

IROBOT CORP  
Form 10-Q  
August 02, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED June 29, 2013  
OR

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

FOR THE TRANSITION PERIOD FROM TO  
COMMISSION FILE NUMBER 000-51598

iROBOT CORPORATION  
(Exact name of registrant as specified in its charter)

Delaware 77-0259 335  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
8 Crosby Drive  
Bedford, MA 01730  
(Address of principal executive offices)  
(Zip code)  
(781) 430-3000  
(Registrant's telephone number, including area code)

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of the Registrant's Common Stock as of July 30, 2013 was 28,655,437.



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iROBOT CORPORATION  
CONSOLIDATED BALANCE SHEETS  
(unaudited)

	June 29, 2013	December 29, 2012
	(in thousands)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$133,857	\$126,770
Short term investments	19,014	12,430
Accounts receivable, net of allowance of \$81 and \$111 at June 29, 2013 and December 29, 2012, respectively	51,104	29,413
Unbilled revenue	1,051	1,196
Inventory	41,560	36,965
Deferred tax assets	19,245	19,266
Other current assets	13,598	8,853
Total current assets	279,429	234,893
Property and equipment, net	23,060	24,953
Deferred tax assets	10,438	8,792
Goodwill	48,751	48,951
Intangible assets, net	24,506	28,224
Other assets	10,501	8,500
Total assets	\$396,685	\$354,313
<b>LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$53,905	\$42,515
Accrued expenses	14,045	13,642
Accrued compensation	13,113	11,864
Deferred revenue and customer advances	3,274	6,257
Total current liabilities	84,337	74,278
Long term liabilities	4,138	4,218
Commitments and contingencies (Note 6)		
Redeemable convertible preferred stock, 5,000,000 shares authorized and none outstanding	—	—
Common stock, \$0.01 par value, 100,000,000 shares authorized; 28,638,134 and 27,781,659 shares issued and outstanding at June 29, 2013 and December 29, 2012, respectively	286	278
Additional paid-in capital	215,800	199,903
Retained earnings	92,086	75,437
Accumulated other comprehensive income	38	199
Total stockholders' equity	308,210	275,817
Total liabilities, redeemable convertible preferred stock and stockholders' equity	\$396,685	\$354,313
The accompanying notes are an integral part of the consolidated financial statements.		



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iROBOT CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
(in thousands, except per share amounts)  
(unaudited)

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Revenue:				
Product revenue	\$127,966	\$107,760	\$229,371	\$199,502
Contract revenue	2,396	3,685	7,186	9,750
Total revenue	130,362	111,445	236,557	209,252
Cost of revenue:				
Cost of product revenue (1)	67,873	57,089	125,688	113,322
Cost of contract revenue	884	1,540	2,737	4,562
Total cost of revenue	68,757	58,629	128,425	117,884
Gross margin	61,605	52,816	108,132	91,368
Operating expenses:				
Research and development (1)	15,997	14,182	30,405	28,682
Selling and marketing (1)	22,309	17,976	33,006	30,309
General and administrative (1)	15,395	10,022	27,853	21,064
Total operating expenses	53,701	42,180	91,264	80,055
Operating income	7,904	10,636	16,868	11,313
Other income (expense), net	(105)	) 60	(201)	) 280
Income before income taxes	7,799	10,696	16,667	11,593
Income tax expense (benefit)	(495)	) 3,321	18	3,565
Net income	\$8,294	\$7,375	\$16,649	\$8,028
Net income per share				
Basic	\$0.29	\$0.27	\$0.59	\$0.29
Diluted	\$0.28	\$0.26	\$0.57	\$0.28
Number of shares used in calculations per share				
Basic	28,416	27,522	28,173	27,441
Diluted	29,226	28,182	28,972	28,259

(1) Total stock-based compensation recorded in the three and six months ended June 29, 2013 and June 30, 2012 included in the above figures breaks down by expense classification as follows:

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Cost of product revenue	\$128	\$218	\$246	\$426
Research and development	793	446	1,294	906
Selling and marketing	118	179	484	416
General and administrative	2,224	2,059	4,168	3,667

The accompanying notes are an integral part of the consolidated financial statements.

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iROBOT CORPORATION  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (in thousands)  
 (unaudited)

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net income, as reported	\$8,294	\$7,375	\$16,649	\$8,028
Other comprehensive income, net of tax:				
Unrealized gains on investments, net of tax	(173	) (91	) (161	) 54
Total comprehensive income	\$8,121	\$7,284	\$16,488	\$8,082

The accompanying notes are an integral part of the consolidated financial statements.

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iROBOT CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)  
(unaudited)

	Six Months Ended	
	June 29, 2013	June 30, 2012
Cash flows from operating activities:		
Net income	\$16,649	\$8,028
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	6,549	5,313
Loss on disposal of property and equipment	281	166
Goodwill and intangible assets impairment	1,988	—
Stock-based compensation	6,192	5,415
Deferred income taxes, net	(913	) (4,230
Tax benefit of excess stock-based compensation deductions	(1,636	) (1,035
Non-cash director deferred compensation	22	42
Changes in operating assets and liabilities — (use) source		
Accounts receivable	(21,691	) 3,811
Unbilled revenue	145	289
Inventory	(4,595	) (3,508
Other assets	(4,770	) (378
Accounts payable	11,390	(3,194
Accrued expenses	400	(3,252
Accrued compensation	1,249	(8,141
Deferred revenue and customer advances	(2,983	) 355
Long term liabilities	(80	) (186
Net cash provided by (used in) provided by operating activities	8,197	(505
Cash flows from investing activities:		
Additions of property and equipment	(2,828	) (2,956
Change in other assets	(2,000	) (6,000
Purchases of investments	(10,397	) (5,086
Sales of investments	3,500	2,500
Net cash used in investing activities	(11,725	) (11,542
Cash flows from financing activities:		
Proceeds from stock option exercises	9,843	2,022
Income tax withholding payment associated with restricted stock vesting	(864	) (775
Tax benefit of excess stock-based compensation deductions	1,636	1,035
Net cash provided by financing activities	10,615	2,282
Net increase (decrease) in cash and cash equivalents	7,087	(9,765
Cash and cash equivalents, at beginning of period	126,770	166,308
Cash and cash equivalents, at end of period	\$133,857	\$156,543
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$6,234	\$6,411

The accompanying notes are an integral part of the consolidated financial statements.





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iROBOT CORPORATION

Notes To Consolidated Financial Statements

(unaudited)

1. Description of Business

iRobot Corporation (“iRobot” or the “Company”) develops robotics and artificial intelligence technologies and applies these technologies in producing and marketing robots. The majority of the Company’s revenue is generated from product sales and government and commercial research and development contracts.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include those of iRobot and its subsidiaries, after elimination of all intercompany accounts and transactions. iRobot has prepared the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States of America.

The accompanying unaudited financial data as of June 29, 2013 and for the three and six months ended June 29, 2013 and June 30, 2012 has been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. These consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and the notes thereto included in its Annual Report on Form 10-K for the fiscal year ended December 29, 2012, filed with the SEC on February 15, 2013.

In the opinion of management, all adjustments necessary to state fairly its statement of financial position as of June 29, 2013 and results of operations and cash flows for the periods ended June 29, 2013 and June 30, 2012 have been made. The results of operations and cash flows for any interim period are not necessarily indicative of the operating results and cash flows for the full fiscal year or any future periods.

Reorganization

In fiscal year 2012, the Company initiated a reorganization that resulted in, among other things, the centralization of all of the Company's engineering and operations activities. This reorganization was completed at the beginning of fiscal year 2013. In conjunction with this reorganization, the Company reviewed the financial statement classification of its costs and expenses. As a result of this review, the Company decided to classify certain expenses differently than had been classified and presented in prior periods to provide a more clear understanding of the Company's financial performance. As part of this review, the Company also evaluated the impact of the reorganization on its segment reporting and determined that certain modifications were necessary to present the segment information as now viewed by the Company's chief operating decision maker. Although the classification of certain expenses on the income statement has changed in fiscal year 2013 as compared to prior periods, the Company recast the financial results of prior periods in a manner consistent with the fiscal year 2013 presentation for comparability purposes. The reclassified amounts reflected in the consolidated statements of income for the three and six months ended June 30, 2012 included herein conform to the fiscal year 2013 presentation. This reclassification of costs and expenses did not impact previously reported net income or earnings per share as the changes only impacted the categorization of costs within the consolidated statements of income for the periods in question. Consequently, the classification changes did not impact previously presented consolidated balance sheets, statements of cash flow or statements of stockholders' equity.

Revision of Consolidated Balance Sheet as of December 29, 2012

During the three month period ended March 30, 2013, the Company identified a classification error related to its reserves for uncertain tax positions on its December 29, 2012 consolidated balance sheet. The Company had recorded a gross income tax receivable in current assets and a gross uncertain tax positions liability against that receivable in current liabilities as of December 29, 2012. In addition, the Company misclassified certain uncertain tax position

liabilities in current and long-term liabilities. The impact of the errors on the December 29, 2012 consolidated balance sheet was a decrease in Other Current Assets of \$2.7 million, an increase in Other Assets of \$0.2 million, a decrease in Accrued Expenses of \$2.9 million, and an increase in Long-term Liabilities of \$0.4 million. These adjustments were not considered to be material, individually or in the aggregate, to previously issued financial statements. The Company has revised its December 29, 2012 consolidated balance sheet to correct these errors as reflected herein. This revision had no impact on the consolidated statement of income, the

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iROBOT CORPORATION

Notes to Consolidated Financial Statements - (Continued)

consolidated statement of comprehensive income, or total cash flows from operating activities, investing activities, or financing activities.

Use of Estimates

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates these estimates and judgments, including those related to revenue recognition, sales returns, bad debts, warranty claims, inventory reserves, valuation of investments, assumptions used in valuing stock-based compensation instruments and income taxes. The Company bases these estimates on historical and anticipated results and trends and on various other assumptions that the Company believes are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from the Company's estimates.

Fiscal Year-End

The Company operates and reports using a 52-53 week fiscal year ending on the Saturday closest to December 31. Accordingly, the Company's fiscal quarters end on the Saturday that falls closest to the last day of the third month of each quarter.

Revenue Recognition

The Company derives its revenue from product sales, government research and development contracts, and commercial research and development contracts. The Company sells products directly to customers and indirectly through resellers and distributors. The Company recognizes revenue from sales of robots under the terms of the customer agreement upon transfer of title and risk of loss to the customer, net of estimated returns, provided that collection is determined to be reasonably assured and no significant obligations remain. Sales to domestic resellers of home robots are typically subject to agreements allowing for limited rights of return, rebates and price protection. Accordingly, the Company reduces revenue for its estimates of liabilities for these rights of return at the time the related sale is recorded. The Company makes an estimate of sales returns for products sold by domestic resellers directly based on historical returns experience and other relevant data. The Company's international distributor agreements do not currently allow for product returns and, as a result, no reserve for returns is established for this group of customers. The Company has aggregated and analyzed historical returns from domestic resellers and end users which form the basis of its estimate of future sales returns by resellers or end users. When a right of return exists, the provision for these estimated returns is recorded as a reduction of revenue at the time that the related revenue is recorded. If actual returns differ significantly from its estimates, such differences could have a material impact on the Company's results of operations for the period in which the returns become known. The estimates for returns are adjusted periodically based upon historical rates of returns. The estimates and reserve for rebates and price protection are based on specific programs, expected usage and historical experience. Actual results could differ from these estimates.

During the three month period ended June 29, 2013, the Company updated its assessment of customer defective product returns in its home robots business unit. This assessment demonstrated lower actual product returns experience than the estimates included in its historical returns reserve. The Company believes these lower actual returns were the result of its sustained investment in product quality. In the second quarter, the Company accordingly adjusted its accrual rates to reflect these lower return rates, resulting in a \$3.5 million benefit to revenue for the three and six month periods ended June 29, 2013. The Company recorded a similar favorable adjustment of \$3.3 million in the three month period ended June 30, 2012.

Under cost-plus-fixed-fee ("CPFF") type contracts, the Company recognizes revenue based on costs incurred plus a pro rata portion of the total fixed fee. Costs incurred include labor and material that are directly associated with individual CPFF contracts plus indirect overhead and general and administrative type costs based upon billing rates submitted by the Company to the Defense Contract Management Agency ("DCMA"). Annually, the Company submits final indirect billing rates to DCMA based upon actual costs incurred throughout the year. In the situation where the Company's

final actual billing rates are greater than the estimated rates currently in effect, the Company records a cumulative revenue adjustment in the period in which the rate differential is collected from the customer. These final billing rates are subject to audit by the Defense Contract Audit Agency (“DCAA”), which can occur several years after the final billing rates are submitted and may result in material adjustments to revenue recognized based on estimated final billing rates. As of June 29, 2013, fiscal years 2007 through 2012 are open for audit by DCAA. In the situation where the Company’s anticipated actual billing rates will be lower than the provisional rates currently in effect, the Company records a cumulative revenue adjustment in the period in which the rate differential is identified. Revenue on firm fixed price (“FFP”) contracts is recognized using the percentage-of-completion method. For government product FFP contracts, revenue is recognized as the product is shipped or in accordance with the

iROBOT CORPORATION

Notes to Consolidated Financial Statements - (Continued)

contract terms. Costs and estimated gross margins on contracts are recorded as revenue as work is performed based on the percentage that incurred costs compare to estimated total costs utilizing th