SIERRA WIRELESS INC
Form 6-K
November 04, 2016

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 2016

(Commission File. No 0-30718).

SIERRA WIRELESS, INC., A CANADIAN CORPORATION
(Translation of registrant's name in English)

13811 Wireless Way
Richmond, British Columbia, Canada V6V 3A4
(Address of principal executive offices and zip code)

Registrant's Telephone Number, including area code: 604-231-1100

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F:

Form 20-F o 40-F ý

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

Yes: o No: ý

SIGNATURES

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

Sierra Wireless, Inc.

By: /s/ David G. McLennan

David G. McLennan, Chief Financial Officer and Secretary

Date: November 4, 2016

Table of Contents

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) provides information for the three and nine months ended September 30, 2016, and up to and including November 3, 2016. This MD&A should be read together with our unaudited interim consolidated financial statements for the three and nine month periods ended September 30, 2016 and September 30, 2015, respectively, and our audited annual consolidated financial statements and the accompanying notes for the year ended December 31, 2015 (collectively, “the consolidated financial statements”). The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). Except where otherwise specifically indicated, all amounts in this MD&A are expressed in United States dollars.

We have prepared this MD&A with reference to National Instrument 51-102 “Continuous Disclosure Obligations” of the Canadian Securities Administrators. Under the U.S./Canada Multijurisdictional Disclosure System, we are permitted to prepare this MD&A in accordance with the disclosure requirements of Canada, which requirements are different than those of the United States.

Certain statements in this MD&A constitute forward-looking statements or forward-looking information within the meaning of applicable securities laws. You should carefully read “Cautionary Note Regarding Forward-Looking Statements” in this MD&A and should not place undue reliance on any such forward-looking statements.

Throughout this document, references are made to certain non-GAAP financial measures that are not measures of performance under U.S. GAAP. Management believes that these non-GAAP financial measures provide useful information to investors regarding the Company’s results of operations as they provide additional measures of its performance and assist in comparisons from one period to another. These non-GAAP financial measures do not have any standardized meaning prescribed by U.S. GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. These non-GAAP financial measures are defined and reconciled to their nearest GAAP measure in “Non-GAAP Financial Measures”.

In this MD&A, unless the context otherwise requires, references to the "Company", "Sierra Wireless", "we", "us" and "our" refer to Sierra Wireless, Inc. and its subsidiaries.

Additional information about the Company, including our most recent consolidated financial statements and our Annual Information Form, is available on SEDAR at www.sedar.com and on EDGAR at www.sec.gov.

Cautionary Note Regarding Forward-looking Statements

This MD&A contains certain statements and information that are not based on historical facts and constitute forward-looking statements or forward-looking information within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and Canadian securities laws (collectively, “forward-looking statements”), including our business outlook for the short and longer term and statements regarding our strategy, plans and future operating performance. Forward-looking statements are provided to help you understand our views of our short and long term plans, expectations and prospects. We caution you that forward-looking statements may not be appropriate for other purposes.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, identified by words or phrases such as “expects”, “is expected”, “anticipates”, “believes”, “plans”, “projects”, “estimates”, “assumes”, “intends”, “stra “objectives”, “potential”, “possible” or variations thereof or stating that certain actions, events, conditions or results “may”, “could”, “would”, “should”, “might” or “will” be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking statements. Forward-looking statements are not promises or guarantees of future performance, they represent our current views and may change significantly. Forward-looking statements are based on a number of material assumptions, including, but not limited to, those listed below, which could prove to be significantly incorrect:

- our ability to develop, manufacture and sell new products and services that meet the needs of our customers and gain commercial acceptance;
- our ability to continue to sell our products and services in the expected quantities at the expected prices and expected times;
- expected cost of goods sold;
- expected component supply constraints;
- our ability to “win” new business;
- our ability to integrate acquired businesses and realize expected benefits;
- expected deployment of next generation networks by wireless network operators;
- our operations not being adversely disrupted by component shortages or other development, operating or regulatory risks; and
- expected tax rates and foreign exchange rates.

Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual events or results to differ significantly from those expressed or implied in our forward-looking statements, including, without limitation:

- competition from new or established service providers or from those with greater resources;
- disruption of, and demands on, our ongoing business and diversion of management's time and attention in connection with acquisitions or divestitures;
- the loss of any of our significant customers;
- cyber-attacks or other breaches of our information technology security;
- difficult or uncertain global economic conditions;
- our financial results being subject to fluctuation;
- our ability to attract or retain key personnel;
- risks related to infringement on intellectual property rights of others;
- our ability to obtain necessary rights to use software or components supplied by third parties;
- our ability to enforce our intellectual property rights;
- our ability to respond to changing technology, industry standards and customer requirements;
- our reliance on single source suppliers for certain components used in our products;

2

- failures of our products or services due to design flaws and errors, component quality issues, manufacturing defects or other quality issues;
- our dependence on a limited number of third party manufacturers;
- unanticipated costs associated with litigation or settlements;
- our dependence on wireless network carriers to promote and offer acceptable wireless data services;
- risks related to contractual disputes with counterparties;
- risks related to governmental regulation;
- risks related to the transmission, use and disclosure of user data and personal information; and
- risks inherent in foreign jurisdictions.

This list is not exhaustive of the factors that may affect any of our forward-looking statements. Forward-looking statements are statements about the future and are inherently uncertain, and our actual achievements or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those referred to below under "Risks and Uncertainties" and those referred to in our other regulatory filings with the U.S. Securities and Exchange Commission (the "SEC") in the United States and the provincial securities commissions in Canada.

Our forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and we do not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change, except as required by applicable law. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

OVERVIEW

Business Overview

Sierra Wireless is building a leading portfolio of device-to-cloud products and services for the Internet of Things ("IoT") including embedded and network solutions that are seamlessly integrated with our secure cloud and connectivity services. We offer the industry's most comprehensive portfolio of second generation ("2G"), third generation ("3G") and fourth generation ("4G") embedded wireless modules and gateways that, combined with our cloud and connectivity services, create a device-to-cloud solution for enabling IoT applications. Original Equipment Manufacturers ("OEMs") and enterprises worldwide trust our innovative solutions to get their connected products and services to market faster.

In 2015, we significantly advanced our device-to-cloud capabilities by successfully completing three acquisitions and rapidly expanding our cloud and connectivity services business. On January 16, 2015, we acquired all of the shares of Wireless Maingate AB ("Maingate"), a Sweden-based provider of IoT connectivity and data management services. On June 18, 2015, we acquired substantially all of the assets of Accel Networks LLC ("Accel"), a leader in managed cellular broadband connectivity services for distributed enterprises in North America. On September 2, 2015, we acquired all of the shares of MobiquiThings SAS ("MobiquiThings"), a France-based mobile virtual network operator providing intelligent global connectivity services to the IoT marketplace.

As a result of the aforementioned business acquisitions, and a reorganization to drive focus and growth in our key lines of business, we have operated under three reportable segments since October 1, 2015: (i) OEM Solutions; (ii) Enterprise Solutions; and (iii) Cloud and Connectivity Services. Prior to October 1, 2015, our Enterprise Solutions segment included the business operations that now comprise our Cloud and Connectivity Services segment.

Our OEM Solutions segment includes embedded cellular modules, software and tools for OEM customers who integrate cellular connectivity into their products and solutions across a broad range of industries, including automotive, transportation, energy, enterprise networking, sales and payment, mobile computing, security, industrial monitoring, field services, residential, healthcare and others. Within our OEM Solutions segment, our embedded wireless module portfolio spans 2G, 3G, and 4G cellular technologies. This product portfolio also includes cloud-based remote device management capability and support for on-board embedded applications using Legato, our open source, Linux-based application framework.

Our Enterprise Solutions segment includes a range of intelligent routers and gateways along with management tools and applications that enable cellular connectivity for mobile, industrial and enterprise customers. Our 2G, 3G and 4G LTE intelligent cellular routers and gateways are designed for use where reliability and security are essential, and are used in transportation, public safety, field services, energy, industrial, and distributed enterprise networking applications worldwide. Our routers and gateways can be easily configured for specific customer applications, and also support on-board embedded applications using our ALEOS application framework.

On August 3, 2016, we completed the acquisition of all of the outstanding shares of GenX Mobile Incorporated ("GenX"), a provider of in-vehicle cellular devices for fleet management, asset tracking and transportation markets for total cash consideration of $7.8 million ($5.9 million, net of cash acquired) plus contingent consideration for inventory consumption in excess of $1.0 million. GenX is being integrated with our Enterprise Solutions segment and its financial results have been included in our Enterprise Solutions segment since the date of acquisition.

4

Our Cloud and Connectivity Services segment comprises three main areas of operation: (i) our cloud services, which provide a secure and scalable cloud platform for deploying and managing IoT applications; (ii) our global cellular connectivity services, which includes our Smart SIMs and core network platforms; and (iii) our managed broadband cellular services. These cloud, connectivity and broadband services support our fully integrated device-to-cloud strategy and are designed to enable worldwide IoT deployments by our customers. Our AirVantage cloud based services can be used to collect, manage and process data from any number of connected fixed and mobile assets. This device-to-cloud data connection provides our customers with a fully integrated, end-to-end solution that is simple to deploy and allows our customers to build and scale their IoT applications without investing in IT infrastructure. Our AirVantage cloud, platform can also be used to centrally deploy and monitor IoT devices at the edge of the network, including configuring device settings and delivering firmware and embedded application updates remotely over the air. Our connectivity services provide global, multi-operator subscriptions with unique benefits for IoT deployments including significant quality of service improvements and multi-operator network coverage. Our broadband services provide proactive network management solutions for distributed enterprises utilizing cellular broadband gateways, routers and advanced antennas.

We continue to seek opportunities to acquire or invest in businesses, products and technologies that help us drive our strategy forward and expand our position in the IoT market.

Acquisition of Blue Creation

On November 2, 2016, we completed the acquisition of all of the outstanding shares of the parent company and sole owner of Blue Creation for total cash consideration of approximately $6.5 million ($3.0 million, net of approximately $3.5 million of cash acquired), subject to working capital adjustments, plus a maximum contingent consideration of $0.5 million under a performance-based earnout formula. Based in the United Kingdom, Blue Creation specializes in Bluetooth, Bluetooth Low Energy, Wi-Fi and other embedded wireless technologies. The company's products include embedded modules and software protocol stacks which are complementary to our OEM Solutions portfolio. We believe that the acquisition of Blue Creation provides us with expanded short-range wireless capabilities in Bluetooth and Wi-Fi and will strengthen our strategic position with OEMs. The Blue Creation business will be integrated with our OEM Solutions business unit. In the short term, we expect the financial impact of adding Blue Creation to be minimal.

Third Quarter Overview

Revenue of $153.6 million in the third quarter and $452.6 million in the first nine months of 2016 decreased 0.7% and 2.2%, respectively, compared to the same periods of 2015. The decrease in revenue was mainly driven by lower revenues from our OEM Solutions segment, partially offset by growth in our Enterprise Solutions and Cloud and Connectivity Services segments. In the third quarter of 2016 compared to the same period of 2015, OEM Solutions segment revenue decreased by 2.2% to $127.8 million, Enterprise Solutions segment revenue increased by 6.8% to $18.9 million, and Cloud and Connectivity Services segment revenue increased by 10.7% to $6.9 million. In the first nine months of 2016 compared to the same period of 2015, OEM Solutions segment revenue decreased 5.1% to $381.3 million, Enterprise Solutions segment revenue increased by 8.5% to $50.5 million, and Cloud and Connectivity Services segment revenue increased by 42.7% to $20.8 million.

Gross margin in the third quarter of 2016 was 32.1%, compared to 31.7% in the same period of 2015. For the first nine months of 2016, gross margin was 32.9%, compared to 32.1% in the same period of 2015. Cost of goods sold in the first nine months of 2016 included reimbursement of certain legal costs in the amount of $1.9 million pursuant to a favorable arbitration decision on a contract dispute with an intellectual property licensor and an unrelated $1.9 million cost recovery related to a legal settlement with a supplier that was received in the first quarter of 2016.

Foreign exchange rate changes impact our foreign currency denominated revenue and operating expenses. We estimate that changes in exchange rates between the third quarter of 2016 and the same period of 2015 had a nominal impact on our gross margin and our operating expenses in the third quarter of 2016.

Financial highlights for the third quarter of 2016:

GAAP:

- Revenue was $153.6 million, a decrease of 0.7%, compared to $154.6 million in the third quarter of 2015.
- Gross margin was 32.1%, compared to 31.7% in the third quarter of 2015.
- Loss from operations was $0.1 million, compared to earnings from operations of $4.2 million in the third quarter of 2015.
- Net loss was $1.8 million, or $0.06 per share, compared to net earnings of $3.3 million, or $0.10 per share, in the third quarter of 2015.
- Cash and cash equivalents were $112.0 million at the end of the third quarter of 2016, an increase of $13.6 million, compared to the end of the second quarter of 2016.

NON-GAAP[1]:

- Gross margin was 32.2%, compared to 31.8% in the third quarter of 2015.
- Earnings from operations were $6.3 million, compared to $9.5 million in the third quarter of 2015.
- Adjusted EBITDA was $9.7 million, compared to $12.1 million in the third quarter of 2015.
- Net earnings were $4.1 million or $0.13 per share, compared to net earnings of $7.4 million, or $0.23 per share, in the third quarter of 2015.

(1) Non-GAAP financial measures exclude the impact of stock-based compensation expense and related social taxes, acquisition-related amortization, impairment, acquisition-related costs, integration costs, restructuring costs, other nonrecurring costs, foreign exchange gains or losses on translation of balance sheet accounts and certain tax adjustments. Refer to the section titled “Non-GAAP Financial Measures” for additional details and reconciliations to the applicable GAAP financial measures.

Selected Consolidated Financial Information:

(in thousands of U.S. dollars, except where otherwise stated)	2016			2015				
	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
Statement of Operations data:								
Revenue	$153,560	$156,229	$142,797	$607,798	$144,846	$154,581	$157,965	$150,406
Gross Margin								
- GAAP	$49,368	$52,764	$46,815	$193,855	$45,063	$49,009	$50,947	$48,836
- Non-GAAP (1)	49,476	52,871	46,921	194,502	45,169	49,155	51,094	49,084
Gross Margin %								
- GAAP	32.1 %	33.8 %	32.8 %	31.9 %	31.1 %	31.7 %	32.3 %	32.5 %
- Non-GAAP (1)	32.2 %	33.8 %	32.9 %	32.0 %	31.2 %	31.8 %	32.4 %	32.6 %
Earnings (loss) from operations								
- GAAP	$(53)	$3,411	$(1,255)	$10,114	$(674)	$4,202	$4,112	$2,474
- Non-GAAP (1)	6,326	8,430	3,642	32,361	3,315	9,475	10,725	8,846
Adjusted EBITDA(1)	$9,697	$12,078	$6,680	$42,911	$6,345	$12,110	$13,148	$11,308
Net earnings (loss)								
- GAAP	$(1,769)	$718	$718	$(2,674)	$(383)	$3,286	$4,076	$(9,653)
- Non-GAAP (1)	4,141	6,376	2,621	25,774	2,536	7,419	8,637	7,182
Revenue by Segment:								
OEM Solutions	$127,765	$132,667	$120,874	$523,366	$121,540	$130,653	$138,133	$133,040
Enterprise Solutions	18,938	16,577	14,995	63,072	16,506	17,734	15,074	13,758
Cloud and Connectivity Services	6,857	6,985	6,928	21,360	6,800	6,194	4,758	3,608
Share and per share data:								
Basic net earnings (loss) per share (in dollars)								
- GAAP	$(0.06)	$0.02	$0.02	$(0.08)	$(0.01)	$0.10	$0.13	$(0.30)
	$0.13	$0.20	$0.08	$0.80	$0.08	$0.23	$0.27	$0.22

- Non-GAAP (1)								
Diluted net earnings (loss) per share (in dollars)								
- GAAP	$(0.06)	$0.02	$0.02	$(0.08)	$(0.01)	$0.10	$0.12	$(0.30)
- Non-GAAP (1)	$0.13	$0.20	$0.08	$0.80	$0.08	$0.23	$0.26	$0.22
Common shares (in thousands)								
At period-end	32,051	32,035	31,906	32,337	32,337	32,263	32,205	32,133
Weighted average - basic	32,043	31,966	32,156	32,166	32,282	32,231	32,166	31,983
Weighted average - diluted	32,043	32,430	32,500	32,166	32,282	32,823	32,915	31,983

(1) Non-GAAP financial measures exclude the impact of stock-based compensation expense and related social taxes, acquisition-related amortization, impairment, acquisition-related costs, integration costs, restructuring costs, other nonrecurring costs, foreign exchange gains or losses on translation of balance sheet accounts and certain tax adjustments. Refer to the section titled “Non-GAAP Financial Measures” for additional details and reconciliations to the applicable GAAP financial measures.

See discussion under “Consolidated Results of Operations” for factors that have caused period-to-period variations.

Other key business highlights for the third quarter of 2016:

- Our mangOH IoT Open Hardware platform won the GSMA's Best Mobile Technology Breakthrough Award at the Asia Mobile World Congress in Shanghai.

- Our automotive-grade AirPrime AR Series modules were selected by PATEO to enable cellular connectivity for its telematics units being installed in automobiles for the China market.

- Our family of smart automotive modules and AirVantange cloud platform was selected by Itelma to enable cellular connectivity and service delivery for its emergency response ERA-GLONASS units supplied to the Russian automotive market.

- We introduced an eUICC (Embedded Universal Integrated Circuit Card) solution for our global Smart SIM and connectivity services. Our eUICC solution is one of the first in the market that conforms to the latest GSMA specification, ensuring global interoperability across hardware vendors, SIM vendors and mobile network operators.

- We announced the availability of the AirLink MG90, a high performance LTE-Advanced vehicle networking platform that provides secure, always-on mobile connectivity.

Outlook

For the fourth quarter of 2016, we expect revenue to be in the range of $157 million to $166 million and non-GAAP earnings per share to be in the range of $0.13 to $0.19.

We believe that the market for wireless IoT solutions has strong long-term growth prospects. We anticipate strong long-term growth in the number of devices being wirelessly connected, driven by key enablers, such as lower wireless connectivity costs, faster wireless connection speeds, new wireless technologies designed specifically for the IoT, new devices and tools to simplify the development of IoT applications, and increased focus and investment from large ecosystem players. More importantly, we see emerging customer demand in many of our target verticals driven by increasing recognition of the value created by deploying IoT solutions, such as new revenue streams and cost efficiencies.

Key factors that we expect will affect our results in the near term are:

- the strength of our competitive position in the market;
- the timely ramp up of sales of our new products recently launched or currently under development;
- the level of success our customers achieve with sales of connected solutions;
- fluctuations in customer demand and inventory levels, particularly large customers;
- the timely launch and ramp up of new customer programs;
- our ability to secure future design wins with both existing and new customers;
- the end-of-life of existing customer programs;
- the availability of components from key suppliers;
- manufacturing capacity at our various manufacturing sites;
- our ability to manage component and product quality compliance;
- contributions to our operating results from the acquisitions we completed in 2015 and 2016;
- fluctuations in foreign exchange rates;
- general economic conditions in the markets we serve; and
- seasonality in demand.

We expect that product and price competition from other wireless device manufacturers and solution providers will continue to play a role in the IoT market. As a result of these factors, we may experience volatility in our results on a quarter-to-quarter basis. Gross margin percentage may fluctuate from quarter-to-quarter depending on product and customer mix, average selling prices and product costs.

See "Cautionary Note Regarding Forward-Looking Statements".

CONSOLIDATED RESULTS OF OPERATIONS

	Three months ended September 30				Nine months ended September 30			
(in thousands of U.S. dollars, except where otherwise stated)	2016		2015		2016		2015	
	$	% of Revenue	$	% of Revenue	$	% of Revenue	$	% of Revenue
Revenue	153,560	100.0 %	154,581	100.0 %	452,586	100.0 %	462,952	100.0 %
Cost of goods sold	104,192	67.9 %	105,572	68.3 %	303,639	67.1 %	314,160	67.9 %
Gross margin	49,368	32.1 %	49,009	31.7 %	148,947	32.9 %	148,792	32.1 %
Expenses								
Sales and marketing	15,519	10.1 %	13,856	9.0 %	47,194	10.4 %	39,829	8.6 %
Research and development	18,015	11.7 %	17,987	11.6 %	55,030	12.1 %	55,481	12.0 %
Administration	11,435	7.4 %	9,416	6.1 %	31,248	6.9 %	30,928	6.7 %
Restructuring	—	— %	39	— %	—	— %	750	0.2 %
Acquisition-related and integration	34	— %	443	0.3 %	467	0.1 %	2,561	0.5 %
Amortization	4,418	2.9 %	3,066	2.0 %	12,905	2.9 %	8,455	1.8 %
	49,421	32.1 %	44,807	29.0 %	146,844	32.4 %	138,004	29.8 %
Earnings (loss) from operations	(53)	— %	4,202	2.7 %	2,103	0.5 %	10,788	2.3 %
Foreign exchange gain (loss)	590		(102)		1,811		(10,445)	
Other income	23		13		81		131	
Earnings before income taxes	560		4,113		3,995		474	
Income tax expense	2,329		827		4,328		2,765	
Net earnings (loss)	(1,769)		3,286		(333)		(2,291)	
Basic and diluted net earnings (loss) per share (in dollars)	$(0.06)		$0.10		$(0.01)		$(0.07)	

Revenue

Revenue decreased by $1.0 million, or 0.7%, in the third quarter of 2016 and by $10.4 million, or 2.2%, in the first nine months of 2016 compared to the same periods of 2015. These decreases were mainly driven by demand softness from certain established OEM customers and programs, partially offset by stronger revenues from both Enterprise Solutions and Cloud and Connectivity Services.

Gross margin

Gross margin was 32.1% in the third quarter of 2016 compared to 31.7% in the same period of 2015. This increase was driven by product cost savings and incremental revenues from Enterprise Solutions and Cloud and Connectivity Services products which have gross margins that are higher than our average gross margin.

Gross margin of 32.9% in the first nine months of 2016 included reimbursement of certain legal costs of $1.9 million pursuant to a favorable arbitration decision on a contract dispute with an intellectual property licensor in the second quarter of 2016 and a separate and unrelated $1.9 million recovery from a legal settlement with a supplier related to a component quality issue received in the first quarter of 2016. Excluding these recoveries, gross margin for the first nine months of 2016 was 32.1%, consistent with 32.1% in the same period of 2015.

In each of the third quarter of 2016 and 2015, gross margin included stock-based compensation expense and related social taxes of $0.1 million. In the first nine months of 2016 and 2015, gross margin included stock-based compensation expense and related social taxes of $0.3 million and $0.5 million, respectively.

Sales and marketing

Sales and marketing expense increased by $1.7 million, or 12.0%, in the third quarter of 2016 and by $7.4 million, or 18.5%, in the first nine months of 2016 compared to the same periods of 2015. This increase was primarily driven by the targeted investments in our go-to-market strategy and costs added as a result of the acquisitions undertaken in 2015.

Sales and marketing expense included stock-based compensation expense and related social taxes of $0.4 million and $0.7 million in the third quarter of 2016 and 2015, respectively, and $1.3 million and $2.0 million in the first nine months of 2016 and 2015, respectively.

Research and development

Research and development (“R&D”) expense was similar in the third quarter of 2016 and decreased by $0.5 million, or 0.8%, in the first nine months of 2016 compared to the same periods of 2015. The decrease in the first nine months of 2016 was primarily related to lower acquisition-related amortization costs, lower costs related to development parts and the favorable impact of foreign exchange. This was partially offset by higher product certification fees and compensation costs.

R&D expenses included stock-based compensation expense and related social taxes of $0.3 million and $0.4 million in the third quarter of 2016 and 2015, respectively, and $1.0 million and $1.2 million in the first nine months of 2016 and 2015, respectively. R&D expenses also included acquisition amortization of $0.1 million and $0.4 million in the third quarter of 2016 and the first nine months of 2016, respectively, compared to $0.1 million and $1.1 million in the same periods of 2015.

Administration

Administration expenses increased by $2.0 million, or 21.4%, in the third quarter of 2016 and by $0.3 million, or 1.0%, in the first nine months of 2016 compared to the same periods of 2015. The increase in the third quarter of 2016 was primarily due to higher compensation costs, including certain termination expenses, and professional fees. The increase in the first nine months of 2016 was primarily due to higher compensation costs partially offset by lower professional fees and the favorable impact of foreign exchange.

Administration expenses included stock-based compensation expense and related social taxes of $1.0 million and $1.3 million in the third quarter of 2016 and 2015, respectively, and $3.2 million and $4.3 million in the first nine months of 2016 and 2015, respectively.

Acquisition-related and integration

In the third quarter and first nine months of 2016, we incurred acquisition-related and integration costs of a nominal amount and $0.5 million, respectively, compared to $0.4 million and $2.6 million