SIERRA WIRELESS INC
Form 6-K
November 06, 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 November 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: November 5, 2012

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Report to Shareholders

I am pleased to report that the third quarter of 2012 was another very solid quarter for Sierra Wireless. We achieved strong results across our lines of business, including record-high revenues from our Machine-to-Machine (M2M) business and solid year-over-year growth in Mobile Computing. While delivering solid operational results, we also completed the acquisition of the M2M business of Sagemcom which we believe significantly bolsters our global leadership position in M2M, while opening up new products, channels, and markets.

Revenue was $162.6 million in the third quarter of 2012, compared to $146.8 million a year ago, representing year-over-year growth of 11%. The results included approximately $4.6 million of revenue from the recently acquired Sagemcom M2M business. Before the Sagemcom contribution, year-over-year revenue growth was approximately 8%. Non-GAAP gross margin was stable at 29.5% compared to 29.6% in the third quarter of 2011. We also continued to tightly manage costs and held non-GAAP operating expenses below $40 million for the sixth consecutive quarter, despite the addition of initial expenses associated with Sagemcom.

The combination of solid revenue growth, steady gross margin and good cost control led to better than expected non-GAAP earnings from operations of $8.3 million or $0.28 per share compared to $4.0 million or $0.15 per share one year ago.

Machine-to-Machine

In the third quarter, we delivered record revenue in our core M2M business. Revenues during the third quarter in our M2M business were $86.1 million, representing a 14% year-over-year increase from the third quarter of 2011. Excluding the addition of Sagemcom, year-over-year growth was approximately 8%. Our M2M growth was driven by strong sales in North America and Asia, which more than offset the stable, but weaker sales levels in European markets.

During the quarter, we continued to build on our market leading position in M2M, with new design wins, new product milestones, continued progress in expanding our position in the value chain, and of course, our acquisition of Sagemcom s M2M business.

In terms of product development, we had a very active quarter. At the MobileconTM 2012 event in October, we announced the next generation AirVantage M2M Cloud, as well as a new partnership with Amazon Web Services. The AirVantage M2M Cloud provides a simple, secure, scalable platform that enables our customers to rapidly build and deploy their M2M applications. Combined with Amazon Web Services, the AirVantage Cloud enables customers large and small to deploy an application with lower implementation costs and nearly zero capital investment. This launch of the next generation AirVantage Cloud represents another important step in Sierra Wireless becoming the M2M platform of choice for OEMs, integrators and operators around the world.

At the Paris Auto Show, we announced, in partnership with Bouygues Telecom, an innovative 3G USB key for Peugeot Citroën that powers the new Peugeot Connect Apps system. The Connect Apps USB

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device is designed specifically for automotive use and enables drivers to access real-time information on traffic conditions, weather, and navigation, as well as information about services nearby.

We also introduced the AirPrime SL9090, a new, multimode product in the AirPrime SL Series of LGA, industrial-grade embedded wireless modules. The SL9090 gives device manufacturers the ability to operate on networks that use either HSPA+ or EV-DO technologies with a single product design.

Mobile Computing

Coming off an exceptional second quarter, our Mobile Computing results were solid. Mobile Computing revenue totaled $76.5 million in the third quarter of 2012, a 7% year-over-year increase from the third quarter of 2011.

Revenue from our AirCard® mobile broadband devices was up slightly on a year-over-year basis, as we continue to have strong product and channel positions with key operator customers including AT&T, Sprint and Telstra. We have also successfully leveraged our leading-edge 4G products to build solid positions in new channels, such as Virgin Mobile, DNA, and Rogers Communications. Our AirCard product pipeline is strong, and we have secured successor channel positions for our next generation products, which we expect to launch in the first half of 2013.

In the PC OEM market, our strong growth continued during the quarter. We also believe that our share position continues to strengthen, driven by our leading-edge 4G modules and a significant technology lead in adding Windows 8 support to our products. The strength of our technology lead was evident recently when two of our customers, Samsung and Lenovo, launched the first ever LTE-enabled Windows 8 tablet PCs leveraging our ultra-thin LTE modules and Windows 8 software expertise. We have secured additional LTE and Windows 8 design wins and continue to see both of these technologies as important drivers in this category.

Summary

We are very pleased with our solid Q3 profitability, driven by revenue growth and good cost control.

Our M2M business delivered exceptional results across a number of key segments and regions, despite the continued macroeconomic challenges in Europe. The integration of Sagemcom is on track and the acquired business is now beginning to contribute in a significant way. Our investments in M2M are paying off. We are the clear global leader in a market with excellent long term growth prospects, and we are making steady progress in expanding our position in the M2M value chain. Our M2M business is now solidly profitable and we believe that we are well positioned to continue to drive profitable long term growth.

Coming off an outstanding Q2, our Mobile Computing business provided a solid, profitable contribution to our Q3 results. We continued our strong growth with PC OEMs, and our powerful AirCard product line-up kept us well positioned with key operators. We have won channel slots for our next generation AirCard products, and we have taken a clear leadership position in providing Windows 8-enabled LTE solutions for tablets and ultra-books. As we look forward, we remain optimistic that the strength of our

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4G AirCard position and technology leadership with PC OEMs, combined with further LTE deployments will lead to solid growth opportunities in Mobile Computing.

I remain confident in the continued success of our company, bolstered by the addition of the Sagemcom M2M business. 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 and 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 and nine months ended September 30, 2012, and up to and including November 5, 2012. This MD&A should be read together with our unaudited interim consolidated financial statements for the three and nine month periods ended September 30, 2012 and September 30, 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 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*

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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.

OVERVIEW

Business Overview

Sierra Wireless Inc. (Sierra Wireless or the Company) is a global leader in the development and marketing 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. We focus on two growing markets: machine-to-machine (M2M) communications and mobile computing.

Machine-to-Machine

Our M2M business includes our AirPrime Embedded Wireless Modules (excluding embedded module sales to PC original equipment manufacturers, or PC OEMs), our AirLink Intelligent Gateways, and our AirVantage M2M Cloud. Effective August 1, 2012, our M2M business also includes the M2M business that we acquired from Sagemcom (refer to the section on Acquisition of M2M business of Sagemcom).

- **AirPrime Embedded Wireless Modules (excludes PC OEM embedded modules)** AirPrime Embedded Wireless Modules are used to wirelessly enable a variety of products and solutions made by OEMs. Our M2M OEM 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.

- **AirLink Intelligent Gateways** AirLink Intelligent Gateways are rugged, commercial-grade wireless terminals for M2M and mobile applications. They are sold to public safety, transportation, field service, energy, industrial, and financial organizations.

- **AirVantage M2M Cloud** The AirVantage M2M Cloud provides a secure, scalable, device-to-cloud infrastructure for collecting and transmitting M2M data to and from any number of connected devices, and linking that data to any number of enterprise applications.

Mobile Computing

Our Mobile Computing business includes our AirCard® Mobile Broadband Devices and AirPrime Embedded Wireless Modules for PC OEM customers.

• **AirCard® Mobile Broadband Devices -** AirCard-branded USB modems and mobile Wi-Fi hotspots are sold to mobile network operators around the world, and provide a simple way to connect notebooks, tablets and other electronic devices to the Internet, over 4G mobile broadband networks.

• **AirPrime Embedded Wireless Modules (for PC OEMs)** Some of our AirPrime embedded modules are sold to PC OEMs worldwide, for integration into notebooks, tablets, and other mobile computing devices, to provide embedded 4G mobile broadband connections.

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In addition to our hardware and related software products, we 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.

Third Quarter Overview

As expected, our third quarter 2012 revenue decreased slightly compared to second quarter 2012 revenue, driven primarily by normalizing sales patterns in our mobile computing business, partially offset by stronger revenue in M2M, as well as revenue generated from the Sagemcom M2M business which was acquired on August 1, 2012. Compared to the second quarter of 2012, gross margins decreased slightly primarily due to changes in product mix combined with expected lower AirCard average selling prices. Operating expenses were marginally higher as a result of expenses related to M2M business of Sagemcom and acquisition related expenses.

Financial highlights for the third quarter of 2012:

- Revenue was $162.6 million, down 2.9% compared to $167.4 million in the second quarter of 2012

- Gross margin was 29.4%, down from 30.7% in the second quarter of 2012

- Non-GAAP earnings from operations were $8.3 million compared to $12.7 million in the second quarter of 2012

- Net earnings of $3.7 million and diluted earnings per share of $0.12 were comparable to net earnings of $3.6 million and diluted earnings per share of $0.11 in the second quarter of 2012. A favorable income tax recovery contributed to the sequentially stronger net earnings.

- Non-GAAP net earnings were $8.8 million, or $0.28 per diluted share, in the third quarter of 2012 compared to Non-GAAP net earnings of $9.3 million, or $0.30 per diluted share, in the second quarter of 2012.

Acquisition of M2M business of Sagemcom

On August 1, 2012, we completed the acquisition of the M2M business of Sagemcom. The acquisition included the purchase of substantially all of the assets of the M2M business of Sagemcom for 44.9 million ($55.2 million) in cash consideration plus assumed liabilities of 3.7 million

($4.6 million).

Sagemcom is a France-based technology company active in broadband, telecom, energy, and document management. Its M2M business included 2G and 3G wireless modules, as well as industry-leading rugged terminals for railway applications. This acquisition extends our global leadership position in the growing M2M market as it provides us with a significantly enhanced market position in key segments, including payment, transportation and railways, as well as new geographical expansion into Brazil.

The acquired business   results of operations and estimated fair value of assets acquired and liabilities assumed have been included in our consolidated financial statements from the date of acquisition, August 1, 2012. The M2M business of Sagemcom contributed $4.6 million to our consolidated revenues in the three and nine months ended September 30, 2012.

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Other key business highlights for the third quarter of 2012 include:

- The introduction of the AirPrime SL9090, a new, multimode product in the AirPrime SL Series of compact, industrial-grade embedded wireless modules. The multimode module gives device manufacturers the ability to operate on networks that use either HSPA+ or EV-DO cellular standards with a single product design. It is designed for use in fixed or mobile M2M deployments in the industrial, field service, energy, networking and transportation sectors. It has design and operational characteristics that make it particularly well-suited for use in harsh environments. The AirPrime SL9090 is expected to be available for commercial release in the fourth quarter of this year.

- The announcement that PSA Peugeot Citroen, in collaboration with Bouygues Telecom, selected us to provide the innovative 3G USB key that powers the new Peugeot Connect Apps system. Designed specifically for automotive use, this key incorporates 3G wireless connectivity, global positioning and advanced processing capabilities in a compact, plug-and-play form factor. When the 3G key is plugged into the vehicle, it provides the driver with real-time information on traffic conditions, weather, and navigation, as well as information about services nearby.

- The introduction of the next-generation AirVantage M2M Cloud (announced on October 4, 2012), a faster, more cost-effective way to build, deploy, and manage large M2M applications. The AirVantage M2M Cloud provides secure two-way communication between connected devices and the enterprise, enabling innovation in products, services, and revenue streams. M2M solutions can now be rolled out much faster and cost significantly less to develop, operate and scale. We have also joined the Amazon Web Services Partner Network. The collaboration makes it easy for customers to use the AirVantage APIs to build M2M applications that run seamlessly on the Amazon Web Services cloud infrastructure. The joint solution eliminates the need for any on-premise IT infrastructure, further accelerates time-to-market, and improves scalability.

- During the third quarter, we continued to make progress on our restructuring initiative involving the closure of our Newark, California facility effective December 31, 2012 and the related transfer of our AirLink marketing, research and development, and customer support activities to our Richmond, British Columbia facilities, and transfer of our manufacturing operations to our manufacturing partner in Suzhou, China. Total severance and other costs associated with this initiative are estimated to be approximately $2 million and for the three and nine months ended September 30, 2012, we recorded $0.4 million and $1.8 million, respectively, in restructuring costs related to this initiative.

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Selected financial information:

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

	2012				2011			
	YTD	Q3	Q2	Q1	YTD	Q3	Q2	Q1
Revenue (GAAP and Non-GAAP)	$ 480,345	$ 162,638	$ 167,441	$ 150,266	$ 430,990	$ 146,827	$ 139,888	$ 144,275
Gross Margin	$ 143,958	$ 47,857	$ 51,335	$ 44,766	$ 121,898	$ 43,334	$ 39,100	$ 39,464
- Non-GAAP (1)	144,201	47,939	51,413	44,849	122,197	43,423	39,197	39,577
Gross Margin %	30.0%	29.4%	30.7%	29.8%	28.3%	29.5%	28.0%	27.4%
- Non-GAAP (1)	30.0%	29.5%	30.7%	29.8%	28.4%	29.6%	28.0%	27.4%
Earnings (loss) from operations	$ 7,614	$ 1,051	$ 6,221	$ 342	$ (17,447)	$ (1,763)	$ (6,270)	$ (9,414)
- Non-GAAP (1)	26,180	8,346	12,652	5,182	(451)	4,024	(846)	(3,629)
Net earnings (loss)	$ 7,593	$ 3,667	$ 3,581	$ 345	$ (15,553)	$ (998)	$ (6,766)	$ (7,789)
- Non-GAAP (1)	23,083	8,763	9,307	5,013	1,150	4,606	(1,025)	(2,431)
Earnings (loss) per share (in dollars)								
Basic	$ 0.25	$ 0.12	$ 0.12	$ 0.01	$ (0.50)	$ (0.03)	$ (0.22)	$ (0.25)
Diluted	0.24	0.12	0.11	0.01	(0.50)	(0.03)	(0.22)	(0.25)
- Non-GAAP (1)	0.74	0.28	0.30	0.16	0.04	0.15	(0.03)	(0.08)
Common shares (in thousands)								
At period-end	30,590	30,590	30,562	30,910	31,297	31,297	31,294	31,250
Weighed average - basic	30,854	30,573	30,817	31,175	31,267	31,297	31,267	31,237
Weighed average - diluted	31,012	30,772	30,987	31,280	31,267	31,297	31,267	31,237

(1) Non-GAAP results exclude the impact of stock-based compensation expense, acquisition amortization, impairment, acquisition costs, integration costs, restructuring costs, foreign exchange gains or losses on foreign currency contracts and 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 fourth quarter of 2012, we expect revenue to remain at third quarter levels as a result of continued strength in our M2M business, including a full quarter of contribution from the M2M business acquired from Sagemcom, offset by lower sales in Mobile Computing. We expect gross margin percentage to be slightly higher in the fourth quarter of 2012 as we experience a favorable shift in product mix and we expect fourth quarter operating expenses to be modestly higher than in the third quarter as a result of the timing of new product certification and launch expenses, as well as a full quarter of expenses related to the M2M business of Sagemcom.

Macroeconomic pressure in Europe is continuing to dampen near-term growth in our M2M business. However, we continue to 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 expanding end customer awareness of the availability of such services and their benefits.

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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 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 September 30				Nine months ended September 30			
	2012	**% of Revenue**	**2011**	**% of Revenue**	**2012**	**% of Revenue**	**2011**	**% of Revenue**
Revenue	$ 162,638	100.0%	$ 146,827	100.0%	$ 480,345	100.0%	$ 430,990	100.0%
Cost of goods sold	114,781	70.6%	103,493	70.5%	336,387	70.0%	309,092	71.7%
Gross margin	47,857	29.4%	43,334	29.5%	143,958	30.0%	121,898	28.3%
Expenses								
Sales and marketing	10,476	6.4%	11,158	7.6%	33,527	7.0%	34,752	8.1%
Research and development	22,395	13.8%	21,942	14.9%	64,564	13.4%	67,479	15.6%
Administration	8,592	5.3%	8,548	5.8%	25,938	5.4%	26,743	6.2%
Acquisition	2,196	1.4%		0.0%	2,795	0.6%		0.0%
Restructuring	498	0.3%	881	0.6%	2,209	0.5%	856	0.2%
Integration		0.0%	121	0.1%		0.0%	1,426	0.3%
Amortization	2,649	1.6%	2,447	1.7%	7,311	1.5%	8,089	1.9%
	46,806	28.8%	45,097	30.7%	136,344	28.4%	139,345	32.3%
Earnings (loss) from operations	1,051	0.6%	(1,763)	-1.2%	7,614	1.6%	(17,447)	-4.0%
Foreign exchange gain (loss)	1,176		(154)		1,718		47	
Other income (expense)	(70)		68		(231)		15	
Earnings (loss) before income taxes	2,157		(1,849)		9,101		(17,385)	
Income tax expense (recovery)	(1,510)		(851)		1,508		(1,775)	
Net earnings (loss) before non-controlling interest	3,667		(998)		7,593		(15,610)	
Less: non-controlling interest							(57)	
Net earnings (loss) attributable to the Company	$ 3,667		$ (998)		$ 7,593		$ (15,553)	
Net earnings (loss) per share attributable to the Company								
Basic	$ 0.12		$ (0.03)		$ 0.25		$ (0.50)	
Diluted	$ 0.12		$ (0.03)		$ 0.24		$ (0.50)	

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Three Months Ended September 30, 2012 Compared to Three Months Ended September 30, 2011

Revenue

Revenue in the three months ended September 30, 2012 increased by $15.8 million, or 10.8%, compared to the same period of 2011. This increase was driven by growth in PC OEMs, contribution from the recently acquired M2M business of Sagemcom, and solid growth in our M2M business despite continued weakness in European markets.

In the third quarter of 2012, Sprint accounted for more than 10% of our revenue, representing approximately 14% of our revenue. In the third quarter of 2011, Sprint, Telstra, and AT&T each accounted for more than 10% of our revenue and, in aggregate, represented approximately 39% of our revenue. In total, our top 3 customers contributed 32% of revenue in the third quarter of 2012.

We maintained a relatively balanced mix of revenue between M2M and Mobile Computing compared to the same quarter of 2011. M2M represented 53% of our revenue and Mobile Computing represented 47% of our revenue in the third quarter of 2012. In the third quarter of 2011, M2M and Mobile Computing represented 51% and 49% of our revenue, respectively. We expect the relative mix to continue to favor M2M over time.

Our geographic revenue mix for the three months ended September 30, 2012 and 2011 was as follows:

Gross margin

Gross margin was 29.4% of revenue for the three months ended September 30, 2012, compared to gross margin of 29.5% of revenue in the same period of 2011. Gross margin included $0.1 million of stock-based compensation expense in each of the three-month periods ended September 30, 2012 and 2011.

Sales and marketing

Sales and marketing expenses decreased by $0.7 million, or 6.1%, in the three months ended September 30, 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 in the three-month period ended September 30, 2012 included $0.4 million of stock-based compensation expense compared to $0.3 million in the same three-month period of 2011.

Research and development

Research and development expenses increased by $0.5 million, or 2.1%, to $22.4 million in the three

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months ended September 30, 2012, compared to the same period of 2011. The increase in research and development expenses was primarily attributable to the research and development expenses of the M2M business of Sagemcom partially offset by positive impact of foreign exchange rates. Research and development expenses included stock-based compensation expense of $0.4 million in each of the three-month periods ended September 30, 2012 and 2011. Research and development expenses also included acquisition amortization of $1.3 million in the three months ended September 30, 2012 compared to $1.8 million in the three months ended September 30, 2011.

Administration

Administration expenses of $8.6 million for the three months ended September 30, 2012 were comparable to the same period of 2011. Included in administration expenses was $0.8 million of stock-based compensation expense in each of the three-month periods ended September 30, 2012 and 2011.

Acquisition

Acquisition costs of $2.2 million during the three months ended September 30, 2012 relate to the Sagemcom acquisition. For the comparable period of 2011, acquisition costs were $nil.

Restructuring

Restructuring costs were $0.5 million during the three months ended September 30, 2012, compared to $0.9 million in the same period of 2011. Restructuring costs in the three months ended September 30, 2012 relate primarily to organizational changes in research and development in connection with the closure of our Newark, California facility. Restructuring costs in the three months ended September 30, 2011 represented the additional costs incurred for reductions related to the new organizational structure announced in September 2010.

Integration costs

Integration costs were $nil during the three months ended September 30, 2012, compared to $0.1 million in the same period of 2011. Integration costs during the three months ended September 30, 2011 were primarily related to office space optimization in France.

Amortization

Amortization expense increased $0.2 million or 8.3%, in the three months ended September 30, 2012, compared to the same period of 2011. Amortization expense in the three-month period ended September 30, 2012 included $1.6 million of acquisition amortization compared to $1.4 million in the same three-month period of 2011.

Foreign exchange gain (loss)

Foreign exchange gain was $1.2 million during the three months ended September 30, 2012 compared to a $0.2 million foreign exchange loss in the same three-month period of 2011. Foreign exchange gain for the three months ended September 30, 2012 included net foreign exchange gain of $3.6 million on revaluation of an intercompany loan to a self-sustaining subsidiary and a loss of $2.4 million related to the settlement of foreign currency forward exchange contracts that we entered into in connection with the Sagemcom acquisition.

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 negatively impacted our third quarter 2012 revenues by approximately $1.1 million; this was more than offset by a favorable impact on operating expenses of approximately $1.4 million.

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Income tax expense (recovery)

Income tax recovery increased by $0.7 million to $1.5 million in the three months ended September 30, 2012, compared to the same period of 2011, primarily driven by changes in relative taxable earnings amongst the different tax jurisdictions in which we operate, along with favorable adjustments to certain tax provisions totaling $0.8 million.

Net earnings (loss) attributable to the Company

Net earnings attributable to the Company increased by $4.7 million to $3.7 million in the three months ended September 30, 2012, compared to the same period of 2011. This increase reflects the positive impact of higher revenue, as well as the impact of favorable foreign exchange and tax recoveries in the three months ended September 30, 2012.

Net earnings for the three months ended September 30, 2012 included stock-based compensation of $1.7 million, and acquisition amortization of $2.9 million. Net loss for the same period of 2011 included stock-based compensation of $1.6 million, and acquisition amortization of $3.2 million.

Weighted average number of shares

The weighted average diluted number of shares outstanding was 30.8 million in the three months ended September 30, 2012 compared to 31.3 million in the three months ended September 30, 2011. The number of shares outstanding was 30.6 million at September 30, 2012, compared to 31.3 million at September 30, 2011. The reduction in number of shares outstanding was primarily due to purchases on the TSX and NASDAQ of 800,000 of the Company s common shares under our normal course issuer bid during the first half of 2012.

Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011

Revenue

Revenue in the nine months ended September 30, 2012 increased by $49.4 million, or 11.5%, compared to the same period of 2011. The increase was a result of growth in both our M2M and Mobile Computing businesses, along with a modest contribution from the recently acquired M2M business of Sagemcom.

In the nine months ended September 30, 2012, AT&T and Sprint each accounted for more than 10% of our revenue, representing approximately 26% of our revenue in aggregate. In the nine months ended September 30, 2011, AT&T, Sprint and Telstra each accounted for more than 10% of our revenue, and in aggregate, represented approximately 34% of our revenue.

We continue to have a balanced mix of revenue between Mobile Computing and M2M, each representing 50% of our revenues in the nine months ended September 30, 2012. In the nine months ended September 30, 2011, Mobile Computing and M2M represented 49% and 51% of our revenue, respectively.

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The geographic revenue mix for the nine months ended September 30, 2012 and 2011 was as follows:

Gross margin

Gross margin was 30.0% of revenue for the nine months ended September 30, 2012, compared to 28.3% of revenue in the same period of 2011. The increase in gross margin percentage was primarily related to product cost reductions and favorable product mix. Gross margin included $0.2 million of stock-based compensation expense in the nine months ended September 30, 2012 and included $0.3 million of stock-based compensation expense in the nine months ended September 30, 2011.

Sales and marketing

Sales and marketing expenses decreased by $1.2 million, or 3.5%, in the nine months ended September 30, 2012, compared to the same period of 2011. The decrease in sales and marketing expenses was due primarily to continued focus on cost management. Sales and marketing expenses included $1.0 million of stock-based compensation expense in each of the nine-month periods ended September 30, 2012 and 2011.

Research and development

Research and development expenses decreased by $2.9 million, or 4.3%, to $64.6 million in the nine months ended September 30, 2012, compared to the same period of 2011. The decrease in research and development expenses was primarily related to the combination of lower spending and the positive impact of foreign exchange rates which more than offset the additional research and development expenses we incurred as a result of the Sagemcom acquisition. In 2011, our research and development expenses were higher due to increased spending on new product development, including certifications and launch preparation for new 4G LTE products.

Research and development expenses in the nine-month period ended September 30, 2012 included stock-based compensation expense of $1.3 million and acquisition amortization of $4.3 million. Research and development expenses in the same period of 2011 included stock-based compensation expense of $1.2 million and acquisition amortization of $5.2 million.

Administration

Administration expenses decreased by $0.8 million, or 3.0%, in the nine months ended September 30, 2012, compared to the same period of 2011. The decrease was primarily due to a continued focus on cost management. Included in administration expenses was stock-based compensation expense of $2.4 million and $2.5 million, respectively, in each of the nine-month periods ended September 30, 2012 and 2011.

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Acquisition

Acquisition costs were $2.8 million during the nine months ended September 30, 2012 and relate to the Sagemcom M2M acquisition. Acquisition costs were $nil in the same period of 2011.

Restructuring

Restructuring costs increased by $1.4 million during the nine months ended September 30, 2012, compared to the same period of 2011. Restructuring costs in the nine months ended September 30, 2012 relate to organizational changes in research and development in connection with the closure of our Newark, California facility. Restructuring costs in the nine months ended September 30, 2011 represented the additional costs incurred for reductions related to the new organizational structure announced in September 2010.

Integration costs

Integration costs were $nil during the nine months ended September 30, 2012, compared to $1.4 million in the same period of 2011. Integration costs during the nine months ended September 30, 2011 were primarily related to office space optimization in France and for IT consultants retained to implement an integrated Customer Resource Management system.

Amortization

Amortization expense decreased $0.8 million or 9.6%, in the nine months ended September 30, 2012, compared to the same period of 2011. Amortization expense in the nine-month period ended September 30, 2012 included $4.3 million of acquisition amortization, compared to $4.6 million in the same nine-month period of 2011.

Foreign exchange gain (loss)

Foreign exchange gain was $1.7 million during the nine months ended September 30, 2012 compared to less than $0.1 million during the same period of 2011. Foreign exchange gain for the nine months ended September 30, 2012 included net foreign exchange gain of $3.6 million on revaluation of an intercompany loan to a self-sustaining subsidiary and a loss of $1.8 million related to the settlement of foreign currency forward exchange contracts that we entered into in connection with the Sagemcom acquisition.

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 negatively impacted our year-to-date 2012 revenues by approximately $2.1 million. We estimate that the favorable impact on operating expenses during the same period was approximately $3.7 million.

Income tax expense (recovery)

Income tax expense increased by $3.3 million in the nine months ended September 30, 2012, compared to the same period of 2011, primarily driven by improved profitability, partially offset by favorable impact of changes in relative taxable earnings amongst the different tax jurisdictions in which we operate.

Net earnings (loss) attributable to the Company

Net earnings attributable to the Company increased by $23.2 million to $7.6 million in the nine months ended September 30, 2012, compared to the same period of 2011. This increase reflects the positive impact of higher revenue and gross margin, combined with lower operating expenditures, as well as the impact of favorable foreign exchange and tax recoveries in the nine months ended September 30, 2012.

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Net earnings for the nine months ended September 30, 2012 included stock-based compensation of $5.0 million, and acquisition amortization of $8.6 million. Net loss for the same period of 2011 included stock-based compensation of $4.9 million, and acquisition amortization of $9.8 million.

Weighted average number of shares

The weighted average diluted number of shares outstanding was 31.0 million for the nine months ended September 30, 2012, compared to 31.3 million for the nine months ended September 30, 2011. The number of shares outstanding was 30.6 million at September 30, 2012, compared to 31.3 million at September 30, 2011. The reduction in number of shares outstanding was due to purchases on the TSX and NASDAQ of 800,000 of the Company s common shares under our normal course issuer bid during the nine months ended September 30, 2012.

SEGMENTED INFORMATION

Revenue and gross margin by segment for the three and nine months ended September 30, 2012 and 2011 was as follows:

	Three months ended September 30		Nine months ended September 30	
(in thousands of U.S. dollars)	**2012**	**2011**	**2012**	**2011**
M2M				
Revenue	$ 86,155	$ 75,315	$ 240,643	$ 221,951
Cost of goods sold	58,143	49,667	161,788	149,732
Gross margin	$ 28,012	$ 25,648	$ 78,855	$ 72,219
Gross margin %	*32.5%*	*34.1%*	*32.8%*	*32.5%*
Mobile Computing				
Revenue	$ 76,483	$ 71,512	$ 239,702	$ 209,039
Cost of goods sold	56,638	53,826	174,599	159,360
Gross margin	$ 19,845	$ 17,686	$ 65,103	$ 49,679
Gross margin %	*25.9%*	*24.7%*	*27.2%*	*23.8%*

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Product line revenue by segment for the three and nine months ended September 30, 2012 and 2011 was as follows:

(in thousands of U.S. dollars)	Three months ended September 30 2012	2011	Nine months ended September 30 2012	2011
M2M				
AirPrime Embedded Wireless Modules (excludes PC OEMs) (1)	$ 73,249	$ 63,635	$ 199,961	$ 186,089
AirLink Intelligent Gateways and Routers	11,262	9,928	33,291	28,910
AirVantage M2M Cloud Platform and Other	1,644	1,752	7,391	6,952
	$ 86,155	$ 75,315	$ 240,643	$ 221,951
Mobile Computing				
AirCard Mobile Broadband Devices (2)	$ 61,066	$ 60,453	$ 187,959	$ 177,442
AirPrime Embedded Wireless Modules for PC OEMs	14,018	9,771	47,119	28,375
Other	1,399	1,288	4,624	3,222
	$ 76,483	$ 71,512	$ 239,702	$ 209,039

(1) AirPrime Embedded Wireless Modules includes revenue generated from the acqusition of the M2M business of Sagemcom from the date of acquisition on August 1, 2012 to September 30, 2012 of $4,630.

(2) Clearwire contributed $nil in mobile computing revenue in the three and nine months ended September 30, 2012 compared to $nil and $8,366 in the three and nine months ended September 30, 2011, respectively.

Machine-to-Machine

Our M2M revenue increased $10.8 million, or 14.3%, to $86.1 million in the three months ended September 30, 2012 compared to the same period of 2011. The increase in revenue was primarily due to continued growth in sales of both our AirPrime Embedded Wireless Modules for M2M, and AirLink Intelligent Gateways, as well as revenue generated from the Sagemcom M2M acquisition.

Gross margin was $28.0 million for M2M in the three months ended September 30, 2012, or 32.5%, compared to 34.1% in the three months ended September 30, 2011. The decrease was primarily driven by unfavorable product mix.

Sales of our M2M embedded module products increased $9.6 million, or 15.1%, in the three months ended September 30, 2012, compared to the same period of 2011. This increase was the result of strong organic growth in the Americas and Asia, as well as revenue generated from the Sagemcom M2M acquisition, partially offset by weakness in Europe.

Revenue from AirLink Intelligent Gateways increased $1.3 million, or 13.4%, in the three months ended September 30, 2012, compared to the same period of 2011. The increase was primarily driven by higher average selling prices of recently launched 4G gateway products.

Mobile Computing

Our Mobile Computing revenue increased by $5.0 million, or 7.0%, to $76.5 million in the three months ended September 30, 2012 compared to the same period of 2011. The increase was largely driven by 4G AirCard sales and continued strong growth in sales to PC OEMs.

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Gross margin was $19.8 million for Mobile Computing in the three months ended September 30, 2012, or 25.9%, compared to 24.7% in the same period of 2011 and primarily reflected the realization of product cost reductions.

Revenue from our AirCard products of $61.1 million in the three months ended September 30, 2012 was comparable to $60.5 million in the same period of 2011.

Revenue from sales of our AirPrime Wireless Embedded Modules to PC OEM customers increased by $4.2 million, or 43.5%, in the three months ended September 30, 2012 compared to the same period of 2011, primarily due to increased demand from our existing PC OEM customers and shipments of recently launched 4G LTE modules in support of new design wins.

SUMMARY OF QUARTERLY RESULTS OF OPERATIONS

The following tables highlight selected financial information for each of the eight 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, 2011. The selected financial information 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 results are not necessarily indicative of results for any future period. You should not rely on these results to predict future performance.

(in thousands of U.S. dollars, except per share amounts and number of shares)

		2012			2011			2010
	Q3	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
Revenue	$ 162,638	$ 167,441	$ 150,266	$ 147,195	$ 146,827	$ 139,888	$ 144,275	$ 167,176
Cost of goods sold	114,781	116,106	105,500	105,643	103,493	100,788	104,811	118,309
Gross margin	47,857	51,335	44,766	41,552	43,334	39,100	39,464	48,867
Gross margin %	*29.4%*	*30.7%*	*29.8%*	*28.2%*	*29.5%*	*28.0%*	*27.4%*	*29.2%*
Expenses								
Sales and marketing	10,476	11,190	11,861	10,747	11,158	11,326	12,268	12,123
Research and development	22,395	20,773	21,396	21,521	21,942	22,025	23,512	23,782
Administration	8,592	8,746	8,600	7,934	8,548	8,810	9,385	9,073
Acquisition	2,196	599						
Restructuring	498	1,531						