SIERRA WIRELESS INC
Form 6-K
August 12, 2009

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 August 2009

(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

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, 2009

Q2 2009

UNITED STATES GAAP

SECOND QUARTER REPORT

FOR THE THREE AND SIX MONTHS JUNE 30, 2009

SIERRA WIRELESS, INC.

REPORT TO SHAREHOLDERS

While market conditions remained challenging in the second quarter, we experienced solid revenue, record unit volume shipments, strong cash flow, significant improvement in gross margin and achieved positive non-GAAP earnings from operations earlier than expected. Early synergies from the Wavecom acquisition, combined with good cost management throughout our business, were key factors in the 720 basis point sequential improvement in our gross margins and better-than-expected non-GAAP earnings from operations.

As part of the Wavecom integration, we have announced a new-look executive team, implemented organizational structure changes, taken significant cost-reduction steps, captured early product cost synergies and leveraged our combined resources to secure OEM design wins and achieve market share gains. We have also begun to realize some of the diversification benefits of the Wavecom acquisition, with a reduction in our customer concentration and improved product line and geographical diversification. Overall, the Wavecom integration is going well and is on track.

Non-GAAP Q2 2009 Results Compared to Q2 2008

Our non-GAAP results exclude transaction costs related to the acquisition of Wavecom, restructuring costs, integration costs, stock-based compensation expense, acquisition-related amortization and foreign exchange gains and losses related to the Wavecom acquisition.

For the three months ended June 30, 2009, revenue decreased by 13% to $135.3 million, from $155.7 million in the second quarter of 2008. This decrease primarily reflects lower AirCard sales and reduced sales of embedded modules to PC OEM customers, partially offset by a $33.4 million revenue contribution from the Wavecom acquisition. Non-GAAP gross margin was 34.9% of revenue in Q2 2009, compared to 27.8% of revenue in Q2 2008. The improvement in gross margin percentage reflects product cost reductions, early synergies from the Wavecom acquisition as well as the addition of higher-margin products from the Wavecom acquisition. Non-GAAP operating expenses were $44.5 million in Q2 2009, compared to $25.7 million in Q2 2008. Non-GAAP earnings from operations were $2.8 million in Q2 2009, compared to $17.7 million in Q2 2008. Non-GAAP net earnings were $1.5 million, or diluted earnings per share of $0.05 in Q2 2009, compared to $13.3 million, or diluted earnings per share of $0.42 per diluted share in the second quarter of 2008.

Non-GAAP Q2 2009 Results Compared to Guidance

Second quarter 2009 revenue of $135.3 million was lower than our guidance of $139.0 million. Non-GAAP earnings from operations of $2.8 million exceeded our guidance of a loss from operations of $2.0 million. Non-GAAP net earnings of $1.5 million, or diluted earnings per share of $0.05, were better than our guidance of a net loss of $2.0 million, or loss per share of $0.06.

Business Developments

The second quarter of 2009 included the following business developments:

- We launched our Sierra Wireless USB 598 modem on Telus EV-DO Rev A network. Telus is the first operator in North America using our TRU-Update feature, a managed service providing automatic firmware, driver and application updates.

- We commenced commercial shipments of our AirCard 402 for EV-DO Rev A networks with Sprint. The AirCard 402 is a 2-in-1 mobile broadband card designed to fit both PC card and ExpressCard slots.

- Our new Q26 Elite Wireless CPU® for CDMA 1X passed all regulatory and interoperability testing and was approved for use on the Verizon Wireless, Sprint and Aeris networks. The Q26 Elite is ruggedized for extreme environmental conditions and supports GPS, making it suitable for fleet management and tracking applications.

- We announced the availability of our new MC5728V embedded module for EV-DO Rev A networks. This module enables the integration of mobile broadband connectivity into a variety of devices, including notebook computers, networking equipment and industrial handheld devices.

- We announced a collaboration initiative with Meta System Spa to provide a platform for automotive telematics, with a focus on emergency calls, stolen vehicle tracking, remote diagnostics and fleet management.

- We announced that our ALEOS embedded software platform will be available on our MP line of rugged in-vehicle mobile routers. With the addition of ALEOS, our MP product line will now share a common software platform with all of our AirLink gateways and routers, simplifying device management and support.

Corporate Developments

We announced changes to our leadership team during the second quarter, including the appointment of former Wavecom executives to our combined executive team. The appointments include Didier Dutronc as Senior Vice President, Marketing, Philippe Guillemette as Senior Vice President, Advanced Technology, Pierre Teyssier as Senior Vice President, Engineering and Emmanuel Walckenaer as Senior Vice President and General Manager, Solutions and Services.

Acquisition Synergies and Cost Reduction Plans

We are currently implementing an action plan that we expect will capture significant product and operating cost savings both independent of, and related to, our acquisition of Wavecom.

With respect to operating expenses, we have already implemented several cost reduction activities that have been previously disclosed. We believe that our expense reduction plan will enable us to achieve a quarterly reduction of $8.9 million by Q1 2010 from the pre-acquisition combined Q4 2008 non-GAAP operating expenses of Wavecom and Sierra Wireless of $48.9 million.

A number of the synergy-related initiatives are already underway, including staff rationalization and common component supplier price negotiations. We believe that additional product cost savings will be achieved over time through a combination of phased actions including manufacturing facility rationalization, consolidation of logistics activities and product platform harmonization which increases component commonality. We believe that these synergy actions will result in a per-unit product cost reduction of approximately 3% to 4% by the end of 2010.

With respect to revenue, we believe that the improved market position of the combined company will result in incremental revenue gains over time. As a combined company, we believe we have the broadest product portfolio and global technical support capability in our industry, as well as scale and product cost advantages relative to our peers. We believe that these enhanced market position advantages have already resulted in OEM design wins that represent market share gains.

In the second quarter of 2009, we incurred a pre-tax charge of approximately $8.9 million related to the cost reduction initiatives already implemented.

Outlook

Moving forward, we will continue to focus on strong business execution in a challenging environment and on completing our successful integration with Wavecom. We remain confident that when the business environment strengthens, we will be well positioned with a broad and diversified product line, a long list of blue chip customers and partners, a strong global presence, a strong balance sheet and an excellent team.

/s/ Jason W. Cohenour

Jason W. Cohenour
President and Chief Executive Officer

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 co
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 and on EDGAR at 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, 2009, and up to and including August 10, 2009. This MD&A should be read together with our unaudited consolidated financial statements and the accompanying notes for the three and six months ended June 30, 2009 (the consolidated financial statements). The consolidated financial statements have been prepared in accordance with accounting principles generally accepted 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, our audited consolidated financial statements for the fiscal year ended December 31, 2008 and our Annual Information Form, may be found on SEDAR at www.sedar.com and on EDGAR at www.sec.gov.

Overview

We provide leading edge wireless solutions for the mobile computing and machine-to-machine (M2M) 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), and intelligent wireless gateway solutions for industrial, commercial and public safety applications and an innovative platform for delivering device management and application services. We also offer professional services to OEM customers during their product development and launch, 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 recent acquisition of Wavecom S.A. (Wavecom) 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 acquisition of Wavecom also enhances our capabilities in key markets with proven development tools and an innovative services platform for delivering device management and application services. Our consolidated results include Wavecom s results for the period since February 27, 2009 to June 30, 2009.

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 mobile broadband and M2M services by wireless operators and expanding end customer awareness of the availability of such services and their benefits.

Our mobile computing products are used by businesses, consumers and government organizations to enable mobile broadband access to a wide range of applications, including the Internet, e-mail, corporate intranet, remote databases and corporate applications.

Our expanded line-up of embedded wireless solutions is used by a wide range of OEMs to wirelessly enable their products and solutions. Our OEM customers cover a broad range of industries including mobile computing, networking equipment, automotive OEM and aftermarket, energy, security, transaction processing, industrial control and monitoring and mobile resource management.

Our rugged mobile and M2M gateway solutions are used primarily in the public safety, energy, industrial, transportation, automotive and transaction processing markets. We believe the mobile and M2M gateway markets we serve offer attractive opportunities for long term profitable growth.

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

In the second quarter of 2009, our revenue decreased 13% to $135.3 million, compared to $155.7 million in the same period of 2008. Gross margin for the second quarter of 2009 was 34.8%, compared to 27.8% in the same period of 2008. We incurred a loss from operations for the three months ended June 30, 2009 of $16.2 million, compared to earnings from operations of $14.4 million in the same period of 2008. Our net loss was $5.9 million, or loss per share of $0.19, for the second quarter of 2009, compared to net earnings of $11.0 million, or diluted earnings per share of $0.35, in the same period of 2008.

On December 2, 2008, we announced an all-cash offer to purchase all of the common shares and OCEANE convertible bonds (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 American Depository Shares (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 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.

We expect the combination of Sierra Wireless and Wavecom will create a global leader that will be uniquely positioned to benefit from the anticipated growth in the wireless mobile computing and M2M 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.

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 21 of these positions remaining to be phased out by the end of 2009.

On January 29, 2009, also prior to the acquisition of Wavecom, Sierra Wireless implemented an expense reduction program that is expected to reduce labor costs by approximately $5.5 million on an annualized basis. This program, which was completed during the first quarter of 2009, included the elimination of approximately 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 includes $0.5 million of stock-based compensation expense.

On May 15, 2009, we announced further cost reduction initiatives related to the integration of Wavecom with Sierra Wireless that included combining the R&D and product operations of both organizations. As a result, the Wavecom location in Research Triangle Park, North Carolina, will be closed in the fourth quarter of 2009. R&D activities from this location will be transitioned primarily to the Sierra Wireless location in Carlsbad, California. The cost reduction initiatives in the U.S. and France are expected to be completed by the end of 2009. In the second quarter of 2009, we incurred a pre-tax charge of approximately $8.9 million related to these initiatives, which includes $0.4 million of stock-based compensation expense.

During the second quarter of 2008, we received regulatory approval allowing us to purchase up to 1,567,378 of our common shares (approximately 5% of our common shares outstanding as of May 21, 2008) by way of a normal course issuer bid (the Bid) on the Toronto Stock Exchange (TSX) and the NASDAQ Global Market (Nasdaq). As of May 25, 2009, we had purchased and cancelled 407,700 shares under the Bid. As of May 25, 2009, the Bid was terminated.

Our balance sheet remains strong, with $131.5 million of unrestricted cash, cash equivalents and short-term investments at June 30, 2009. At December 31, 2008, we had $272.7 million of cash, cash equivalents and short term investments, of which $191.5 million was restricted cash provided as security for a letter of credit issued in connection with our acquisition of Wavecom. For the three months ended June 30, 2009, cash provided by operations was $18.5 million, compared to $14.6 million in the same period of 2008.

Key factors that we expect will affect our revenue in the near term are general economic conditions in the markets we serve, our ability to successfully integrate the Wavecom acquisition, 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.

With the acquisition of Wavecom, we have a significantly expanded product line and global roster of sales channels. However, the state of the global economy causes us to continue to be cautious regarding revenue trends in the near term. We expect that Q3 2009 revenue will remain stable compared to Q2 2009 for both our mobile computing and M2M businesses. Specific product and business development initiatives include:

AirCard Product Family

Our AirCard product family includes our AirCard branded PC cards and USB modems. In the second quarter of 2009, sales of our AirCard products decreased 25% to $77.7 million, compared to $104.1 million in the same period of 2008.

Our AirCards plug into the PC card, ExpressCard or USB ports of notebook and desktop computers, as well as other products such as network routers. Our AirCard products support EV-DO and HSPA technologies and are sold to wireless operators around the world. During the second quarter of 2009, we continued to have a particularly strong position with AT&T and Telstra with shipments of our HSPA AirCards and with Sprint with shipments of our EV-DO Rev A AirCards.

During the second quarter of 2009, Telstra announced an upgrade to its Next G network, allowing peak network uplink speeds of 5.8Mbps. The Next G Turbo 21 modem, also known as the Sierra Wireless USB 306, is our new AirCard USB modem for HSPA+ networks that is commercially available in Telstra s retail stores. The Next G Turbo 21 modem can be upgraded to take advantage of the new enhanced upload speeds. Our AirCard 402 for EV-DO Rev A networks, a 2-in-1 mobile broadband card designed to fit both PC card and ExpressCard slots, was introduced in the first quarter of 2009 and began commercially shipping early in the second quarter of 2009. Our Sierra Wireless USB 598 modem for EV-DO Rev A networks was launched with Telus, which is the first CDMA operator using our TRU-Update feature, a managed service providing automatic firmware, driver and application updates.

During the first quarter of 2009, CSL Limited, a mobile network operator in Hong Kong, selected two of our modems to provide high-speed wireless connectivity for notebook users on the CSL network. The 1010 Next G Express 7, an HSPA USB modem, also known as the Sierra Wireless Compass 889, became available in the first quarter of 2009 and the 1010 Next G Express 21, an HSPA+ USB modem, also known as the Sierra Wireless USB 306, became available in April 2009 through CSL s retail and enterprise channels.

We believe that the market for our AirCard products continues to have robust growth prospects. Competition in this market continues to be intense and our future success in this market will depend in part on our ability to continue to develop products that meet our customers evolving technology, design, schedule and price requirements.

Embedded Module Products

Our expanded line-up of embedded wireless solutions is used by a wide range of OEMs to wirelessly enable their products and solutions. Our OEM customers cover a broad range of industries including mobile computing, networking equipment, automotive, security, transaction processing, fleet management and energy.

In the second quarter of 2009, sales of our embedded module products increased 10% to $44.8 million, compared to $40.7 million in the same period of 2008. Of the $44.8 million, approximately $1.6 million was from sales to PC OEMs and $43.2 million was from sales to M2M OEMs.

With the acquisition of Wavecom, we have significantly expanded our global position in wireless embedded solutions for M2M. In the second quarter of 2009, we announced that our Q26 Elite Wireless CPU passed all FCC and CDG 1 & 2 testing and is Safe for Network on the Verizon Wireless, Sprint and Aeris networks. The Q26 Elite is ruggedized for extreme environmental conditions and supports GPS which makes it suitable for fleet management and tracking applications. We are also collaborating with Meta System Spa to provide a platform for automotive telematics, with a focus on emergency calls, stolen vehicle tracking, remote diagnostics and fleet management. In addition, with Meta System Spa, we are also developing an optimized telematics on-board unit for the insurance market. During the second quarter, we commenced commercial volume shipments of a customized wireless communication module to Denso, a leading supplier of automotive electronics to Japanese and global auto manufacturers. We believe the long-term growth and profitability prospects in the embedded M2M markets are strong. We plan to continue to invest to expand our leadership position.

The PC OEM market became more competitive during 2008 with the entrance of both the Ericsson and Qualcomm solutions for PC OEMs. Both Ericsson and Qualcomm have secured PC OEM design wins, including PC OEMs with whom we have had design wins. As expected, this increased competition continued to put pressure on our revenue from PC OEMs during the first half of 2009. During the first quarter of 2009, we were awarded our first GOBI design wins with two of our existing PC OEM customers. During the second quarter, we secured additional GOBI design wins with notebook computer and netbook manufacturers. We are continuing to promote the GOBI solution to select PC OEMs and expect to see revenue contribution from our design wins by the end of 2009. 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.

During the second quarter of 2009, we introduced our new MC5728V embedded module for EV-DO Rev A networks, that provides added flexibility to OEMs integrating mobile broadband connectivity into a variety of devices, including networking equipment and industrial handheld devices. The MC5728V is the first EV-DO product with our TRU-Flow data traffic management technology that optimizes overall upload and download modem performance, even with a VPN.

Mobile and M2M Intelligent Gateway Solutions

Our rugged mobile and M2M intelligent gateway solutions are sold to public safety, transportation, field service, energy, industrial and financial organizations and are among our highest gross margin products. We believe that there are strong profitable growth prospects for our mobile and M2M intelligent gateway solutions and intend to capture these opportunities through segment, product line and geographical expansion.

In the second quarter of 2009, revenue from mobile and M2M gateway solutions increased to $10.2 million from $8.3 million in the same period of 2008 primarily as a result of our acquisition of Wavecom products.

During the second quarter of 2009, we announced that our ALEOS embedded intelligence platform will be available on our MP line of rugged in-vehicle mobile routers. The addition of ALEOS to our MP product line simplifies device management and support. During the second quarter of 2009, we also received technical approvals for our PinPoint XT gateway, MP881 gateway and Helix RT router on several wireless operator networks.

Results of Operations

The following table sets forth our operating results for the three and six months ended June 30, 2009, expressed as a percentage of revenue:

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	65.2	72.2	68.5	72.3
Gross margin	34.8	27.8	31.5	27.7
Expenses				
Sales and marketing	11.1	5.1	9.7	5.3
Research and development	16.9	9.0	15.4	9.3
Administration	7.2	3.6	6.4	3.6
Acquisition costs	0.6		3.0	
Restructuring costs	6.6		4.3	
Integration costs	0.7		0.4	
Amortization	3.7	0.8	3.0	0.8
	46.8	18.5	42.2	19.0
Earnings (loss) from operations	(12.0)	9.3	(10.7)	8.7
Foreign exchange gain	8.1		0.4	0.2
Other income (expense)		0.7	(1.6)	1.0
Earnings (loss) before income taxes	(3.9)	10.0	(11.9)	9.9
Income tax expense	0.9	3.0	0.4	3.0
Net earnings (loss) before non-controlling interest	(4.8)	7.0	(12.3)	6.9
Less: Non-controlling interest	0.5		0.3	
Net earnings (loss)	(4.3)%	7.0%	(12.0)%	6.9%

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

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Revenue by product				
AirCard products	57%	67%	62%	71%
Embedded solutions	33	26	28	23
Mobile and M2M	8	5	8	5
Other	2	2	2	1
	100%	100%	100%	100%
Revenue by distribution channel				
Wireless carriers	48%	57%	52%	59%
PC OEM	1	16	2	15
M2M OEM	20	9	17	7
Resellers	31	18	29	19
	100%	100%	100%	100%

Revenue by geographical region				
Americas	59%	67%	63%	68%
Europe, Middle East and Africa (EMEA)	20	9	17	9
Asia-Pacific	21	24	20	23
	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 revenue, gross margin, earnings (loss) from operations, net earnings (loss) and earnings (loss) per share adjusted for specific items that affect comparability as 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 months ended June 30, 2009 and 2008 to our U.S. GAAP results:

(in millions of U.S. dollars)	Q2 2009 Sierra Non-GAAP	Q2 2009 Wavecom Non-GAAP	Q2 2009 Consolidated Non-GAAP	Q2 2008 Consolidated Non-GAAP
Revenue GAAP and Non-GAAP	$ 101.9	$ 33.4	$ 135.3	$ 155.7
Gross margin GAAP and Non-GAAP(1)	$ 32.9	$ 14.2	$ 47.1	$ 43.2
Earnings (loss) from operations GAAP	$ 5.0	$ (21.2)	$ (16.2)	$ 14.4
Transaction costs	0.8		0.8	0.7
Restructuring costs	0.6	7.9	8.5	
Integration costs	0.7	0.2	0.9	
Acquisition related amortization	0.6	5.6	6.2	0.9
Earnings from operations Non-GAAP(2)	$ 7.7	$ (7.5)	$ 0.2	$ 16.0
Net earnings (loss) GAAP			$ (5.9)	$ 11.0
Transaction, restructuring, integration and acquisition amortization costs, net of tax			16.2	1.1
Unrealized foreign exchange loss			(11.0)	
Non-controlling interest			(0.4)	
Net earnings Non-GAAP(3)			$ (1.1)	$ 12.1
Diluted earnings (loss) per share GAAP			$ (0.19)	$ 0.35
Diluted earnings per share Non-GAAP(3)			$ (0.04)	$ 0.38

(1) Includes $0.1 million of stock-based compensation expense in each of Q2 2009 Sierra Non-GAAP, Q2 2009 Consolidated Non-GAAP and Q2 2008 Consolidated Non-GAAP

(2) Includes $2.0 million of stock-based compensation expense in Q2 2009 Sierra Non-GAAP, $0.6 million in Q2 2009 Wavecom Non-GAAP, $2.6 million in Q2 2009 Consolidated Non-GAAP and $1.6 million in Q2 2008

(3) Includes $2.6 million of stock-based compensation expense in Q2 2009 and $1.2 million in Q2 2008

Results of Operations Three Months Ended June 30, 2009 Compared to Three Months Ended June 30, 2008

Revenue

Revenue amounted to $135.3 million for the three months ended June 30, 2009, compared to $155.7 million in the same period of 2008, a decrease of 13%. The decrease in revenue was primarily a result of a decrease in sales of our AirCards and sales of embedded modules to PC OEM customers, partially offset by an increase in revenue from the Wavecom acquisition. Our second quarter revenue included Wavecom revenue of $33.4 million.

Our revenue from customers in the Americas, EMEA and the Asia-Pacific region comprised 59%, 20% and 21%, respectively, of our total revenue in the second quarter of 2009, compared to 67%, 9% and 24%, respectively, in the same period of 2008. Our business in North America decreased by 23% compared to the second quarter of 2008 due primarily to a decrease in sales of our AirCards and embedded modules. Our business in EMEA increased by 82% compared to the second quarter of 2008 due primarily to the increase in revenue from the Wavecom acquisition, partially offset by a decrease in sales of our AirCards. Our business in the Asia-Pacific region decreased 23% compared to the second quarter of 2008 due primarily to a decrease in sales of embedded modules to PC OEM customers, partially offset by the increase in revenue from the Wavecom acquisition.

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. In the second quarter of 2008, these same two customers each accounted for more than 10% of our revenue and, in the aggregate, these two customers represented approximately 48% of our revenue.

With the acquisition of Wavecom, we have a significantly expanded product line and global roster of sales channels. However, the state of the global economy causes us to continue to be cautious regarding revenue trends in the near term. We expect that Q3 2009 revenue will remain stable compared to Q2 2009 for both our mobile computing and M2M businesses.

Gross margin

Gross margin amounted to $47.1 million for the three months ended June 30, 2009, or 34.8% of revenue, compared to $43.2 million, or 27.8% of revenue, in the same period of 2008. The increase in gross margin percentage resulted primarily from product cost reductions, early synergies from the Wavecom acquisition, as well as the addition of higher margin products from the Wavecom acquisition. Gross margin included $0.1 million of stock-based compensation expense in each of the second quarters of 2009 and 2008.

During the second half of 2009, we expect that our gross margin percentage will remain above 30%, but may fluctuate from quarter to quarter depending on product mix, competitive selling prices and our ability to reduce product costs.

Sales and marketing

Sales and marketing expenses were $15.0 million for the second quarter of 2009, compared to $7.9 million in the same period of 2008, an increase of 90%. The increase in sales and marketing costs is due primarily to the addition of staff and costs from the Wavecom acquisition, partially offset by a reduction in expenses due to an increased focus on cost management, as well as the impact of the restructuring completed in January 2009. Sales and marketing expenses included $0.4 million of stock-based compensation expense in each of the second quarters of 2009 and 2008. Sales and marketing expenses as a percentage of revenue increased to 11.1% in the three months ended June 30, 2009, compared to 5.1% in the same period of 2008, primarily due to the addition of costs from the Wavecom acquisition as well as the decrease in revenue. While managing sales and marketing expenses relative to revenue, we expect to continue to make investments in sales and marketing as we introduce new products, market existing products, expand our distribution channels and focus on our key customers around the world.

Research and development

Research and development expenses amounted to $22.9 million for the second quarter of 2009, compared to $14.1 million in the same period of 2008, an increase of 63%. The increase is due primarily to the addition of staff and costs from the Wavecom acquisition, partially offset by a reduction in accruals for government research and development funding repayments.

Included in research and development expenses was $0.5 million of stock-based compensation expense in the second quarter of 2009, compared to $0.3 million in the same period of 2008.

Research and development expenses, excluding government research and development funding repayments, were $23.1 million, or 17.1% of revenue for the three months ended June 30, 2009, compared to $11.8 million, or 7.6% of revenue in the same period of 2008.

We expect to continue to invest in select new product development to continue to meet the needs of our key customers around the world.

Administration

Administration expenses amounted to $9.8 million, or 7.2% of revenue, for the three months ended June 30, 2009, compared to $5.6 million, or 3.6% of revenue, in the same period of 2008. The increase in administration costs is primarily due to the addition of staff and costs from the Wavecom acquisition. Included in administration expenses was $1.1 million of stock-based compensation expense in the second quarter of 2009, compared to $0.8 million in the same period of 2008.

Acquisition costs

Acquisition costs were $0.8 million, or 0.6% of revenue, for the three months ended June 30, 2009, compared to nil in the same period of 2008. The acquisition costs were related to the acquisition of Wavecom, which was completed on February 27, 2009.

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 21 of these positions remaining to be phased out by the end of 2009. On May 15, 2009, we announced further cost reduction initiatives related to the integration of Wavecom with Sierra Wireless that included combining the R&D and product operations. As a result, the Wavecom location in Research Triangle Park, North Carolina, will be closed. For the three months ended June 30, 2009, restructuring costs were $8.9 million, compared to nil in the same period of 2008. Included in restructuring costs is $0.4 million of stock-based compensation expense.

Integration costs

In the second quarter of 2009, integration costs related to the acquisition of Wavecom were $0.9 million, compared to nil in the same period of 2008.

Foreign exchange gain (loss)

Our foreign exchange gain was $11.0 million in the second quarter of 2009, compared to a foreign exchange loss of $0.1 million in the same period of 2008. Our foreign exchange gain includes a net foreign exchange gain of $10.9 million on intercompany balances that the parent company has with its self-sustaining foreign operations.

Other income (expense)

Other income was nil in the second quarter of 2009, compared to other income of $1.3 million in the same period of 2008. Other income included interest income of $0.2 million in the second quarter of 2009 offset by standby charges of $0.2 million related to the credit facilities that were set up in connection with the Wavecom acquisition. Interest income decreased to $0.2 million in the second quarter of 2009, from $1.3 million in the same period of 2008 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

Income tax expense was $1.2 million for the second quarter of 2009, compared to $4.7 million in the same period of 2008.

Non-controlling interest

The non-controlling interest in the second quarter of 2009 was $0.6 million, compared to nil in the same period of 2008. The non-controlling interest represents the non-controlling interest in Wavecom s loss that resulted because all of the shares of Wavecom had not been tendered as at March 31, 2009. On April 29, 2009, we completed a squeeze-out of the Wavecom shares and OCEANEs that had not been tendered to the offer and therefore the non-controlling interest will be nil subsequent to this date.

Net earnings (loss)

Our net loss amounted to $5.9 million, or loss per share of $0.19, for the three months ended June 30, 2009, compared to net earnings of $11.0 million, or diluted earnings per share of $0.35, in the same period of 2008. Included in net earnings (loss) was $2.6 million of stock-based compensation expense in the second quarter of 2009, compared to $1.6 million in the same period of 2008.

The weighted average diluted number of shares outstanding decreased to 31.0 million for the three months ended June 30, 2009, compared to 31.5 million in the same period of 2008 because some securities, such as stock options, that are dilutive are not included in the total when we are in a loss position. Under the normal course issuer bid, we purchased and cancelled shares which also reduced the weighted average diluted number of shares outstanding.

Results of Operations Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008

Revenue

Revenue amounted to $246.8 million for the six months ended June 30, 2009, compared to $297.6 million in the same period of 2008, a decrease of 17%. The decrease in revenue was primarily a result of a decrease in sales of our AirCards and embedded modules, partially offset by an increase in revenue from the Wavecom acquisition. Our revenue for the first half of 2009 included Wavecom revenue of $44.4 million for the period from March 1, 2009 until June 30, 2009.

Our revenue from customers in the Americas, EMEA and the Asia-Pacific region comprised 63%, 17% and 20%, respectively, of our total revenue in the first half of 2009, compared to 68%, 9% and 23%, respectively, in the same period of 2008. Our business in North America decreased by 23% compared to the first half of 2008 due primarily to a decrease in sales of our AirCards and embedded modules. Our business in EMEA increased by 49% compared to the first half of 2008 due primarily to the increase in revenue from the Wavecom acquisition, partially offset by a decrease in sales of our AirCards and embedded modules. Our business in the Asia-Pacific region decreased 28% compared to the first half of 2008 due primarily to a decrease in sales of embedded modules to PC OEM customers and AirCards, partially offset by the increase in revenue from the Wavecom acquisition.

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. In the first half of 2008, these same two customers each accounted for more than 10% of our revenue and, in the aggregate, these two customers represented approximately 50% of our revenue.

Gross margin

Gross margin amounted to $77.8 million for the six months ended June 30, 2009, or 31.5% of revenue, compared to $82.5 million, or 27.7% of revenue, in the same period of 2008. The increase in gross margin percentage resulted primarily from product cost reductions, early synergies from the Wavecom acquisition, as well as 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 2009 and 2008.

Sales and marketing

Sales and marketing expenses were $24.0 million for the first half of 2009, compared to $15.8 million in the same period of 2008, an increase of 52%. The increase in sales and marketing costs is due primarily to the addition of staff and costs from the Wavecom acquisition, partially offset by a reduction in expenses due to an increased focus on cost management, as well as the impact of the restructuring completed in January 2009. Sales and marketing expenses included $0.8 million of stock-based compensation expense in the first half of 2009, compared to $0.7 million in the same period of 2008. Sales and marketing expenses as a percentage of revenue increased to 9.7% in the six months ended June 30, 2009, compared to 5.3% in the same period of 2008, primarily due to the addition of costs from the Wavecom acquisition as well as the decrease in revenue.

Research and development

Research and development expenses amounted to $37.9 million for the six months ended June 30, 2009, compared to $27.8 million in the same period of 2008, an increase of 36%. The increase is due primarily to the addition of staff and costs from the Wavecom acquisition, partially offset by a reduction in accruals for government research and development funding repayments.

During the first half of 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, with payments due on March 1 for each of the next five years beginning March 1, 2009. We had previously accrued the entire payment and as a result of the amended agreement, we have reversed accruals recorded in research and development expense totaling $0.8 million during the first half of 2009.

Included in research and development expenses was $0.8 million of stock-based compensation expense in the first half of 2009, compared to $0.6 million in the same period of 2008.

Research and development expenses, excluding government research and development funding repayments and reversal of accruals, were $38.9 million, or 15.8% of revenue for the six months ended June 30, 2009, compared to $23.5 million, or 7.9% of revenue in the same period of 2008.

Administration

Administration expenses amounted to $15.8 million, or 6.4% of revenue, for the six months ended June 30, 2009, compared to $10.7 million, or 3.6% of revenue, in the same period of 2008. The increase in administration costs is primarily due to the addition of staff and costs from the Wavecom acquisition. Included in administration expenses was $1.9 million of stock-based compensation expense in the first half of 2009, compared to $1.7 million in the same period of 2008.

Acquisition costs

Acquisition costs were $7.3 million, or 3.0% of revenue, for the six months ended June 30, 2009, compared to nil in the same period of 2008. The acquisition costs were related to the acquisition of Wavecom, which was completed on February 27, 2009.

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 21 of these positions remaining to be phased out by the end of 2009. On May 15, 2009, we announced further cost reduction initiatives related to the integration of Wavecom with Sierra Wireless that included combining the R&D and product operations. As a result, the Wavecom location in Research Triangle Park, North Carolina, will be closed. For the six months ended June 30, 2009, restructuring costs related to this program were $9.0 million. Included in restructuring costs is $0.4 million of stock-based compensation expense.

In the first quarter of 2009, we completed an expense reduction program that included the elimination of approximately 56 positions. As a result, restructuring costs, comprised primarily of severance costs and stock compensation expense, amounted to $1.6 million and included $0.5 million of stock-based compensation expense.

For the first half of 2009, restructuring costs related to these two programs were $10.6 million, compared to nil in the same period of 2008.

Integration costs

In the first half of 2009, integration costs related to the acquisition of Wavecom were $1.2 million, compared to nil in the same period of 2008.

Foreign exchange gain (loss)

Our foreign exchange gain was $1.0 million in the six months ended June 30, 2009, compared to $0.6 million in the same period of 2008. Our foreign exchange gain for the six months ended June 30, 2009 includes a realized foreign exchange loss of $15.7 million on Euros that had been held for the Wavecom transaction, partially 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 income (expense)

Other expense was $4.0 million in the first half of 2009, compared to other income of $3.2 million in the same period of 2008. Other expense in the first half of 2009 includes $3.9 million of financing costs and $0.5 million of interest expense related to the credit facilities that were set up in connection with the Wavecom acquisition, compared to nil for the same period of 2008. Interest income decreased to $0.5 million in the first half of 2009, from $3.2 million in the same period of 2008 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

Income tax expense was $1.0 million for the six months ended June 30, 2009, compared to $8.9 million in the same period of 2008.

Non-controlling interest

The non-controlling interest in the first half of 2009 was $0.9 million, compared to nil in the same period of 2008. The non-controlling interest represents the non-controlling interest in Wavecom s loss that resulted because all of the shares of Wavecom had not been tendered at February 27, 2009. On April 29, 2009, we completed a squeeze-out of the Wavecom shares and OCEANEs that had not been tendered to the offer and therefore the non-controlling interest will be nil subsequent to this date.

Net earnings (loss)

Our net loss amounted to $29.5 million, or loss per share of $0.95, for the six months ended June 30, 2009, compared to net earnings of $20.6 million, or diluted earnings per share of $0.66, in the same period of 2008. Included in net earnings (loss) was $4.7 million of stock-based compensation expense in the first half of 2009, compared to $3.3 million in the same period of 2008.

The weighted average diluted number of shares outstanding decreased to 31.0 million for the six months ended June 30, 2009, compared to 31.5 million in the same period of 2008 because some securities, such as stock options, that are dilutive are not included in the total when we are in a loss position. Under the normal course issuer bid, we purchased and cancelled shares which also reduced the weighted average diluted number of shares outstanding.

Acquisition of Wavecom S.A.

On December 2, 2008, we announced an all-cash offer to purchase all of the common 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 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.

On December 1, 2008, as required by French regulations, we drew a letter of credit in the amount of 218.0 million, issued under a 218.0 million secured term facility with The Toronto-Dominion Bank and Canadian Imperial Bank of Commerce, as lenders, in favor of Lazard Freres Bank, acting as presenting bank. The term facility was secured by our cash of 136.8 million and a pledge against all of our assets. It was our intention to fund the purchase of the Wavecom shares by using our cash that secured the term facility and to fund the purchase of the OCEANEs by using 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 term loan of 80.473 million was repaid with those proceeds. On completion of the squeeze-out, the letter of credit was reduced to nil. With the completion of the acquisition, the Term Facility is no longer available.

We expect the combination of Sierra Wireless and Wavecom will create a global leader that will be 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)

The Securities and Exchange Commission (SEC) proposed a roadmap for phasing in mandatory IFRS filings by U.S. public companies beginning for years ending on or after December 15, 2014. The proposed roadmap addresses the basis for considering the mandatory use of IFRS by U.S. issuers. It then sets forth seven milestones, which, if achieved, could lead to the use of IFRS by U.S. issuers in their filings with the SEC. The SEC in 2011 would determine whether to proceed with rulemaking to require that U.S. issuers use IFRS beginning in 2014 if it is in the public interest and for the protection of investors to do so. We will continue to monitor the timing of adoption of IFRS.

Legal Proceedings

In January 2009, a patent holding company, DNT LLC, filed a patent litigation lawsuit in the United States federal 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 makes certain allegations concerning the wireless modems sold to the carriers by us and our competitors. We have entered into wireless modem supply agreements with some of these companies and, pursuant to those agreements, have been notified of the litigation. Pursuant to our agreement with Sprint-Nextel, we are providing defense to Sprint-Nextel. We are assessing our obligations, if any, to the other carriers. 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. We have accrued legal costs of $1.0 million related to our defense of this lawsuit.

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. Wavecom alleges that the defendants improperly took Wavecom s confidential internal product information, distributed it internally and to customers of Wavecom, and utilized it to unfairly compete with Wavecom. The lawsuit claims torts of conversion, unfair competition and misappropriation of trade secrets, and seeks damages in an amount to be proved at trial and a court order requiring the defendants to return the information. The case is still proceeding in the Supreme Court of the State of New York.

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) which has unjustly withheld payment of approximately $2.0 million for products sold by Wavecom Inc. This amount has been provided for in our allowance for doubtful accounts. Wavecom and Wavecom Inc. filed suit against Continental Group in the Supreme Court of the State of New York (USA) to recover the unpaid receivables. Continental Group filed a separate suit in state court in North Carolina against Wavecom, asserting eight claims for relief, alleging breach of both tort and contracts law. Continental Group has requested damages under the main claim of $1.5 million to be determined at trial. On the other claims, Continental has requested damages in excess of $10,000 each and has also requested treble and punitive damages. 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.

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 the provisions of SFAS No. 141(R) entitled Business Combinations (FAS No. 141R). In the three and six months ended June 30, 2009, the adoption of FAS No. 141R resulted in the expensing of Wavecom acquisition costs of $0.8 million and $7.3 million, respectively, of which $2.8 million was deferred at December 31, 2008. 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:

- 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 and in accordance with Statement of Position 97-2, Software Revenue Recognition . 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 of $73.2 million and goodwill of $103.8 million generated primarily from our acquisitions of Wavecom in February 2009, AirLink in May 2007 and AirPrime in August 2003. We are in the process of obtaining a third party valuation of the assets acquired and liabilities assumed for the Wavecom acquisition, therefore our estimate of goodwill for Wavecom is preliminary and subject to change. 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 assessed the realizability of goodwill related to the reporting unit during the fourth quarter of 2008 and determined that the fair value exceeded the carrying amount of the 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 of the reporting unit goodwill with the carrying amount of the goodwill was not required. There was no impairment of goodwill during the first half of 2009 or the year ended December 31, 2008.

• We account for and report income tax uncertainties under the provisions of FIN 48. Accordingly, we recognize and measure each tax position related to income tax positions subject to FASB Statement No. 109, Accounting for Income Taxes taken or expected to be taken in a tax return. We have reviewed our tax positions to determine which should be recognized and measured them according to the more likely than not threshold requirement in FIN 48. 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 grant date fair value estimated in accordance with the provisions of FASB Statement No. 123R Share-Based Payments (FAS No. 123R). Under the fair value recognition provisions of FAS No. 123R, 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

Cash provided by operating activities was $28.9 million for the six months ended June 30, 2009, compared to cash provided by operating activities of $31.1 million in the same period of 2008. The source of cash in operating activities in the first half of 2009 primarily resulted from our net loss of 29.5 million adjusted for net non-cash items of $39.0 million as well as changes in other operating assets and liabilities of $19.4 million.

Investing Activities

Cash provided by investing activities was $36.0 million in the first half of 2009, compared to $29.4 million in the same period of 2008. Cash provided by investing activities 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 remaining non-controlling interest of $19.6 million. We also used cash for expenditures on fixed and intangible assets of $6.8 million and $1.5 million, respectively, for the six months ended June 30, 2009, compared to $10.0 million and $0.9 million, respectively, in the same period of 2008. 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 $4.1 million in the first half of 2009, compared to $0.5 million in the same period of 2008. During the six months ended June 30, 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 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, compared to nil in the same period of 2008. In the first half of 2009, we received proceeds from the exercise of Wavecom options of $4.1 million, compared to nil in the same period of 2008.

As of June 30, 2009, 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 $131.5 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 2009 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, 2009:

Payments due in fiscal

2009	$	7,343
2010		10,948
2011		6,806
2012		2,012
2013		1,947
Thereafter		1,730
Total	$	30,786

As of June 30, 2009, we had tax obligations for uncertain tax positions of $9.7 million.

We have entered into purchase commitments totaling approximately $74.3 million with certain contract manufacturers under which we have committed to buy a minimum amount of designated products between July 2009 and September 2009. In certain of these agreements, we may be required to acquire and pay for such products up to the prescribed minimum or forecasted purchases.

Normal Course Issuer Bid

On May 21, 2008, we received regulatory approval to purchase up to 1,567,378 of our common shares by way of a normal course issuer bid (Bid) on the TSX and the Nasdaq, representing approximately 5% of the common shares outstanding as of May 21, 2008. The Bid commenced on May 26, 2008 and terminated on May 25, 2009. As of May 25, 2009, 407,700 common shares had been purchased at open market prices, for an aggregate purchase price of $5.0 million, and subsequently cancelled. The amount paid to acquire the shares in excess of the average carrying value has been charged to retained earnings.

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 $131.5 million at June 30, 2009, compared to $81.3 million at December 31, 2008, excluding restricted cash of $191.5 million.
- Accounts receivable amounted to $73.0 million at June 30, 2009, compared to $67.1 million at December 31, 2008.
- We have a credit facility with two Canadian chartered banks as described below. At June 30, 2009, there were no borrowings under this credit facility. At December 31, 2008, we had drawn a letter of credit in the amount of 218.0 million issued under the 218.0 million secured term 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 provides for a one-year revolving term credit facility (Revolving Facility) and a one-year non-revolving term credit facility (Term Facility).

The Revolving Facility, not to exceed $55.0 million, is to be used for working capital requirements. The Term Facility, not to exceed 218.0 million, is to be used to complete the acquisition of Wavecom ordinary shares and OCEANEs.

On December 1, 2008, we drew a letter of credit in the amount of 218.0 million issued under the Term Facility. The Term Facility was secured by cash of 136.8 million and both facilities are secured by a pledge against all of our assets. 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 of Wavecom. 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. 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 to 95.4%. On April 29, 2009, we completed our acquisition of all of the remaining Wavecom shares and OCEANEs by way of a squeeze-out and the letter of credit was reduced to nil. With the completion of the acquisition, the Term Facility is no longer available. At June 30, 2009, there were no borrowings under the Term Facility or Revolving Facility and we were in compliance with the covenants associated with the credit facilities.

During 2007, we obtained letters of credit to ensure the performance of a third party in accordance with specified terms and conditions. Our obligations under these financial instruments expired in February 2008 and were replaced by a standby irrevocable letter of credit, which was terminated during December 2008.

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. To date, we have not entered into any futures contracts. To manage our foreign currency risks, we may enter into such contracts should we consider it to be advisable to reduce our exposure to future foreign exchange fluctuations.

For 2009, with the addition of the credit facilities, we will be exposed to interest rate fluctuations as our interest rates are based on the U.S. prime rate and LIBOR.

Related Party Transactions

During the three and six months ended June 30, 2009, 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 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 controls over financial reporting.

There have been no changes in Sierra Wireless internal control over financial reporting during the first half of 2009 that have materially affected, or are reasonably likely to materially affect, our internal controls 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, 2008. 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.

Amounts are expressed in thousands of United States dollars except per share amounts and number of shares.

	Quarter Ended	
2009	Mar 31	Jun 30
Revenue	$ 111,407	$ 135,348
Cost of goods sold	80,697	88,222
Gross margin	30,710	47,126
Expenses:		
Sales and marketing	8,974	15,035
Research and development	15,014	22,923
Administration	6,074	9,769
Acquisition costs	6,522	804
Restructuring costs	1,726	8,869
Integration costs	254	936
Amortization	2,420	5,001
	40,984	63,337
Loss from operations	(10,274)	(16,211)
Foreign exchange gain (loss)	(9,923)	10,957
Other expense	(4,022)	(10)
Loss before income taxes	(24,219)	(5,264)
Income tax expense (recovery)	(267)	1,229
Net loss before non-controlling interest	(23,952)	(6,493)
Net loss attributable to non-controlling interest	(287)	(622)
Net loss	$ (23,665)	$ (5,871)
Loss per share:		
Basic	$ (0.76)	$ (0.19)
Diluted	$ (0.76)	$ (0.19)
Weighted average number of shares (in thousands):		
Basic	31,032	31,032
Diluted	31,032	31,032

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2008	Quarter Ended Mar 31	Jun 30	Sep 30	Dec 31	Year 2008
Revenue	$ 141,949	$ 155,698	$ 136,794	$ 132,867	$ 567,308
Cost of goods sold	102,614	112,490	99,025	96,482	410,611
Gross margin	39,335	43,208	37,769	36,385	156,697
Expenses:					
Sales and marketing	7,835	7,928	8,717	8,204	32,684
Research and development	13,769	14,063	13,062	13,166	54,060
Administration	5,084	5,601	5,011	4,871	20,567
Amortization	1,281	1,212	1,135	1,186	4,814
	27,969	28,804	27,925	27,427	112,125
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

2007	Quarter Ended Mar 31	Jun 30	Sep 30	Dec 31	Year 2007
Revenue	$ 85,428	$ 107,379	$ 111,515	$ 135,581	$ 439,903
Cost of goods sold	62,111	78,383	78,446	97,821	316,761
Gross margin	23,317	28,996	33,069	37,760	123,142
Expenses:					