SIERRA WIRELESS INC
Form 40-F
March 24, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 40-F

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o REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ý ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

Commission File No.: 0-30718

SIERRA WIRELESS, INC.

(Exact name of Registrant as specified in its charter)

Canada

(Jurisdiction of incorporation or organization)

Primary Standard Industrial Classification Doe (if applicable): **3663**

I.R.S. Employer Identification Number (if applicable): **94-3338019**

13811 Wireless Way, Richmond

British Columbia, Canada V6V 3A4

(604) 231-1100

(Address and telephone number of principal executive offices)

Davis Wright Tremaine LLP
1300 SW Fifth Avenue, 24th Floor
Portland, OR 97201

(Agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act: **None**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Common Shares

(Title of Class)

Name of exchange on which securities are registered:

Toronto Stock Exchange, The Nasdaq Stock Market

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate by check mark the information filed with this Form:

ý Annual Information Form ý Audited Annual Financial Statements

Indicate the number of outstanding shares of each of the issuer s classes of capital common stock as of the close of the period covered by the annual report: **25,476,447 Common Shares without par value as at December 31, 2005**

Indicate by check mark whether the Registrant, by filing 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*, If yes , is marked, indicate the filing number assigned to the Registrant in connection with such Rule. o Yes 82 - ý No

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the *Securities Exchange Act of 1934* during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

INCORPORATION BY REFERENCE

The Registrant s Annual Information Form and the Registrant s financial statements for the year ended December 31, 2005 are attached hereto as Appendix A and Appendix B, respectively, and are incorporated by reference herein.

UNDERTAKING

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

SIGNATURES

Pursuant to the requirements of the *Securities Exchange Act of 1934*, as amended, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

SIERRA WIRELESS, INC.
(Registrant)

David G. McLennan
David G. McLennan,
Chief Financial Officer and Secretary

Date: March 23, 2006

Annual Information Form
March 23, 2006

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FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Information Form, 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 Annual Information Form 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, 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, 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 Annual Information Form, or the documents incorporated by reference herein, 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.

CURRENCY

Unless otherwise indicated, all figures are stated in U.S. dollars.

CORPORATE STRUCTURE

Unless the context otherwise indicates, references to we , our , us , the Company or Sierra Wireless in this Annual Information Form means Si Wireless, Inc. and its subsidiaries.

Sierra Wireless was incorporated under the *Canada Business Corporations Act* on May 31, 1993. The Articles of Sierra Wireless were amended by a Certificate of Amendment issued March 29, 1999 to remove the private company provisions and restrictions on share transfer. The Articles of the Company were further amended by Certificates of Amendment issued May 13, 1999 and May 14, 1999 to: (i) re-designate and change all existing common shares in the capital of the Company to new common shares in the capital of the Company (the Common Shares); (ii) change the rights attached to all preference shares in the capital of the Company (the Preference Shares) and to remove each existing series of

Preference Shares; and (iii) consolidate the Common Shares on the basis of one post-consolidation Common Share for 1.5 pre-consolidation Common Shares.

The Company s registered and records office is located at Suite 2600, Three Bentall Centre, 595 Burrard Street, Vancouver, British Columbia, Canada, V7X 1L3 and its head office and principal place of business is located at 13811 Wireless Way, Richmond, British Columbia, Canada, V6V 3A4.

The following table lists subsidiaries of Sierra Wireless and their jurisdictions of incorporation or organization. All such entities are 100% owned, directly or indirectly, by Sierra Wireless.

Name	Jurisdiction of Incorporation or Organization
Sierra Wireless America, Inc.	Delaware, U.S.A.
Sierra Wireless (UK) Limited	United Kingdom
Sierra Wireless (Asia-Pacific) Limited	Hong Kong

GENERAL DEVELOPMENT OF THE BUSINESS

General

We provide leading edge wireless wide-area modem solutions for mobile computing over cellular networks. We develop and market a broad 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, or vehicle-based systems.

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 open standards, including the Internet protocol, and operate on the networks of major wireless operators around the world.

Our products are primarily used by businesses and government organizations to enable their employees to access a wide range of applications, including the Internet, e-mail, corporate intranet, remote databases and computer aided dispatch. We sell our products worldwide, with emphasis on the North American, European and Asia-Pacific regions, through indirect channels, including wireless operators, resellers and OEMs.

During the latter part of 2003 and throughout 2004, we experienced stronger than expected demand for our products, primarily as a result of our strong market position in CDMA EV-DO Release 0 PC cards and our CDMA 1X embedded module sales to palmOne. During this period, customer concentration increased in our revenue base. Following our considerable revenue and earnings growth in 2004, we experienced a significant reduction in our business in 2005 relative to 2004 as a result of:

The reduction in our embedded module business volumes as a result of the completion of CDMA 1X module shipments to palmOne for its Treo 600 Smartphone at the end of 2004;

Reported channel inventory at some of our channel partners that was already sufficient to meet near-term customer demand during the first quarter of 2005; and

The near-term impact of increased competition in CDMA EV-DO and EDGE PC cards, including a loss of market share at Verizon Wireless.

In order to address this change in our business, we undertook a restructuring of our operations in June 2005, which included exiting our Voq professional phone initiative. The result of this restructuring was a reduction in our cost structure and a greater focus on our core PC card and embedded modules business, where we already have well-established market positions and believe there are significant growth opportunities.

Since the mid-year restructuring, we have focused on core PC Card and embedded module opportunities for existing products, as well as new product development and business development in these areas. This focus has allowed us to return to sequential quarterly revenue growth during the second half of fiscal 2005, realizing 25% and 37% sequential growth in the third and fourth quarters respectively. Following the restructuring, we were also able to reduce our net loss and improve cash flow during the second half of 2005.

During 2006, we expect to continue to invest in our research and development efforts to ensure that we are well-positioned with new products that will take advantage of market opportunities associated with the deployment of 3G networks. See Narrative Description of Business - Our Products for discussion of specific product development initiatives.

Three Year History

Fiscal 2005

We began commercial shipments of four new products the UMTS/HSDPA AirCard 860 and AirCard 850 for North America and Europe, respectively; the MC5720 PCI express Mini Card embedded module (Mini Card) for CDMA 1xEV-DO networks; and the EM5625, an embedded module for CDMA 1xEV-DO networks.

We commenced commercial shipments of the AirCard 860 and AirCard 850 to Cingular in North America, as well as Manx Telecom and sunrise in Europe, making us the first company in the world to launch a fully functional UMTS/HSDPA PC card.

We announced OEM design wins with Lenovo and Hewlett-Packard (HP) for our MC5720 PCI express Mini Card embedded module for EV-DO networks and commenced commercial shipments of our EV-DO Mini Card to Lenovo in the fourth quarter of 2005. Our MC5720 is the world s first 3G wireless minicard module for laptop OEMs. Early in the first quarter of 2006, HP announced the availability of their first laptop incorporating our MC5720 Mini Card. Our MC5720 Mini Card has been certified for operation on both the Sprint and Verizon EV-DO networks.

We launched the EM5625, an embedded module for CDMA 1xEV-DO networks, and it was subsequently selected by Panasonic®, @Road, Itronix, MobileAria, a subsidiary of Delphi Corporation, and AirLink for integration into their products.

We reported that the MC8755 and MC8765 PCI Express Mini Card for UMTS/HSDPA networks in North America and Europe, respectively, were available to OEM customers for testing and

integration, with commercial shipments expected to begin late in the first quarter of 2006. In 2005, we secured designs win for our HSDPA Mini Cards with Lenovo and Fujitsu-Siemens Computers.

We also reported that we have commenced the development of the next generation EV-DO (Rev A) and HSDPA (3.6Mps) PC cards and Mini Cards, all of which are expected to be commercially available in the second half of 2006.

We initiated development of two new next generation versions of our MP product, one for EV-DO (Rev A) and one for HSDPA, that we expect to launch later in 2006.

We announced the availability of the AirCard 775 wireless wide-area network card from Bouygues Telecom in France and from Guangdong Mobile Communications Corporation in Guangdong province, China. In addition, we signed a distribution agreement with Leaf Wireless (Pty) Ltd. to distribute the AirCard 775 in South Africa and surrounding regions.

In October 2005, Jason Cohenour, previously our COO, was named as our President and CEO. Mr. Cohenour succeeded David Sutcliffe, who has served as the Company s CEO since 1995 and who had announced his intention to retire earlier in the year. Mr. Sutcliffe, at the request of the Board of Directors, continues to serve the company in a non-management capacity as a member of the Board.

We undertook a restructuring of our operations in June of 2005, which included exiting our Voq professional phone initiative. The result of this restructuring was a reduction in our cost structure and a greater focus on our core PC card and embedded modules business.

Fiscal 2004

We began commercial shipments of six new products the Voq professional phone, the Sierra Wireless AirCard 580 for CDMA 1X EV-DO networks, the AirCard 555R for CDMA networks in Asia, the MP555 for CDMA 1X, the MP775 for EDGE networks and the AirCard 775 For EDGE networks.

We announced distribution agreements for our CDMA embedded modules with Premier Wireless Solutions and for our CDMA PC cards with Tirumala Seven Hills Pvt Ltd in India and Beijing Putian Taili Telecom in China. We also announced supply agreements with Audiovox Communications Corporation for additional supply of our PC5220 EV-DO PC card and with Symbol Technologies and Verifone for our EM3420 CDMA 1X embedded modules and we completed shipments of this embedded module product to palmOne at the end of the year.

We announced the availability of the PC3300 and the MP 555 GPS rugged wireless modem on the Sprint Nationwide PCS Network.

We announced the availability of the Sierra Wireless AirCard 775 and the MP 775 GPS rugged wireless modem on the Cingular Wireless EDGE network. We also announced the availability of the Sierra Wireless AirCard 750 for customers in the United Kingdom and in India.

We signed a distribution agreement with Onda Communication Spa for our EDGE/GPRS N775 PC card.

We announced the commercial availability of the Voq professional phone in the Netherlands, Belgium, Luxembourg, Turkey, Austria, Germany, Switzerland, the Nordics, the United Kingdom, Italy, France and Spain.

In North America, we announced the commercial availability of the Voq professional phone from Brightpoint, Cellstar, members of Intel s Product Dealer Program, Insight, MobilePlanet, RCS Computer Experience and USA.NET.

Fiscal 2003

On August 12, 2003, we announced the completion of our acquisition of AirPrime, Inc. (AirPrime), a privately-held supplier of high-speed wireless data communications products. Under the terms of the acquisition, we issued 3,708,521 of our common shares to the shareholders of AirPrime. The acquisition provided us with additional knowledge and expertise in CDMA technology as well as a staff of over 70 research and development, engineering, product marketing, manufacturing and technical sales professionals and enabled us to offer a broader product line of wireless data communications products to a wider range of customers and also strengthens our engineering team to develop new products.

In October 2003, we announced plans to introduce our Voq line of professional wireless cellular phones and value-added software to deliver a converged mobile telephony and e-mail solution, commonly referred to as a Smartphone, targeted at business users. Our new Voq phones are based on Microsoft Windows Mobile software for Smartphones and feature both a familiar cellular phone keypad and a unique flip-open QWERTY thumbpad. The first Voq-branded phone was made commercially available in the second quarter of 2004 in certain countries.

In November 2003, we completed a new issue and secondary offering of 4,600,000 Common Shares, resulting in net proceeds of $67,400,000. Of the 4,600,000 Common Shares sold under this offering, 4,442,222 Common Shares were offered by the Company and 157,778 were offered by certain shareholders of the Company.

We developed products for the new and expanding CDMA 1xEV-DO networks. Our PC 5220 PC Card for the Verizon Wireless CDMA 1xEV-DO network started commercially shipping in the third quarter of 2003. Our second CDMA 1xEV-DO product, the Sierra Wireless AirCard 580, began shipping commercially in the first quarter of 2004.

We transferred global fulfillment and certain CDMA product manufacturing to Flextronics. By using their fully integrated supply chain services, we have reduced product costs, improved alignment with our international customer base and achieved operating efficiencies and scalability.

Industry Background and Future Trends

Wireless Data Growth

We provide a broad range of products including wireless modems for mobile computers and embedded modules for laptop OEM wireless applications. We believe that our growth potential is tied, in part, to the projected growth of the laptop PC market and to the evolution of wireless networks. In a 2005 report, research firm Gartner forecasted worldwide shipments of new laptop PCs would increase from approximately 62 million units in 2005 to 123 million units in 2009. Additionally, in a 2005 report, ABI Research forecasted that worldwide shipments of wireless modems (PC cards) for mobile computers

would increase from approximately 3.0 million units in 2005 to 9.7 million units in 2009. In-Stat/MDR forecasted that worldwide shipments of embedded modules for OEMs would increase from approximately 0.5 million units in 2005 to 7.3 million units in 2009. Cellular network technologies such as Enhanced Data over GPRS Evolution (EDGE), CDMA 1x EV-DO, Universal Mobile Telecommunications System (UMTS), and High Speed Downlink Packet Access (HSDPA) upgrades, are expected to support much of this growth.

To date, demand for wireless data has come primarily from corporations, public organizations and individuals seeking to improve customer service and productivity. Increased coverage and speeds, significant technological improvements to wireless data networks, devices and software, and price reductions for data communications services have also contributed to growth in the wireless data communications industry. The ability to meet the demand for anytime, anyplace communications is made possible by the convergence of trends in mobile computing, the growth of the Internet, and wireless communications. Gartner forecasts that by 2007, 65% of Fortune 2000 companies will support wireless wide-area wireless data access.

Mobile Computing. Mobile PCs are now mainstream. Many business professionals utilize laptops as their primary computing device giving them the mobility required to work anywhere. Smaller handheld computers or PDAs continue to be popular, as are newer mobile phones that offer more advanced capabilities, such as access to personal information, Internet and e-mail. Mobile PCs and handheld devices continue to be the leading devices that are accessing wireless data.

The Internet. The Internet has become an indispensable tool for many business professionals, and the volume of Internet traffic has grown rapidly as new applications and e-commerce have become widely adopted. Wireline telecommunications carriers continue to make significant investments in Internet protocol-based networks to handle the expected growth in the volume of data traffic.

Wireless Communications. While wireline communications networks were historically dominated by voice traffic, data now comprises more than half of the traffic on these networks. A similar evolution is now occurring on wireless networks as wireless service providers address the growing demand for data communications with additional technical and commercial offerings.

Existing and Emerging Cellular and PCS Technology Standards

Data communications over cellular networks is currently supported by various digital technologies, such as CDMA 1X, CDMA 1x EV-DO, Global System for Mobile (GSM), Generalized Packet Radio Service (GPRS), EDGE, UMTS and HSDPA.

CDMA is a digital technology that significantly improves the capacity and quality of both voice and data communications and supports a broader range of applications, including voice, wireless Internet and multimedia. Initially, second generation CDMA offered increased data rate capabilities of 14.4 kbps. In 2001, North American CDMA carriers, including Sprint PCS and Verizon Wireless, began deploying a 2.5G CDMA solution called CDMA 1X. Other CDMA carriers undertook similar efforts in Asia, Latin America and the Middle East. CDMA 1X supports faster wireless data transfers, typically ranging from 40 to 60 kbps, with a top nominal speed as currently deployed of 153 kbps. In 2004, deployments or expansions of EV-DO Release 0 service, the next generation (3G) CDMA technology were underway with Verizon Wireless and other carriers in North America and Asia Pacific. Sprint also started rolling out the same technology in 2005. EV-DO supports wireless data speeds, typically ranging from 400 to 700 kbps, an experience similar to wired broadband connections. We expect that future deployment of CDMA EV-DO Rev A commercial service, the next generation of EV-DO, will further increase awareness and expand the market for wireless data products and services.

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Leading GSM carriers in North America, Europe and Asia also began shifting from first generation technology to 2G GPRS in 2001. Like 2G CDMA, GPRS improves the capacity and quality of data communications and supports a broader range of applications including wireless Internet and multimedia. GPRS offers data speed capabilities ranging from 20 to 40 kbps with a top nominal speed of 56kbps.

Third generation, or 3G, systems have been developed and launched to replace and/or complement second generation and 2.5G digital cellular systems. In 2003, AT&T Wireless and Cingular began rolling out their EDGE networks in the U.S. EDGE offers significant increases in data rates ranging from 100 to 130 kbps, with burst speeds up to 200 kbps. In 2004, UMTS rolled out, especially in Europe, allowing GSM operators to offer average data speeds of 220-320 kbps to their customers.

In late 2005, the first networks to upgrade to High Speed Downlink Packet Access (HSDPA), were Cingular Wireless in North America and Manx Telecom in the United Kingdom (an O2 subsidiary) demonstrating speeds between 500-700kbps with maximum speeds up to 1.8Mbps. Cingular has launched HSDPA into 18 metropolitan markets as of early 2006 with the intention to expand in the U.S. throughout 2006.

NARRATIVE DESCRIPTION OF THE BUSINESS

Our Solution

We provide leading edge wireless wide-area modem solutions for mobile computing over cellular networks. We develop and market a broad range of products that include wireless modems for mobile computers, embedded modules for 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, or vehicle-based systems.

Our Products

Our current product line of wireless modem solutions includes wide-area wireless PC cards, embedded modules for OEM computers and other devices, vehicle-mounted modems and enabling software. We have a number of new products under development within these product lines.

Sierra Wireless PC Cards and Embedded Modules

PC Cards: We have successfully completed the development of our first UMTS/HSDPA PC card and during the fourth quarter commenced commercial shipments of this product to Cingular in North America, as well as Manx Telecom and sunrise in Europe, making us the first company in the world to launch a fully functional UMTS/HSDPA PC card. We have also commenced the development of next generation EV-DO (Rev A) and HSDPA (3.6Mbps) PC cards, both of which are expected to be commercially available in the second half of 2006.

Embedded Modules: With the announcement by several leading laptop manufacturers of their plans to embed high speed wireless wide-area capability inside laptops, we believe that the opportunity for sales of embedded modules has potentially increased significantly. We believe we are well positioned to benefit from this emerging opportunity as a result of our extensive experience in the embedded module market. We believe we have established an early leadership position providing embedded 3G wireless solutions to major laptop OEMs. Our EV-DO PCI Mini Card has been certified for operation on both the Sprint and Verizon networks. We have design wins with Lenovo and HP for our EV-DO Mini Card. We commenced commercial shipments to Lenovo in the fourth quarter of 2005, representing the first commercial deployment of an embedded 3G wireless minicard by any laptop manufacturer. Lenovo has

subsequently announced the integration of this Mini Card in two additional business laptops. Early in the first quarter of 2006, HP announced the availability of their first laptop incorporating our EV-DO Mini Card. We have also secured design wins with Lenovo and Fujitsu-Siemens Computers for our HSDPA Mini Cards and we expect commercial shipments of our HSDPA Mini Card to commence late in the first quarter of 2006. Also during 2005, we commenced shipment in North America of our EM5625 EV-DO module to some of our long-time mobile computing OEM customers. One of these OEM customers, Panasonic, has subsequently integrated our EM5625 module into three of its laptop platforms. We have also commenced the development of the next generation EV-DO (Rev A) and HSDPA (3.6Mps) Mini Cards, both of which are expected to be commercially available in the second half of 2006.

The following table outlines our current product offerings for wireless wide-area network PC cards and embedded modules:

Product Type	Product Class	Description	Products	Compatible Network/Territory
Wireless Network Cards	AirCard® 700 Series	Wide-area wireless network interface cards, or NICs, providing local area network, or LAN-like connectivity for computer users on the GSM/GPRS/EDGE networks. Using these modems, mobile computer users have full access to e-mail, intranet, corporate applications and full Web browsing where network service is available.	AirCard 775	Quad-band for EDGE networks worldwide
	AirCard® 800 Series	Wide-area wireless NICs providing local area network, or LAN-like connectivity for computer users on HSDPA/UMTS/EDGE/GPRS networks. Mobile users have access to e-mail, intranet, corporate applications and full Web browsing where network service is available at increased speeds.	AirCard 860	Type II PC card for use on networks supporting UMTS in the 850 and 1900 MHz frequency bands. Primary territory is North America.
			AirCard 850	Type II PC card for use on networks supporting UMTS in the 2100 MHz frequency band. Primary territory is Europe.
	AirCard® 500 Series	Wide-area wireless NICs, providing LAN-like connectivity for computer users on the CDMA 1X and CDMA EV-DO networks.	AirCard 580	Dual-band CDMA2000 1X EV-DO networks. Territories are North America and Asia.
Embedded Modules	EM Embedded Modules	Embedded modules deliver wireless data and voice connectivity that OEMs integrate into products ranging from handheld computers, PDAs, laptops, Smartphones and mobile terminals, to fixed terminals including industrial meters, and monitoring equipment.	EM3420	Dual-band CDMA2000 1X. Territories are North America and Asia.
			EM5625	Dual-band CDMA 1X EV-DO. Territories are North America and Asia.

Product Type	Product Class	Description	Products	Compatible Network/Territory
	MC8700 Series PCI Express Mini Cards	Embedded 3G wireless modules based on the PCI Express Mini Card form factor and interface specification. The MC87XX series delivers HSDPA/UMTS/EDGE/GPRS wireless voice and data capability to laptop OEMs and other manufacturers.	MC8765	HSDPA and UMTS supported in the 850 and 190 frequency bands. Compatible with EDGE and GSM/GPRS networks on all four GSM frequency bands (850, 900, 1800, and 1900 MHz)
			MC8755	HSDPA compatible with EDGE and GSM/GPRS networks on all four GSM frequency bands (850, 900, 1800, and 1900 MHz)
	MC5700 Series PCI Express Mini Cards	Embedded 3G wireless modules based on the PCI Express Mini Card form factor and interface specification. The MC5700 series delivers CDMA 1X EV-DO wireless voice and data capability to laptop OEMs and other manufacturers.	MC5720	CDMA 1X EV-DO

Sierra Wireless MP Modem Product Line

The Sierra Wireless MP product line consists of a group of rugged, high powered, vehicle-mounted modems, including the MP555 GPS and MP775 GPS. Generally, these products are mounted in a vehicle and are physically connected to a computer or data terminal. The Sierra Wireless MP product line is designed to operate in harsh conditions, including extremes of temperature, humidity, vibration and vehicle ignition noise. Our MP products come with fully integrated global positioning system, or GPS, capability as a standard feature. The MP775 GPS operates on high-speed EDGE, GPRS and GSM networks worldwide while the MP555 GPS operates on CDMA 1X networks in North America and Asia. We have initiated development of two new next generation versions of our MP product, one for EV-DO and one for HSDPA, which we expect to launch later in 2006. Common applications for Sierra Wireless MP products include:

Police officers looking up license plate numbers, checking criminal databases, communicating with the dispatcher and other officers and filing service reports from a patrol car; and

Utility field service technicians receiving dispatch instructions, consulting service instructions and diagrams, filing reports and time sheets.

Enabling Software

Our line of software allows our modems and devices to work with laptop and handheld computers and other devices:

Sierra Wireless Watcher Software is a graphical user interface designed for everyday use with our modems. While the modem is in use, the Watcher program provides ongoing information on registration status and signal strength and allows the user to switch operating modes where applicable. Sierra Wireless Watcher supports all major PC and handheld operating systems.

Developer s Central, including Sierra Wireless Software Development Kits, provide tools and information that support developers in their integration of Sierra Wireless products into applications. Using these tools, developers can include important modem status information into their own user interface. This level of integration supports easy-to-use, complete bundled solutions.

MP Modem Manager is a feature-rich, web based diagnostic software management tool allowing network administrators access to remote monitoring and configuration of a fleet of MP modems (GPRS, CDMA 1X, and EDGE).

Product Revenue

Our revenue by product for the years ended December 31 for each of 2004 and 2005 is as follows:

	2004	2005
PC Card	59%	70%
Embedded modules	33	13
Mobile	5	13
Other	3	4
	100%	100%

Future Products

We continually evaluate and develop new products and technologies that will allow us to take advantage of the ever expanding and dynamic wireless market. Emerging wireless standards that are areas of significant new product development interest for us include:

HSDPA: Next generation 3.6Mbps HSDPA is an upgrade from 1.8Mbps HSDPA capability and is designed to offer transmission of text, digitized voice, video and multimedia at broadband speeds. Once fully implemented, it will allow customers to remain attached to the Internet at speeds of up to 3.6Mbps while on the move. HSDPA is an evolutionary path for GSM/GPRS, TDMA, EDGE and UMTS networks. Our plan is to introduce new products during 2006 that support the new, higher speed, HSDPA airlink. We expect to launch our 3.6Mbps HSDPA PC card and Mini Card in the second half of 2006. In addition, we expect to launch a 1.8Mbps HSDPA version of our MP product in the second half of 2006.

EV-DO: As EV-DO deployments continue, newer upgrades are being developed to enhance the capabilities and experience for end-users. New capabilities will allow for improved video and multimedia transmissions while on the move. CDMA 1X EV-DO Release 0 is an evolutionary path for CDMA IA95 and CDMA 1X networks. EV-DO Release A brings significant uplink and downlink speed advantages to

EV-DO Release 0. We have established a strong market position in EV-DO Release 0 PC cards and Mini Cards over the past 36 months. We intend to enhance our position by accelerating the introduction of EV-DO Release A devices. We expect to launch our EV-DO Release A PC cards and Mini Cards in the second half of 2006. In addition, we

expect to launch a CDMA 1X EV-DO Release A version of our MP product in the second half of 2006.

Product Development

We have built a reputation in the wireless data industry for creating state-of-the-art, high-quality products within aggressive timeframes. Our development team of approximately 141 staff, located in Richmond, BC and in Carlsbad, CA, are skilled in the areas of radio frequency, hardware, embedded software, windows software and mechanical design. Combined, this team has several hundred person years of experience in the design of small form factor wireless data and voice devices. Our product development team combines leaders with extensive experience in their fields, with younger graduates from leading universities.

We take a core team approach to product development. Our goal is develop a whole product and to ensure products are managed closely throughout their entire life cycle. As part of this approach, individuals from our product development group form product-specific teams with employees from other functional areas, including product management, operations, technical support and quality. These teams work closely to bring new products through the development phase, while balancing the market requirements of performance, time to market and product cost. Concepts and prototypes are validated by working with lead customers, channel partners and industry consultants.

Products that result from this process are designed and tested to cellular industry standards and introduced to our high-volume contract manufacturing partners for production and delivery to our customers. Included in the development effort is the certification of our products with industry and regulatory standards bodies.

A group of senior engineers develops and monitors our development standards. These standards are applied across all development projects to ensure uniformity. For example, we have adopted a core -wireless engine design approach to leverage development efforts across multiple different products. This is also intended to help our customers to utilize our different products with moderate additional integration effort on their part.

Our product development staff stays current in technology by participating in industry groups such as the Personal Computer Communications Association (PCCA), the Cellular Telecommunications Industry Association (CTIA), the Mobile Advisory Council (MAC), the USB Forum, the PCI Special Interest Group (PCI-SIG), the European Telecommunications Standards Institute (ETSI), the PCS Type Certification Review Board (PTCRB), the Third Generation Partnership Project (3GPP), the Third Generation Partnership Project 2 (3GPP2) and the International Wireless Packaging Consortium, and through ongoing technical education. We maintain close relationships with local universities by hiring co-op students, giving lectures, supporting visiting professorships and participating in regular informal meetings with faculty members.

Distribution

Our products are used by a variety of end-users, ranging from sales people and mobile executives, to police officers and utility workers. We have built a distribution channel that responds to the unique purchasing and usage requirements of our customer base. Historically, a substantial majority of our sales have come from North American markets. As our wireless technology platforms have diversified, we have built sales and distribution teams to focus on developing our business outside of North America. Currently, we have dedicated sales and distribution teams for the European, Asia-Pacific and North

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American regions. Our approach to distribution takes advantage of our existing relationships with wireless operators, resellers and OEMs in order to maximize the productivity of our sales team.

Wireless Operators

Wireless operators play two key roles in our distribution strategy. First, wireless operators are often resellers for us, purchasing our products and then reselling them to end-user customers. Second, the wireless operator sales team often works with our sales team to jointly sell wireless solutions and our equipment to the end-user customers. The wireless operator channel provides us with extended customer reach, while the operators are able to leverage our wireless data expertise to help sell their products and services. We have invested a great deal of time and resources in cultivating our relationships with wireless operators and view these relationships as a critical success factor.

Resellers

Resellers purchase our products either directly from us or from a distributor and resell them to end-user customers. In order to support resellers who prefer to purchase through a distributor, we have selectively formed distribution relationships. Distributors ensure that our products are available to a large number of resellers that buy products.

Resellers generally combine our products with other elements of an overall solution, such as computer hardware, application software and bundled communication services and deliver a complete solution to the end-user customer. Resellers include computer resellers, wide-area network resellers, application developers and system integrators.

Original Equipment Manufacturers

Original equipment manufacturers represent companies that integrate our modem technology into devices they manufacture and sell to end-user customers through their own direct sales force and indirect distribution channels. Our modems have been integrated into a range of devices, such as industrial handheld computers, PDAs, Smartphones and laptop computers.

Professional Services

We also offer professional engineering services to OEM customers, leveraging our expertise in wireless design and integration to provide built-in wireless connectivity for laptop computers and other mobile computing devices.

Customer Support

We provide customers, wireless operators and other channel partners with product and technical support in several languages using telephone, e-mail and our Web site. Online resources include product documentation, technical specifications, frequently asked questions, application notes, troubleshooting notes, troubleshooting tools, and software downloads.

Marketing

Our marketing team is responsible for providing product management, strategic marketing and marketing communications for our products on an increasingly global basis. Members of the product management team play an active role in our core team approach to developing and managing individual products through their entire product life cycle. Emphasis is placed on understanding customer needs,

developing the business case, determining competitive positioning and pricing, and ensuring product completeness, which includes documentation, promotional material and marketing programs.

Strategic Marketing/Marketing Communications

We communicate our corporate and product positioning to channels and customers in our global markets in several ways, including:

Actively seeking editorial coverage and placing advertisements in industry, business and trade publications;

Actively participating in industry associations;

By meeting with opinion leaders and industry analysts; and

Participating in targeted conferences and trade shows.

We work with our channel partners to develop programs to encourage end-user customer adoption. Through marketing strategies including market analysis, branding, design, packaging and promotions, we execute and launch products into the marketplace to complement customer launch timelines.

Manufacturing

We outsource most of our manufacturing services, including parts procurement, kitting, assembly and repair. We believe that outsourcing allows us to:

Focus on our core competencies, including research and development, sales and marketing;

Participate in contract manufacturer economies of scale;

Access high quality, lower cost manufacturing resources;

Achieve rapid production scalability; and

Reduce equipment capital costs and equipment obsolescence risk.

In addition, we perform certain manufacturing related functions in-house, including manufacturing engineering, and development of manufacturing test procedures and fixtures.

Our products are currently manufactured by Flextronics and Creation Technologies. We use Flextronics as our primary contract manufacturer and logistics partner to provide an end-to-end supply chain solution. This includes design support, procurement, low cost manufacturing and repair in China and global fulfillment services from Memphis, Tennessee. By using its fully integrated supply chain services, we expect to optimize product costs, improve alignment with our increasingly international customer base and achieve increased operating efficiencies and scalability. We expect that Creation Technologies in Canada will continue to assemble our lower unit volume products.

Employees

As of December 31, 2005 we had a total of 224 full time employees, 131 of whom are at our head office in Richmond, B.C., with the balance being located across the United States, Canada, Europe and Asia. Of the 224 employees, 123 are involved in product development, 32 are involved in manufacturing, 24 are sales and support personnel, 16 are marketing personnel, and 29 are in finance and administration. Employees have access to corporate-funded ongoing training and professional development opportunities, both on-the-job and through outside educational programs. Cash compensation, our employee stock

option plan, our employee stock purchase plan and our retirement plan contribution program are complemented by internal recognition programs and career advancement opportunities. We believe our relationships with our employees are positive.

We have entered into non-disclosure agreements and confidentiality agreements with key management personnel and with substantially all of our employees.

Competition

Wireless data technologies are converging toward standardizing on a few key cellular technologies. Cellular handsets are becoming smart with increased data functionalities, PDAs are becoming wireless through the integration of embedded wireless capability, and laptop OEMs are beginning to embed wireless wide area network capability into their laptops. With the advent of new cellular technologies such as CDMA 1xEV-DO, EDGE, UMTS and HSDPA, new competitors are emerging.

CDMA: Sierra Wireless is well established in the CDMA PC Cards, embedded modules and mobile in-vehicle solutions markets. CDMA competition, both announced and actual, includes Novatel Wireless, Curitel, Kyocera Wireless, Sony Ericsson, ZTE and Wavecom. Sierra Wireless maintains its market leadership position in mobile in-vehicle solutions against competitors such as AirLink and Bluetree Wireless.

GSM: Sierra Wireless is well established in the GPRS/EDGE/UMTS/HSDPA PC cards embedded modules and mobile in-vehicle solutions markets. In these technologies, we face competition, both announced and actual, from Option NV, Novatel Wireless, Huawei, Siemens, Sony Ericsson and Blue Tree Wireless.

We believe that by focusing on wireless operators, OEMS, business and government customers and by providing products that are superior in quality, functionality, time to market and value, together with excellent customer service and superior distribution partner relationships and programs, we will be successful in our target markets.

Intellectual Property

We protect our intellectual property through a combination of patent protection, copyright, trademarks, trade secrets, licenses, non-disclosure agreements and contractual provisions. We enter into a non-disclosure and confidentiality agreement with each of our employees, consultants and third parties that have access to our proprietary technology. Pursuant to assignment of inventions agreements, all of our employees and consultants assign all intellectual property rights in the inventions created during such person s employment or contract with Sierra Wireless to Sierra Wireless.

We currently hold 45 United States patents and 65 international patents. Additional patent applications are pending. When we consider it to be advantageous, we utilize our intellectual property portfolio and access the intellectual property of third parties by entering into commercial licenses and cross-licenses.

Governmental Regulation

Our products are subject to certain mandatory regulatory approvals in the United States, Canada, the European Union (EU) and other regions in which we operate. In the United States, the Federal

Communications Commission regulates many aspects of communications devices, including radiation of electromagnetic energy, biological safety and rules for devices to be connected to the telephone network. In Canada, similar regulations are administered by the Ministry of Industry, through Industry Canada. European Union directives provide the comparable regulatory guidance in Europe.

Wireless modems must be approved under these regulations by the relevant government authority prior to these products being offered for sale. We have obtained all necessary Federal Communications Commission, Industry Canada, European Union and other required regulatory approvals for the products we currently sell.

Additional Information Concerning Our Business

Sierra Wireless s operations do not have a significant impact upon the environment. We have not made, and are not required to make, any significant capital expenditures to comply with environmental regulations. Working with the contract manufacturers who make our products and relevant component suppliers, we intend to ensure that our products that are sold in the EU comply with the EU directives that restrict the use of certain hazardous substances in electronic equipment sold in the EU after July 1, 2006.

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 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. If we do not return to 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 revenues and earnings may fluctuate from quarter to quarter, which could affect the market price of our common shares.

Our revenues and earnings may vary from quarter to quarter as a result of a number of factors, including:

The timing of releases of our new products;

The timing of substantial 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;

Competition from other market participants;

Possible cyclical fluctuations related to the evolution of wireless technologies;

Possible delays in the manufacture or shipment of current or new products;

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 and earnings in any given quarter. Therefore, our quarterly results are not necessarily indicative of our overall business, results of operations and financial condition. However, quarterly fluctuations in our revenues and earnings may 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 industry is intensely competitive and subject to rapid technological change. We expect competition to intensify. More established and larger companies with greater financial, technical and marketing resources sell products that compete with ours. 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 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, our market share and revenues may be reduced. As an example, during the first quarter of 2005, one of the factors that caused a significant decline in CDMA EV-DO PC card revenue was increased competition and loss of market share.

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.

If we are unable to design and develop new products that gain sufficient commercial acceptance, we may be unable to maintain our market share or to recover our research and development expenses and our revenues could decline.

We depend on designing, developing and marketing new products to achieve much of our future growth. Our ability to design, develop and market 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 could result in a decrease in the market price for our shares.

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. 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 reduce their business with us or suffer from business failure, our revenues and profitability could decline, perhaps materially.

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

The wireless industry is characterized by rapid technological change. Our success will depend in part on our ability to 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, changes and preferences. 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 depend on third parties to offer 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. In addition, our future growth depends, in part, on the successful deployment of next generation wireless data and voice networks by third parties for which we are developing products. If these network operators cease to offer effective and reliable service, or fail to 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 may 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,