. Our M2M revenue was \$83.6 million in the second quarter of 2010, compared to \$54.6 million in the same period of 2009.

### **AirPrime Intelligent M2M Embedded Modules (excludes PC OEM embedded modules)**

Our expanded line-up of AirPrime Intelligent Embedded Modules is used by a wide range of OEMs to wirelessly enable their products and solutions. Our M2M OEM customers cover a broad range of industries including consumer electronics, networking equipment, automotive, security, transaction processing, fleet management, energy and public safety.

In the second quarter of 2010, sales of our M2M embedded module products increased 64% to \$69.5 million, compared to \$42.3 million in the same period of 2009, primarily as a result of strong contribution from sales to automotive and consumer OEM customers. In the second quarter of 2010, we continued to have strong shipments of embedded modules to Barnes & Noble for their nook e-book reader.

With the acquisition of Wavecom, we have significantly expanded our global position in wireless embedded solutions for M2M. In the second quarter of 2010, EDMI Limited ( EDMI ), based in Singapore, integrated our Sierra Wireless AirPrime WMP100 intelligent embedded module into its electronic energy meter to enable EDMI customers to control power consumption and read meters in real time. PFK Electronics (Pty) Ltd. ( PFK ), a designer and manufacturer of automotive security products in South Africa, and inthinc, inc., a company focused on developing solutions to positively impact driver behavior, are both using our AirPrime WMP100 to enhance road safety by ensuring their devices can reliably connect to central systems in real time. Also during the second quarter of 2010, we announced the availability of our new AirPrime XM0110 GPS Module which provides easy-to-use and optimized GPS feature integration for wireless applications requiring location information. PFK is integrating our AirPrime XM0100 GPS Module into a series of products for fleet management, asset tracking and stolen vehicle recovery. We also launched our new Sierra Wireless AirPrime Q2668 intelligent embedded module with China Mobile for use on its TD-SCDMA network. In the first quarter of 2010, we launched our new AirPrime SL Series intelligent embedded modules. Designed to suit the needs of manufacturers of small host devices in high-volume production, such as e-book readers, personal navigation devices and gaming devices, the Sierra Wireless AirPrime SL Series offers EDGE and HSPA connectivity in a compact, lightweight form factor. Also during the first quarter of 2010, Funkwerk Enterprise Communications GmbH selected the Sierra Wireless AirPrime MC8790 HSPA Embedded Module to provide high-speed mobile broadband connectivity to the Funkwerk bintec RS120wu router. We believe the long-term growth and profitability prospects in the embedded M2M market are strong and we plan to continue to invest to expand our leadership position.

### **AirLink Intelligent Gateways and Routers**

Our AirLink Intelligent Gateways and Routers are sold to public safety, transportation, field service, energy, industrial and financial organizations and are among our highest gross margin products. We continue to believe that there are strong profitable growth prospects for our AirLink intelligent solutions and intend to capture these opportunities through segment, product line and geographical expansion.



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In the second quarter of 2010, revenue from AirLink intelligent gateway solutions increased 20% to \$12.2 million from \$10.2 million in the same period of 2009.

During the second quarter of 2010, together with NetMotion Wireless, a provider of secure mobile productivity and management software, we announced a joint marketing agreement to deliver combined mobile data solutions for emergency first responders and utility workers. Our AirLink in-vehicle GPS gateways and routers now support Garmin's Fleet Management Interface, which simplifies the integration of AirLink devices with Garmin's personal navigation devices used in conjunction with dispatch or automatic vehicle location systems. During the second quarter of 2010, we also announced the availability of the Sierra Wireless AirLink MP895 and the Raven XE platforms with quad-band HSPA frequency support.

During the first quarter of 2010, EDMI selected our intelligent embedded modules to integrate into its advanced electronic energy meter to service the growing global smart meter market. In addition, together with Prumaro d.o.o. and local integrator Telos d.o.o., we announced the deployment of Prumaro's GEM interactive digital signage application, powered by our AirLink Pinpoint X mobile communications gateway in public buses and kiosks throughout Slovenia's capital of Ljubljana.

#### **AirVantage Services Platform and Solutions**

Our AirVantage business provides solutions and services that enable system integrators, enterprises and telecom operators to accelerate the deployment of complete M2M solutions for managing remote equipment and assets. These solutions are based on tools that facilitate the development and delivery of applications that are hosted on our AirVantage services platform. Our services platform is scalable, secure and compatible with a broad range of available wireless equipment.

During the second quarter of 2010, we added important new features to the platform achieved key customer deployment milestones and secured new solution design wins in the energy management and outdoor advertising segments.

During the first quarter of 2010, we signed a services contract with IBM to host a new services platform dedicated to our software as a service M2M offering. The new hosting facility is expected to support a growing number of North American customers, including Orbcomm Inc. which went live on the platform in March 2010. We announced a new Consumer Device Management application for the Sierra Wireless AirVantage Services Platform that offers wireless network operators and M2M solution providers a simple, cost effective way to deploy and manage mass market consumer devices. In addition, together with the French wireless network operator Bouygues Telecom, we introduced a new bundled offer for wireless M2M communication that targets industrial, sales and payment, and security solutions. The bundle gives access to Bouygues Telecom's prepaid pan-European data airtime on the new Sierra Wireless AirLink GL6100 GSM/GPRS modem with Embedded SIM and includes a one year subscription to Sierra Wireless AirVantage Management Services for remote diagnosis and software upgrades.

#### **Mobile Computing Business**

Our mobile computing business includes our AirCard® Mobile Broadband Devices and embedded modules for PC OEM customers. Our mobile computing revenue was \$75.5 million in the second quarter of 2010, compared to \$80.7 million in the same period of 2009.

#### **AirCard® Mobile Broadband Devices**

Our AirCard mobile broadband device family includes our AirCard branded PC cards, USB modems and mobile Wi-Fi hotspots. Our AirCards, sold to wireless operators around the world, provide a simple way to connect notebooks, netbooks and other electronic devices to the Internet, over 3G and 4G mobile broadband networks. In the second quarter of 2010, sales of our AirCard products decreased 11% to \$69.0 million, compared to \$77.7 million in the same period of 2009 due primarily to decreased sales to our larger operator accounts resulting from lower ASPs, partially offset by increased sales at other customers.

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Notwithstanding our lower AirCard revenue in the second quarter of 2010 compared to the same period of 2009, we believe that the market for our AirCard products continues to offer profitable opportunities. Competition in this market continues to be intense and our future success will depend in part on our ability to continue to develop differentiated products that meet our customers' evolving technology, design, schedule and price requirements.

During the second quarter of 2010, we continued to have a strong position with AT&T and Telstra for shipments of our HSPA AirCards and with Sprint for shipments of our 3G/4G Mobile Hotspot, 3G/4G AirCards and EV-DO Rev A AirCards.

During the second quarter of 2010, we began commercial shipments of the Sprint 3G/4G USB 250U mobile broadband modem from Sierra Wireless, also known as the AirCard 250U, with download speeds up to 10 times faster than 3G in any of the 33 Sprint 4G markets. We also began commercial shipments to Clearwire Corporation ( Clear ) of our AirCard 250U, called the Series S 4G+ modem. Time Warner Cable announced that IntelliGo, also known as the Sierra Wireless AirCard W801 3G/4G Mobile Hotspot, is available on the Time Warner Cable 4G network with Road Runner Mobile. In addition, AT&T announced the availability of our Sierra Wireless AirCard 890, an HSPA device with a 2-in-1 form factor that supports both PC card and ExpressCard slots.

During the first quarter of 2010, we began shipping the Sierra Wireless AirCard W801 Mobile Hotspot, the world's first wireless mobile hotspot that combines 3G (EV-DO Rev A) with 4G (WiMax) and WiFi technologies. Also known as the Overdrive 3G/4G Mobile Hotspot launched by Sprint, this product turns a single Internet connection into a wireless LAN that can be shared by multiple users.

Also during the first quarter of 2010, together with Telefonica, using the Sierra Wireless AirCard 310U USB modem, we showcased a unique product and service combination wherein a customer would be provided with an online storage vault accessed directly via the USB modem. DNA Ltd., a Finnish telecommunications company, began offering its customers even faster connections with our modem devices, the first time Sierra Wireless USB modems have been commercially available in Finland.

During the first quarter of 2010, we introduced our upcoming product portfolio, enhancing our HSPA+ product line with a selection of products to support customers migrating to dual-carrier HSPA+ technology, effectively doubling the speeds of currently available HSPA+ devices. The Sierra Wireless AirCard 312U USB modem is scheduled for commercial release later this year from Telstra in Australia. Dual-carrier HSPA+ doubles the downlink speeds of current HSPA+ networks from a theoretical maximum of 21 megabits per second ( Mbps ) to 42 Mbps, making the networks more efficient and allowing a better user experience for customers.

Also in the first quarter of 2010, we announced that the Sierra Wireless AirCard product line will provide a Windows 7 Device Stage experience across multiple devices. Sierra Wireless is the first mobile broadband modem supplier to deploy a Device Stage experience, which provides customers with more convenient, intuitive access to their device and account information.

#### **AirPrime Intelligent Embedded Modules for PC OEMs**

In the second quarter of 2010, revenue from sales of our AirPrime Intelligent Embedded Modules to PC OEM customers increased 113% to \$5.3 million from \$2.5 million in the second quarter of 2009.

In the second quarter of 2010, we have made strong progress in re-energizing our position in the market and have secured important new design wins with Tier 1 and Tier 2 OEMs for platforms scheduled to launch in 2011. During the first quarter of 2010, Fujitsu selected us to provide 3G mobile broadband for several new models in Fujitsu's LIFEBOOK series notebooks which will utilize Qualcomm's Gobi Global Mobile Internet technology, provided by us. Panasonic Computer Solutions Company, manufacturer of durable, reliable Panasonic Toughbook® mobile computers, announced that it would deploy our Gobi2000 module across its Toughbook line of rugged mobile computers. We also have new design wins with two Tier 1 PC OEM customers utilizing Gobi 3000 technology on platforms that we expect will launch in 2011. We believe that these new design wins will enable us to continue to grow our revenue from PC OEM customers in subsequent quarters. Our ability to secure additional design wins in the PC OEM market will depend on being successful in developing products and offering services that meet our customers' technology, design, schedule and price requirements.



**Selected Annual Information**

Years ended December 31,	2007	2008	2009
Revenue	\$ 439,903	\$ 567,308	\$ 526,384
Net earnings (loss)	32,459	62,583	(39,899)
Basic earnings (loss) per share	1.17	2.00	(1.29)
Diluted earnings (loss) per share	1.16	2.00	(1.29)
Total assets	385,021	462,386	484,519
Total long term liabilities	6,919	15,105	36,105

See discussion under Results of Operations for factors that have caused period to period variations.

**Results of Operations**

The following table sets forth our operating results for the three and six months ended June 30, 2010, expressed as a percentage of revenue:

	Three months ended		Six months ended	
	2010	June 30, 2009	2010	June 30, 2009
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	71.0	64.2	70.2	67.6
Gross margin	29.0	35.8	29.8	32.4
Expenses				
Sales and marketing	8.3	11.5	8.8	10.1
Research and development	13.5	16.7	13.6	15.2
Administration	5.6	8.0	5.9	7.0
Acquisition costs		0.6		3.0
Restructuring costs	1.0	6.6	1.0	4.3
Integration costs	1.0	0.7	1.1	0.5
Amortization	1.8	3.7	2.0	3.0
	31.2	47.8	32.4	43.1
Loss from operations	(2.2)	(12.0)	(2.6)	(10.7)
Foreign exchange gain (loss)	(3.4)	8.1	(2.9)	0.4
Other expense	(0.1)		(0.1)	(1.6)
Loss before income taxes	(5.7)	(3.9)	(5.6)	(11.9)
Income tax expense (recovery)	(0.3)	0.9	(0.4)	0.4
Loss before non-controlling interest	(5.4)	(4.8)	(5.2)	(12.3)
Less: Non-controlling interest		(0.5)		(0.3)
Net loss	(5.4)%	(4.3)%	(5.2)%	(12.0)%

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Our revenue by business line, product and geographical region is as follows:

	Three months ended		Six months ended	
	2010	June 30, 2009	2010	June 30, 2009
<b>Revenue by business line</b>				
M2M	53%	40%	55%	35%
Mobile computing	47	60	45	65
	100%	100%	100%	100%
<b>Revenue by product</b>				
AirPrime Intelligent Embedded Modules	47%	33%	50%	28%
AirCard Mobile Broadband Devices	43	57	41	62
AirLink Intelligent Gateways and Routers	8	8	7	8
AirVantage Solutions and Other	2	2	2	2
	100%	100%	100%	100%
<b>Revenue by geographical region</b>				
Americas	47%	59%	45%	63%
Europe, Middle East and Africa ( EMEA )	15	20	14	17
Asia-Pacific	38	21	41	20
	100%	100%	100%	100%

**Non-GAAP Financial Measures**

Our consolidated financial statements are prepared in accordance with U.S. GAAP on a basis consistent for all periods presented. In addition to results reported in accordance with U.S. GAAP, we use non-GAAP financial measures as supplemental indicators of our operating performance. The term "non-GAAP financial measure" is used to refer to a numerical measure of a company's historical or future financial performance, financial position or cash flows that: (i) excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with U.S. GAAP in a company's statement of income, balance sheet or statement of cash flows; or (ii) includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented. We refer to gross margin, earnings (loss) from operations, net earnings (loss) and diluted earnings (loss) per share adjusted for specific items that affect comparability as non-GAAP gross margin, non-GAAP earnings (loss) from operations, non-GAAP net earnings (loss) and non-GAAP diluted earnings (loss) per share, respectively. We disclose non-GAAP amounts as we believe that these measures provide better information on actual operating results and assist in comparisons from one period to another.

Readers are cautioned that non-GAAP financial measures do not have any standardized meaning prescribed by U.S. GAAP and therefore may not be comparable to similar measures presented by other companies.

The following table provides a reconciliation of the non-GAAP financial measures for the three and six months ended June 30, 2010 and 2009 to our U.S. GAAP results:





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(in millions of U.S. dollars)	Three months ended			Six months ended				
	2010	June 30,	2009	2010	June 30,	2009		
Revenue GAAP and Non-GAAP	\$	159.1	\$	135.3	\$	310.4	\$	246.8
Gross margin GAAP	\$	46.2	\$	48.5	\$	92.5	\$	80.0
Stock-based compensation		0.1		0.1		0.3		0.2
Gross margin Non-GAAP	\$	46.3	\$	48.6	\$	92.8	\$	80.2
Loss from operations GAAP	\$	(3.5)	\$	(16.2)	\$	(8.0)	\$	(26.5)
Stock-based compensation		1.8		2.6		3.4		4.7
Transaction costs				0.8				7.3
Restructuring and other costs		1.6		8.5		3.2		9.7
Integration costs		1.6		0.9		3.5		1.2
Acquisition related amortization		3.2		6.2		6.7		8.6
Earnings from operations Non-GAAP	\$	4.7	\$	2.8	\$	8.8	\$	5.0
Net loss GAAP	\$	(8.6)	\$	(5.9)	\$	(16.1)	\$	(29.5)
Stock-based compensation, transaction, restructuring, integration and acquisition amortization costs, net of tax		7.5		18.8		15.6		30.9
Foreign exchange (gain) loss		5.5		(11.0)		9.1		(1.0)
Interest expense								4.3
Non-controlling interest				(0.4)		(0.1)		(0.7)
Net earnings Non-GAAP	\$	4.4	\$	1.5	\$	8.5	\$	4.0
Loss per share GAAP	\$	(0.28)	\$	(0.19)	\$	(0.52)	\$	(0.95)
Diluted earnings per share Non-GAAP	\$	0.14	\$	0.05	\$	0.27	\$	0.13

**Results of Operations Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009**

*Revenue*

Revenue increased to \$159.1 million for the three months ended June 30, 2010, compared to \$135.3 million in the same period of 2009, an increase of 18%. The increase in revenue was primarily a result of an increase in sales of our M2M products, partially offset by a decrease in sales of our mobile computing products. Our sales of M2M products increased primarily due to strong sales of our embedded modules used in consumer electronics and across a broad base of M2M markets.

Our revenue from customers in the Americas, EMEA and the Asia-Pacific region comprised 47%, 15% and 38%, respectively, of our total revenue in the second quarter of 2010, compared to 59%, 20% and 21%, respectively, of our total revenue in the same period of 2009. Our business in North America decreased by 6% compared to the second quarter of 2009 due primarily to a decrease in sales of our AirCards. Our business in EMEA decreased by 9% compared to the second quarter of 2009 due primarily to a decrease in sales of our AirCards and sales of embedded modules to PC OEM customers. Our business in the Asia-Pacific region increased 106% compared to the second quarter of 2009 due primarily to increased sales of our embedded modules used in consumer electronics.

In the second quarter of 2010, AT&T, Sprint and Barnes and Noble each accounted for more than 10% of our revenue and, in the aggregate, these three customers represented approximately 40% of our revenue. In the second quarter of 2009, AT&T and Sprint each accounted for more

than 10% of our revenue and, in the aggregate, these two customers represented approximately 42% of our revenue.

With the acquisition of Wavecom, we have a significantly expanded product line and global roster of sales channels. We expect that Q3 2010 revenue will increase relative to Q2 2010, driven by the sales of recently launched AirCard products and continued strong demand for our products.

*Gross margin*

Gross margin amounted to \$46.2 million for the three months ended June 30, 2010, or 29.0% of revenue, compared to \$48.5 million, or 35.8% of revenue, in the same period of 2009. The decrease in gross margin percentage resulted primarily from our newer AirCard products that have a lower gross margin due to higher product costs during the product launch period. Gross margin included \$0.1 million of stock-based compensation expense in each of the first quarters of 2010 and 2009.

During the third quarter of 2010, we expect that our gross margin percentage will decrease compared to Q2 2010 primarily as a result of an expected increase in sales of lower margin, newly launched AirCard products.

*Sales and marketing*

Sales and marketing expenses were \$13.2 million, or 8.3% of revenue, for the three months ended June 30, 2010, compared to \$15.6 million, or 11.5% of revenue, in the same period of 2009, a decrease of 15%. The decrease in sales and marketing costs is due primarily to the cost reduction initiatives related to the integration of Wavecom and Sierra Wireless. Sales and marketing expenses included \$0.4 million of stock-based compensation expense in each of the second quarters of 2010 and 2009.

*Research and development*

Research and development expenses amounted to \$21.5 million for the second quarter of 2010, compared to \$22.7 million in the same period of 2009, a decrease of 5%. The decrease is due primarily to the cost reduction initiatives related to the integration of Wavecom and Sierra Wireless that were announced in 2009 and substantially completed during the first quarter of 2010, partially offset by an increased investment in new product development during the second quarter of 2010.

Included in research and development expenses was \$0.3 million of stock-based compensation expense in the second quarter of 2010, compared to \$0.5 million in the same period of 2009.

Research and development expenses, excluding government research and development funding repayments, were \$21.1 million, or 13.2% of revenue, for the three months ended June 30, 2010, compared to \$22.8 million, or 16.9% of revenue, in the same period of 2009.

*Administration*

Administration expenses amounted to \$8.8 million, or 5.6% of revenue, for the three months ended June 30, 2010, compared to \$10.8 million, or 8.0% of revenue, in the same period of 2009. The decrease in administration costs is primarily due to the cost reductions related to the integration of Wavecom and Sierra. Included in administration expenses was \$0.9 million of stock-based compensation expense in the second quarter of 2010, compared to \$1.1 million in the same period of 2009.

*Acquisition costs*

Acquisition costs were nil for the three months ended June 30, 2010, compared to \$0.8 million for the same period of 2009. The acquisition costs were related to the acquisition of Wavecom.

*Restructuring costs*

During the second quarter of 2009, as part of the Wavecom cost reduction initiatives announced prior to our acquisition of Wavecom, the staff reduction program in France was implemented. A total of 77 positions were impacted, with one of these positions remaining to be phased out in the third quarter of 2010. On May 15, 2009, we announced further cost reduction initiatives related to the integration of Wavecom and Sierra Wireless that included combining the R&D and product operations. As a result, the Wavecom location in Research Triangle Park, North Carolina, was closed during the fourth quarter of 2009.

In the second quarter of 2010, restructuring costs were \$1.6 million, compared to \$8.9 million in the same period of 2009. The restructuring costs in the second quarter of 2010 were primarily related to an additional provision for costs of the leased North Carolina location, as well as additional employees in Europe who were terminated. The liability related to this workforce reduction is expected to be substantially paid by the third quarter of 2010.

*Integration costs*

In the second quarter of 2010, integration costs related to the acquisition of Wavecom were \$1.6 million, compared to \$0.9 million in the same period of 2009. Integration costs included the cost of consultants, employees retained for integration activities and related travel expenses.

*Foreign exchange gain (loss)*

Our foreign exchange loss was \$5.5 million for the three months ended June 30, 2010, compared to a foreign exchange gain of \$11.0 million in the same period of 2009. Our foreign exchange loss for the second quarter of 2010 includes a net foreign exchange loss of \$3.1 million on an intercompany balance that the parent company has with its self-sustaining foreign operations that arose as a result of the Wavecom acquisition. Our foreign exchange gain for the second quarter of 2009 includes a net foreign exchange gain of \$10.9 million on intercompany balances that the parent company has with its self-sustaining foreign operations.

*Income tax expense (recovery)*

Income tax recovery was \$0.4 million for the three months ended June 30, 2010, compared to income tax expense of \$1.2 million in the same period of 2009.

*Non-controlling interest*

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The non-controlling interest for the three months ended June 30, 2010 was \$0.1 million, compared to \$0.6 million in the same period of 2009. The non-controlling interest represents the non-controlling interest in Wavecom's loss that results from the shares held by Wavecom employees under their long-term incentive plan. The shares have vested, but are subject to a hold period for tax purposes. We have entered into a put/call agreement with these employees to purchase back the shares at \$8.50 per share upon expiry of the tax hold period. Until that time, the shares are considered the non-controlling interest. During the three six months ended June 30, 2010, the tax hold period related to 152,672 shares expired, and we purchased these shares for \$1.6 million.

### *Net loss*

Our net loss amounted to \$8.6 million, or loss per share of \$0.28, for the three months ended June 30, 2010, compared to a net loss of \$5.9 million, or loss per share of \$0.19, in the same period of 2009. Included in our net loss was \$1.8 million of stock-based compensation expense in the second quarter of 2010, compared to \$2.6 million in the same period of 2009.

The weighted average diluted number of shares outstanding was 31.1 million at June 30, 2010, compared to 31.0 million at June 30, 2009. The number of shares outstanding at June 30, 2010 was 31.1 million, compared to 31.0 million at June 30, 2009.

***Results of Operations Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2009***

*Revenue*

Revenue increased to \$310.4 million for the six months ended June 30, 2010, compared to \$246.8 million in the same period of 2009, an increase of 26%. The increase in revenue was primarily a result of an increase in sales of our M2M products, partially offset by a decrease in sales of our mobile computing products. Our sales of M2M products increased primarily due to strong sales of our embedded modules used in consumer electronics and the inclusion of Wavecom products for a full quarter in the first quarter of 2010, compared to only one month in the same period of 2009.

Our revenue from customers in the Americas, EMEA and the Asia-Pacific region comprised 45%, 14% and 41%, respectively, of our total revenue in the first half of 2010, compared to 63%, 17% and 20%, respectively, of our total revenue in the same period of 2009. Our business in North America decreased by 11% compared to the first half of 2009 due primarily to a decrease in sales of our AirCards. Our business in EMEA increased by 5% compared to the first half of 2009 due primarily to the increase in revenue from the Wavecom acquisition, partially offset by a decrease in sales of our AirCards and sales of embedded modules to PC OEM customers. Our business in the Asia-Pacific region increased 160% compared to the first half of 2009 due primarily to increased sales of our embedded modules used in consumer electronics as well as the increased revenue from the Wavecom acquisition.

In the first half of 2010, AT&T, Sprint and Barnes and Noble each accounted for more than 10% of our revenue and, in the aggregate, these three customers represented approximately 42% of our revenue. In the first half of 2009, AT&T and Sprint each accounted for more than 10% of our revenue and, in the aggregate, these two customers represented approximately 46% of our revenue.

*Gross margin*

Gross margin amounted to \$92.5 million for the six months ended June 30, 2010, or 29.8% of revenue, compared to \$80.0 million, or 32.4% of revenue, in the same period of 2009. The decrease in gross margin percentage resulted primarily from our newer AirCard products that have a lower gross margin due to higher product costs during the product launch period, partially offset by the addition of higher margin products from the Wavecom acquisition. Gross margin included \$0.3 million of stock-based compensation expense in the first half of 2010 and 2009.

*Sales and marketing*

Sales and marketing expenses were \$27.3 million for the six months ended June 30, 2010, compared to \$25.0 million in the same period of 2009, an increase of 10%. The increase in sales and marketing costs is due primarily to the addition of staff and costs from the Wavecom acquisition. Sales and marketing expenses included \$0.8 million of stock-based compensation expense in the first half of 2010 and 2009. Sales and marketing expenses as a percentage of revenue decreased to 8.8% in the six months ended June 30, 2010, compared to 10.1% in the same period of 2009, primarily due to the increase in revenue, partially offset by the addition of staff and costs from the Wavecom acquisition.

*Research and development*

Research and development expenses amounted to \$42.1 million for the first half of 2010, compared to \$37.6 million in the same period of 2009, an increase of 12%. The increase is due primarily to the addition of staff and costs from the Wavecom acquisition.

During 2009, we finalized our obligations with respect to our conditionally repayable research and development funding agreement with the Government of Canada's Technology Partnerships Canada ( TPC ). Under the terms of the original agreement, royalty repayments, based on a percentage of annual sales in excess of certain minimum amounts, would be calculated over the period from April 2003 to December 2011. If royalty repayments were less than Cdn \$16.5 million by December 2011, repayments would have continued subsequent to December 2011 until the earlier of when this amount was reached or December 2014. In March 2009, we signed an amended agreement



under which we will pay a total of Cdn \$2.5 million in five equal annual installments commencing March 1, 2009, in full and final satisfaction of all amounts owing, or to be owed, to TPC under this agreement. We had previously accrued payments under the original agreement and as a result of the amended agreement we had reversed accruals recorded in research and development expense totaling \$0.8 million during the first quarter of 2009.

Included in research and development expenses was \$0.7 million of stock-based compensation expense in the first half of 2010, compared to \$0.8 million in the same period of 2009.

Research and development expenses, excluding government research and development funding repayments and reversal of accruals, were \$41.2 million, or 13.3% of revenue, for the six months ended June 30, 2010, compared to \$38.6 million, or 15.7% of revenue, in the same period of 2009.

#### *Administration*

Administration expenses amounted to \$18.4 million, or 5.9% of revenue, for the six months ended June 30, 2010, compared to \$17.3 million, or 7.0% of revenue, in the same period of 2009. The increase in administration costs is primarily due to the addition of staff and costs from the Wavecom acquisition, partially offset by cost reductions related to the integration of Wavecom and Sierra. Included in administration expenses was \$1.7 million of stock-based compensation expense in the first half of 2010, compared to \$1.9 million in the same period of 2009.

#### *Acquisition costs*

Acquisition costs were nil for the six months ended June 30, 2010, compared to \$7.3 million for the same period of 2009. The acquisition costs were related to the acquisition of Wavecom.

#### *Restructuring costs*

In the first half of 2010, restructuring costs were \$3.2 million, compared to \$10.6 million in the same period of 2009. The restructuring costs in the first half of 2010 were primarily related to an additional provision for costs of the leased North Carolina location, as well as additional employees in Europe who were terminated. The liability related to this workforce reduction is expected to be substantially paid by the third quarter of 2010.

During the first half of 2009, as part of the Wavecom cost reduction initiatives announced prior to our acquisition of Wavecom, the staff reduction program in France was implemented. A total of 77 positions were impacted, with one of these positions remaining to be phased out in the third quarter of 2010. On May 15, 2009, we announced further cost reduction initiatives related to the integration of Wavecom and Sierra Wireless that included combining the R&D and product operations. As a result, the Wavecom location in Research Triangle Park, North Carolina, was closed during the fourth quarter of 2009. For the six month ended June 30, 2009, restructuring costs related to this program were

9.0 million.

In the first half of 2009, we completed an expense reduction program that included the reduction of approximately 56 positions. As a result, restructuring costs, comprised primarily of severance costs and stock compensation expense, amounted to \$1.6 million in the first half of 2009.

*Integration costs*

In the first half of 2010, integration costs related to the acquisition of Wavecom were \$3.5 million, compared to \$1.2 million in the same period of 2009. Integration costs included the cost of consultants, employees retained for integration activities and related travel expenses.

*Foreign exchange gain (loss)*

Our foreign exchange loss was \$9.1 million for the six months ended June 30, 2010, compared to a foreign exchange gain of \$1.0 million in the same period of 2009. Our foreign exchange loss for the first half of 2010 includes a net foreign exchange loss of \$5.1 million on an intercompany balance that the parent company has with its self-sustaining foreign operations that arose as a result of the Wavecom acquisition. Our foreign exchange gain for the

first half of 2009 includes a realized foreign exchange loss of \$15.7 million on Euros that had been held for the Wavecom transaction, offset by a net foreign exchange gain of \$18.7 million on intercompany balances that the parent company has with its self-sustaining foreign operations.

*Other expense*

Other expense, which includes interest expense and interest income, was \$0.2 million for the six months ended June 30, 2010, compared to \$4.0 million in the same period of 2009. Other expense in 2009 includes \$3.9 million of financing costs and \$0.4 million of interest expense related to the credit facilities that were set up in connection with the Wavecom acquisition. Interest income decreased to \$0.1 million in the first half of 2010, from \$0.5 million in the same period of 2009 due to a decrease in our cash and short-term investment balances that were used to fund the Wavecom acquisition, as well as a decline in interest rates.

*Income tax expense (recovery)*

Income tax recovery was \$1.1 million for the six months ended June 30, 2010, compared to income tax expense of \$1.0 million in the same period of 2009.

*Non-controlling interest*

The non-controlling interest for the six months ended June 30, 2010 was \$0.2 million, compared to \$0.9 million in the same period of 2009. The non-controlling interest represents the non-controlling interest in Wavecom's loss that results from the shares held by Wavecom employees under their long-term incentive plan. The shares have vested, but are subject to a hold period for tax purposes. We have entered into a put/call agreement with these employees to purchase back the shares at \$8.50 per share upon expiry of the tax hold period. Until that time, the shares are considered the non-controlling interest. During the three and six months ended June 30, 2010, the tax hold period related to 152,672 shares expired, and we purchased these shares for \$1.6 million.

*Net loss*

Our net loss amounted to \$16.1 million, or loss per share of \$0.52, for the six months ended June 30, 2010, compared to a net loss of \$29.5 million, or loss per share of \$0.95, in the same period of 2009. Included in our net loss was \$3.4 million of stock-based compensation expense in the first half of 2010, compared to \$4.7 million in the same period of 2009.

**Acquisition of Wavecom S.A.**

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On December 2, 2008, we announced an all-cash offer to purchase all of the ordinary shares and OCEANEs of Wavecom, a global leader in wireless M2M solutions headquartered in Issy-les-Moulineaux, France. The total value of the transaction was approximately 218.0 million. We made a cash offer of 8.50 per share of Wavecom and 31.93 per OCEANE. The transaction was implemented by way of concurrent but separate public tender offers in both France and the United States for all Wavecom shares, all ADSs representing Wavecom's shares and all OCEANEs issued by Wavecom.

On February 27, 2009, we completed our acquisition of 84.32% of the outstanding shares and 99.97% of the outstanding OCEANEs of Wavecom, representing 90.57% of the voting rights of Wavecom. Following a statutory re-opening of the tender offer and our purchase of Wavecom shares on the market, we increased our ownership of the voting rights of Wavecom from 90.57% to 95.4% and, on April 29, 2009, completed our acquisition of all of the remaining Wavecom shares, except for certain shares held by employees that are subject to a hold period, and OCEANEs by way of a squeeze-out. The Wavecom shares and OCEANEs have been delisted from the Euronext and the ADSs have been delisted from the Nasdaq.

The result of the combination of Sierra Wireless and Wavecom is a global leader that is uniquely positioned to benefit from the anticipated growth in the wireless mobile computing and M2M markets. We expect the acquisition to significantly expand our position in the global M2M market, broaden our product offerings and increase our scale and capabilities in Europe and Asia.

### **International Financial Reporting Standards ( IFRS )**

In November 2008, the Securities and Exchange Commission ( SEC ) announced a proposed roadmap for comment regarding the potential use by U.S. registrants of financial statements prepared in accordance with IFRS. IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board. On February 24, 2010, the SEC issued a statement describing its position regarding global accounting standards. Among other things, the SEC stated that it has directed its staff to execute a work plan, which will include consideration of IFRS as it exists today and after completion of various convergence projects currently underway between U.S. and international accounting standards setters. By 2011, assuming completion of certain projects and the SEC staff's work plan, the SEC will decide whether to incorporate IFRS into the U.S. financial reporting system. We will continue to monitor the development of the potential implementation of IFRS.

### **Legal Proceedings**

In July 2009, a patent holding company, SPH America, LLC, filed a patent litigation lawsuit in the United States District Court for the Eastern District of Virginia asserting patent infringement by a number of device manufacturers, including us, and computer manufacturers, including Hewlett-Packard Co., Panasonic Corporation, General Dynamics Itronix Corporation and Fujitsu America and Fujitsu Japan. The litigation, which has been transferred to the United States District Court, Southern District of California, makes certain allegations concerning the wireless modules sold to the computer manufacturers by us, our competitors, and some of our customers with whom we have supply agreements. We are assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavourable outcome would not have a material adverse effect on our operating results, liquidity or financial position, we believe the claims are without merit and will vigorously defend the lawsuit.

In July 2009, a patent holding company, WIAV Networks, LLC, filed a patent litigation lawsuit in the United States District Court for the Eastern District of Texas asserting patent infringement by a number of parties, including wireless device manufacturers, including us. The Texas court has transferred the litigation to the United States District Court, Northern District of California. We are currently assessing our potential liability, if any, in respect of this litigation. Although there can be no assurance that an unfavourable outcome would not have a material adverse effect on our operating results, liquidity or financial position, we believe the claims are without merit and will vigorously defend the lawsuit.

In July, 2009, a patent holding company, Celltrace, LLC, filed a patent litigation lawsuit in the United States District Court for the Eastern District of Texas asserting patent infringement by a number of telecommunication carrier companies including Sprint Spectrum, LP and AT&T Mobility LLC. The litigation makes certain allegations concerning the wireless modems sold to the carriers by us and our competitors. We are currently assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavourable outcome would not have a material adverse effect on our operating results, liquidity or financial position, we believe the we have no obligations of indemnification to our customers for the claims patent litigation lawsuit.

In June 2009, a patent holding company, Saxon Innovations, LLC ( Saxon ), filed a patent litigation lawsuit in the United States District Court for the Eastern District of Texas asserting patent infringement by wireless device manufacturers, including us. The litigation makes certain allegations concerning the products sold by those manufacturers. The patents have been sold to a patent holding company, Norman IP Holdings LLC. Following the sale, we filed a motion to dismiss the Saxon action in the Texas court and, also, filed a Declaratory Judgment action against Norman IP Holdings in the United States District Court, Southern District of California. We are currently assessing our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavourable outcome would not have a material adverse effect on our operating results, liquidity or financial position, we believe the claims of patent infringement are without merit.

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In January 2009, a patent holding company, DNT LLC, filed a patent litigation lawsuit in the United States District Court for the Eastern District of Virginia asserting patent infringement by a number of telecommunication carrier companies including Sprint Spectrum, LP and Nextel, Verizon Wireless and T-Mobile USA, Inc. The litigation

made certain allegations concerning the wireless modems sold to the carriers by us and our competitors. Following a trial in December 2009, the Court received a jury verdict of patent non-infringement and invalidity. In February, 2010, DNT LLC filed a motion for a new trial or in the alternative for an amended judgment. While we believe that this motion will be unsuccessful, we intend to vigorously defend the motion. DNT LLC has indicated its intention to file an appeal from the Court's verdict. While we believe that the appeal, if any, will be unsuccessful, we intend to vigorously defend against the appeal.

On February 6, 2008, Wavecom filed a civil proceeding in the Supreme Court of the State of New York (USA) against Siemens AG and two of its U.S. subsidiaries. Sierra Wireless S.A., Wavecom, Inc., Siemens AG, Siemens Corporation, and Siemens Energy and Automation, Inc. have reached a mutually agreeable settlement of the lawsuit filed in New York State Court. The details of the settlement agreement are confidential.

Since early December 2008, Wavecom and its subsidiary Wavecom, Inc. have been involved in litigation with a contracting counterparty, Temic Automotive of North America (Continental Group). In the first quarter of 2010, Temic Automotive of North America, Inc., d/b/a/ Continental and Continental AG, Wavecom, Inc., Wavecom, S.A., Sierra Wireless, Inc., Sierra Wireless Americas, Inc., and Sierra Wireless, S.A. reached a mutually agreeable settlement of the lawsuits filed early December 2008 in North Carolina Business Court and New York State Court. The details of the settlement agreement are confidential.

We are engaged in certain other claims and legal actions in the ordinary course of business and believe that the ultimate outcome of these actions will not have a material adverse effect on our operating results, liquidity or financial position.

### **Critical Accounting Estimates**

We prepare our consolidated financial statements in accordance with U.S. GAAP and we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosure of contingent liabilities. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, adequacy of allowance for doubtful accounts, adequacy of inventory reserve, valuation of goodwill and intangible assets, income taxes, adequacy of warranty reserve, royalty obligations, lease provision, contingencies and stock-based compensation. We base our estimates on historical experience, anticipated results and trends and on various other assumptions that we believe are reasonable under the circumstances. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from our estimates. Senior management has discussed with our audit committee the development, selection and disclosure of accounting estimates used in the preparation of our consolidated financial statements.

Effective January 1, 2009, we adopted a new policy to account for assets acquired and liabilities assumed in a business combination. Under this policy, the acquisition method is used to record all identifiable assets, liabilities, non-controlling interests and goodwill acquired at fair value. We have applied this policy to our acquisition of Wavecom. We did not adopt any other new accounting policies or make changes to existing accounting policies that had a material impact on our consolidated financial statements.

The following critical accounting policies affect our more significant estimates and assumptions used in preparing our consolidated financial statements:

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- We recognize revenue from sales of products and services upon the later of transfer of title or upon shipment of the product to the customer or rendering of the service, so long as collectibility is reasonably assured. Customers include resellers, original equipment manufacturers, wireless operators and end-users. We record deferred revenue when we receive cash in advance of the revenue recognition criteria being met.

A significant portion of our revenue is generated from sales to resellers. We recognize revenue on the portion of sales to certain resellers that are subject to contract provisions allowing various rights of return and stock rotation, upon the earlier of when the rights have expired or the products have been reported as sold by the resellers.



Revenues from contracts with multiple-element arrangements, such as those including technical support services, are recognized as each element is earned based on the relative fair value of each element and only when there are no undelivered elements that are essential to the functionality of the delivered elements.

Revenue from licensed software is recognized at the inception of the license term. Revenue from software maintenance, unspecified upgrades and technical support contracts is recognized over the period such items are delivered or services are provided. Technical support contracts extending beyond the current period are recorded as deferred revenue.

Funding from research and development agreements, other than government research and development arrangements, is recognized as revenue when certain criteria stipulated under the terms of those funding agreements have been met and when there is reasonable assurance the funding will be received. Certain research and development funding will be repayable only on the occurrence of specified future events. If such events do not occur, no repayment would be required. We recognize the liability to repay research and development funding in the period in which conditions arise that would cause research and development funding to be repayable. Government research and development arrangements are recognized as a reduction of the related expense when the criteria stipulated under the terms of the agreements have been met and when there is reasonable assurance the funding will be received.

- We maintain an allowance for doubtful accounts for estimated losses that may arise if any of our customers are unable to make required payments. We consider the following factors when determining whether collection is reasonably assured: customer credit-worthiness, past transaction history with the customer, insured amounts, if any, current economic industry trends and changes in customer payment terms. If we have no previous experience with the customer, we typically obtain reports from credit organizations to ensure that the customer has a history of paying its creditors. We may also request financial information, including financial statements, to ensure that the customer has the means of making payment. If these factors indicate collection is not reasonably assured, revenue is deferred until collection becomes reasonably assured, which is generally upon receipt of cash. If the financial condition of any of our customers deteriorates, we may increase our allowance.

- We value our inventory at the lower of cost, determined on a first-in-first-out basis, and estimated net realizable value. We assess the need for an inventory writedown and/or an accrual for estimated losses on inventory purchase commitments based on our assessment of estimated market value using assumptions about future demand and market conditions. Our reserve requirements generally increase as our projected demand requirements decrease, due to market conditions, technological and product life cycle changes and longer than previously expected usage periods. If market conditions are worse than our projections, we may further writedown the value of our inventory or increase the accrual for estimated losses on inventory purchase commitments.

- We currently have intangible assets and goodwill generated primarily from our acquisitions of Wavecom in February 2009, AirLink in May 2007 and AirPrime in August 2003. Goodwill and intangible assets are assessed for impairment annually, or more often, if an event or circumstance indicates that an impairment loss may have been incurred.

We determined that we had two reporting units as of December 31, 2009. We assessed the realizability of goodwill related to each of the reporting units during the fourth quarter of 2009 and determined that the fair value exceeded the carrying amount for each reporting unit by a substantial margin. Therefore, the second step of the impairment test that measures the amount of an impairment loss by comparing the implied fair market value for each reporting unit with the carrying amount of the goodwill for each reporting unit was not required. There was no impairment of goodwill during the first half of 2010 or the year ended December 31, 2009.



- We recognize and measure each tax position related to income tax positions taken or expected to be taken in a tax return. We have reviewed our tax positions to determine which should be recognized and measured according to the more likely than not threshold requirement. The tax benefits recognized in the financial statements are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution.

If the realization of a tax position is not considered more likely than not, we provide for a valuation allowance. The ultimate realization of our deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. We consider projected future taxable income and tax planning strategies in making our assessment. If our assessment of our ability to realize our deferred tax assets changes, we may make an adjustment to our deferred tax assets that would be charged to income (loss).

- We accrue product warranty costs in accrued liabilities to provide for the repair or replacement of defective products. Our accrual is based on an assessment of historical experience and management's estimates. If there is a change in the quality of our products, we will adjust our accrual accordingly.

- Under license agreements, we are committed to royalty payments based on the sales of products using certain technologies. We recognize royalty obligations as determinable in accordance with agreement terms. Where agreements are not finalized, we have recognized our current best estimate of the obligation in accrued liabilities and other long-term liabilities. When the agreements are finalized, the estimate will be revised accordingly.

- If we are engaged in legal actions, we estimate the range of liability related to pending litigation where the amount and range of loss can be reasonably estimated. We record our best estimate of a loss when the loss is considered probable. As additional information becomes available, we assess the potential liability relating to our pending litigation and revise our estimates.

- We recognize stock-based compensation expense for all stock-based compensation awards based on the fair value at grant date. We recognize stock-based compensation expense for those shares expected to vest on a straight-line basis over the requisite service period of the award.

Determining the appropriate fair value model and calculating the fair value of share-based payment awards requires the input of subjective assumptions. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future.

## **Liquidity and Capital Resources**

### *Operating Activities*

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Cash used by operating activities was \$6.7 million for the six months ended June 30, 2010, compared to cash provided by operating activities of \$28.9 million in the same period of 2009. The use of cash in operating activities in first half of 2010 primarily resulted from our net loss of \$16.1 million adjusted for net non-cash items of \$19.3 million as well as changes in other operating assets and liabilities of \$9.9 million.

### *Investing Activities*

Cash provided by investing activities was \$4.2 million in the six months ended June 30, 2010, compared to \$36.0 million in the same period of 2009. Cash provided by investing activities in the first half of 2010 was due primarily to the net proceeds on maturity of short-term investments of \$13.5 million, compared to the use of cash of \$0.4 million to fund purchases of short-term investments, net of proceeds on maturity of short-term investments in the same period of 2009. In the first half of 2010, we used cash of \$1.6 million to purchase shares from the non-controlling interest. Cash provided by investing activities in the first half of 2009 was due primarily to a reduction

in restricted cash of \$175.8 million, offset by cash used for the acquisition of OCEANEs of \$104.8 million, the acquisition of Wavecom net assets of \$146.7 million, which included cash acquired of \$139.8 million, and the acquisition of the non-controlling interest of \$19.6 million. We also used cash for expenditures on fixed and intangible assets of \$5.7 million and \$2.0 million, respectively, for the six months ended June 30, 2010, compared to \$6.8 million and \$1.5 million, respectively, in the same period of 2009. Capital expenditures were primarily for production and tooling equipment, research and development equipment, computer equipment and software, while intangible assets were primarily for patents and software licenses.

We do not have any trading activities that involve any type of commodity contracts that are accounted for at fair value but for which a lack of market price quotations necessitate the use of fair value estimation techniques.

#### *Financing Activities*

Cash used by financing activities was \$2.1 million in the six months ended June 30, 2010, compared to \$4.1 million in the same period of 2009. The use of cash in the first half of 2010 was due primarily to the repayment of long-term obligations. During the first half of 2009, we received proceeds from the term loan of \$102.7 million which was used to purchase the Wavecom OCEANEs and subsequently repaid the term loan with cash acquired from the acquisition of Wavecom. In the first half of 2009, we also received proceeds from the exercise of Wavecom options of \$4.1 million and also used cash of \$3.9 million for financing costs related to the credit facilities that were set up to finance the Wavecom acquisition and \$2.5 million to fund our restricted share unit program.

As of June 30, 2010, we did not have any off-balance sheet finance or special purpose entities.

#### *Cash Requirements*

Our near-term cash requirements are primarily related to funding our operations, capital expenditures, completion of the purchase of Wavecom and other obligations discussed below. We believe our cash, cash equivalents and short-term investments of \$115.4 million and cash generated from operations will be sufficient to fund our expected working capital requirements for at least the next twelve months based on current business plans. Our capital expenditures during the third quarter of 2010 are expected to be primarily for research and development equipment, tooling, leasehold improvements, software licenses and patents. However, we cannot assure you that our actual cash requirements will not be greater than we currently expect.

The following table quantifies our future contractual obligations as of June 30, 2010:

#### **Payments, in millions of USD, due in fiscal**

2010	\$	4.4
2011		5.5
2012		1.6
2013		1.5
2014		1.4

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Thereafter		0.5
Total	\$	14.9

As of June 30, 2010, we had tax obligations for uncertain tax positions of \$7.9 million.

We have entered into purchase commitments totaling approximately \$135.0 million with certain contract manufacturers under which we have committed to buy a minimum amount of designated products between July 2010 and December 2010. In certain of these agreements, we may be required to acquire and pay for such products up to the prescribed minimum or forecasted purchases.

*Sources and Uses of Cash*

The source of funds for our future capital expenditures and commitments includes cash and short-term investments, accounts receivable, borrowings and cash from operations, as follows:

- Net cash and short-term investments amounted to \$115.4 million at June 30, 2010, compared to \$134.4 million at December 31, 2009.
- Accounts receivable amounted to \$102.6 million at June 30, 2010, compared to \$86.5 million at December 31, 2009.
- We have a credit facility with two Canadian chartered banks as described below. At June 30, 2010, there were no borrowings under this credit facility.

*Credit Facilities*

Until December 2008, we had an unsecured revolving demand facility with a Canadian chartered bank for \$10.0 million that bore interest at prime per annum. No amount was drawn down under that facility and it was terminated on December 1, 2008.

In connection with our acquisition of Wavecom, we signed a credit agreement on December 1, 2008, with The Toronto-Dominion Bank and Canadian Imperial Bank of Commerce, as lenders that provided for a one-year revolving term credit facility ( *Revolving Facility* ) and a one-year non-revolving term credit facility ( *Term Facility* ).

The *Term Facility*, not to exceed 218.0 million, was used to complete the acquisition of Wavecom ordinary shares and OCEANEs. The *Term Facility* was secured by cash of 136.8 million and a pledge against all of our assets. On December 1, 2008, as required by French regulations, we drew a letter of credit in the amount of 218.0 million issued under the *Term Facility*. On February 26, 2009, we borrowed 80.473 million under the *Term Facility* to facilitate the purchase, on February 27, 2009, of 99.97% of the outstanding OCEANEs. On February 27, 2009, we completed the purchase of 84.32% of the outstanding Wavecom shares with 115.3 million of our cash that secured the *Term Facility* and the letter of credit was reduced from 218.0 million to 22.2 million. The OCEANEs were subsequently redeemed by Wavecom and on March 13, 2009 the loan of 80.473 million under the *Term Facility* was repaid with those proceeds. On completion of the squeeze-out on April 29, 2009, the letter of credit was reduced to nil and the *Term Facility* was no longer available.

The *Revolving Facility*, not to exceed \$55.0 million, is to be used for working capital requirements and is secured by a pledge against all of our assets. On January 29, 2010, we signed an amended and restated credit agreement which renewed our *Revolving Facility* to January 28, 2011, and amended the maximum amount from \$55.0 million to \$10.0 million. Since December 1, 2008, we have not drawn any amount under the *Revolving Facility*.

During the first quarter of 2010, we obtained a letter of credit to ensure our performance to a third party customer in accordance with specified terms and conditions. At June 30, 2010 we had \$0.5 million (2009 nil) outstanding under the letter of credit, which approximates its fair value.

The letter of credit expires in September 2011.

**Market Risk Disclosure**

We are exposed to currency fluctuations and exchange rate risk on all operations conducted in currencies other than the United States dollar. We cannot accurately predict the future effects of foreign currency fluctuations on our financial condition or results of operations.

Our risk from currency fluctuations between the Canadian and U.S. dollar is reduced by purchasing inventory, other costs of sales and many of our services in U.S. dollars. We are exposed to foreign currency fluctuations because a significant amount of our research and development, marketing, and administration costs are incurred in Canada. We monitor our exposure to fluctuations between the Canadian and U.S. dollars.



With respect to operations in EMEA and the Asia-Pacific region, we transact business in additional foreign currencies and the potential for currency fluctuations is increasing. Our risk associated with currency fluctuations associated with the Euro has increased as a result of our acquisition of Wavecom and cash balances that we hold in Euros. Sierra Wireless S.A., formerly Wavecom, whose functional currency is Euros, uses derivatives such as foreign currency forward and options contracts to reduce our foreign exchange risk on cash flows from firm and highly probable commitments denominated in U.S. dollars. All derivatives that were outstanding at June 30, 2010 had maturity dates of less than 12 months. We believe that the counterparty risk on the foreign currency financial instruments being used is acceptable because we transact with major banks and financial institutions.

### **Related Party Transactions**

During the three and six months ended June 30, 2010, there were no material related party transactions.

### **Changes in Internal Control Over Financial Reporting**

Prior to our acquisition of Wavecom, Wavecom maintained effective internal control over financial reporting based on criteria established in the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. We are evaluating Wavecom's internal control over financial reporting but are not aware of any changes since the date of acquisition that have materially affected, or are reasonably likely to materially affect, Wavecom's internal control over financial reporting.

There have been no changes in Sierra Wireless' internal control over financial reporting during the three and six months ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of certain events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

### **Quarterly Results of Operations**

The following tables set forth certain unaudited consolidated statements of operations data for each of the ten most recent quarters that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements for the year ended December 31, 2010. The unaudited consolidated statements of operations data presented below reflects all adjustments, consisting primarily of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of results for the interim periods. These operating results are not necessarily indicative of results for any future period. You should not rely on them to predict our future performance.

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Amounts are expressed in thousands of United States dollars except per share amounts and number of shares. Certain figures have been reclassified for comparative purposes to conform to the current year presentation.

2010	Quarter Ended	
	Mar 31	Jun 30
Revenue	\$ 151,317	\$ 159,116
Cost of goods sold	104,983	112,906
Gross margin	46,334	46,210
Expenses:		
Sales and marketing	14,156	13,183
Research and development	20,541	21,534
Administration	9,584	8,835
Restructuring costs	1,611	1,581
Integration costs	1,846	1,631
Amortization	3,106	2,919
	50,844	49,683
Loss from operations	(4,510)	(3,473)
Foreign exchange loss	(3,658)	(5,460)
Other expense	(130)	(103)
Loss before income taxes	(8,298)	(9,036)
Income tax recovery	(689)	(399)
Net loss before non-controlling interest	(7,609)	(8,637)
Net loss attributable to non-controlling interest	(88)	(82)
Net loss	\$ (7,521)	\$ (8,555)
Loss per share:		
Basic	\$ (0.24)	\$ (0.28)
Diluted	\$ (0.24)	\$ (0.28)
Weighted average number of shares (in thousands):		
Basic	31,050	31,054
Diluted	31,050	31,054

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2009	Mar 31	Quarter Ended			Year
		Jun 30	Sep 30	Dec 31	2009
Revenue	\$ 111,407	\$ 135,348	\$ 135,677	\$ 143,952	\$ 526,384
Cost of goods sold	79,886	86,895	87,088	95,223	349,092
Gross margin	31,521	48,453	48,589	48,729	177,292
Expenses:					
Sales and marketing	9,362	15,590	14,692	15,191	54,835
Research and development	14,964	22,672	22,546	19,884	80,066
Administration	6,547	10,792	9,589	9,625	36,553
Acquisition costs	6,522	804	364	95	7,785
Restructuring costs	1,726	8,869	5,332	4,678	20,605
Integration costs	254	936	1,332	1,337	3,859
Amortization	2,420	5,001	4,889	(997)	11,313
	41,795	64,664	58,744	49,813	215,016
Loss from operations	(10,274)	(16,211)	(10,155)	(1,084)	(37,724)
Foreign exchange gain (loss)	(9,923)	10,957	1,981	(1,754)	1,261
Other expense	(4,022)	(10)	(88)	(279)	(4,399)
Loss before income taxes	(24,219)	(5,264)	(8,262)	(3,117)	(40,862)
Income tax expense (recovery)	(267)	1,229	(634)	12	340
Net loss before non-controlling interest	(23,952)	(6,493)	(7,628)	(3,129)	(41,202)
Net loss attributable to non-controlling interest	(287)	(622)		(394)	(1,303)
Net loss	\$ (23,665)	\$ (5,871)	\$ (7,628)	\$ (2,735)	\$ (39,899)
Loss per share:					
Basic	\$ (0.76)	\$ (0.19)	\$ (0.25)	\$ (0.09)	\$ (1.29)
Diluted	\$ (0.76)	\$ (0.19)	\$ (0.25)	\$ (0.09)	\$ (1.29)
Weighted average number of shares (in thousands):					
Basic	31,032	31,032	31,032	31,042	31,035
Diluted	31,032	31,032	31,032	31,042	31,035

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2008	Quarter Ended					Year 2008
	Mar 31	Jun 30	Sep 30	Dec 31		
Revenue	\$ 141,949	\$ 155,698	\$ 136,794	\$ 132,867	\$ 567,308	
Cost of goods sold	101,909	111,858	98,388	95,484	407,639	
Gross margin	40,040	43,840	38,406	37,383	159,669	
Expenses:						
Sales and marketing	8,190	8,260	9,165	8,675	34,290	
Research and development	13,955	14,202	13,089	13,411	54,657	
Administration	5,248	5,762	5,173	5,153	21,336	
Amortization	1,281	1,212	1,135	1,186	4,814	
	28,674	29,436	28,562	28,425	115,097	
Earnings from operations	11,366	14,404	9,844	8,958	44,572	
Other income	2,459	1,269	522	21,912	26,162	
Earnings before income taxes	13,825	15,673	10,366	30,870	70,734	
Income tax expense (recovery)	4,148	4,702	3,110	(3,809)	8,151	
Net earnings	\$ 9,677	\$ 10,971	\$ 7,256	\$ 34,679	\$ 62,583	
Earnings per share:						
Basic	\$ 0.31	\$ 0.35	\$ 0.23	\$ 1.12	\$ 2.00	
Diluted	\$ 0.31	\$ 0.35	\$ 0.23	\$ 1.12	\$ 2.00	
Weighted average number of shares (in thousands):						
Basic	31,341	31,371	31,273	31,032	31,254	
Diluted	31,427	31,512	31,324	31,032	31,323	

Our quarterly results may fluctuate from quarter to quarter because our operating expenses are determined based on anticipated sales, are generally fixed and are incurred throughout each fiscal quarter. The impact of significant items incurred during the first three interim periods of each fiscal year are discussed in more detail and disclosed in our quarterly reports and MD&A. Items affecting our results were as follows:

- The decrease in revenue and net earnings in the third quarter of 2008 compared to the second quarter of 2008 was primarily a result of missing an expected product launch with a large wireless operator.
- The increase in net earnings in the fourth quarter of 2008 compared to the third quarter of 2008 was primarily a result of an unrealized foreign exchange gain of \$18.4 million on Euros held in connection with the Wavecom acquisition and a reduction in income tax expense of \$6.5 million as a result of reducing our valuation allowance on our current tax assets.
- The decrease in net earnings in the first quarter of 2009 compared to the fourth quarter of 2008 was a result of a decrease in revenue due to macro-economic headwinds in key markets and continued intense competition. In addition, our net loss included Wavecom's net loss of \$3.0 million for the month of March, an unrealized foreign exchange loss of \$15.7 million on Euros held in connection with the Wavecom acquisition, Wavecom transaction costs of \$10.4 million, restructuring costs of \$1.6 million, stock-based compensation of \$2.0 million, acquisition related amortization of \$2.2 million and integration costs of \$0.3 million.
- The decrease in our net loss in the second quarter of 2009 compared to the first quarter of 2009 was a result of an increase in gross margin that resulted from product cost reductions and the addition of higher margin products from the acquisition of Wavecom, as well as a

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decrease in acquisition and financing costs and a foreign exchange gain. These decreases to our net loss were partially offset by an increase in operating expenses due to the acquisition of Wavecom, restructuring costs and income tax expense.

- In the third quarter of 2009, our loss from operations decreased to \$10.2 million from \$16.2 million in the second quarter of 2009, primarily as a result of a decrease in restructuring and acquisitions costs. Our operating expenses also decreased due partly to the impact of the restructurings that occurred in May 2009. Our net loss increased to \$7.6 million in the third quarter of 2009, compared to a net loss of \$5.9 million in the second quarter of 2009 as a result of a decrease in foreign exchange gain, partially offset by a decrease in income tax expense.
- In the fourth quarter of 2009, our loss from operations and net loss decreased to \$1.1 million and \$2.7 million, respectively, compared to \$10.2 million and \$7.6 million, respectively, in the third quarter of 2009, primarily as a result of the reversal of purchase price amortization. During the fourth quarter we received a third party valuation report and revised our estimates of the fair value of the identifiable assets acquired and liabilities assumed which resulted in the adjustment of our purchase price amortization of intangible assets.
- In the first quarter of 2010, our loss from operations and net loss increased to \$4.5 million and \$7.5 million, respectively, compared to \$1.1 million and \$2.7 million, respectively in the fourth quarter of 2009 primarily as a result of the increase in amortization expense. In the fourth quarter of 2009, a reversal of purchase price amortization was recorded to reflect the amounts in the third party valuation report and no such reversal occurred in the first quarter of 2010.
- In the second quarter of 2010, our loss from operations and net loss amounted to \$3.5 million and \$8.6 million, respectively, compared to \$4.5 million and \$7.5 million, respectively in the first quarter of 2010. Our loss from operations decreased primarily due to operating cost reductions related to the integration of Wavecom and Sierra Wireless.

#### **Cautionary Note Regarding Forward-looking Statements**

Certain statements in this report that are not based on historical facts constitute forward-looking statements or forward-looking information within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and applicable Canadian securities laws ( forward-looking statements ). These forward-looking statements are not promises or guarantees of future performance but are only predictions that relate to future events, conditions or circumstances or our future results, performance, achievements or developments and are subject to substantial known and unknown risks, assumptions, uncertainties and other factors that could cause our actual results, performance, achievements or developments in our business or in our industry to differ materially from those expressed, anticipated or implied by such forward-looking statements. Forward-looking statements include disclosure regarding possible events, conditions circumstances or results of operations that are based on assumptions about future economic conditions, courses of action and other future events. We caution you not to place undue reliance upon any such forward-looking statements, which speak only as of the date they are made. These forward-looking statements appear in a number of different places in this report and can be identified by words such as may , estimates , projects , expects , intends , believes , plans , anticipations , continue , growing , expanding or their negatives or other comparable words. Forward-looking statements include statements regarding the outlook for our future operations, plans and timing for the introduction or enhancement of our services and products, statements concerning strategies or developments, statements about future market conditions, supply conditions, end customer demand conditions, channel inventory and sell through, revenue, gross margin, operating expenses, profits, forecasts of future costs and expenditures, the outcome of legal proceedings, and other expectations, intentions and plans that are not historical fact. The risk factors, uncertainties and assumptions that may affect our actual results, performance, achievements or developments are many and include, amongst others, our ability to develop, manufacture, supply and market new products that we do not produce today and that meet the needs of customers and gain commercial acceptance, our reliance on the deployment of next generation networks by major wireless operators, the continuous commitment of our customers and increased competition. These risk factors and others are discussed below under Risk Factors and in our other regulatory filings with the Securities and Exchange Commission in the United States and the Provincial Securities Commissions in Canada. Many of these factors are beyond our control. Consequently, all forward-looking statements in this report are qualified by this cautionary statement and we cannot assure you that the actual results, performance, achievements or developments that we anticipate will be realized. Forward-looking statements are based on management's current plans, estimates, projections, beliefs and opinions and we do not undertake any obligation to update forward-looking



statements should the assumptions related to these plans, estimates, projections, beliefs and opinions change, except as required by law.

## **Risk Factors**

Our business is subject to significant risks and uncertainties and past performance is no guarantee of future performance. The risks and uncertainties described below are those which we currently believe to be material, and do not represent all of the risks that we face. Other risks and uncertainties may become material in the future or ones we currently believe to be immaterial may become material in the future. If any of the following risks actually occurs, our business, financial condition and results of operations, as well as the market price of our common shares, could be materially adversely affected as well as the market price of our common shares.

### **Our quarterly financial results are subject to fluctuations that could affect the market price of our common shares.**

Our revenue, gross margin, operating earnings and net earnings may vary from quarter to quarter and could be significantly impacted by a number of factors, including:

- Possible delays or shortages in component supplies;
  
- The ability to accurately forecast demand in order to properly align the purchase of components and the appropriate level of manufacturing capability;
  
- Price and product competition, which may result in lower selling prices for some of our products or lost market share;
  
- Price and demand pressure on our products from our customers as they experience pressure in their businesses;
  
- Potential commoditization and saturation in certain markets;
  
- Transition periods associated with the migration of new technologies;
  
- The development and timing of the introduction of our new products;



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- The securing of channel slots for new products and the timing of sales orders and OEM and carrier customer sell through;
- Design win cycles in our embedded module business;
- Product mix of our sales. Our products have different gross margins for example the embedded module product line has lower gross margins than the higher margin rugged mobile product line;
- The amount of inventory held by our channel partners;
- Possible cyclical fluctuations related to the evolution of wireless technologies;
- Possible delays in the manufacture or shipment of current or new products;
- Possible product quality or factory yield issues that may increase our cost of goods sold;
- Possible increased inventory levels;
- Possible fluctuations in certain foreign currencies relative to the U.S. dollar;
- Concentration in our customer base; and
- &#