

SIERRA WIRELESS INC
Form 6-K
July 29, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign issuer

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

For the Month of July 2005

(Commission File. No 0-30718).

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:

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: July 29, 2005

SIERRA WIRELESS, INC.

SECOND QUARTER REPORT

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2005

REPORT TO SHAREHOLDERS

TO OUR SHAREHOLDERS

The second quarter was a strategic turning point for our business. With the decision to exit the Voq initiative and our resulting restructuring, we have reduced our cost structure and refocused the company on our core PC Card and embedded module business, where we have extensive experience, a well established market position and believe there is significant growth opportunity.

Q2 2005 Compared to Q2 2004

During the quarter we incurred restructuring, other costs and legal provisions amounting to \$19.2 million. These charges include inventory writedowns, severance costs, impairment of fixed, intangible and deferred tax assets, provisions for facilities restructuring, commitments, other costs related to the restructuring and future legal costs associated with litigation matters.

Results for the second quarter of 2005, compared to the second quarter of 2004, excluding the impact of restructuring, other charges and legal provisions of \$19.2 million, were as follows:

For the three months ended June 30, 2005, our revenue was \$21.9 million, compared to \$51.6 million in the second quarter of 2004. The change in revenue primarily reflects the decline in sales of our PC cards and embedded modules.

Gross margin decreased to \$6.9 million (31.2% of revenue), from \$20.9 million (40.5% of revenue) in the second quarter of 2004. Second quarter operating expenses were \$15.3 million, compared to \$13.5 million for the same period in 2004. We reported a net loss of \$7.5 million (loss per share of \$0.30), compared to net earnings of \$6.0 million (diluted earnings per share of \$0.23) in the second quarter of 2004.

Q2 2005 Results Compared to Guidance

Results for the second quarter of 2005, relative to company guidance provided on April 21, 2005, excluding the impact of restructuring, other charges and legal provisions of \$19.2 million, were as follows:

Revenue of \$21.9 million was better than our guidance range of \$20.0 million to \$21.0 million. Gross margin of 31.2% was lower than our guidance of 34%. Operating expenses were \$15.3 million, better than our guidance range of \$16.0 million to \$16.2 million. Our net loss of \$7.5 million (loss per share of \$0.30), was better than our guidance of a loss of approximately \$8.5 million (loss per share of \$0.33). Our cash flow from operations was negative \$12.0 million, consistent with our guidance of negative cash flow.

Business Developments

During the second quarter we achieved a number of product and business development milestones with existing products and with our new PC card and embedded module products under development:

Progress on Products for CDMA 1X and CDMA EVDO Networks and Channels

We commenced shipment of our EM5625 EVDO embedded module to customers outside of North America. The EM5625 is currently in the carrier certification stage with major North American carriers and we expect to begin North American shipments in Q3 2005. We believe the EM5625 will be the first EVDO module available in North America.

During the second quarter, we received new design wins with MobileAria and AirLink. These design wins are in addition to those announced earlier this year with Panasonic, Itronix, @Road and Falcom.

A distribution agreement with Brightpoint Middle East marked the official launch of our products in the Middle East. The agreement includes distribution of the AirCard® 775, the AirCard 555, and the AirCard 580 wireless wide area network cards, as well as the MP 775 GPS and MP 555 GPS rugged wireless modems to select markets in this region.

MP2 Solutions selected the Sierra Wireless EM3420 embedded module to connect its MRT300 Mobile Retail Terminal to CDMA 1X networks. Customers can use the MRT300 to scan, authorize credit card payments, and check inventory wirelessly in real time.

Progress on Products for GSM/GPRS/EDGE/HSDPA Networks and Channels

Development of our new UMTS/HSDPA PC card products continues to be on track. We were the first company to provide a live demonstration of an HSDPA PC card earlier in the year at 3GSM. Since then, we have continued to work closely with carriers and infrastructure providers around the world, collaborating in the areas of interoperability testing and market trials. Some of the tier one carriers have already selected our HSDPA PC cards and we have received initial purchase orders. We expect to begin commercial volume shipments of UMTS/HSDPA PC cards during the fourth quarter of 2005.

Earlier in the year, we reported design wins from two major laptop OEMs for EVDO mini PCI express modules. During the second quarter, we earned another design win for an HSDPA module with one of these laptop OEM customers.

Together with Guangdong Iscreate Technology Co. Ltd., we announced that the Sierra Wireless AirCard 775 wireless wide area network card is now available from Guangdong Mobile Communications Corporation. The AirCard 775 will be used on the company's newly launched EDGE network, servicing more than 18 million customers in cities throughout the Guangdong province. Guangdong Mobile has offered the Sierra Wireless AirCard 750 card for use on GSM/GPRS networks since 2002.

We signed a distribution agreement with Multimedia Prospect Sdn Bhd for the Sierra Wireless AirCard 775 in Malaysia. The AirCard 775 card is now available in Malaysia for use on DiGi Telecommunications' EDGE and GPRS network.

Outlook

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 for increasing the demand for wireless communications products such as those sold by us.

During the remainder of 2005, we will continue to focus our research and development efforts on our core business of PC cards and embedded modules to ensure we are well positioned with new products that will include new 3G airlinks and form factors. We expect these initiatives to provide the foundation for our continued sequential growth and planned return to profitability.

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/s/ David B. Sutcliffe
David B. Sutcliffe
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 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 July 27, 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.

Overview

We provide highly differentiated wireless solutions worldwide. We develop and market a broad 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 half of 2005 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 their 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, either by divestiture or by termination. 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. The announcement included our expectation that we may incur restructuring and other charges associated with the exit of the program. 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.

In total, we are reducing our workforce from 321 employees to 270 employees. Of the 51 employees terminated, 32 left during the second quarter of 2005 and 19 are on working notice that ends during the third quarter of 2005. Of the 55 people who had been working on the Voq program, 24 were transferred to our core business, 14 were terminated as of June 30, 2005 and 17 are on short term working notice. For the three and six months ended June 30, 2005, we recorded restructuring and other charges of \$18.2 million that includes inventory writedowns, severance costs, impairment of fixed, intangible and deferred tax assets, provisions for facilities restructuring, commitments and other costs related to the restructuring. Restructuring charges related to Voq total approximately \$13.5 million of the total \$18.2 million. In addition, we recorded a provision of \$1.0 million for future legal costs associated with litigation matters.

Our revenue decreased 57.5% to \$21.9 million in the second quarter of 2005, compared to \$51.6 million in the same period of 2004. In the second quarter of 2005, our net loss was \$26.7 million, or loss per share of \$1.05. Excluding restructuring and other charges of \$18.2 million and the provision for future legal costs of \$1.0 million, in the second quarter of 2005, our net loss was \$7.5 million or loss per share of \$0.30, compared to net earnings of \$6.0 million, or diluted earnings per share of \$0.23, in the same period of 2004.

Our balance sheet remains strong, with \$105.7 million of cash, cash equivalents and short-term investments, compared to \$120.7 million at March 31, 2005. During the second quarter of 2005, we used \$12.0 million in cash from operations, compared to cash generated from operations of \$8.2 million in the second 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.

During the remainder of 2005, we expect to focus our research and development efforts on our core business of PC cards and embedded modules to ensure we are well positioned with new products that will include new 3G airlinks and form factors. Specific product development initiatives include:

HSDPA PC cards: We have accelerated the development of UMTS HSDPA PC cards. We provided a live demonstration of an HSDPA PC card earlier in the year at 3GSM. Since then, we have continued to work closely with carriers and infrastructure providers around the world, collaborating in the areas of interoperability testing and market trials. Some of the tier one carriers have already selected our HSDPA PC cards and we have received initial purchase orders. We expect to begin commercial volume shipments of UMTS/HSDPA PC cards during the fourth quarter of 2005.

CDMA EVDO Release A PC Cards: Release A brings significant uplink and downlink speed advantages to EVDO. We have established a strong market position in EVDO Release 0 PC cards and intend to follow this with the introduction of EVDO Release A PC cards that we expect to be available in the second half of 2006, concurrent with the expected commercial deployment by carriers of Release A.

We have been able to capitalize on our embedded modules experience and are in the process of developing a new line of mini-PCI embedded modules designed specifically to meet the needs of laptop manufacturers. To date, we have received design wins from two laptop OEMs and have commenced integration support with these new prospective customers for our CDMA EVDO mini-PCI embedded modules. During the second quarter, we earned another design win with one of these laptop OEM customers for an HSDPA mini PCI express module. Generally, following the award of a design win, the embedded modules sales cycle includes assisting in integration and certification, negotiating supply agreements, receiving forecasts and orders and proceeding with commercial volume shipments.

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In addition, during the first half of 2005, we announced design wins to supply our EM5625, an EVDO embedded module, to Panasonic, Itronix, @Road, Falcom, AirLink and MobileAria. This product is currently in the carrier certification stage.

Results of Operations

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

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	127.0	59.5	97.2	59.5
Gross margin	(27.0)	40.5	2.8	40.5
Expenses				
Sales and marketing	19.7	8.5	20.5	9.2
Research and development, net	33.7	11.6	34.8	11.5
Administration	17.8	4.9	16.2	4.9
Restructuring and other charges	22.5		11.7	
Amortization	3.1	1.1	3.2	1.3
	96.8	26.1	86.4	26.9
Earnings (loss) from operations	(123.8)	14.4	(83.6)	13.6
Other income	1.0		1.8	
Earnings (loss) before income taxes	(122.8)	14.4	(81.8)	13.6
Income tax expense (recovery)	(1.0)	2.7	(0.3)	2.2
Net earnings (loss)	(121.8)%	11.7%	(81.5)%	11.4%

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

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Revenue by product				
PC card	75%	55%	70%	53%
Embedded modules	7	32	9	37
Mobile	15	10	18	8
Other	3	3	3	2
	100%	100%	100%	100%