SIERRA WIRELESS INC
Form 6-K
November 13, 2006

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 2006

(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 x

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes: o No: x

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Sierra Wireless, Inc.

By: /s/ David G. McLennan
David G. McLennan, Chief Financial Officer and Secretary

Date: November 10, 2006

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SIERRA WIRELESS, INC.

THIRD QUARTER REPORT
FOR THE THREE AND NINE MONTHS SEPTEMBER 30, 2006

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SIERRA WIRELESS, INC.

REPORT TO SHAREHOLDERS

To Our Shareholders

The third quarter of 2006 was an intense period of new product introductions, continued channel expansion, strong OEM design win activity and technology transition.

We successfully navigated a technology transition to next generation AirCard® products with our two largest customers, Cingular and Sprint. We also launched a record four new products during the quarter, and strengthened our strategic channel positions for our AirCard products in Europe and North America. We continued to strengthen our position with OEMs, earning new design wins with new and existing customers.

Overall, we believe that demand in the wide area wireless for mobile computing market continues to accelerate. This accelerating market growth, combined with our strong new product execution and rapid channel expansion, has driven considerable year-over-year improvements in revenue and net earnings. We believe that our market position has continued to strengthen and that we are poised for continued revenue growth in the fourth quarter and into 2007.

Q3 2006 Results Compared to Q3 2005

For the three months ended September 30, 2006, our revenues increased by 91% to $52.5 million, from $27.5 million in the third quarter of 2005. This increase reflects stronger year-over-year growth in sales of our CDMA EV-DO and UMTS/HSDPA PC card and embedded module products, partially offset by a reduction in sales of our MP products. In the short term, we expect modest revenue contribution from our MP product line as we complete development of our new 3G products. The first of these, the MP 595 for CDMA EV-DO Revision A networks, is expected to commence commercial shipments in the fourth quarter of 2006.

Our gross margin was 30.2% of revenue in the third quarter of 2006, compared to 34.9% in the third quarter of 2005. Operating expenses for the third quarter of 2006 were $15.8 million, compared to $14.0 million in the same period of 2005. Net earnings were $1.1 million (diluted earnings per share of $0.04) in the third quarter of 2006, compared to a third quarter 2005 net loss of $3.1 million (loss per share of $0.12).

During the third quarter of 2006, we reduced our estimate of certain royalty obligations, which was partially offset by a writedown of inventory. The net effect of these adjustments increased gross margin by $0.7 million. Excluding these adjustments, gross margin was 28.9% and net earnings were $0.4 million (diluted earnings per share of $0.01). Third quarter 2006 cost of goods sold and operating expenses include $0.1 million and $0.9 million, respectively, of stock-based compensation, compared to nil in the third quarter of 2005.

Q3 Results Compared to Guidance

Excluding the adjustments of $0.7 million related to royalty obligations and inventory writedowns, our results for the third quarter of 2006 as compared to guidance were as follows: Third quarter revenue of $52.5 million exceeded our guidance of $51.0 million. Gross margin of 28.9% was lower than our guidance of 31.0%. Operating expenses were $15.8 million, better than our guidance of $16.9 million. Our net earnings of $0.4 million (diluted earnings per share of $0.01) were slightly better than our guidance of break even. Our net earnings include $1.0 million of stock-based compensation expense. Excluding this expense, net earnings would be $1.4 million (diluted earnings per share of $0.05). Our cash flow, being cash flow from operations net of investments in fixed assets and intangibles, was negative $7.3 million, in line with our guidance of negative cash flow.

Business Developments

The third quarter of 2006 included the following business developments:

AirCard Products

- We announced commercial availability of our AirCard 595 for EV-DO Revision A networks with Sprint in North America, and commenced commercial shipments.

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- We established purchase arrangements for the AirCard 595 with another major North American CDMA operator. We expect to commence initial commercial shipments to this customer late in the fourth quarter of 2006.

- We launched our new AirCard 875 with Cingular, commencing initial shipments to this customer late in the third quarter. The AirCard 875 is the world s first commercially available wide area wireless network card for HSDPA 3.6 Mbps networks.

- We announced commercial availability of the AirCard 850 with Orange France for this operator s HSDPA network. We expect to launch the AirCard 850 with Orange in additional European markets during the fourth quarter of 2006.

- debitel, the third largest mobile service provider in Germany, selected the AirCard 850 to provide its customers with high speed HSDPA connectivity in Germany.

- We secured channel positions for our UMTS/HSDPA AirCards with a number of other European operators. We expect our UMTS/HSDPA AirCards to be commercially available on two networks in each of France, Spain, Switzerland and the UK by the end of the fourth quarter.

- We introduced our AirCard USB Wireless Modems for EV-DO Revision A and HSDPA networks. Based on our PCI Express Mini Card embedded modules, these compact AirCard USB modems plug directly into the USB ports of both notebook and desktop computers and can also be connected through a docking cradle. We expect to commence commercial shipments of the AirCard 595U for EV-DO Revision A networks and the AirCard 875U for HSDPA networks in the first quarter of 2007.

- We introduced our new ExpressCard product line with the upcoming AirCard 597E wireless wide are network card for EV-DO Revision A networks. Designed for notebook computers with ExpressCard expansion slots, the AirCard 597E is expected to commence shipping in the first quarter of 2007. ExpressCard models for HSDPA networks are expected to follow later in 2007.

Embedded Modules

- Our design win momentum with major PC OEMs remained strong during the third quarter. Since the start of the third quarter, we have secured next generation design wins for our high-speed embedded modules with three of our existing PC OEM customers.

- We began commercial shipments of two new PCI Express Mini Cards: the MC5725 embedded module for EV-DO Revision A networks and the MC8775 for HSDPA 3.6 Mbps networks.

- Fujitsu s LifeBook Q2010, featuring Super3G functionality provided by our MC8755V Voice-enabled PCI Express Mini Card embedded module, became available in Hong Kong during the quarter.

- We collaborated with Intel Corporation to incorporate Sierra Wireless WWAN modules into Intel s 3G-enabled Ultra Mobile PC platform. This combination is designed to provide integrated wireless 3G connections for ultra-mobile devices.

Outlook

Looking ahead, we believe the long-term growth prospects in the wide area wireless for mobile computing industry remain strong, driven by the deployment and promotion of high-speed 3G networks by carriers worldwide and the continued expansion of laptop platforms with embedded high speed 3G wireless capability. We believe that the enhanced speed and functionality of these networks, combined with aggressive marketing efforts by carriers and OEMs, are good growth catalysts for the market and that we are well positioned to capture a strong share of this growing market worldwide.

As we enter the fourth quarter, we have important new products shipping to key existing customers, new strategic channels established and new OEM design wins contributing to stronger order activity. We believe that our strengthened market position, combined with continued market expansion, will help to drive considerable revenue growth in the fourth quarter and into 2007.

/s/ Jason W. Cohenour
Jason W. Cohenour
President and Chief Executive Officer

Forward-Looking Statements

Certain statements in this report that are not based on historical facts constitute forward-looking statements or forward-looking information within the meaning of applicable securities laws (forward-looking statements). These forward-looking statements are not promises or guarantees of future performance but are only predictions that relate to future events, conditions or circumstances or our future results, performance, achievements or developments and are subject to substantial known and unknown risks, assumptions, uncertainties and other factors that could cause our actual results, performance, achievements or developments in our business or in our industry to differ materially from those expressed, anticipated or implied by such forward-looking statements. Forward-looking statements include disclosure regarding possible events, conditions, circumstances or results of operations that are based on assumptions about future economic conditions, courses of action and other future events. We caution you not to place undue reliance upon any such forward-looking statements, which speak only as of the date they are made. These forward-looking statements appear in a number of different places in this report and can be identified by words such as may , estimates , projects , expects , intends , believes , plans , anticipates , or their negatives or other comparable words. Forward-looking statements include statements regarding the outlook for our future operations, plans and timing for the introduction or enhancement of our services and products, statements concerning strategies or developments, statements about future market conditions, supply conditions, end customer demand conditions, channel inventory and sell through, revenue, gross margin, operating expenses, profits, forecasts of future costs and expenditures, the outcome of legal proceedings, and other expectations, intentions and plans that are not historical fact. The risk factors and uncertainties that may affect our actual results, performance, achievements or developments are many and include, amongst others, our ability to develop, manufacture, supply and market new products that we do not produce today that meet the needs of customers and gain commercial acceptance, our reliance on the deployment of next generation networks by major wireless operators, the continuous commitment of our customers, and increased competition. These risk factors and others are discussed in our Annual Information Form, which may be found on SEDAR at www.sedar.com and in our other regulatory filings with the Securities and Exchange Commission in the United States and the Provincial Securities Commissions in Canada. Many of these factors and uncertainties are beyond the control of the Company. Consequently, all forward-looking statements in this report are qualified by this cautionary statement and there can be no assurance that actual results, performance, achievements or developments anticipated by the Company will be realized. Forward-looking statements are based on management s current plans, estimates, projections, beliefs and opinions and the Company does not undertake any obligation to update forward-looking statements should the assumptions related to these plans, estimates, projections, beliefs and opinions change.

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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 October 26, 2006 has been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and, except where otherwise specifically indicated, all amounts are expressed in United States dollars.

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

Overview

We provide leading edge wireless wide area modem solutions for mobile computing. We develop and market a range of products that include wireless modems for mobile computers, embedded modules for original equipment manufacturers, or OEMs, and rugged vehicle-mounted modems. Our products permit users to access wireless data and voice communications networks using laptop computers, handheld mobile computing devices, vehicle-based systems or fixed wireless terminals.

Wireless data communications is an expanding market positioned at the convergence of wireless communications, mobile computing and the Internet, each of which we believe represents a growing market. Our products are based on widely deployed cellular technologies and operate on the networks of major wireless operators around the world.

Our products are primarily used by business and government organizations to enable their employees to access a wide range of applications, including the Internet, e-mail, corporate intranet, remote databases and corporate applications. We sell our products through indirect channels, including wireless operators, resellers and OEMs.

Throughout 2004 we experienced stronger than expected demand primarily as a result of our strong market position in CDMA EVDO Release 0 PC cards and our CDMA 1X embedded module sales to palmOne. Customer concentration increased in our revenue base during 2004. Following our considerable revenue and earnings growth in 2004, we experienced a significant reduction in our business in 2005 relative to 2004 due to, among other things, increased competition for certain of our PC card products, a reduction in embedded module business volumes as a result of the completion of shipments to a key customer at the end of 2004 and some weakness in our product portfolio.

In order to address this change in our business, we restructured our operations in June 2005, which included exiting our Voq professional phone initiative. Since the mid-2005 restructuring, we have re-focused our business on our core PC card and embedded module segments, including the development of new products and the expansion of markets for these products. We returned to sequential quarterly revenue growth over the four quarters ended June 30, 2006, realizing 25% and 37% growth in the third and fourth quarters of 2005, respectively, and 20% and 22% in the first and second quarters of 2006, respectively. As expected, in the third quarter of 2006, our revenues decreased slightly compared to the second quarter of 2006, but increased by 91% over the comparable period in 2005. During the quarter, we transitioned our two largest customers to next generation products, which resulted in a slight reduction of sales of existing products to these customers ahead of the launch of the next generation products that occurred late in the quarter. We believe the successful launch of these and other new products positions us well for strong growth in the fourth quarter. Following the mid-2005 restructuring, commensurate with improving revenue, we were able to reverse a series of three unprofitable quarters in 2005 by recording a modest profit in the fourth quarter of 2005, followed by a more substantial profit in the first and second quarters of 2006. During the third quarter, we were able to maintain a modest level of profitability as we transitioned our two largest customers to next generation products.

In the third quarter of 2006 our revenue increased 91% to $52.5 million, compared to $27.5 million in the same period of 2005. Gross margin for the third quarter of 2006 was 30.2%, compared to 34.9% in the same period of 2005. Net earnings were $1.1 million, or diluted earnings per share of $0.04 in the third quarter of 2006, compared to a net loss of $3.1 million, or loss per share of $0.12, in the same period of 2005. During the third quarter of 2006, we reduced our estimate of certain royalty obligations, which was partially offset by a writedown of certain finished goods in inventory. The net effect of these adjustments increased gross margin by $0.7 million. Our third quarter of 2006 net earnings include $1.0 million of stock-based compensation expense compared to nil in the third quarter of 2005.

Our balance sheet remains strong, with $94.1 million of cash, cash equivalents and short and long-term investments, compared to $104.1 million at December 31, 2005. For the three and nine months ended September 30, 2006, cash of $4.3 million and $2.2 million was used in operations, compared to cash used in operations of $0.9 million and $20.6 million in the comparable periods of 2005.

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We continue to believe that the long-term growth prospects in the wireless wide area modem solutions for mobile computing industry remain strong, driven by advances in wireless network technologies such as the deployment of next generation 3G networks by carriers worldwide. We believe the deployment of these networks will be a catalyst to increasing demand for wireless communications products, including ours.

Key factors that we expect will affect our revenue in the near term are the timing of deployment of 3G high speed wireless data networks by carriers, technology transitions in both CDMA EV-DO and UMTS/HSDPA, 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 laptop OEMs achieve with sales of embedded solutions and our ability to compete effectively. We expect that competition from other wireless communications device manufacturers will continue to intensify as more companies focus on opportunities in this market which will likely put pressure on selling prices. We expect that lower selling prices in our AirCard products, due to intensified competition, combined with decreased sales of our higher margin rugged mobile and legacy AirCard products will put pressure on our gross margins.

A growing market, combined with rapid channel expansion and new product launches of our UMTS/HSDPA AirCard® 875, UMTS/HSDPA MC8775 embedded module, EV-DO Revision A AirCard 595 and EV-DO Revision A MC5725 embedded module during the third quarter, underpin our expectation of strong revenue growth in the fourth quarter and into 2007.

Having restructured the company around our core businesses in wide area wireless PC cards and embedded modules for mobile computing, we are very focused on executing our product development and business development strategies in these areas. Specific initiatives include:

AirCard Products:

PCMCIA PC Cards: The successful launch of our first UMTS/HSDPA PC cards, the AirCard 850 and 860, during the fourth quarter of 2005 has helped us to establish a leadership position with this technology in North America and to re-establish our market position in Europe. In North America, we believe we continue to have a strong position with Cingular with the launch of our UMTS/HSDPA AirCard 875 during the third quarter of 2006. We commenced initial shipments of the AirCard 875 to Cingular during the third quarter and expect revenue contribution from this product in the fourth quarter of 2006. The AirCard 875 is the first commercially available HSDPA 3.6 Mbps network card in the world. During the second quarter of 2006, we began shipping our AirCard 860 to Rogers Communications in Canada as well. In Europe, during the third quarter of 2006, we announced Orange France had selected our AirCard 850 for use on its new HSDPA network and commercial shipments are expected to commence to Orange France in the fourth quarter of 2006. We expect to launch the AirCard 850 with Orange in other European markets as well during the fourth quarter. Also during the third quarter, we announced that debitel, the third largest mobile service operator in Germany, had launched the AirCard 850 through its business and retail channels in Germany. We have continued shipments of our UMTS/HSDPA PC cards to Xacom in Spain, Onda in Italy, Swisscom Mobile in Switzerland and other customers in France and Portugal. Our UMTS/HSDPA AirCards are now approved on 17 networks around the world. By the end of the fourth quarter, we expect our UMTS/HSDPA AirCard products to be certified and commercially available on two networks in each of France, Spain, Switzerland and the UK.

During the third quarter of 2006, we commenced commercial shipments of our next generation EV-DO Revision A AirCard 595 to Sprint. We also have purchase arrangements in place with another major North American CDMA operator for the AirCard 595 and expect to commence initial commercial shipments to this operator by the end of the fourth quarter.

Express Cards: During the third quarter of 2006, we announced the introduction of our ExpressCard product line, with the upcoming EV-DO Revision A AirCard 597E. Built for notebook computers with ExpressCard expansion slots, the AirCard 597E is expected to begin shipping in the first quarter of 2007. ExpressCards for use on HSDPA networks are expected to follow later in 2007.

USB Wireless Modems: During the third quarter, we announced the addition of wireless modems for USB ports to our product line. This product will plug into the USB ports of both notebook and desktop computers. We expect to commence commercial shipments of both the AirCard 595U for EV-DO Revision A networks and the AirCard 875U, for use on HSDPA networks in the first quarter of 2007.

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Embedded Modules:

With the commencement by multiple leading laptop manufacturers of embedding high-speed wireless wide area capability inside laptops, we believe that the opportunity for sales of embedded modules has increased significantly. We believe we are well positioned to supply embedded modules to this market as a result of our extensive experience in embedding wide area wireless modules into mobile computing platforms. Our experience and track record has allowed us to establish an early leadership position in providing embedded 3G wireless solutions to major laptop OEMs. We have embedded module design wins with nine PC OEM customers, including Lenovo and HP for both EV-DO and UMTS/HSDPA products, with Panasonic for EV-DO products, and with Fujitsu-Siemens Computers for UMTS/HSDPA products. Itronix, a specialty laptop manufacturer, also embeds a variety of our products across a number of airlinks. Six of our PC OEM customers currently have commercially available products featuring our 3G embedded module solutions, representing approximately 28 distinct platform and airlink combinations. We have secured next generation design wins with three of our existing PC OEM customers. We have also secured embedded module design wins with three additional laptop OEMs. In addition, we have secured several new design wins with manufacturers of fixed wireless terminals for both our EV-DO and UMTS/HSDPA embedded module products. During the third quarter of 2006, we commenced shipments of our next generation embedded modules, the MC 5725 for EV-DO Revision A networks and the MC 8775 for UMTS/HSDPA 3.6 Mbps networks.

We believe these new product developments provide us with a solid, up-to-date 3G product portfolio in both principal wireless technologies and in both the PC card and embedded module markets. With this stronger product portfolio, we expect to continue to be able to expand our channels in these markets.

Results of Operations

The following table sets forth our operating results for the three and nine months ended September 30, 2006 and 2005, expressed as a percentage of revenue:

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	69.8	65.1	66.4	84.5
Gross margin	30.2	34.9	33.6	15.5
Expenses				
Sales and marketing	5.4	10.8	6.7	16.6
Research and development, net	16.8	28.6	16.5	32.4
Administration	6.5	8.9	6.2	13.3
Restructuring and other charges				7.1
Amortization	1.3	2.6	1.5	3.0
	30.0	50.9	30.9	72.4
Earnings (loss) from operations	0.2	(16.0)	2.7	(56.9)
Other income	2.2	2.4	2.4	2.0
Earnings (loss) before income taxes	2.4	(13.6)	5.1	(54.9)
Income tax expense (recovery)	0.4	(2.4)	0.2	(1.2)
Net earnings (loss)	2.0 %	(11.2)%	4.9 %	(53.7)%

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

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Revenue by product				
PC card	69 %	71 %	71 %	70 %
Embedded modules	26	11	23	10
Rugged mobile	3	12	4	15
Other	2	6	2	5
	100 %	100 %	100 %	100 %
Revenue by distribution channel				
Wireless carriers	49 %	52 %	51 %	45 %
PC OEM	13	6	12	4
Other OEM	14	7	12	6
Resellers	23	34	24	43
Direct and other	1	1	1	2
	100 %	100 %	100 %	100 %
Revenue by geographical region				
Americas	64 %	71 %	68 %	67 %
Europe, Middle East and Africa (EMEA)	14	13	15	10
Asia-Pacific	22	16	17	23
	100 %	100 %	100 %	100 %

Results of Operations Three Months Ended September 30, 2006 Compared to Three Months Ended September 30, 2005

Revenue

Revenue amounted to $52.5 million for the three months ended September 30, 2006, compared to $27.5 million in the same period of 2005, an increase of 91%. The increase in revenue was due primarily to increased sales of our CDMA EV-DO and UMTS/HSDPA PC cards as well as our CDMA EV-DO and UMTS/HSDPA embedded modules.

Key factors that we expect will affect our revenue in the near term are the timing of deployment of 3G high speed wireless data networks by carriers, technology transitions in both CDMA EV-DO and UMTS/HSDPA, 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 laptop OEMs achieve with sales of embedded wide area wireless solutions, and our ability to compete effectively. We expect that competition from other wireless communications device manufacturers will continue to intensify as companies focus on opportunities in this market and will likely put pressure on selling prices. We expect that lower selling prices in our AirCard products, due to intensified competition, combined with decreased sales of our higher margin rugged mobile and legacy AirCard products will put pressure on our gross margins.

Our North American business has increased compared to the prior year primarily as a result of sales of our UMTS/HSDPA PC cards. In Europe, sales of our UMTS/HSDPA PC cards and embedded modules have resulted in an increase in our European business. Our business in the Asia-Pacific region has also increased for the third quarter of 2006 compared to the same period in 2005 due primarily to an increase in sales to laptop OEMs and their manufacturers.

In the third quarter of 2006, Cingular Wireless and Sprint each accounted for more than 10% of our revenue, and in the aggregate, these two customers represented approximately 48% of our revenue. In the same period of 2005, two customers each accounted for more than 10% of our revenue and, in the aggregate, those two customers represented approximately 39% of our revenue.

Gross margin

Gross margin amounted to $15.9 million in the third quarter of 2006, or 30.2% of revenue, compared to $9.6 million in the third quarter of 2005, or 34.9% of revenue. During the third quarter of 2006, we reduced our estimate of certain royalty obligations, which was partially offset by a writedown of certain finished goods in inventory. The net effect of these adjustments increased gross margin by $0.7 million. The decline in gross margin percentage resulted primarily from increased product costs of our newer AirCard products and a reduction in sales of higher margin rugged mobile and legacy AirCard products. Included in gross margin for the third quarter of 2006 is $0.1 million of stock-based compensation expense, compared to nil in the same period of 2005.

We expect that lower selling prices in our AirCard products, due to intensified competition, combined with decreased sales of our higher margin rugged mobile and legacy AirCard products, will put pressure on our gross margins.

Sales and marketing

Sales and marketing expenses decreased to $2.8 million in the third quarter of 2006, compared to $3.0 million in the same period of 2005. Sales and marketing expense in the third quarter of 2006 includes a positive adjustment of $0.2 million related to stock compensation expense, compared to nil in the same period of 2005. Sales and marketing expenses as a percentage of revenue decreased to 5.4% in 2006, compared to 10.8% in 2005, due primarily to the increase in revenue for the third quarter of 2006. While managing sales and marketing expenses in relation to revenue, we will continue to make strategic investments in sales and marketing as we introduce new products, market existing products, expand our distribution channels and focus on key customers around the world.

Research and development, net

Research and development expenses, net of conditionally repayable government research and development funding, amounted to $8.8 million in the third quarter of 2006, compared to $7.9 million in the third quarter of 2005, an increase of 12%. The increase is due to the significant investment in new products being developed in both CDMA EV-DO and UMTS/HSDPA technologies, an increase in repayments of repayable government research and development funding and the inclusion of $0.2 million of stock-based compensation expense in the third quarter of 2006 as compared to nil in 2005.

Gross research and development expenses, excluding the government research and development repayments, were $8.4 million or 15.9% of revenue in the third quarter of 2006, compared to $7.8 million, or 28.2% of revenue, in the third quarter of 2005. With the termination of the Voq professional phone initiative in June 2005, no further government research and development funding is anticipated in the near future.

Administration

Administration expenses amounted to $3.4 million, or 6.5% of revenue, in the third quarter 2006, compared to $2.4 million, or 8.9% of revenue, in the same period of 2005. Administration expenses for the third quarter of 2006 include $0.9 million of stock-based compensation expense, compared to nil in 2005.

Other income

Other income increased to $1.1 million in the third quarter of 2006, compared to $0.7 million in the same period of 2005. Other income includes interest income, interest expense and foreign exchange gains and losses. This increase is due primarily to an increase in interest income from rising interest rates and no foreign exchange loss in the third quarter of 2006 compared to a foreign exchange loss of $0.2 million in the same period in 2005.

Income tax expense (recovery)

Income tax expense was $0.2 million in the third quarter of 2006, compared to a recovery of $0.7 million in the third quarter of 2005. The income tax recovery in the third quarter of 2005 resulted from the utilization of loss carrybacks to recover income taxes previously paid in 2004.

Net earnings (loss)

Our net earnings amounted to $1.1 million, or diluted earnings per share of $0.04, in the three months ended

September 30, 2006, compared to a net loss of $3.1 million, or loss per share of $0.12, in the same period of 2005. During the third quarter of 2006, we reduced our estimate of certain royalty obligations, which was partially offset by a writedown of certain finished goods in inventory. The net effect of these adjustments increased net earnings by $0.7 million. Net earnings for the third quarter of 2006 include $1.0 million of stock-based compensation expense, compared to nil in 2005.

The weighted average diluted number of shares outstanding increased to 25.9 million in the third quarter of 2006, compared to 25.4 million in the same period of 2005, because dilutive securities, such as stock options, are included in the total when we are in a profitable position.

Results of Operations Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005

Revenue

Revenue amounted to $153.0 million for the nine months ended September 30, 2006, compared to $69.6 million in the same period of 2005, an increase of 120%. The increase in revenue was due primarily to sales of our UMTS/HSDPA PC cards launched in the fourth quarter 2005, as well as an increase in sales of our recently launched CDMA EV-DO and UMTS/HSDPA embedded modules.

Key factors that we expect will affect our revenue in the near term are the timing of deployment of 3G high speed wireless data networks by carriers, technology transitions in both CDMA EV-DO and UMTS/HSDPA, 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 laptop OEMs achieve with sales of embedded wide area wireless solutions and our ability to compete effectively. We expect that competition from other wireless communications device manufacturers will continue to intensify as companies focus on opportunities in this market and will likely put pressure on selling prices. We expect that lower selling prices in our AirCard products, due to intensified competition, combined with decreased sales of our higher margin rugged mobile and legacy AirCard products, will put pressure on our gross margins.

Our business in the North American and EMEA regions increased compared to the prior year primarily as a result of sales of our UMTS/HSPDA PC cards. Our business in the Asia-Pacific region increased for the first nine months of 2006 compared to the same period in 2005 due largely to an increase in sales to our PC OEM customers and their manufacturers.

In the nine months ended September 30, 2006, Cingular and Sprint individually accounted for more than 10% of our revenue and, in aggregate, these two customers represented approximately 45% of our revenue. This compared with the same period last year in which one customer accounted for more than 10% of our revenue and that customer represented approximately 18% of our revenue.

Gross margin

Gross margin amounted to $51.4 million, or 33.6% of revenue, in the nine months ended September 30, 2006, compared to $10.8 million, or 15.5% of revenue, in the same period in 2005. During the third quarter of 2006, we reduced our estimate of certain royalty obligations, which was partially offset by a writedown of certain finished goods in inventory. The net effect of these adjustments increased gross margin by $0.7 million. Included in the gross margin for 2005 was $12.8 million in restructuring charges. Excluding this amount, gross margin for the first nine months of 2005 amounted to $23.6 million, or 33.9% of revenue. The decline in gross margin percentage resulted primarily from increased product costs of our newer AirCard products and a reduction in sales of higher margin rugged mobile and legacy AirCard products. Included in gross margin for the first nine months of 2006 is $0.3 million of stock-based compensation expense, compared to nil in the same period of 2005.

We expect that lower selling prices in our AirCard products, due to intensified competition, combined with decreased sales of our higher margin rugged mobile and legacy AirCard products will put pressure on our gross margins.

Sales and marketing

Sales and marketing expenses were $10.3 million in the nine months ended September 30, 2006, as compared to $11.6 million in the same period of 2005. Sales and marketing expenses declined despite the inclusion of $0.4 million of stock-based compensation expense in the first nine months of 2006 as compared to nil in the same period of 2005. Sales and marketing expenses as a percentage of revenue decreased to 6.7% in the first three quarters of 2006,

compared to 16.6% in the same period of 2005, due primarily to the increase in revenue in the first nine months of 2006, combined with the decline related to the impact of our 2005 restructuring and continued cost containment. While managing sales and marketing expenses in relation to revenue, we will continue to make strategic investments in sales and marketing as we introduce new products, market existing products, expand our distribution channels and focus on key customers around the world.

Research and development, net

Research and development expenses, net of conditionally repayable government research and development funding, amounted to $25.3 million in the nine months ended September 30, 2006, compared to $22.5 million in the same period of 2005, an increase of 12%. The increase is due to the significant investment in new products being developed in both CDMA EV-DO and UMTS/HSDPA technologies, an increase in repayments of repayable government research and development funding and the inclusion of $0.5 million of stock-based compensation expense in the first three quarters of 2006 as compared to nil in 2005.

Gross research and development expenses, excluding the government research and development funding and repayments, were $23.9 million or 15.6% of revenue in the first nine months of 2006, compared to $22.9 million, or 32.9% of revenue, in the same period of 2005. With the termination of the Voq professional phone initiative in June 2005, no further government research and development funding is anticipated in the near future.

Administration

Administration expenses amounted to $9.5 million, or 6.2% of revenue, in the nine months ended September 30, 2006, compared to $9.3 million, or 13.3% of revenue, in the same period of 2005. Administration expenses for the nine months ended September 30, 2006 include $1.6 million of stock-based compensation expense compared to nil in 2005. When this item is excluded from the comparison, the decrease of $1.4 million is primarily a result of the inclusion in 2005 of $1.0 million for future legal costs related to litigation matters.

Restructuring and other charges

Restructuring and other charges were nil in the first nine months of 2006, compared to $18.2 million in the same period of 2005. During the second quarter of 2005, we decided to exit the Voq professional phone initiative and to implement some non-Voq related reductions to our operating expenses and assets. As a result, in the first three quarters of 2005, we recorded restructuring and other charges of $18.2 million consisting of inventory writedowns, severance costs, impairment of fixed, intangible and deferred tax assets, provisions for facilities restructuring, commitments and other costs related to the restructuring. Of this amount, $4.9 million was charged to restructuring and other charges, $12.8 million to cost of goods sold and $0.5 million to income tax expense.

Other income

Other income increased to $3.6 million in the first nine months of 2006, compared to $1.4 million in the same period of 2005. Other income includes interest income, interest expense and foreign exchange gains and losses. This increase is due to an increase in interest income from rising interest rates and to a foreign exchange gain of $0.3 million in the first nine months of 2006 as compared to a foreign exchange loss of $0.9 million in the same period in 2005.

Income tax expense (recovery)

Income tax expense was $0.4 million in the first nine months of 2006, compared to an income tax recovery of $0.8 million in the same period of 2005. Excluding the increase in the deferred tax asset valuation allowance of $0.5 million, income tax recovery for the first nine months of 2005 was $1.3 million. The income tax expense in 2006 is due to the increase in taxable income in 2006, whereas the recovery in 2005 is a result of the utilization of loss carrybacks to recover income taxes previously paid.

Net earnings (loss)

Our net earnings amounted to $7.4 million, or diluted earnings per share of $0.29, in the nine months ended September 30, 2006, compared to a net loss of $37.4 million, or loss per share of $1.47, in the same period of 2005. During the third quarter of 2006, we reduced our estimate of certain royalty obligations, which was partially offset by a writedown of certain finished goods in inventory. The net effect of these adjustments increased net earnings by $0.7 million. Our net loss for the first nine months of 2005 includes restructuring and other charges of $18.2 million and a

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provision for future legal costs of $1.0 million, which increased our loss per share by $0.75. Net earnings for the first nine months of 2006 include $2.8 million of stock-based compensation expense, compared to nil in 2005.

The weighted average diluted number of shares outstanding increased to 25.9 million in the first three quarters of 2006, compared to 25.4 million in the same period of 2005, because dilutive securities, such as stock options, are included in the total when we are in a profit position, as is the case in 2006

Stock-Based Compensation

Effective January 1, 2006, we were required to recognize the fair value of all stock-based compensation arrangements in the consolidated financial statements under SFAS 123(R), including employee stock options. Expensing the cost of employee stock options in the financial statements is in contrast to the previous practice in fiscal 2005 and prior years of providing supplemental pro-forma disclosure of the impact of employee stock-based compensation in the footnotes to the financial statements. In the three and nine months ended September 30, 2006, $1.0 million and $2.8 million, respectively, was expensed in our cost of sales and operating expenses, as compared to nil in the comparable periods in 2005. At September 30, 2006, the total unrecognized estimated compensation expense related to non-vested stock options was $8.2 million, which is expected to be recognized over a weighted average period of 1.4 years. The determination of the fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our stock price and other subjective variables, which include stock price volatility, expected term of the awards, projected forfeitures and the risk-free interest rate. If factors change and we employ different assumptions in the application of SFAS 123(R), the value of the compensation expense recorded under SFAS 123(R) may differ significantly from what we have recognized in the current period.

Contingent Liabilities

Sierra Wireless America, Inc., as successor to AirPrime, Inc., is named as a defendant in a class action complaint, filed in the U.S. District Court for the Central District of California, for alleged violations of federal and state securities laws allegedly occurring prior to the time AirPrime, Inc. was acquired by the Company. A proposed settlement of this litigation is before the Superior Court of the State of California for the County of San Diego, we expect a hearing early in 2007 to determine whether the proposed settlement should be approved. In the event that a full and final settlement is not concluded, the litigation will continue and although there can be no assurance that an unfavourable outcome of the dispute would not have a material adverse effect on our operating results, liquidity or financial position, we believe the claims are without merit and will vigorously defend them.

The Company and certain of our current and former officers are named as defendants in several class action complaints for alleged violations of federal securities laws, which are consolidated for pre-trial purposes in the U.S. District Court for the Southern District of New York. The plaintiffs filed their consolidated amended complaint on February 21, 2006 and the Company and the other defendants filed a motion to dismiss on April 7, 2006. To date, the Court has not considered the motion to dismiss. We have given notice to our liability insurance carrier, which has agreed to pay our costs of defence that exceed the policy s retention amount, subject to a reservation of rights in the event that it is determined that the carrier has no liability for this litigation. Although there can be no assurance that an unfavourable outcome would not have a material adverse effect on our operating results, liquidity or financial position, we believe the claims are without merit and will vigorously defend the lawsuits. The Company has determined that it is not possible to establish a reasonable estimate of the possible loss, or range of possible loss, if any.

We are engaged in other legal actions in the ordinary course of business and believe that the ultimate outcome of these actions will not have a material adverse effect on our operating results, liquidity or financial position.

Critical Accounting Estimates

We prepare our consolidated financial statements in accordance with 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

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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.

Other than the change in accounting for stock-based compensation discussed earlier, during the nine months ended September 30, 2006, we did not adopt any new accounting policies or make changes to existing accounting policies that would have a material impact on our consolidated financial statements.

The following critical accounting policies affect our more significant estimates and assumptions used in preparing our consolidated financial statements:

• We recognize revenue from sales of products and services upon the later of transfer of title or upon shipment of the product to the customer or rendering of the service, so long as collectability 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 contract provisions allowing various rights of return and stock rotation upon the earlier of when the rights have expired or the products have been reported as sold by the resellers.

Funding from research and development agreements, other than government research and development arrangements, is recognized as revenue when certain criteria stipulated under the terms of those funding agreements have been met and when there is reasonable assurance the funding will be received. Certain research and development funding will be repayable only on the occurrence of specified future events. If such events do not occur, no repayment would be required. We recognize the liability to repay research and development funding in the period in which conditions arise that would cause research and development funding to be repayable.

Revenues from contracts with multiple-element arrangements, such as those including technical support services, are recognized as each element is earned based on the relative fair value of each element and only when there are no undelivered elements that are essential to the functionality of the delivered elements.

Revenue from licensed software is recognized at the inception of the license term and in accordance with Statement of Position 97-2, Software Revenue Recognition . Revenue from software maintenance, unspecified upgrades and technical support contracts is recognized over the period such items are delivered or services are provided. Technical support contracts extending beyond the current period are recorded as deferred revenue.

• We maintain an allowance for doubtful accounts for estimated losses that may arise if any of our customers are unable to make required payments. We consider the following factors when determining whether collection is reasonably assured: customer credit-worthiness, past transaction history with the customer, 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 or an accrual for estimated losses on inventory purchase commitments based on our assessment of estimated market value using assumptions about future demand and market conditions. Our reserve requirements generally increase as our projected demand requirements decrease, due to market conditions, technological and product life cycle changes and longer than previously expected usage periods. If market conditions are worse than our projections, we may further writedown the value of our inventory or increase the accrual for estimated losses on inventory purchase commitments.

• We currently have intangible assets of $10.2 million and goodwill of $19.2 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 of each of 2004 and 2005 and determined that the fair value exceeded the carrying amount of the reporting unit by a substantial margin. Therefore, the second step of the impairment test that measures the amount of an impairment loss by comparing the implied fair market value of the reporting unit goodwill with the carrying amount of the goodwill was not required.

• 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 our assessment of our ability to realize our deferred tax assets changes, we may make an adjustment to our deferred tax assets that would be charged to income.

• We accrue product warranty costs in accrued liabilities to provide for the repair or replacement of defective products. Our accrual is based on an assessment of historical experience and management s estimates. If there is a change in the quality of our products, we will adjust our accrual accordingly.

• Under license agreements, we are committed to royalty payments based on the sales of products using certain technologies. We recognize royalty obligations as determinable in accordance with agreement terms. Where agreements are not finalized, we have recognized our current best estimate of the obligation in accrued liabilities. When the agreements are finalized, the estimate will be revised accordingly.

• We recorded a lease provision during 2002 that has been subsequently adjusted as a result of changes in our assumptions used to estimate 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. As market conditions change, we will adjust our provision accordingly.

• We are engaged in certain legal actions. We estimate the range of liability related to pending litigation where the amount and range of loss can be reasonably estimated. We record our best estimate of a loss when the loss is considered probable. As additional information becomes available, we assess the potential liability relating to our pending litigation and revise our estimates.

• Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS 123(R), using the modified prospective transition method and therefore have not restated results for prior periods. Under this transition method, we recognize compensation expense for all stock options granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provision of SFAS 123. Stock-based compensation expense for all stock-based compensation awards granted after January 1, 2006 is based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). Under the fair value recognition provisions of SFAS 123(R), we recognize stock-based compensation expense for those shares expected to vest on a straight-line basis over the requisite service period of the award.

Determining the appropriate fair value model and calculating the fair value of share-based payment awards requires the input of subjective assumptions. The assumptions used in calculating the fair value of share-based payment awards represent management s best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future.

Liquidity and Capital Resources

Operating Activities

Cash used by operating activities amounted to $2.2 million in the nine months ended September 30, 2006, compared

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to cash used by operating activities of $20.6 million in the same period of 2005. The use of cash from operating activities in the nine months ended September 30, 2006 primarily resulted from earnings from operations of $7.4 million, adjusted for non-cash items of $10.0 million and a use of cash of $19.6 million due to changes in other operating assets and liabilities.

Investing Activities

Cash used by investing activities was $13.3 million for the nine months ended September 30, 2006, compared to cash used by investing activities of $67.1 million in the same period of 2005. The cash used by investing activities during 2006 was due primarily to the purchase, net of the proceeds on maturity, of short-term investments of $4.5 million, as compared to a use of cash of $44.3 million in 2005. Expenditures on fixed assets and intangible assets were $7.6 million and $1.3 million, respectively, for the nine months ended September 30, 2006, compared to $6.3 million and $1.8 million, respectively, in the same period of 2005. Capital expenditures were primarily for production and tooling equipment, research and development equipment, computer equipment and software, while intangible assets were primarily for software licenses and patents.

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 $0.4 million in the first three quarters of 2006, compared to cash used by financing activities of $0.9 million during the same period in 2005. The source of cash in the nine months ended September 30, 2006 was from the issuance of common shares upon the exercise of stock options, offset by repayments of our long-term obligations. The use of cash in 2005 was primarily for the repayment of long-term obligations.

As of September 30, 2006, we did not have any off-balance sheet financing or other special purpose entities.

Cash Requirements

Our near-term cash requirements are primarily related to funding our operations, capital expenditures and other obligations discussed below. In the near term, we expect that our cash flow from operations will be negative. The cash costs of the June 2005 business restructuring totaled approximately $6.3 million, of which $5.0 million were paid prior to the end of the third quarter of 2006. We believe our cash, cash equivalents and short-term investments of $94.1 million will be sufficient to fund our expected working and other capital requirements for at least the next twelve months based on our current business plans. Our capital expenditures during the fourth quarter of 2006 are expected to be primarily for research and development equipment, tooling 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 September 30, 2006:

In thousands of US $ Payments due in fiscal	**Operating Leases**	**Obligations under Capital Leases**	**Total**
2006	$ 768	$ 15	$ 783
2007	3,100	6	3,106
2008	2,999		2,999
2009	2,319		2,319
2010	2,309		2,309
2011	1,298		1,298
Thereafter	100		100
Total	$ 12,893	$ 21	$ 12,914

We have entered into purchase commitments totaling approximately $45.1 million with certain contract manufacturers under which we have committed 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.

Sources and Uses of Cash

We have an unsecured revolving demand facility for $10.0 million that bears interest at prime per annum. The balance outstanding at September 30, 2006 was nil (2005 nil).

As has been the case in the past several years, our business continues to be driven predominantly by short lead time purchase orders from channels and end customers rather than by long-term, large volume commitments. Our customers are typically 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 significant interruption to our business operations.

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

- Net cash and short and long-term investments amounted to $94.1 million at September 30, 2006, compared to $104.1 million at December 31, 2005.

- Accounts receivable amounted to $39.1 million at September 30, 2006, compared to $20.5 million at December 31, 2005.

- We have a $10.0 million unsecured revolving demand facility with a Canadian chartered bank that bears interest at prime. At September 30, 2006, there were no borrowings under this facility.

Market Risk Disclosure

During the three months ended September 30, 2006, 63% of our revenue was earned from United States-based customers. Our risk from currency fluctuations between the Canadian and U.S. dollar is reduced by purchasing inventory, other costs of sales and many of our services in U.S. dollars. We are exposed to foreign currency fluctuations because a significant amount of our research and development, marketing, and administration costs are incurred in Canada. We monitor our exposure to fluctuations between the Canadian and U.S. dollars. For the three months ended September 30, 2006, there was no foreign exchange gain or loss. As we have available funds and very little debt, we have not been adversely affected by interest rate fluctuations.

With respect to operations in Europe and the Asia-Pacific region, we transact 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. As our business expands in Europe, we expect that we will be increasingly exposed to risks associated with the Euro. 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.

Related Party Transactions

During the three and nine months ended September 30, 2006, 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 eleven 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 2005 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.

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

Quarter ended	March 31 2006	June 30 2006	Sept. 30 2006
Revenue	$ 45,224	$ 55,223	$ 52,535
Cost of goods sold	28,567	36,366	36,651
Gross margin	16,657	18,857	15,884
Expenses:			
Sales and marketing	3,750	3,726	2,820
Research and development, net	7,528	8,905	8,830
Administration	2,747	3,301	3,427
Amortization	759	748	697
	14,784	16,680	15,774
Earnings from operations	1,873	2,177	110
Other income	1,175	1,306	1,146
Income before income taxes	3,048	3,483	1,256
Income tax expense (recovery)	461	(287)	188
Net income	$ 2,587	$ 3,770	$ 1,068
Earnings per share:			
Basic	$ 0.10	$ 0.15	$ 0.04
Diluted	$ 0.10	$ 0.15	$ 0.04
Weighted average number of shares (in thousands):			
Basic	25,492	25,602	25,660
Diluted	25,736	25,959	25,874

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2005	Quarter Ended March 31	June 30	Sept. 30	Dec. 31	Year 2005
Revenue	$ 20,180	$ 21,930	$ 27,474	$ 37,560	$ 107,144
Cost of goods sold	13,055	27,852	17,883	23,058	81,848
Gross margin	7,125	(5,922)	9,591	14,502	25,296
Expenses:					
Sales and marketing	4,289	4,331	2,963	3,968	15,551
Research and development, net	7,261	7,399	7,864	7,841	30,365
Administration	2,935	3,892	2,435	1,556	10,818
Restructuring and other charges		4,926		329	5,255
Amortization	691	679	728	899	2,997
	15,176	21,227	13,990	14,593	64,986
Loss from operations	(8,051)	(27,149)	(4,399)	(91)	(39,690)
Other income	535	220	659	863	2,277
Earnings (loss) before income taxes	(7,516)	(26,929)	(3,740)	772	(37,413)
Income tax expense (recovery)	78	(222)	(662)	(139)	(945)
Net income (loss)	$ (7,594)	$ (26,707)	$ (3,078)	$ 911	$ (36,468)
Earnings (loss) per share:					
Basic	$ (0.30)	$ (1.05)	$ (0.12)	$ 0.04	$ (1.44)
Diluted	$ (0.30)	$ (1.05)	$ (0.12)	$ 0.04	$ (1.44)
Weighted average number of shares (in thousands):					
Basic	25,358	25,364	25,381	25,439	25,385
Diluted	25,358	25,364	25,381	26,111	25,385

2004	Quarter Ended March 31	June 30	Sept. 30	Dec. 31	Year 2004
Revenue	$ 41,641	$ 51,595	$ 59,149	$ 58,820	$ 211,205
Cost of goods sold	24,839	30,680	36,107	35,974	127,600
Gross margin	16,802	20,915	23,042	22,846	83,605
Expenses:					
Sales and marketing	4,173	4,386	5,604	5,866	20,029
Research and development, net	4,739	5,991	6,566	7,231	24,527
Administration	2,064	2,534	2,354	2,041	8,993
Amortization	636	563	588	651	2,438
	11,612	13,474	15,112	15,789	55,987
Earnings from operations	5,190	7,441	7,930	7,057	27,618
Other income (expense)	84	(40)	405	1,251	1,700
Earnings before income taxes	5,274	7,401	8,335	8,308	29,318
Income tax expense	704	1,384	1,268	1,042	4,398
Net earnings	$ 4,570	$ 6,017	$ 7,067	$ 7,266	$ 24,920
Earnings per share:					
Basic	$ 0.18	$ 0.24	$ 0.28	$ 0.29	$ 0.99
Diluted	$ 0.18	$ 0.23	$ 0.27	$ 0.28	$ 0.96
Weighted average number of shares (in thousands):					
Basic	24,986	25,221	25,301	25,339	25,212
Diluted	26,027	26,248	26,087	25,891	26,064

Our quarterly results may fluctuate from quarter to quarter because our operating expenses are determined based on

anticipated sales, are generally fixed and are incurred throughout each fiscal quarter. The impact of significant items incurred during the first three interim periods of each fiscal year are discussed in more detail and disclosed in our quarterly reports on Form 6-K. Items affecting our quarterly results were as follows:

- Relative to the comparable periods in 2005, revenues increased during the first nine months of 2006 due primarily to sales of our UMTS/HSDPA PC cards launched in the fourth quarter of 2005, as well as an increase in sales of our CDMA EV-DO PC card and UMTS/HSDPA embedded modules.

- Relative to the comparable periods in 2004, revenues decreased during the four quarters of 2005 due to a reduction in our embedded module business volumes as a result of the completion of embedded module shipments to palmOne at the end of 2004, reported channel inventory that was already sufficient to meet customer demand in the first part of 2005, and increased competition in CDMA EV-DO and EDGE PC cards, including a loss of market share at Verizon Wireless.

- Restructuring and other charges of $18.2 million were incurred in the second quarter of 2005. Included in these charges are inventory writedowns, severance costs, impairment of fixed, intangible and deferred tax assets, provisions for facilities restructuring, commitments and other costs related to restructuring. We also recorded a provision of $1.0 million for future legal costs associated with litigation matters.

- Revenues increased during 2004 as a result of the introduction of new products, our strong market position in CDMA EV-DO Release 0 PC cards and our CDMA 1X embedded modules sales to palmOne.

- During the first quarter of 2004, we signed a second agreement with the Government of Canada s Technology Partnerships Canada (TPC) program. The agreement is effective for development work commencing April 2003. Funding of $1.4 million was recognized as a reduction to research and development expenses in the first quarter of 2004, of which $1.1 million relates to the period from April 1, 2003 to December 31, 2003. Unless the second agreement is otherwise renegotiated, with the termination of the Voq professional phone initiative in the second quarter of 2005, no further TPC funding is anticipated.

Selected Annual Information

Years ended December 31,	**2003**	**2004**	**2005**
Revenue	$ 101,709	$ 211,205	$ 107,144
Net earnings (loss)	2,255	24,920	(36,468)
Diluted earnings (loss) per share	0.12	0.96	(1.44)
Total assets	175,868	215,594	173,980
Total current and long-term portions of long-term liabilities and obligations under capital lease	3,735	3,456	3,128

Forward-looking Statements

Certain statements in this report, or incorporated by reference herein, that are not based on historical facts, constitute forward-looking statements or forward-looking information within the meaning of applicable securities laws (forward-looking statements). These forward-looking statements are not promises or guarantees of future performance but are only predictions that relate to future events, conditions or circumstances or our future results, performance, achievements or developments and are subject to substantial known and unknown risks, assumptions, uncertainties and other factors that could cause our actual results, performance, achievements or developments in our business or in our industry to differ materially from those expressed, anticipated or implied by such forward-looking statements. Forward-looking statements include all disclosure regarding possible events, conditions, circumstances or results of operations that are based on assumptions about future economic conditions, courses of action and other future events. We caution you not to place undue reliance upon any such forward-looking statements, which speak only as of the date they are made. These forward-looking statements appear in a number of different places in this report and can be identified by words such as may , estimates , projects , expects , intends , believes , plans , anticipates , or their negatives or other compa

Forward-looking statements include statements regarding the outlook for our future operations, plans and timing for the introduction or enhancement of our services and products, statements concerning strategies, developments, statements about future market conditions, supply conditions, end customer demand conditions, channel inventory and sell through, revenue, gross margin, operating expenses, profits or losses, forecasts of future costs and expenditures, the outcome of legal proceedings, and other expectations, intentions and plans that are not historical fact. The risk factors and uncertainties that may affect our actual results, performance, achievements or developments are many and include, amongst others, our ability to develop, manufacture, supply and market new products that we do not produce today that meet the needs of customers and gain commercial acceptance, our reliance on the deployment of next generation networks by major wireless operators, the continuous commitment of our customers, increased competition and other risks detailed herein under the heading *Risk Factors* . Many of these factors and uncertainties are beyond the control of the Company. Consequently, all forward-looking statements in this report are qualified by this cautionary statement and there can be no assurance that actual results, performance, achievements or developments anticipated by the Company will be realized. Forward-looking statements are based on management s current plans, estimates, projections, beliefs and opinions and the Company does not undertake any obligation to update forward-looking statements should the assumptions related to these plans, estimates, projections, beliefs and opinions change.

Risk Factors

Our business is subject to significant risks and past performance is no guarantee of future performance. Some of the risks we face are:

We have incurred net losses and if our efforts to restore the business to sustained profitability are not successful, we may be required to further restructure or take other actions and our share price may decline.

As a result of the reduction in our business in 2005, we incurred a loss of $36.5 million in the year. Our accumulated deficit at December 31, 2005 was $82.9 million. While we had earnings from operations for each of the previous two years ended December 31, 2004 and 2003, we incurred a loss from operations in each of the three fiscal years ended December 31, 2000, 2001 and 2002. Our ability to achieve and maintain profitability in the future will depend on, among other things, the success of our restructuring, the continued sales of our current products and the successful development and commercialization of new products. While we have returned to profitability for four sequential quarters, if we cannot sustain profitability, our total losses will increase and we may be required to further restructure our operations or raise additional capital. Additional financing may not be available, and even if available, may not be on acceptable terms. We may seek to raise additional capital through an offering of common shares, preference shares or debt, which may result in dilution, and/or the issuance of securities with rights senior to the rights, of the holders of common shares. As a result, our share price may decline.

Our quarterly financial results are subject to fluctuations which could affect the market price of our common shares.

Our revenues, gross margin and earnings may vary from quarter to quarter and could be significantly impacted by a number of factors, including:

- Transition periods associated with the migration of new technologies;
- The development and timing of the introduction of our new products;
- The timing of sales orders and OEM and carrier customer sell through;
- Design win cycles in our embedded module business;
- The amount of inventory held by our channel partners;
- Price and product competition from our competitors, which may result in lower selling prices for some of our products;
- Possible cyclical fluctuations related to the evolution of wireless technologies;
- Product mix of our sales. Our products have different gross margins for example the embedded module product line has lower gross margins than the higher margin rugged mobile product line;
- Possible delays in the manufacture or shipment of current or new products;
- Possible increased inventory levels;

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- Concentration in our customer base; and
- Possible delays or shortages in component supplies.

Because our operating expenses are determined based on anticipated sales, are generally fixed and are incurred throughout each fiscal quarter, any of the factors listed above could cause significant variations in our revenues, gross margin and earnings in any given quarter. Therefore, our quarterly results are not necessarily indicative of our overall business, results of operations and financial condition.

Quarterly variations in operating results or any of the other factors listed above, changes in financial estimates by securities analysts, or other events or factors may result in wide fluctuations in the market price of our stock price. In addition, the financial markets have experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of many technology companies and that often have been unrelated to the operating performance of these companies or have resulted from the failure of the operating results of such companies to meet market expectations in a particular quarter. Broad market fluctuations or any failure of the Company s operating results in a particular quarter to meet market expectations may adversely affect the market price of our common shares.

We are subject to, and may in the future be subject to, certain class action lawsuits, which if decided against us, could require us to pay substantial judgments, settlements or other penalties.

In addition to being subject to litigation in the ordinary course of business, we are currently, and may in the future be, subject to class actions and other securities litigation and investigations. We expect that this type of litigation will be time consuming, expensive and distracting from the conduct of our daily business. It is possible that we will be required to pay substantial judgments, settlements or other penalties and incur expenses that could have a material adverse effect on our operating results, liquidity or financial position. Expenses incurred in connection with these lawsuits, which include substantial fees of lawyers and other professional advisors and our obligations to indemnify officers and directors who may be parties to such actions, could materially adversely affect our cash position. We do not know if any of this type of litigation and resulting expenses will be covered by insurance. In addition, these lawsuits may cause our insurance premiums to increase in future periods.

Competition from new or established wireless communication companies or from those with greater resources may prevent us from increasing or maintaining our market share and could result in price reductions and reduced revenues and gross margins.

The wireless communications industry is subject to rapid technological change, meaning that the wireless technology standards continually evolve, there are frequent product introductions and short product life cycles. The wireless communications industry is highly competitive and we expect competition to increase and intensify. More established and larger companies with greater financial, technical and marketing resources sell products that compete with ours and we expect this competition to intensify. We also may introduce new products that will put us in direct competition with major new competitors. Existing or future competitors may be able to respond more quickly to technological developments and changes and introduce new products before we do, or may independently develop and patent technologies and products that are superior to ours or achieve greater acceptance due to factors such as more favorable pricing or more efficient sales channels. If we are unable to compete effectively with our competitors pricing strategies, technological advances and other initiatives, we may lose customer orders and market share and we may need to reduce the price of our products, resulting in reduced revenue and reduced gross margins.

The loss of any of our material customers could adversely affect our revenues and profitability, and therefore shareholder value.

We depend on a small number of customers for a significant portion of our revenues as the Company sells most of its products through network carriers and resellers rather than directly to end user customers. Many of these carriers and resellers also sell products of our competitors. Accordingly, our business and future success depends on our ability to build on existing relationships and establish and develop new relationships with network carriers and resellers.

In the three months ended September 30, 2006, two customers individually accounted for more than 10% of our revenue and in the aggregate these two customers represented 48% of our revenue. In the last three fiscal years, there have been five different customers that individually accounted for more than 10% of our revenues. In the year ended December 31, 2005, two customers individually accounted for more than 10% of our revenue and in the aggregate these two customers represented 36% of our revenue. If any of these customers, for any reason, discontinues their relationship with us or reduces or postpones current or expected purchase orders for products or suffers from business failure, our revenues and profitability could decline, perhaps materially.

In addition, our current customers purchase our products under stand-alone purchase orders. Our customers have no contractual obligation to continue to purchase our products following our fulfillment of current purchase orders and if they do not continue to make purchases, our revenue and our profitability could decline, perhaps materially.

If demand for our current products declines and we are unable to launch successful new products, our revenues will decrease.

If the markets in which we compete fail to grow, or grow more slowly than we currently anticipate, or if we are unable to establish markets for our new products, it would significantly harm our business, results of operations and financial condition. In addition, demand for one or all of our current products could decline as a result of competition, technological change or other factors.

We may have difficulty responding to changing technology, industry standards and customer requirements, which could cause us to be unable to recover our research and development expenses and our revenues could decline.

The wireless communications industry is subject to rapid technological change. Our business and future success will depend, in part, on our ability to accurately predict and anticipate evolving wireless technology standards and develop products that keep pace with the continuing changes in technology, evolving industry standards and changing customer and end-user preferences and requirements. Our products embody complex technology that may not meet those standards, preference and requirements. Our ability to design, develop and commercially launch new products depends on a number of factors, including, but not limited to the following:

- Our ability to attract and retain skilled technical employees;
- The availability of critical components from third parties;
- Our ability to successfully complete the development of products in a timely manner; and
- Our ability to manufacture products at an acceptable price and quality.

A failure by us, or our suppliers, in any of these areas, or a failure of new products to obtain commercial acceptance, could mean we receive less revenue than we anticipate and we are unable to recover our research and development expenses, and may result in a decrease in the market price for our shares.

In addition, wireless communications service providers require that wireless data systems deployed on their networks comply with their own standards, which may differ from the standards of other providers. We may be unable to successfully address these developments in a timely basis or at all. Our failure to respond quickly and cost-effectively to new developments through the development of new products or enhancements to existing products could cause us to be unable to recover significant research and development expenses and reduce our revenues.

We may not be able to continue to design products that meet our customer needs and, as a result, our revenue and profitability may decrease.

We develop products to meet our customers requirements but, particularly with original equipment manufacturers, current design wins do not guarantee future design wins. If we are unable or choose not to meet our customers future needs, we may not win their future business and our revenue and profitability may decrease.

We depend on a limited number of third parties to manufacture our products and supply key components. If they do not manufacture our products properly or cannot meet our needs in a timely manner, we may be unable to fulfill our product delivery obligations and our costs may increase, and our revenue and margins could decrease.

We outsource the manufacture of our products to a limited number of third parties and depend heavily on the ability of these manufacturers to meet our needs in a timely and satisfactory manner. Some components used by us may only be available from a small number of suppliers, in some cases from only one supplier. We currently rely on two manufacturers, either of which may terminate the manufacturing contract with us at the end of any contract year. Our reliance on third party manufacturers and suppliers subjects us to a number of risks, including the following:

- The absence of guaranteed manufacturing capacity;
- Reduced control over delivery schedules, production yields and costs; and
- Inability to control the amount of time and resources devoted to the manufacture of our products.

If we are unable to successfully manage any of these risks or to locate alternative or additional manufacturers or suppliers in a timely and cost-effective manner, we may not be able to deliver products in a timely manner. In addition, our results of operations could be harmed by increased costs, reduced revenues and reduced margins.

We do not have fixed-term employment agreements with our key personnel and the loss of any key personnel may harm our ability to compete effectively.

None of our executive officers or other key employees has entered into a fixed-term employment agreement. Our success depends in large part on the abilities and experience of our executive officers and other key employees. Competition for highly skilled management, technical, research and development and other key employees is intense in the wireless communications industry. We may not be able to retain our current executive officers or key employees and may not be able to hire and transition in a timely manner experienced and highly qualified additional executive officers and key employees as needed to achieve our business objectives. The loss of executive officers and key employees could disrupt our operations and our ability to compete effectively could be adversely affected.

We depend on wireless network carriers to offer acceptable wireless data and voice communications services for our products to operate.

Our products can only be used over wireless data and voice networks operated by third parties. Our business and future growth depends, in part, on the successful deployment by network carriers of next generation wireless data and voice networks and the network carriers ability to grow their subscriber base. If these network carriers delay the deployment of next generation networks or fail to offer effective and reliable service, or fail to price and market their services effectively, sales of our products will decline and our revenues will decrease.

Acquisitions of companies or technologies may result in disruptions to our business or may not achieve the anticipated benefits.

As part of our business strategy, we have acquired and may continue to acquire additional assets and businesses principally relating to or complementary to our current operations. Any acquisitions and/or mergers by us will be accompanied by the risks commonly encountered in acquisitions of companies. These risks include, among other things:

- Exposure to unknown liabilities of acquired companies, including unknown litigation related to acts or omissions of our acquired company and/or its directors and officers prior to the acquisition;
- Higher than anticipated acquisition and integration costs and expenses;
- Effects of costs and expenses of acquiring and integrating new businesses on our operating results and financial condition;
- The difficulty and expense of integrating the operations and personnel of the companies;
- Disruption of our ongoing business;

- Diversion of management s time and attention away from our remaining business during the integration process;
- Failure to maximize our financial and strategic position by the successful incorporation of acquired technology;
- The inability to implement uniform standards, controls, procedures and policies;
- The loss of key employees and customers as a result of changes in management;
- The incurrence of amortization expenses; and
- Possible dilution to our shareholders if the purchase price is paid in common shares or securities convertible into common shares.

In addition, geographic distances may make integration of businesses more difficult. We may not be successful in overcoming these risks or any other problems encountered in connection with any acquisitions. If realized, these risks could reduce shareholder value.

We may infringe the intellectual property rights of others.

The industry in which we operate has many participants that own, or claim to own, proprietary intellectual property. In the past we have received, and in the future may receive, claims from third parties alleging that we, and possibly our customers, violate their intellectual property rights. Rights to intellectual property can be difficult to verify and litigation may be necessary to establish whether or not we have infringed the intellectual property rights of others. In many cases, these third parties are companies with substantially greater resources than us, and they may be able to, and may choose to, pursue complex litigation to a greater degree than we could. Regardless of whether these infringement claims have merit or not, we may be subject to the following:

- We may be liable for potentially substantial damages, liabilities and litigation costs, including attorneys fees;
- We may be prohibited from further use of the intellectual property and may be required to cease selling our products that are subject to the claim;
- We may have to license the third party intellectual property, incurring royalty fees that may or may not be on commercially reasonable terms. In addition, there is no assurance that we will be able to successfully negotiate and obtain such a license from the third party;
- We may have to develop a non-infringing alternative, which could be costly and delay or result in the loss of sales. In addition, there is no assurance that we will be able to develop such a non-infringing alternative;
- The diversion of management s attention and resources;
- Our relationships with customers may be adversely affected; and
- We may be required to indemnify our customers for certain costs and damages they incur in such a claim.

In the event of an unfavourable outcome in such a claim and our inability to either obtain a license from the third party or develop a non-infringing alternative, then our business, operating results and financial condition may be materially adversely affected and we may have to restructure our business.

Absent a specific claim for infringement of intellectual property, from time to time we have and expect to continue to license technology, intellectual property and software from third parties. There is no assurance that we will be able to maintain our third party licenses or obtain new licenses when required and this inability could materially adversely affect our business and operating results and the quality and functionality of our products. In addition, there is no assurance that third party licenses we execute will be on commercially reasonable terms.

Under purchase orders and contracts for the sale of our products we may provide indemnification to our customers for potential intellectual property infringement claims for which we may have no corresponding recourse against our third party licensors. This potential liability, if realized, could materially adversely affect our business, operating results and financial condition.

Misappropriation of our intellectual property could place us at a competitive disadvantage.

Our intellectual property is important to our success. We rely on a combination of patent protection, copyrights, trademarks, trade secrets, licenses, non-disclosure agreements and other contractual agreements to protect our intellectual property. Third parties may attempt to copy aspects of our products and technology or obtain information we regard as proprietary without our authorization. If we are unable to protect our intellectual property against unauthorized use by others it could have an adverse effect on our competitive position.

Our strategies to deter misappropriation could be inadequate due to the following risks:

- Non-recognition of the proprietary nature or inadequate protection of our methodologies in the United States, Canada or foreign countries;

- Undetected misappropriation of our intellectual property;

- The substantial legal and other costs of protecting and enforcing our rights in our intellectual property; and

- Development of similar technologies by our competitors.

In addition, we could be required to spend significant funds and our managerial resources could be diverted in order to defend our rights, which could disrupt our operations.

As our business expands internationally, we will be exposed to additional risks relating to international operations.

Our expansion into international operations exposes us to additional risks unique to such international markets, including the following:

- Increased credit management risks and greater difficulties in collecting accounts receivable;

- Unexpected changes in regulatory requirements, wireless communications standards, exchange rates, trading policies, tariffs and other barriers;

- Uncertainties of laws and enforcement relating to the protection of intellectual property;

- Language barriers; and

- Potential adverse tax consequences.

Furthermore, if we are unable to further develop distribution channels in Europe and the Asia-Pacific region we may not be able to grow our international operations and our ability to increase our revenue will be negatively impacted.

Government regulation could result in increased costs and inability to sell our products.

Our products are subject to certain mandatory regulatory approvals in the United States, Canada, the European Union and other regions in which we operate. In the United States, the Federal Communications Commission regulates many aspects of communications devices. In Canada, similar regulations are administered by the Ministry of Industry, through Industry Canada. European Union directives provide comparable regulatory guidance in Europe. Although we have obtained all the necessary Federal Communications Commission, Industry Canada and other required approvals for the products we currently sell, we may not obtain approvals for future products on a timely basis, or at all. In addition, regulatory requirements may change or we may not be able to obtain regulatory approvals from countries other than the United States and Canada in which we may desire to sell products in the future.

Fluctuations in exchange rates between the United States dollar and other currencies, including the Canadian dollar may affect our operating results.

We are exposed to fluctuations in the exchange rate between the United States dollar and the Canadian dollar through our operations in Canada. To reduce our risk because of currency fluctuations, we purchase inventory, other cost of sales items and many of our services in United States dollars. If the Canadian dollar rises relative to the United States dollar, our operating results may be negatively impacted. To date, we have not entered into any foreign currency futures contracts as part of a hedging policy. We expect that as our business expands in Europe and the Asia-Pacific region, we will also be exposed to additional foreign currency transactions and to the associated currency risk. To date, we have not entered into any futures contracts.

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SIERRA WIRELESS, INC.

Consolidated Statements of Operations and Deficit

(Expressed in thousands of United States dollars, except per share amounts)
(Prepared in accordance with United States generally accepted accounting principles (GAAP))
(Unaudited)

	Three months ended September 30, 2006	2005	Nine months ended September 30, 2006	2005
Revenue	$ 52,535	$ 27,474	$ 152,982	$ 69,584
Cost of goods sold	36,651	17,883	101,584	58,790
Gross margin	15,884	9,591	51,398	10,794
Expenses				
Sales and marketing	2,820	2,963	10,296	11,583
Research and development, net	8,830	7,864	25,263	22,524
Administration	3,427	2,435	9,475	9,262
Restructuring and other charges (note 5)				4,926
Amortization	697	728	2,204	2,098
	15,774	13,990	47,238	50,393
Earnings (loss) from operations	110	(4,399)	4,160	(39,599)
Other income	1,146	659	3,627	1,414
Earnings (loss) before income taxes	1,256	(3,740)	7,787	(38,185)
Income tax expense (recovery)	188	(662)	362	(806)
Net earnings (loss)	1,068	(3,078)	7,425	(37,379)
Deficit, beginning of period	(76,500)	(80,690)	(82,857)	(46,389)
Deficit, end of period	$ (75,432)	$ (83,768)	$ (75,432)	$ (83,768)
Earnings (loss) per share for the period:				
Basic	$ 0.04	$ (0.12)	$ 0.29	$ (1.47)
Diluted	$ 0.04	$ (0.12)	$ 0.29	$ (1.47)
Weighted average number of shares (in thousands)				
Basic	25,660	25,381	25,585	25,368
Diluted	25,874	25,381	25,857	25,368

See accompanying notes to consolidated financial statements.

SIERRA WIRELESS, INC.

Consolidated Statements of Comprehensive Income

(Expressed in thousands of United States dollars)
(Prepared in accordance with United States GAAP)
(Unaudited)

	Three months ended September 30, 2006	2005	Nine months ended September 30, 2006	2005
Net earnings (loss)	$ 1,068	$ (3,078)	$ 7,425	$ (37,379)
Other comprehensive income (loss)				
Unrealized gain (loss) on marketable securities	59	(28)	31	(69)
Comprehensive income (loss)	$ 1,127	$ (3,106)	$ 7,456	$ (37,448)

See accompanying notes to consolidated financial statements.

SIERRA WIRELESS, INC.

Consolidated Balance Sheets

(Expressed in thousands of United States dollars)
(Prepared in accordance with United States GAAP)

	September 30, 2006 (Unaudited)	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 49,443	$ 64,611
Short-term investments (note 3)	44,684	24,724
Accounts receivable, net of allowance for doubtful accounts of $1,567 (2005 - $1,561)	39,118	20,540
Inventories (note 4)	28,008	3,316
Prepaid expenses	1,783	3,974
	163,036	117,165
Long-term investments (note 3)		14,762
Fixed assets	13,896	11,647
Intangible assets	10,227	10,693
Goodwill	19,227	19,227
Other assets		486
	$ 206,386	$ 173,980
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 21,788	$ 3,971
Accrued liabilities	32,294	28,644
Deferred revenue and credits	592	422
Current portion of long-term liabilities (note 5)	992	894
Current portion of obligations under capital lease	21	304
	55,687	34,235
Long-term liabilities (note 5)	1,298	1,926
Obligations under capital lease		4
Shareholders equity:		
Share capital (note 6)	221,551	219,398
Additional paid-in capital	2,533	556
Warrants	1,538	1,538
Deficit	(75,432)	(82,857)
Accumulated other comprehensive loss	(789)	(820)
	149,401	137,815
	$ 206,386	$ 173,980

Contingencies (note 7)

See accompanying notes to consolidated financial statements.

SIERRA WIRELESS, INC.

Consolidated Statements of Cash Flows
(Expressed in thousands of United States dollars)
(Prepared in accordance with United States GAAP)
(Unaudited)

	Three months ended September 30, 2006	2005	Nine months ended September 30, 2006	2005
Cash flows from operating activities:				
Net earnings (loss) for the period	$ 1,068	$ (3,078)	$ 7,425	$ (37,379)
Adjustments to reconcile net earnings (loss) to net cash used in operating activities				
Amortization	2,514	1,989	7,007	6,297
Stock-based compensation (note 6)	969		2,844	
Tax benefit related to stock option deduction	114		114	
Loss (gain) on disposal	(17)	(1)	14	(42)
Non-cash restructuring and other charges				13,040
Changes in operating assets and liabilities				
Accounts receivable	(11,853)	(3,026)	(19,216)	2,466
Inventories	(8,340)	6,177	(24,692)	(681)
Prepaid expenses	911	688	2,677	1,384
Accounts payable	3,751	748	17,817	2,688
Accrued liabilities	6,775	(4,091)	3,650	(8,390)
Deferred revenue and credits	(212)	(290)	170	
Net cash used in operating activities	(4,320)	(884)	(2,190)	(20,617)
Cash flows from investing activities:				
Proceeds on disposal	23	3	28	48
Purchase of fixed assets	(2,197)	(1,737)	(7,582)	(6,327)
Increase in intangible assets	(790)	(748)	(1,303)	(1,761)
Purchase of long-term investments		(14,833)		(14,833)
Purchase of short-term investments	(29,840)	(12,416)	(54,045)	(70,122)
Proceeds on maturity of short-term investments	9,478	25,862	49,569	25,862
Net cash used in investing activities	(23,326)	(3,869)	(13,333)	(67,133)
Cash flows from financing activities:				
Issue of common shares	23	127	1,172	162
Repayment of long-term liabilities	(445)			