SIERRA WIRELESS INC
Form 6-K
August 09, 2004

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 2004

(Commission File. No 0-30718).

SIERRA WIRELESS, INC., A CANADA CORPORATION

(Translation of registrant s name in English)

13811 Wireless Way
Richmond, British Columbia, Canada V6V 3A4

(Address of principal executive offices and zip code)

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 ý

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: ý

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 9, 2004

SIERRA WIRELESS, INC.

SECOND QUARTER REPORT

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2004

US GAAP

SIERRA WIRELESS, INC.

CHAIRMAN S MESSAGE

TO OUR SHAREHOLDERS

We set the bar still higher in the second quarter with revenue of $51.6 million, net earnings of $6.0 million and positive cash flow from operations. These are record results for Sierra Wireless, and represent our eighth consecutive quarter of profitable growth and positive cash flow. Our financial results are now meeting or exceeding our key long-term business model objectives approximately a year earlier than expected.

Results for Q2 2004 Compared to Q2 2003

For the three months ended June 30, 2004, our revenues climbed 149% to $51.6 million, from $20.7 million in the second quarter of 2003. The revenue result was fueled by strong demand for our PC Card, embedded module and mobile product lines, particularly in North American markets.

Our gross margin increased to $20.9 million, or 40.5% of revenue, compared to $8.3 million, or 40.2% of revenue, in the comparable period in 2003. Strong PC card and mobile product margins offset the impact of lower-margin OEM products.

Second quarter operating expenses were $13.5 million, compared to $7.5 million for the same period in 2003. The increase in operating expenses is due to increased revenue, our acquisition of AirPrime, Inc. in August 2003, and costs related to the development of new products, including EDGE and the Voq Professional Phone.

Net earnings for the second quarter increased to $6.0 million (diluted earnings per share of $0.23), from $0.9 million (diluted earnings per share of $0.05) in the second quarter of 2003. Adjusted to exclude an additional Metricom recovery of $0.15 million in the second quarter of 2004, net earnings were $5.9 million (diluted earnings per share of $0.22), compared to $0.6 million (diluted earnings per share of $0.04). Net earnings for the second quarter of 2004 also include a foreign exchange loss of approximately $0.3 million.

Q2 2004 Results Compared to Guidance

Second quarter revenue of $51.6 million exceeded our guidance range of $48 to$50 million. Gross margin was 40.5%, higher than our guidance range of 39.0% to 40.0%. Our net earnings of $6.0 million (diluted earnings per share of $0.23) exceeded our guidance range of net earnings between $4.0 and $4.3 million (diluted earnings per share of $0.15 to $0.16), while our cash flow from operations was $8.2 million, consistent with our guidance of positive cash flow.

Business Developments

Second quarter highlights included a number of business and corporate developments:

Progress on Products for CDMA 2000 Networks and Channels:

We received new orders from Audiovox Communications Corporation for an additional supply of our PC5220 Wireless Wide Area Network 1xEV-DO PC Cards. The new orders total approximately $29.0 million with deliveries expected to begin in the third quarter of 2004, and extend into the fourth quarter of 2004.

Together with Sprint, we announced the commercial availability of the Sprint PCS Connection Card by Sierra Wireless (PC 3300) for use on the enhanced Sprint Nationwide PCS Network. Optimized for superior laptop performance, the Sprint PCS Connection Card model PC3300 offers mobile customers fast and reliable wireless data access to the Internet, email and other corporate applications from laptop computers.

We announced that VeriFone, Inc., a worldwide leader in electronic payment solutions, selected the Sierra Wireless EM3420, a CDMA2000 1X embedded wireless module, to wirelessly enable VeriFone s Omni family of wireless point-of-sale terminals. This high-speed, always-on family of terminals allows mobile retailers to execute secure debit and credit card transactions anywhere there is CDMA2000 1X coverage.

Alaska Communications Systems Group, Inc. announced the introduction of Wireless Broadband Access. The new broadband wireless data service is based on CDMA 1xEV-DO and utilizes a Sierra Wireless AirCard® 580 wireless wide area network PC card and a laptop.

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

We signed an agreement with Adino Telecom Limited, India s premier broadband solutions company, to distribute the Sierra Wireless AirCard 750 PC Card, the rugged MP 750 GPS modem, and our new AirCard 775 PC Card to customers in India. The AirCard 750 and MP 750 operate on GSM and GPRS networks, while the AirCard 775 is for use on EDGE networks.

Progress on the Voq Professional Phone :

Our new Voq Professional Phone, a Microsoft Windows Mobile -based SmartPhone, began commercially shipping to KPN in Europe at the end of the second quarter.

We set the stage for the Voq Professional Phone s entry into Asia, gaining regulatory approval from Singapore s Infocomm Development Authority and extending our agreement with Network Electronics S.E.A. Pte Ltd to sell and distribute the Voq Professional Phone in this market. The Voq professional phone will be available in Singapore in the third quarter of 2004 for use on GSM/GPRS networks.

The Voq Professional Phone was awarded the Excellence in Product Innovation Award from the British Columbia Technology Industries Association. The annual award acknowledges a superior innovation or discovery in advanced technology and demonstrates an alternative solution or a next stage development in technology.

Shortly after quarter end, we announced distribution agreements with Brightpoint and Cellstar to distribute the Voq Professional Phone in the North American market. In addition, we announced network approval for the Voq on the AT&T Wireless GSM/GPRS network. We expect to begin US commercial shipments early in the third quarter.

Other:

Given the continuing success of the integration of AirPrime, we consented to the early release of approximately 0.5 million shares in lock-up. The release date was originally scheduled for November 12, 2004, but will now be moved to August 12, 2004. The lock-up relates to our issuance of common shares when we acquired AirPrime, Inc. in August 2003. Certain shareholders receiving those common shares were subject to escrow and lock-up provisions. The release of escrow shares remains unchanged.

Outlook

We are delighted with our second quarter results, and anticipate continued revenue and earnings growth in the third quarter. Enterprise spending on wireless communications remains robust, demand for Sierra Wireless products remains strong, and our Voq Professional Phone and new EDGE/GPRS products are poised to begin building on our strong results in the months ahead.

Internally, we continue to support our longer-term prospects with new product and market development. Our business operating premise remains profitable growth.

/s/ David B. Sutcliffe

David B. Sutcliffe
Chairman and Chief Executive Officer

This report contains forward-looking statements that involve risks and uncertainties. These forward-looking statements relate to, among other things, plans and timing for the introduction or enhancement of our services and products, statements about future market conditions, supply conditions, channel and end customer demand conditions, revenues, gross margins, operating expenses, profits and other expectations, intentions and plans contained in this report that are not historical fact. Our expectations regarding future revenues and earnings depend upon our ability to develop, manufacture, supply and market new products which we do not produce today and that meet defined specifications. When used in this report, the words plan , expect , believe , and similar expressions generally identify forward-looking statements. These statements reflect our current expectations. They are subject to a number of risks and uncertainties, including, but not limited to, changes in technology and changes in the wireless data communications market. In light of the many risks and uncertainties surrounding the wireless data communications market, you should understand that we cannot assure you that the forward-looking statements contained in this report will be realized.

**MANAGEMENT S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion of our consolidated financial condition and results of operations, as of July 21, 2004, has been prepared in accordance with United States generally accepted accounting principles (GAAP) and, except where otherwise specifically indicated, all amounts are expressed in United States dollars.

Additional information related to Sierra Wireless, Inc., including our Annual Information Form, may be found on SEDAR at www.sedar.com.

Overview

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

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

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

Beginning in fiscal 2001, there was a slowdown in enterprise spending and an overall economic slowdown that impacted our business. The trend intensified during fiscal 2002 and continued into fiscal 2003. Reasons for the market deterioration included a general economic slowdown, customer bankruptcies, network build-out delays and limited availability of capital. During the latter part of 2003 and the first quarter of 2004, we experienced stronger than expected demand.

During the second quarter of 2004, our revenue increased 148.8% to $51.6 million, compared to $20.7 million in the second quarter of 2003, as a result of strong revenue from our PC card, OEM and mobile products, including products formerly sold by AirPrime. Our revenue from customers in the Americas, Europe and the Asia-Pacific region comprised 94%, 3% and 3%, respectively, of our total revenue in the second quarter of 2004 and 50%, 24% and 26%, respectively, in the same period of 2003. Our North American business has increased significantly compared to the prior year as a result of strong sales of our PC card, OEM and mobile products to North American customers. Our North American business continues to be dominated by customer demand on channels rather than on long-term, large volume commitments. In Europe, sales of UMTS products have been gaining momentum and have negatively affected our GSM/GPRS sales in that region because we do not have a UMTS product yet.

Operating expenses were $13.5 million in the second quarter of 2004 and increased from $7.5 million in the prior year due to increased revenue, the acquisition of AirPrime, Inc. in August 2003, and costs related to the development of new products, including EDGE and the Voq professional phone.

Net earnings were $6.0 million, or diluted earnings per share of $0.23, in the second quarter of 2004, compared to $0.9 million, or diluted earnings per share of $0.05, in the same period of 2003. Our improvement in net earnings was attributable to the increase in revenue, strong margins and operating cost control.

Our balance sheet remains strong, with $121.8 million of cash and short and long-term investments, compared to $109.7 million at December 31, 2003. During the second quarter of 2004, we generated $8.2 million in cash from operations, compared to $2.9 million in the same period of 2003.

Results of Operations

The following table sets forth our operating results for the three and six months ended June 30, 2004, expressed as a percentage of revenue:

	Three months ended June 30, 2004	Three months ended June 30, 2003	Six months ended June 30, 2004	Six months ended June 30, 2003
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	59.5	59.8	59.5	60.2
Gross margin	40.5	40.2	40.5	39.8
Expenses				
Sales and marketing	8.5	12.5	9.2	13.0
Research and development, net	11.6	14.2	11.5	13.9
Administration	4.9	7.0	4.9	7.5
Amortization	1.1	2.6	1.3	2.7
	26.1	36.3	26.9	37.1
Earnings from operations	14.4	3.9	13.6	2.7
Other income		0.8		0.6
Net income before income taxes	14.4	4.7	13.6	3.3
Income tax expense	2.7	0.3	2.2	0.2
Net income	11.7%	4.4%	11.4%	3.1%

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

	Three months ended June 30, 2004	Three months ended June 30, 2003	Six months ended June 30, 2004	Six months ended June 30, 2003
Revenue by product				
PC card	55%	82%	53%	81%
OEM	32	10	37	11
Mobile	10	4	8	5
Voq	1			
Other	2	4	2	3
	100%	100%	100%	100%
Revenue by distribution channel				
Wireless carriers	27%	47%	30%	48%
OEM	32	12	38	13
Resellers	41	40	32	38
Direct and other		1		1
	100%	100%	100%	100%
Revenue by geographical region				
Americas	94%	50%	93%	55%
Europe	3	24	4	20

Asia-Pacific	3	26	3	25
	100%	100%	100%	100%

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Results of Operations   Three Months Ended June 30, 2004 Compared to Three Months Ended June 30, 2003

Revenue

Revenue amounted to $51.6 million for the three months ended June 30, 2004, compared to $20.7 million in the same period of 2003, an increase of 148.8%. Included in our revenue was research and development funding of $0.7 million, compared to nil in 2003. The increase in revenue was due primarily to an increase in sales of our PC card, OEM and mobile products, including sales of products formerly sold by AirPrime. At the end of the second quarter of 2004, we also commenced commercial shipment of the Voq professional phone through our European distribution channel. As a percentage of revenue, we expect that PC card and Voq product revenue will increase and that OEM product revenue will decrease.

Our revenue from customers in the Americas, Europe and the Asia-Pacific region comprised 94%, 3% and 3%, respectively, of our total revenue in the second quarter of 2004 and 50%, 24% and 26%, respectively, in the same period of 2003. Our North American business has increased significantly compared to the prior year as a result of strong sales of our PC card, OEM and mobile products to North American customers. In Europe, sales of UMTS products have been gaining momentum and have negatively affected our GSM/GPRS sales in that region because we do not have a UMTS product yet. We expect that North American sales will continue to be strong due to PC card and OEM sales and the addition of new products, such as the Voq professional phone and EDGE products. For similar reasons, we expect European revenue to increase as well. In the second quarter of 2004, three customers individually accounted for more than 10% of our revenue and in aggregate these three customers represented 64% of our revenue.

Gross margin

Gross margin amounted to $20.9 million in the second quarter of 2004, compared to $8.3 million in the second quarter of 2003. Included in our gross margin was research and development funding of $0.7 million in 2004, compared to nil in 2003. Our gross margin percentage was 40.5% of revenue for the three months ended June 30, 2004, compared to 40.2% of revenue for the three months ended June 30, 2003. Strong PC card and mobile product margins offset the impact of OEM products that yield lower margins, resulting in a relatively consistent margin for the quarter. During the second quarter of 2004, we sold $0.1 million of products that had a net book value after writedowns of nil.

We expect our gross margin to continue to fluctuate moderately from quarter to quarter as a result of changes in product mix, changes in geographical mix and changes in product cost due to new product introductions.

Sales and marketing

Sales and marketing expenses were $4.4 million in the second quarter of 2004, compared to $2.6 million in the same period of 2003, an increase of 69.3%. The increase is due primarily to the addition of staff from the AirPrime acquisition and marketing costs related to the Voq professional phone. Sales and marketing expenses as a percentage of revenue decreased to 8.5% in 2004, compared to 12.5% in 2003. This decrease was due primarily to an increase in revenue. We expect to continue to make significant and increased investments in sales and marketing as we introduce new products, such as the Voq professional phone and products for EDGE networks, and continue to expand our distribution channels in Europe and the Asia-Pacific region.

Research and development, net

Research and development expenses, net of conditionally repayable government research and development funding, amounted to $6.0 million in the second quarter of 2004, compared to $2.9 million in the second quarter of 2003, an increase of 103.3%.

Gross research and development expenses, before government research and development funding, were $6.3 million or 12.3% of revenue in the second quarter of 2004, compared to $3.1 million, or 15.0% of revenue, in 2003. Repayment of TPC funding of $0.5 million was included in our gross research and development funding in the second quarter of 2004, compared to nil in the same period of 2003. Gross research and development expenses increased due to the addition of staff and projects from the AirPrime acquisition and the development of new products, including EDGE products and the Voq professional phone. We expect our gross research and development expenses to continue to increase as we invest in next generation technology and develop new products.

Administration

Administration expenses amounted to $2.5 million, or 4.9% of revenue, in the second quarter of 2004, compared to $1.5 million, or 7.0% of revenue, in the same period of 2003. The increase is due primarily to an increase in insurance costs and the addition of staff from the AirPrime acquisition, partially offset by an additional recovery from Metricom of $0.2 million. We expect administration expenses to decrease as a percentage of revenue as revenue continues to increase.

Income tax expense

Income tax expense amounted to $1.4 million for the three months ended June 30, 2004, compared to $0.1 million for the three months ended June 30, 2003. Income tax expense has increased primarily due to our increase in net earnings before tax.

Net earnings

Our net earnings amounted to $6.0 million, or diluted earnings per share of $0.23, in the second quarter of 2004, compared to net earnings of $0.9 million, or diluted earnings per share of $0.05, in the same period of 2003. Excluding the Metricom recovery of $0.2 million, our net earnings for the second quarter of 2004 were $5.9 million, or diluted earnings per share of $0.22.

The weighted average diluted number of shares outstanding increased to 26.2 million in 2004 due to the issuance of shares in August 2003 related to the AirPrime acquisition and to our secondary public offering in November 2003, as compared to 16.8 million in 2003.

Results of Operations Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003

Revenue

Revenue amounted to $93.2 million for the six months ended June 30, 2004, compared to $40.9 million in the same period of 2003, an increase of 128.0%. Included in our revenue was research and development funding of $0.9 million, compared to nil in 2003. The increase in revenue was due primarily to an increase in sales of our PC card, OEM and mobile products, including sales of products formerly sold by AirPrime. During the first half of 2004, we also commenced commercial shipment of the AirCard 580 for CDMA 1xEV-DO networks, the AirCard 555R for CDMA networks in Asia, the MP555 for CDMA 1X and the Voq Professional Phone. As a percentage of revenue, we expect that PC card and Voq product revenue will increase and that OEM product revenue will decrease.

Our revenue from customers in the Americas, Europe and the Asia-Pacific region comprised 93%, 4% and 3%, respectively, of our total revenue in the second quarter of 2004 and 55%, 20% and 25%, respectively, in the same period of 2003. Our North American business has increased significantly compared to the prior year as a result of strong sales of our PC card, OEM and mobile products to North American customers. In Europe, sales of UMTS products have been gaining momentum and have negatively affected our GSM/GPRS sales in that region because we do not have a UMTS product yet. We expect that North American sales will continue to be strong due to PC card and OEM sales and the addition of new products, such as the Voq professional phone and EDGE products. For similar reasons, we expect European revenue to increase as well. In the first half of 2004, three customers individually accounted for more than 10% of our revenue and in aggregate these three customers represented 58% of our revenue.

Gross margin

Gross margin amounted to $37.7 million in the first half of 2004, compared to $16.3 million in the same period of 2003. Included in our gross margin was research and development funding of $0.9 million in 2004, compared to nil in 2003. Our gross margin percentage was 40.5% of revenue for the six months ended June 30, 2004, compared to 39.8% of revenue for the six months ended June 30, 2003. Strong PC card and mobile product margins offset the impact of OEM products that yield lower margins, resulting in a relatively stable margin for the six month period. During the first half of 2004, we sold $0.2 million of products that had a net book value after writedowns of nil.

We expect our gross margin to fluctuate moderately from quarter to quarter as a result of changes in product mix, changes in geographical mix and changes in product cost due to new product introductions.

Sales and marketing

Sales and marketing expenses were $8.6 million for the six months ended June 30, 2004, compared to $5.3 million in the same period of 2003, an increase of 60.9%. The increase is due primarily to the addition of staff from the AirPrime acquisition and marketing costs related to the Voq professional phone. Sales and marketing expenses as a percentage of revenue decreased to 9.2% in 2004, compared to 13.0% in 2003. This decrease was due primarily to an increase in revenue. We expect to continue to make significant and increased investments in sales and marketing as we introduce new products, such as the Voq professional phone and products for EDGE networks, and continue to expand our distribution channels in Europe and the Asia-Pacific region.

Research and development, net

Research and development expenses, net of conditionally repayable government research and development funding, amounted to $10.7 million for the six months ended June 30, 2004, compared to $5.7 million in the same period of 2003, an increase of 88.4%.

Gross research and development expenses, before government research and development funding, were $12.5 million or 13.4% of revenue in the first half of 2004, compared to $6.2 million or 15.1% of revenue in 2003. Repayment of TPC funding of $0.8 million was included in our gross research and development funding in the first half of 2004, compared to nil in the same period of 2003. Gross research and development expenses increased due to the addition of staff and projects from the AirPrime acquisition and the development of new products, including EDGE products and the Voq professional phone. We expect our gross research and development expenses to continue to increase as we invest in next generation technology and develop new products.

During the first half of 2004, we signed a second agreement with the Government of Canada s Technology Partnerships Canada (TPC) program under which we are eligible to receive conditionally repayable research and development funding up to Cdn. $9,540 to support the development of a range of third generation wireless technologies. The agreement is effective for development work commencing April 2003. Funding of $1.8 million was recognized during the six months ended June 30, 2004, of which $1.1 million relates to the period from April 1, 2003 to December 31, 2003. We expect that our TPC funding will be based on research and development work completed in each quarter.

Administration

Administration expenses amounted to $4.6 million, or 4.9% of revenue, for the six months ended June 30, 2004, compared to $3.1 million, or 7.5% of revenue, in the same period of 2003. The increase is due primarily to an increase in insurance costs and the addition of staff from the AirPrime acquisition, partially offset by additional recoveries from Metricom of $0.4 million. We expect administration expenses to decrease as a percentage of revenue as revenue continues to increase.

Income tax expense

Income tax expense amounted to $2.1 million for the six months ended June 30, 2004, compared to $0.1 million for the six months ended June 30, 2003. Income tax expense has increased primarily due to our increase in net earnings before tax.

Net earnings

Our net earnings amounted to $10.6 million, or diluted earnings per share of $0.41, for the six months ended June 30, 2004, compared to net earnings of $1.3 million, or diluted earnings per share of $0.08, for the same period of 2003. Excluding the TPC funding of $1.1 million related to the 2003 period and the Metricom recoveries of $0.4 million, our net earnings for the first half of 2004 were $9.1 million, or diluted earnings per share of $0.35, compared to net earnings of $1.0 million, or diluted earnings per share of $0.06 for the first half of 2003.

The weighted average diluted number of shares outstanding increased to 26.1 million in 2004 due to the issuance of shares in August 2003 related to the AirPrime acquisition and to our secondary public offering in November 2003, as compared to 16.7 million in 2003.

Contingent Liabilities

During 2002, we executed a settlement agreement with Metricom, one of our U.S. customers, in a Chapter 11 reorganization under U.S. bankruptcy laws, under which all claims and counterclaims were settled. We received the amount of $1.8 million that has been included in our net loss for 2002. We also received additional recoveries of $0.3 million and $0.2 million that have been included in our second and third quarter net earnings for 2003, respectively, and $0.2 million and $0.2 million that have been included in our first and second quarter net earnings for 2004, respectively.

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. When the agreements are finalized, the estimate will be revised accordingly.

We are engaged in other legal actions arising 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 Policies

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States, and we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the related disclosure of contingent liabilities. On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition, adequacy of allowance for doubtful accounts, adequacy of inventory reserve, income taxes and adequacy of warranty reserve. We base our estimates on historical experience and 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.

During the quarter ended June 30, 2004, we did not adopt any new accounting policies that have a material impact on our consolidated financial statements or make changes to existing accounting policies.

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 service providers 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 provisions allowing various rights of return and stock rotation when the rights have expired or the products have been reported as sold by the resellers.

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 will 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.

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 if collection is reasonably assured: customer credit-worthiness, past transaction history with the customer, 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 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.

We currently have intangible assets of $14.9 million and goodwill of $20.1 million generated from our acquisition of AirPrime in August 2003. Goodwill is tested for impairment annually, or more often, if an event or circumstance indicates that an impairment loss has been incurred.

The initial goodwill impairment test was completed during the fourth quarter of 2003, which resulted in no impairment loss. We assessed the realizability of goodwill related to our reporting unit during the fourth quarter and determined that its fair value did not have to be re-computed because the components of the reporting unit had not changed since the fair value computation completed at August 12, 2003, the date of acquisition, the previous fair value amount exceeded the carrying amount of the reporting unit by a substantial margin, and no evidence exists to indicate that the current fair value of the reporting unit would be less than its current carrying amount.

We evaluate our deferred income tax assets to assess whether their realization is more likely than not. If their realization 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 we determine that we would not be able to realize our deferred tax assets, we may make an adjustment to our deferred tax assets that would be charged to income.

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 we suffer a decrease in the quality of our products, we may increase our accrual.

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. When the agreements are finalized, the estimate will be revised accordingly.

We recorded a lease provision during 2002 as a result of our restructuring program by estimating the net present value of the future cash outflows over the remaining lease period. The estimate was based on various assumptions including the obtainable sublease rates and the time it will take to find a suitable tenant. These assumptions are influenced by market conditions and the availability of similar space nearby. If market conditions change, we will adjust our provision.

We are engaged in certain legal actions arising 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. 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.

Liquidity and Capital Resources

Operating Activities

Cash provided by operating activities amounted to $13.5 million for the first six months of 2004, compared to cash provided by operating activities of $6.8 million in the same period of 2003, an improvement of $6.7 million. The source of cash in 2004 primarily resulted from earnings from operations of $10.6 million adjusted for non-cash items, inventory levels and changes in other operating assets and liabilities of $2.9 million. Our working capital has increased significantly from December 31, 2003 as a result of strong revenue and operating expense control. Generally, our working capital requirements will increase or decrease with quarterly revenue levels.

Investing Activities

Cash provided by investing activities was $18.9 million for the six months ended June 30, 2004, compared to cash used by investing activities of $12.7 million during the same period in 2003. The source of cash during the first half of 2004 was due primarily to the disposal of long-term investments that were re-invested in investments with maturities less than 90 days. Expenditures on intangible assets were $1.6 million in 2004, compared to $1.3 million in 2003, and were primarily for license fees and patents. Capital expenditures were $3.5 million in 2004, compared to $0.4 million in 2003, and were primarily for tooling, research and development equipment and software.

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 provided by financing activities was $3.4 million in the first six months of 2004, compared to a use of cash of $1.1 million during the same period in 2003, an increase of $4.5 million. The source of cash in 2004 was primarily from the issuance of common shares upon the exercise of stock options, offset slightly by repayments of our long-term obligations.

As of June 30, 2004, we did not have any off-balance sheet finance or special purpose entities.

Cash Requirements

We expect our operations will generate positive net cash during fiscal 2004.

Our near-term cash requirements are primarily related to funding our operations, capital expenditures and other obligations discussed below. We believe our cash and cash equivalents of $106.1 million, short-term investments of $15.7 million as of June 30, 2004 and cash generated from operations will be sufficient to fund our expected working and other capital requirements for the next twelve months based on current business plans. Our capital expenditures during 2004 are expected to be primarily for research and development equipment, tooling, licenses and patents. However, we cannot provide assurance 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, 2004:

Payments due in fiscal	Operating Leases	Obligations under Capital Leases	Total
2004	$ 1,384	$ 237	$ 1,621
2005	2,522	363	2,885
2006	2,516	50	2,566
2007	2,585		2,585
2008	2,599		2,599
Thereafter	5,029		5,029
Total	$ 16,635	$ 650	$ 17,285

We have entered into purchase commitments totaling $29.2 million with certain contract manufacturers under which we commit to buy a minimum amount of designated products. In certain of these agreements, we may be required to acquire and pay for such products up to the prescribed minimum or forecasted purchases. The terms of the commitment require us to purchase $29.2 million of product from certain contract manufacturers between July 2004 and September 2004.

Sources and Uses of Cash

In November 2003, we completed a new issue and secondary public offering in the United States and Canada. Our net proceeds after selling commissions and expenses of the offering amounted to approximately $67.4 million. The net proceeds from the offering are to be used for product development, working capital and general corporate purposes, including acquisitions.

One of our significant sources of funds is expected to be our future operating cash flow. In the past, our revenue was dependent on us fulfilling our commitments in accordance with agreements with major customers. We have completed volume shipments on those contracts. We are now relying on purchase orders with these customers and these customers, like our other customers, will be under no contractual obligation to purchase our products. If they do not make such purchases, our future operating cash flow will be negatively impacted. We have a risk of impairment to our liquidity should there be any interruption to our business operations.

The source of funds for our future capital expenditures and commitments is cash, short-term investments, accounts receivable, research and development funding, borrowings and cash from operations, as follows:

Net cash and short-term investments amounted to $121.8 million at June 30, 2004, compared to $85.1 million at December 31, 2003.

Long-term investments amounted to nil at June 30, 2004, compared to $24.6 million at December 31, 2003.

Accounts receivable amounted to $28.6 million at June 30, 2004, compared to $21.6 million at December 31, 2003.

We have a $10.0 million operating line of credit with a Canadian chartered bank. The credit facility bears interest at prime plus 1.25% and is secured by a general security agreement providing a first charge against all assets. At June 30, 2004, there were no borrowings under this line of credit.

Market Risk Disclosure

During the second quarter ended June 30, 2004, 90% of our revenue was earned from United States-based customers compared to 45.8% in the second quarter ended June 30, 2003. 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 since the majority of our research and development, sales and marketing, and administration costs are incurred in Canada. We monitor our exposure to fluctuations between the Canadian and U.S. dollars. For the three and six months ended June 30, 2004, we have recorded a foreign exchange loss of approximately $0.3 million and $0.6 million, respectively. As we have available funds and very little debt, we have not been adversely affected by significant interest rate fluctuations.

With our international expansion into Europe and the Asia-Pacific region, we are transacting business in additional foreign currencies and the potential for currency fluctuations is increasing. The risk associated with currency fluctuations between the U.S. dollar and foreign currencies in Europe and the Asia-Pacific region has been minimal as such transactions have not been material to date. We expect that, as our business expands in Europe, we will also continue to be exposed to Euro transactions. 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.

Currently, we do not have any hedging activities or derivative instruments, therefore the impact of FAS No. 133 is not material to our financial results.

Related Party Transactions

During the three and six months ended June 30, 2004, there were no material related party transactions.

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 contained in our fiscal 2003 Annual Report. 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.

Three months ended	March 31 2004	June 30 2004
Revenue	$ 41,641	$ 51,595
Cost of goods sold	24,839	30,680
Gross margin	16,802	20,915
Expenses:		
Sales and marketing	4,173	4,386
Research and development, net	4,739	5,991
Administration	2,064	2,534
Amortization	636	563
	11,612	13,474
Earnings from operations	5,190	7,441
Other income (expense)	84	(40)
Earnings before income taxes	5,274	7,401
Income tax expense	704	1,384
Net earnings	$ 4,570	$ 6,017
Earnings per share:		
Basic	$ 0.18	$ 0.24
Diluted	$ 0.18	$ 0.23
Weighted average number of shares (in thousands):		
Basic	24,986	25,221
Diluted	26,027	26,248

2003	Quarter Ended March 31	June 30	Sept. 30	Dec. 31	Year 2003
Revenue	$ 20,150	$ 20,736	$ 26,250	$ 34,573	$ 101,709
Cost of goods sold	12,210	12,405	15,566	20,370	60,551
Gross margin	7,940	8,331	10,684	14,203	41,158
Expenses:					
Sales and marketing	2,729	2,590	2,653	3,613	11,585
Research and development, net	2,749	2,947	4,677	5,621	15,994
Administration	1,617	1,451	1,331	2,198	6,597
Restructuring and other charges			1,220		1,220
Integration costs			1,026	921	1,947
Amortization	553	546	590	638	2,327
	7,648	7,534	11,497	12,991	39,670
Earnings (loss) from operations	292	797	(813)	1,212	1,488
Other income (expense)	104	167	(74)	768	965
Earnings (loss) before income taxes	396	964	(887)	1,980	2,453
Income tax expense	35	54	54	55	198
Net earnings (loss)	$ 361	$ 910	$ (941)	$ 1,925	$ 2,255
Earnings (loss) per share:					
Basic	$ 0.02	$ 0.06	$ (0.05)	$ 0.09	$ 0.12
Diluted	$ 0.02	$ 0.05	$ (0.05)	$ 0.08	$ 0.12
Weighted average number of shares (in thousands):					
Basic	16,355	16,375	18,409	22,563	18,442

Diluted	16,718	16,754	18,409	23,383	18,989

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2002	Quarter Ended March 31	June 30	Sept. 30	Dec. 31	Year 2002
Revenue	$ 16,700	$ 16,929	$ 21,083	$ 22,547	$ 77,259
Cost of goods sold	10,780	29,677	12,817	15,987	69,261
Gross margin	5,920	(12,748)	8,266	6,560	7,998
Expenses:					
Sales and marketing	2,710	2,920	2,801	3,133	11,564
Research and development, net	4,801	4,615	3,217	2,263	14,896
Administration	1,973	1,837	1,331		