

SIERRA WIRELESS INC  
Form 6-K  
November 14, 2005

# 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 November 2005

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(Commission File. No 0-30718).

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## SIERRA WIRELESS, INC., A CANADA CORPORATION

(Translation of registrant's name in English)

13811 Wireless Way

Richmond, British Columbia, Canada V6V 3A4

(Address of principal executive offices and zip code)

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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: November 9, 2005

**SIERRA WIRELESS, INC.**



**THIRD QUARTER REPORT**

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2005**





**SIERRA WIRELESS, INC.**

**CHAIRMAN'S REPORT TO SHAREHOLDERS**

On October 27th, Sierra Wireless announced a changing of the guard with the appointment of Jason W. Cohenour as President and Chief Executive Officer of Sierra Wireless.

Jason's appointment came after a comprehensive search, both internally and externally, to identify the candidate best able to lead Sierra Wireless to the next level. After reviewing a broad field of highly qualified candidates, it became very apparent that Jason is the right person to take on this role.

Jason joined Sierra Wireless in 1996, built the company's carrier, reseller and OEM distribution channels, was promoted to Senior Vice President, Worldwide Sales in 2000, and has served as the company's Chief Operating Officer since August 2004. He has cross-functional experience in sales, service, marketing, product management, manufacturing operations, mergers & acquisitions, corporate governance and corporate strategy.

Jason succeeds David Sutcliffe, who has served as the company's CEO since 1995. Under David's leadership, Sierra Wireless rapidly evolved into a leading global supplier of wireless data products. The company's products are now in the hands of millions of customers and on dozens of wireless networks in countries all around the world. At the request of the Board, David will continue to serve the company in a non-management capacity as a member of the Board.

On behalf of the Board, I want to thank David for his leadership and his energetic service and dedication to Sierra Wireless these past ten years. We congratulate Jason on his well earned promotion. Sierra Wireless is moving forward in strong and capable hands.

/s/ Peter Ciceri  
Peter Ciceri,  
Chairman of the Board of Directors

**PRESIDENT'S REPORT TO SHAREHOLDERS**

**TO OUR SHAREHOLDERS AND EMPLOYEES**

It is my pleasure to report to you for the first time as the President and CEO of Sierra Wireless, and to tell you about recent improvements and developments in our business.

During the third quarter, we completed the business restructuring initiated at the end of the second quarter, and began to see improvements in the key metrics of our business. Our sales increased, gross margins were higher, and we reduced our operating expenses compared to the previous quarter. These results contributed to a lower net loss and reduced cash utilization. The third quarter also brought considerable progress in new product development in both our core PC card and embedded module businesses, and promising business developments related to these products.

A highlight of the quarter was the announcement by several leading laptop manufacturers of their intention to embed high speed wireless wide area network capability inside their products. This represents an exciting and potentially high-volume opportunity, and we believe Sierra Wireless is very well positioned to capture a strong position in this emerging market.

**Q3 2005 results compared to Q3 2004**

Results for the third quarter of 2005, compared to the third quarter of 2004, were as follows:

For the three months ended September 30, 2005, our revenue was \$27.5 million, compared to \$59.1 million in the third quarter of 2004. The change in revenue primarily reflects the decline in sales of our PC cards and embedded modules.

Gross margin decreased to \$9.6 million (34.9% of revenue), from \$23.0 million (39.0% of revenue) in the third quarter of 2004. Third quarter operating expenses were \$14.0 million, compared to \$15.1 million for the same period in 2004. We reported a net loss of \$3.1 million (loss per share of \$0.12), compared to net earnings of \$7.1 million (diluted earnings per share of \$0.27) in the third quarter of 2004.

**Q3 2005 Results Compared to Guidance**

Results for the third quarter of 2005, relative to company guidance provided on July 20, 2005, were as follows:

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Revenue of \$27.5 million was better than our guidance of \$24.0 million. Gross margin of 34.9% was higher than our guidance of 31%. Operating expenses were \$14.0 million, slightly higher than our guidance range of \$13.7-\$13.9 million. Our net loss of \$3.1 million (loss per share of \$0.12) was better than our guidance of a loss of approximately \$5.7 million (loss per share of \$0.22). Our cash flow from operations was negative \$0.9 million, consistent with our guidance of negative cash flow.

## **Business Developments**

During the third quarter we achieved a number of product and business development milestones with both existing and new products:

### Progress on Products using CDMA Technology

Earlier in the year, we announced design wins with two major laptop OEMs for our MC5720 PCI express Mini Card modules ( minicard ) for EVDO networks. During the third quarter, we commenced commercial shipments of this product to Lenovo, which announced that two of its notebook models featuring our EVDO minicard will be available starting in October.

North American commercial shipments of our EM5625 EVDO module commenced to some of our long-time mobile computing OEM customers. We also announced that one of these OEM customers, Panasonic, has integrated our EM5625 module into three of its notebook platforms.

Together with iPass, we announced the certification and availability of the AirCard 580 wireless PC card for use with the iPass Mobile Data Service. We have also become an iPass Alliance Technology Partner. Our two companies will continue to work together to provide enterprise customers the latest technology for accessing the iPass 3G/EV-DO network via the iPassConnect universal client.

### Progress on Products Using GSM or UMTS Technology

We have successfully completed development of our HSDPA PC Card and obtained a supply agreement with Cingular to deliver the AirCard 860 for use on its HSDPA network. We expect to commence commercial shipments to Cingular during the fourth quarter of 2005. Business development for this product with other carriers is also progressing well.

The MC8755/MC8765 PCI Express Mini Card modules for HSDPA networks are now available to OEM customers for testing and integration, with commercial shipments expected to begin in early 2006. Earlier in the year, we announced a design win with a major laptop OEM for our minicard for HSDPA networks.

We joined forces with NetMotion Wireless to provide mobile workers in the city of Aurora, the third largest city in Colorado, with secure, persistent connectivity using two distinct networks – a cellular-based EDGE/GPRS system and Wi-Fi (802.11). NetMotion combined its Mobility XE mobile VPN solution with our AirCard 775 wireless wide area network cards and MP 775 rugged wireless modems to provide police officers and fire fighters with real-time access to mission critical information on its network.

Our mobile products were selected as part of the Royal Canadian Mounted Police's (RCMP's) standing offer for complete mobile workstation systems. The system, which includes technology from Nisha Technologies Inc. and Itronix Canada Ltd., features a combination of MP 775 GPS (for EDGE and GSM/GPRS networks) and MP 555 GPS (for CDMA 1X networks) rugged vehicle-mounted wireless modems.

The Missouri State Highway Patrol chose to upgrade to the Sierra Wireless MP 775 GPS modem from its existing solution with the MP 200 modem for CDPD.

## Outlook

We believe that the emerging market for laptop computers with embedded high speed wireless capabilities represents a significant opportunity for Sierra Wireless, one that leverages our core competencies and extensive experience with OEM customers. We are investing for a leadership position in this market and recently launched the industry's first EVDO embedded minicard enabling our customers to be first to market. We are also the first to launch a fully functional HSDPA PC card, providing us with a leadership position in North America and a strong product offering to re-energize sales in Europe.

Going forward, we will continue to focus the company on the substantial opportunities in our core business, while working to achieve growth, profitability and industry leadership.

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

This report contains forward-looking statements that are not promises or guarantees but are only predictions that relate to future events or our future performance or state other forward-looking information and are subject to substantial risks and uncertainties that could cause our actual results, performance or achievements to differ materially from those expressed, anticipated or implied by the forward-looking statements. These forward-looking statements relate to, among other things, our revenue, earnings, plans, objectives and timing for the introduction or enhancement of our services and products, statements concerning strategies, developments, statements about future market conditions, supply conditions, channel and end customer demand conditions, projected or future revenues, gross margins, operating expenses, profits and other statements of expectations, intentions, objectives and plans that are not statements of historical facts. When used in this report, the words "may", "plan", "expect", "believe", "intends", "anticipates", "estimates", "predicts" and similar expressions generally identify forward-looking statements. Forward-looking statements reflect our current expectations. The risks and uncertainties that may affect our actual results, performance or achievements are many and include, among others, our ability to develop, manufacture, supply and market new products that we do not produce today and that may not gain commercial acceptance, our reliance on the deployment of next generation networks by major wireless operators, and increased competition. These risk factors and others are discussed in our Annual Information Form which may be found on SEDAR at [www.sedar.com](http://www.sedar.com) and in our other regulatory filings with the Securities and Exchange Commission in the United States and the Provincial Securities Commissions in Canada. These factors should be reviewed carefully and you should not place undue reliance on any forward-looking statements. Unless otherwise required by applicable securities laws, Sierra Wireless disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**

**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion of our consolidated financial condition and results of operations, as of November 9, 2005, has been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and, except where otherwise specifically indicated, all amounts are expressed in United States dollars.*

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

**Overview**

We provide innovative wireless modem solutions worldwide. We develop and market a range of products that include wireless data modems for portable computers, embedded modules for original equipment manufacturers, or OEMs, and rugged vehicle-mounted modems. Our products permit users to access wireless data and voice networks using notebook computers, personal digital assistants, or PDAs, and vehicle-based systems.

Wireless data communications is an expanding market positioned at the convergence of wireless communications, mobile computing and the Internet, each of which we believe represents a growing market. Our products are based on open standards, including the Internet protocol, and operate on the networks of major wireless operators around the world.

Our products are primarily used by businesses and government organizations to enable their employees to access a wide range of applications, including the Internet, e-mail, messaging, corporate intranet, remote database inquiry and computer aided dispatch. We sell our products through indirect channels, including wireless operators, resellers and OEMs.

During the latter part of 2003 and throughout 2004, we experienced stronger than expected demand primarily, as a result of our strong market position in CDMA EVDO Release 0 PC cards and our CDMA 1X embedded module sales to palmOne. Customer concentration increased in our revenue base. Following our considerable revenue and earnings growth in 2004, we experienced a significant reduction in our business in the first three quarters of 2005 relative to 2004 as a result of:

The reduction in our embedded module business volumes as a result of the completion of CDMA 1X module shipments to palmOne for its Treo 600 Smartphone at the end of 2004;

Reported channel inventory at some of our channel partners that was already sufficient to meet near-term customer demand during the first quarter of 2005; and

The near-term impact of increased competition in CDMA EVDO and EDGE PC cards, including a loss of market share at Verizon Wireless.



In June 2005, we announced our decision to exit our Voq professional phone initiative. We also decided to shift some Voq resources to our core PC card and embedded modules business, where we already have well established market positions and believe there are significant growth opportunities. In addition to the exit of the Voq initiative, we made some non-Voq related reductions to our operating expenses and assets and we recorded a provision for future legal costs associated with litigation matters.

Our revenue decreased 53.5% to \$27.5 million in the third quarter of 2005, compared to \$59.1 million in the same period of 2004. In the third quarter of 2005, our net loss was \$3.1 million, or loss per share of \$0.12, compared to net earnings of \$7.1 million, or diluted earnings per share of \$0.27, in the same period of 2004.

Our balance sheet remains strong, with \$102.2 million of cash, cash equivalents and short- and long-term investments, compared to \$105.7 million at June 30, 2005. During the third quarter of 2005, we used \$0.9 million in cash from operations, compared to cash generated from operations of \$8.0 million in the third quarter of 2004.

We continue to believe that the long-term prospects in the wireless communications industry remain strong, driven by advances in wireless network technologies such as the deployment of next generation 3G networks by carriers worldwide. We believe the deployment of these networks will be a catalyst to increasing the demand for wireless communications products such as those sold by us.

Key factors that we expect will affect our revenue in the near term are the timing of deployment of 3G high speed wireless data networks by carriers, the rate of adoption by end user customers, the timely launch of our new products currently under development and our ability to compete effectively with our competitors. We expect that competition from other wireless communications device manufacturers will continue to increase as more companies focus on opportunities in this market.

Having restructured the Company around PC cards and embedded modules, we are very focused on executing our product development and business development strategies in these areas. Specific initiatives include:

**PC Cards:** We have successfully completed the development of our UMTS/HSDPA PC card and obtained a supply agreement with Cingular to deliver the AirCard 860 for use on their HSDPA network. We expect to commence commercial shipments to Cingular during the fourth quarter of 2005. We believe business development for this product with other carriers is progressing well. We have also commenced the development of the next generation EVDO PC card (EVDO Rev A) and expect this to be commercially available in the second half of 2006; and

**Embedded Modules:** With the announcement by several of the leading laptop manufacturers of their plans to embed high speed wireless wide area network capability inside laptops, the opportunity for sales of embedded modules has potentially increased significantly. We believe we are well positioned to supply embedded modules to this market as a result of our extensive experience in the embedded module market. Earlier in the year, we announced we had design wins with two major laptop OEMs for PCI express Mini Card modules ( minicard ). One of these design wins is for both EVDO and HSDPA minicards, the other is for EVDO. We have begun shipment of our EVDO minicard to one of our partners, Lenovo, which announced that two of its notebook models would be available with our EVDO minicard commencing in October. We expect commercial shipments of our HSDPA minicard to commence in early 2006. During the third quarter, we also commenced shipment in North America of our EM5625 EVDO module to some of our long-time mobile computing OEM customers. One of these OEM customers, Panasonic, has subsequently integrated our EM5625 module into three of its notebook platforms.

We believe these new product developments provide us with a strong, up-to-date 3G product portfolio in both principal wireless technologies and in both the PC card and embedded module markets.

**Results of Operations**

The following table sets forth our operating results for the three and nine months ended September 30, 2005, expressed as a percentage of revenue:

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	65.1	61.0	84.5	60.1
Gross margin	34.9	39.0	15.5	39.9
Expenses				
Sales and marketing	10.8	9.5	16.6	9.3
Research and development, net	28.6	11.1	32.4	11.3
Administration	8.9	4.0	13.3	4.6
Restructuring and other charges	0.0	0.0	7.1	0.0
Amortization	2.6	1.0	3.0	1.2
	50.9	25.6	72.4	26.4
Earnings (loss) from operations	(16.0)	13.4	(56.9)	13.5
Other income	2.4	0.7	2.0	0.3
Earnings (loss) before income taxes	(13.6)	14.1	(54.9)	13.8
Income tax expense (recovery)	(2.4)	2.1	(1.2)	2.2
Net earnings (loss)	(11.2)%	12.0%	(53.7)%	11.6%

Our revenue by product, by distribution channel and by geographical region is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Revenue by product				
PC card	71%	67%	70%	58%
Embedded modules	11	30	10	34
Mobile	12	1	15	5
Other	6	2	5	3
	100%	100%	100%	