SIERRA WIRELESS INC
Form 6-K
May 07, 2012
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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 May 2012

(Commission File. No 0-30718).

SIERRA WIRELESS, INC., A CANADIAN 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)

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 o 40-F x

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: o No: x

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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: May 7, 2012

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Report to Shareholders

I am very pleased with the performance of the Company in the first quarter of 2012. We saw broad-based strength across all of our business lines, including steady growth in our M2M business, strong growth with PC OEMs and continued solid demand for our 4G AirCard products. This broad-based strength, combined with continued operating model improvements, drove higher than expected revenue and earnings growth. These results provide a nice start to what we expect will be a year of considerable activity in terms of product development, customer design wins and product launches, as well as improved financial performance.

Revenue in the first quarter 2012 was $150.3 million, representing sequential growth of 2% compared to the fourth quarter of 2011. Compared to the first quarter of 2011, revenue increased by 4% from $144.3 million, despite the loss of revenue from two large customers, who together accounted for $9 million in revenue in first quarter of 2011. Excluding sales to these two customers, revenue in the first quarter increased 11% on a year-over-year basis, driven by steady year-over-year growth in our core M2M business, as well as significant growth in revenue from PC OEMs.

Non-GAAP gross margin improved to 29.8% in the first quarter compared to 28.3% in the fourth quarter of 2011 and 27.4% in first quarter of 2011. The trend in gross margins reflects continued ASP discipline, along with significant progress in product cost reductions. Tight cost control resulted in Non-GAAP operating expenses of $39.7 million in current quarter, down $3.5 million from $43.2 million in the first quarter of 2011. Improved revenue and gross margin, combined with good operating cost control, led to significantly stronger than expected non-GAAP earnings from operations of $5.2 million or $0.16 per share.

Machine-to-Machine

Despite weakness in Europe, Q1 marked another steady growth quarter in our M2M business. This steady growth, combined with the recent confirmation by ABI Research that we have expanded our market share lead over the competition, leaves us well positioned to participate in the growth of this exciting market.

During the quarter, we launched several new products, including the AirLink GX440 industrial gateway which is now fully certified on the Verizon LTE network. We also announced that our highly successful OpenAT application framework for AirPrime embedded modules is now available on our 3G devices. OpenAT provides a rich integrated development environment complete with APIs, pre-packaged software libraries and tools to accelerate application development.

The quarter also included several important design wins for us. The wins are wide ranging and include applications in our key M2M segments such as automotive, energy, networking and industrial handhelds.

One of our more interesting design wins of the quarter comes from Nespresso, the global leader in high quality, single serve coffee. Nespresso is taking advantage of the Sierra Wireless complete end-to-end solutions platform, including AirLink programmable gateways and the AirVantage Cloud Platform, to add wireless connectivity and new connected services to its line-up of commercial coffee machines. This design win is a good example that our strategy to expand our position in the value chain is working.

Revenues in our M2M business totaled $77.0 million in the first quarter 2012, an 8% increase over the fourth quarter of 2011 and a 6% year-over-year increase from the first quarter in 2011. Excluding sales to Barnes & Noble that occurred in 2011, our core M2M revenue grew by 7% year-over-year. Our business continues to be well diversified and M2M represented 51% of consolidated revenue in the quarter.

Mobile Computing

In our Mobile Computing business, we continued the launch of our next generation 4G LTE AirCard products during the first quarter. The launches cover multiple products on multiple networks and early reviews of the products are excellent. As a result of the expansion of 4G LTE networks and our development of new customers, we believe that we are in a good position to drive further growth.

We continue to build on our leadership position with our key carrier partners, while also adding new customers. During the quarter we launched our latest 4G LTE mobile hotspot, the AirCard 760 with Telstra and earlier in the quarter, we also announced our Tri-Network Mobile Hotspot with Sprint, a unique device supporting LTE, WiMax and EVDO in addition to WiFi. Our 4G LTE products for AT&T, launched late last year, continue to perform well.

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We are also pleased with the expansion of our customer base. The strength of our 4G LTE product line has led to a number of launches with recently added customers, such as Rogers Wireless in Canada, DNA in Finland and NetIndex, in Japan.

Sales to PC OEMs were also strong during the quarter, growing more than 100% from Q1 of 2011 and 38% from the fourth quarter of 2011. We continue to experience strong contribution from a broad range of key customers such as NEC, HP, Fujitsu, Lenovo and Panasonic. We continue to see growth opportunities in this segment as manufacturers adopt LTE, Windows8 and the Ultrabook form factor.

Sales in our Mobile Computing business were $73.3 million in the first quarter of 2012, up 3% from the first quarter of 2011. Excluding the impact of about $8 million in revenues from Clearwire in 2011, the year-over-year growth rate was 16%.

Outlook

We are pleased with our results for the first quarter of 2012. Our M2M business achieved steady year-over-year growth, despite macro-economic weakness in Europe. Our Mobile Computing business was solid and our outlook for growth is supported by a strong leadership position with our key customers, our introduction of new innovative 4G LTE products, the continued roll out by carriers of their LTE networks and new customers.

We have applied considerable focus to our operating model, and expect to maintain the operating expense improvements and product cost reductions that we have achieved over the past year.

Overall, I continue to be excited about the prospects for Sierra Wireless and believe the company has the foundation necessary to drive sustainable, profitable growth. I thank you for your continued support and look forward to reporting to you on our achievements in the coming quarters.

Jason W. Cohenour

President and Chief Executive Officer

Cautionary Note Regarding Forward-Looking Statements

Certain statements in this letter constitute forward-looking statements or forward-looking information and, in this regard, you should read carefully the Cautionary Note Regarding Forward-Looking Statements in the attached Management s Discussion & Analysis.

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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 months ended March 31, 2012, and up to and including May 4, 2012. This MD&A should be read together with our unaudited interim consolidated financial statements for the three-month periods ended March 31, 2012 and March 31, 2011, and our audited annual consolidated financial statements and the accompanying notes for the year ended December 31, 2011 (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 .

Throughout this document, references are made to certain non-GAAP financial measures that are not measures of performance under U.S. GAAP. Management believes that these non-GAAP financial measures provide useful information to investors regarding the Company s financial condition and results of operations as they provide additional measures of its performance. These non-GAAP financial measures do not have any standardized meaning prescribed by U.S. GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. These non-GAAP financial measures are defined and reconciled to their nearest GAAP measure in Non-GAAP Financial Measures .

Additional information about the Company, including our most recent consolidated financial statements and our Annual Information Form, is available on our website at www.sierrawireless.com, or on SEDAR at www.sedar.com and on EDGAR at www.sec.gov.

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Cautionary Note Regarding Forward-looking Statements

Certain statements and information in this MD&A are not based on historical facts and constitute forward-looking statements or forward-looking information within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and Canadian securities laws (forward-looking statements), including our business outlook for the short and longer term and our strategy, plans and future operating performance. Forward-looking statements are provided to help you understand our views of our short and longer term prospects. We caution you that forward-looking statements may not be appropriate for other purposes. We will not update or revise our forward-looking statements unless we are required to do so by securities laws. Forward-looking statements:

- *Typically include words and phrases about the future such as outlook , may , estimates , intends , believes , plans , anticipates and expects ;*

- *Are not promises or guarantees of future performance. They represent our current views and may change significantly;*

- *Are based on a number of material assumptions, including those listed below, which could prove to be significantly incorrect:*

- *Our ability to develop, manufacture and sell new products and services that meet the needs of our customers and gain commercial acceptance;*

- *Our ability to continue to sell our products and services in the expected quantities at the expected prices and expected times;*

- *Expected transition period to our 4G products;*

- *Expected cost of goods sold;*

- *Expected component supply constraints;*

- *Our ability to win new business;*

- *Expected deployment of next generation networks by wireless network operators;*

- *Our operations are not adversely disrupted by component shortages or other development, operating or regulatory risks; and*

- *Expected tax rates and foreign exchange rates.*

- *Are subject to substantial known and unknown material risks and uncertainties. Many factors could cause our actual results, achievements and developments in our business to differ significantly from those expressed or implied by our forward-looking statements, including, without limitation, the following factors, most of which are discussed in greater detail under Risks and Uncertainties and in our other regulatory filings with the U.S. Securities and Exchange Commission (the SEC) in the United States and the provincial securities commissions in Canada.*

- *Actual sales volumes or prices for our products and services may be lower than we expect for any reason including, without limitation, continuing uncertain economic conditions, price and product competition, different product mix, the loss of any of our significant customers, or competition from new or established wireless communication companies;*

- *The cost of products sold may be higher than planned or necessary component supplies may not be available, are delayed or are not available on commercially reasonable terms;*

- *We may be unable to enforce our intellectual property rights or may be subject to litigation that has an adverse outcome;*

- *The development and timing of the introduction of our new products may be later than we expect or may be indefinitely delayed; and*

- *Transition periods associated with the migration to new technologies may be longer than we expect.*

Investors are cautioned not to place undue reliance on these forward-looking statements. No forward-looking statement is a guarantee of future results.

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OVERVIEW

Business Overview

Sierra Wireless Inc. (Sierra Wireless or the Company) is a global leader in the development of wireless technologies and solutions. We focus on wireless devices and applications, offering a comprehensive portfolio of products and services that reduce complexity for our customers. With sales, engineering, and research and development teams located in offices around the world, 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 mobile Wi-Fi hotspots, 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 data networks around the world.

We believe that the markets for wireless solutions in mobile computing and M2M have strong growth prospects. We believe that the key growth enablers for these markets include the continued deployment and upgrade of wireless networks around the world, growth in the number and type of devices being wirelessly connected, a growing strategic focus on M2M services by wireless operators, and an expanding end customer awareness of the availability of such services and their benefits.

While the design and manufacture of mobile computing devices continues to be important to our business, our expansion by acquisition and organic development into M2M now makes us a global leader in this market, placing us in a strong position to benefit from the anticipated growth in both the wireless M2M and mobile computing markets. Our acquisitions have also diversified our revenue base, broadened our product offerings and increased our scale and capabilities throughout the world.

Our 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 automotive, networking equipment, energy, security, sales and payment, industrial control and monitoring, fleet management, field service, healthcare and consumer electronics. Our mobile computing products are used by businesses and consumers 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, as well as directly to enterprises.

First Quarter Overview

First quarter 2012 profitability improved compared to the fourth quarter of 2011, driven by revenue growth in both our M2M and PC OEM product lines, combined with improved gross margins. Gross margins increased primarily due to realization of anticipated lower product costs and slightly favorable product and customer mix. First quarter 2012 operating expenses were lower than the fourth quarter of 2011, largely due to the absence of the impairment charge related to intangible assets of $11.2 million recorded in the previous quarter.

Highlights for the first quarter of 2012:

- Revenue was $150.3 million, up 2.1% compared to the fourth quarter of 2011

- Gross margin was 29.8%, up from 28.2% in the fourth quarter of 2011

- Non-GAAP earnings from operations of $5.2 million and diluted earnings per share of $0.16 increased from non-GAAP earnings from operations of $3.4 million and diluted earnings per share of $0.08 in the fourth quarter of 2011

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- Net earnings of $0.3 million and diluted earnings per share of $0.01 improved significantly from a net loss of $13.8 million and loss per share of $0.44 in the fourth quarter of 2011. We recorded an impairment charge of $11.2 million related to intangible assets in the fourth quarter of 2011.

- We recorded highest core M2M revenue in the Company s history in the first quarter of 2012

Selected financial information:

(in thousands of U.S. dollars, except where otherwise stated)

	2012 Q1	2011 TOTAL	Q4	Q3	Q2	Q1
Revenue (GAAP and Non-GAAP)	$ 150,266	$ 578,185	$ 147,195	$ 146,827	$ 139,888	$ 144,275
Gross Margin	$ 44,766	$ 163,450	$ 41,552	$ 43,334	$ 39,100	$ 39,464
- Non-GAAP (1)	44,849	163,835	41,638	43,423	39,197	39,577
Gross Margin %	29.8%	28.3%	28.2%	29.5%	28.0%	27.4%
- Non-GAAP (1)	29.8%	28.3%	28.3%	29.6%	28.0%	27.4%
Earnings (loss) from operations	$ 342	$ (29,912)	$ (12,465)	$ (1,763)	$ (6,270)	$ (9,414)
- Non-GAAP (1)	5,182	2,902	3,353	4,024	(846)	(3,629)
Net earnings (loss)	$ 345	$ (29,315)	$ (13,762)	$ (998)	$ (6,766)	$ (7,789)
- Non-GAAP (1)	5,013	3,633	2,483	4,606	(1,025)	(2,431)
Basic and diluted earnings (loss) per share (in dollars)	$ 0.01	$ (0.94)	$ (0.44)	$ (0.03)	$ (0.22)	$ (0.25)
- Non-GAAP (1)	0.16	0.12	0.08	0.15	(0.03)	(0.08)
Common shares (in thousands)						
At period-end	30,910	31,307	31,307	31,297	31,294	31,250
Weighed average - basic and diluted	31,175	31,275	31,298	31,297	31,267	31,237

(1) Non-GAAP results exclude the impact of stock-based compensation expense, acquisition amortization, impairment, integration costs, restructuring costs, foreign exchange gains or losses on translation of balance sheet accounts, and certain tax adjustments. Refer to the section on Non-GAAP financial measures for additional details.

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

Outlook

In the second quarter of 2012, we expect revenue to increase from first quarter levels, driven primarily by growth in revenue from our 4G AirCard products. We expect both gross margin percentage and operating expenses in the second quarter of 2012 to be slightly higher than the first quarter of 2012.

On April 3, 2012, we announced we will be closing our Newark facility effective December 31, 2012 to drive greater efficiency, scalability and leverage. Our AirLink marketing, research and development, and customer support activities will transfer primarily to the Richmond office, some engineering activities will transfer to our office in France, and our manufacturing operations will transfer to our manufacturing partner in Suzhou, China. Total severance and other costs associated with this initiative are estimated to be approximately $2 million.

Key factors that we expect will affect our results in the near term are the relative competitive position of our products within sales channels in any given period, the relative competitive position of our customers versus their direct competitors, 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

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sales of our new products currently under development, the level of success our OEM customers achieve with sales of embedded solutions to end users, our ability to secure future design wins with both existing and new OEM customers, general economic conditions in the markets we serve and seasonality in demand. We expect that product and price competition from other wireless 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. Gross margin percentage may fluctuate from quarter to quarter depending on product and customer mix, competitive selling prices and product costs.

CONSOLIDATED RESULTS OF OPERATIONS

(in thousands of U.S. dollars)

	Three months ended March 31					
		2012	% of Revenue		2011	% of Revenue
Revenue	$	150,266	100.0%	$	144,275	100.0%
Cost of goods sold		105,500	70.2%		104,811	72.6%
Gross margin		44,766	29.8%		39,464	27.4%
Expenses						
Sales and marketing		11,861	7.9%		12,268	8.5%
Research and development		21,396	14.2%		23,512	16.3%
Administration		8,600	5.7%		9,385	6.5%
Restructuring costs		180	0.1%		325	0.2%
Integration costs			0.0%		540	0.4%
Amortization		2,387	1.6%		2,848	2.0%
		44,424	29.6%		48,878	33.9%
Earnings (loss) from operations		342	0.2%		(9,414)	-6.5%
Foreign exchange gain (loss)		206			422	
Other income (expense)		(171)			(40)	
Earnings (loss) before income taxes		377			(9,032)	
Income tax expense (recovery)		32			(1,199)	
Net earnings (loss) before non-controlling interest		345			(7,833)	
Less: non-controlling interest					(44)	
Net earnings (loss) attributable to the Company	$	345		$	(7,789)	
Basic and diluted net loss per share attributable to the Company	$	0.01		$	(0.25)	

Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

Revenue

Revenue in the three months ended March 31, 2012 increased by $6.0 million, or 4.2%, compared to the same period of 2011. The increase was a result of growth in both our M2M and mobile computing businesses, partially offset by the absence of revenue from Clearwire which amounted to $8.3 million in the comparative quarter of 2011.

In the first quarter of 2012, AT&T and Sprint each accounted for more than 10% of our revenue, representing approximately 29% of our revenue in aggregate. In the first quarter of 2011, AT&T and Telstra each accounted for more than 10% of our revenue, and in aggregate, these two customers represented approximately 25% of our revenue.

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We continue to have a balanced mix of revenue between Mobile Computing and M2M. Our segment revenue mix for the three months ended March 31, 2012 and 2011 was as follows:

The geographic revenue mix for the three months ended March 31, 2012 and 2011 was as follows:

Gross margin

Gross margin was 29.8% of revenue for the three months ended March 31, 2012, compared to 27.4% of revenue in the same period of 2011. The increase in gross margin percentage was primarily related to product cost reductions and favorable product and customer mix. Gross margin included $0.1 million of stock-based compensation expense in each of the three months periods ended March 31, 2012 and 2011.

Sales and marketing

Sales and marketing expenses decreased by $0.4 million, or 3.3%, in the three months ended March 31, 2012 compared to the same period of 2011. The decrease in sales and marketing expenses was due primarily to a continued focus on cost management. Sales and marketing expenses included $0.3 million of stock-based compensation expense in each of the three-month periods ended March 31, 2012 and 2011.

Research and development

Research and development expenses decreased by $2.1 million, or 9.0% to $21.4 million in the three months ended March 31, 2012, compared to the same period in 2011. In 2011, our research and development expenses were higher due to unusually high investment in new product development, including preparations for the launch of 4G LTE technology. Research and development expenses included stock-based compensation expense of $0.4 million and acquisition amortization of $1.6 million, in each of the three-month periods ended March 31, 2012 and 2011.

Administration

Administration expenses decreased by $0.8 million, or 8.4%, in the three months ended March 31, 2012, compared to the same period in 2011. The decrease was primarily due to cost reduction initiatives that were implemented in 2011 and continued into 2012. Included in administration expenses was $0.8 million of stock-based compensation expense in each of the three-month periods ended March 31, 2012 and 2011.

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Restructuring

Restructuring costs decreased by $0.1 million, or 44.6%, during the three month ended March 31, 2012, compared to the same period in 2011. Restructuring costs in the current three-month period relate to organizational changes in research & development designed to streamline operations and reduce the number of sites handling product development activities. Restructuring costs in 2011 primarily represented the additional costs incurred for reductions in our workforce resulting from the implementation of the new organizational structure announced in the third quarter of 2010.

Integration costs

Integration costs were $nil during the three months ended March 31, 2012 compared to $0.5 million in the same period of 2011. Integration costs during the three months ended March 31, 2011 were primarily related to office space optimization in France and for IT consultants retained to implement an integrated CRM system.

Amortization

Amortization expense decreased $0.5 million or 16.2%, in the three months ended March 31, 2012 compared to the same period in 2011. Amortization expense in the three-month period ended March 31, 2012 included $1.4 million of acquisition amortization compared to $1.7 million in the same three-month period in 2011.

Foreign exchange gain (loss)

Foreign exchange gain decreased $0.2 million during the three month ended March 31, 2012 to $0.2 million compared to the same three-month period in 2011. Foreign exchange gain for the three-month periods in 2012 and 2011 include a net foreign exchange gain of $1.4 million and $0.2 million, respectively, on intercompany balances.

Foreign exchange rate changes also impact our Euro and Canadian dollar denominated revenue and operating expenses. We estimate that changes in exchange rates between 2011 and 2012 positively impacted our earnings from operations by approximately $0.3 million in the first quarter of 2012.

Income tax recovery

Income tax recovery decreased by $1.2 million in the three months ended March 31, 2012, compared to the same period of 2011, primarily driven by improved profitability and changes in the effective tax rate as a result of a shift in earnings among our numerous tax jurisdictions.

Net earnings (loss) attributable to the Company

Net earnings attributable to the Company increased by $8.1 million in the three months ended March 31, 2012 compared to the same period of 2011. This increase was primarily due to higher earnings from operations in the three months ended March 31, 2012. In addition, favorable adjustments in tax allowances resulted in negligible income tax expense.

Net earnings for the three months ended March 31, 2012 included stock-based compensation of $1.7 million, and acquisition amortization of $3.0 million. Net loss for the same period in 2011 included stock-based compensation of $1.6 million, and acquisition amortization of $3.3 million.

Weighted average number of shares

The weighted average diluted number of shares outstanding was 31.2 million for each of the three- month periods ended March 31, 2012 and 2011. The number of shares outstanding was 30.9 million at March 31, 2012, compared to 31.3 million at March 31, 2011. The reduction in number of shares outstanding was due to purchases on the TSX and NASDAQ of the Company s common shares under our normal course issuer bid during the three months ended March 31, 2012.

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SEGMENTED RESULTS

Revenue and gross margin by segment for the three months ended March 31, 2012 and 2011 was as follows:

(in thousands of U.S. dollars)

	Three months ended March 31	
	2012	2011
M2M		
Revenue	$ 76,943	$ 72,728
Cost of goods sold	52,219	50,048
Gross margin	$ 24,724	22,680
Gross margin %	*32.1%*	*31.2%*