IROBOT CORP
Form 10-Q
July 31, 2009

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED June 27, 2009
OR

o **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 incorporation or organization)	**(I.R.S. Employer 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 þ No o

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 o No o

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

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

The number of shares outstanding of the Registrant s Common Stock as of July 24, 2009 was 25,008,366.

iROBOT CORPORATION
FORM 10-Q
THREE AND SIX MONTHS ENDED JUNE 27, 2009
INDEX

	Page
PART I: FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Balance Sheets as of June 27, 2009 and December 27, 2008 (unaudited)	2
Consolidated Statements of Operations for the three and six month periods ended June 27, 2009 and June 28, 2008 (unaudited)	3
Consolidated Statements of Cash Flows for the six month periods ended June 27, 2009 and June 28, 2008 (unaudited)	4
Notes to Consolidated Financial Statements (unaudited)	5
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3. Quantitative and Qualitative Disclosures about Market Risk	24
Item 4. Controls and Procedures	25
PART II: OTHER INFORMATION	
Item 1. Legal Proceedings	25
Item 1A. Risk Factors	25
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	26
Item 4. Submission of Matters to a Vote of Security Holders	26
Item 5. Other Information	27
Item 6. Exhibits	28
Signatures	29
Exhibit Index	30
Ex-31.1 Section 302 Certification of the Chief Executive Officer	
Ex-31.2 Section 302 Certification of the Chief Financial Officer	
Ex-32.1 Section 906 Certification of the C.E.O and C.F.O.	

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

Table of Contents

iROBOT CORPORATION
Consolidated Balance Sheets
(in thousands)
(unaudited)

	June 27, 2009	December 27, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 50,989	$ 40,852
Accounts receivable, net of allowance of $65 at June 27, 2009 and December 27, 2008	31,291	35,930
Unbilled revenue	3,459	2,014
Inventory, net	28,638	34,560
Deferred tax assets	7,565	7,299
Other current assets	5,498	3,340
Total current assets	127,440	123,995
Property and equipment, net	21,672	22,929
Deferred tax assets	4,508	4,508
Other assets	12,000	12,246
Total assets	$ 165,620	$ 163,678
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 21,108	$ 19,544
Accrued expenses	10,966	10,989
Accrued compensation	7,027	6,393
Deferred revenue and customer advances	2,974	2,632
Total current liabilities	42,075	39,558
Long term liabilities	4,229	4,444
Commitments and contingencies (Note 6):		
Redeemable convertible preferred stock, 5,000 shares authorized and zero outstanding at June 27, 2009 and December 27, 2008		
Common stock, $0.01 par value, 100,000 and 100,000 shares authorized and 25,005 and 24,811 issued and outstanding at June 27, 2009 and December 27, 2008, respectively	250	248
Additional paid-in capital	134,559	130,637
Deferred compensation	(202)	(314)
Accumulated deficit	(15,291)	(10,895)
Total stockholders equity	119,316	119,676

Total liabilities, redeemable convertible preferred stock and stockholders equity	$ 165,620	$ 163,678

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

2

Table of Contents

iROBOT CORPORATION
Consolidated Statements of Operations
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended		Six Months Ended	
	June 27, 2009	June 28, 2008	June 27, 2009	June 28, 2008
Revenue:				
Product revenue	$ 52,609	$ 60,676	$ 102,300	$ 111,251
Contract revenue	8,731	6,526	15,976	13,253
Total revenue	61,340	67,202	118,276	124,504
Cost of revenue:				
Cost of product revenue (1)	37,098	44,382	70,537	80,577
Cost of contract revenue (1)	7,833	6,352	15,124	12,099
Total cost of revenue	44,931	50,734	85,661	92,676
Gross margin	16,409	16,468	32,615	31,828
Operating expenses:				
Research and development (1)	3,896	4,718	7,474	8,691
Selling and marketing (1)	8,940	13,471	17,906	24,929
General and administrative (1)	7,365	7,340	14,495	14,118
Total operating expenses	20,201	25,529	39,875	47,738
Operating loss	(3,792)	(9,061)	(7,260)	(15,910)
Other income (expense), net	91	242	(208)	737
Loss before income taxes	(3,701)	(8,819)	(7,468)	(15,173)
Income tax benefit	(1,092)	(4,306)	(3,072)	(6,655)
Net loss	$ (2,609)	$ (4,513)	$ (4,396)	$ (8,518)
Net loss per share basic and diluted	$ (0.10)	$ (0.18)	$ (0.18)	$ (0.35)
Number of shares used in per share calculations basic and diluted	24,967	24,610	24,946	24,561

(1) Total stock-based compensation recorded in the three and six months ended June 27, 2009

and June 28, 2008 included in the above figures breaks down by expense classification as follows:

	Three Months Ended		Six Months Ended	
	June 27, 2009	**June 28, 2008**	**June 27, 2009**	**June 28, 2008**
Cost of product revenue	$ 278	$ 216	$ 491	$ 370
Cost of contract revenue	162	114	325	173
Research and development	101	128	98	95
Selling and marketing	338	267	655	428
General and administrative	1,016	808	1,928	1,405
Total stock-based compensation	$ 1,895	$ 1,533	$ 3,497	$ 2,471

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

Table of Contents

iROBOT CORPORATION
Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Six Months Ended	
	June 27, 2009	June 28, 2008
Cash flows from operating activities:		
Net loss	$ (4,396)	$ (8,518)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	3,864	3,291
Loss on disposal of fixed assets	102	68
Stock-based compensation	3,497	2,471
Benefit from deferred tax assets	(511)	
Non-cash director deferred compensation	66	47
Changes in working capital (use) source		
Accounts receivable	4,639	23,428
Unbilled revenue	(1,445)	54
Inventory	5,922	1,934
Other assets	(2,163)	(8,116)
Accounts payable	1,564	(20,732)
Accrued expenses	(33)	179
Accrued compensation	634	2,022
Deferred revenue	342	(628)
Long term liabilities	(215)	4,659
Net cash provided by operating activities	11,867	159
Cash flows from investing activities:		
Purchase of property and equipment	(2,448)	(12,277)
Purchases of investments		(29,997)
Sales of investments		29,050
Net cash used in investing activities	(2,448)	(13,224)
Cash flows from financing activities:		
Proceeds from stock option exercises	459	732
Income tax withholding payment associated with restricted stock award vesting	(9)	
Tax benefit of excess stock-based compensation deductions	268	358
Net cash provided by financing activities	718	1,090
Net increase (decrease) in cash and cash equivalents	10,137	(11,975)
Cash and cash equivalents, at beginning of period	40,852	26,735

Cash and cash equivalents, at end of period	$ 50,989	$ 14,760
Supplemental disclosure of cash flow information:		
Cash paid for interest	$	$ 41
Cash paid for income taxes	598	38

Supplemental disclosure of noncash investing and financing activities (in thousands):

During the six months ended June 27, 2009 and June 28, 2008, the Company transferred $787 and $146, respectively, of inventory to fixed assets.

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

4

Table of Contents

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 industrial research and development contracts.

The Company is subject to risks common to companies in high-tech industries including, but not limited to, uncertainty of progress in developing technologies, new technological innovations, dependence on key personnel, protection of proprietary technology, compliance with government regulations, uncertainty of market acceptance of products, the need to obtain financing, if necessary, global economic conditions and associated impact on consumer spending, and changes in policies and spending priorities of the U.S. federal government and other government agencies.

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.

The accompanying financial data as of June 27, 2009 and for the three and six months ended June 27, 2009 and June 28, 2008 has been prepared by the Company, without audit, 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 27, 2008, filed with the SEC on February 13, 2009.

In the opinion of management, all adjustments necessary to present a fair statement of financial position as of June 27, 2009 and results of operations and cash flows for the periods ended June 27, 2009 and June 28, 2008 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.

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.

Table of Contents

iROBOT CORPORATION
Notes To Consolidated Financial Statements Continued
(unaudited)

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 home robots under the terms of the customer agreement upon transfer of title to the customer, net of estimated returns, provided that collection is determined to be probable and no significant obligations remain. Sales to resellers are subject to agreements allowing for limited rights of return for defective products only, rebates and price protection. The Company has typically not taken product returns except for defective products. Accordingly, the Company reduces revenue for its estimates of liabilities for these rights at the time the related sale is recorded. The Company makes an estimate of sales returns for products sold by 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 from this group of customers. The Company has aggregated and analyzed historical returns from resellers and end users which form the basis of its estimate of future sales returns by resellers or end users. In accordance with Statement of Financial Accounting Standards (SFAS) No. 48, Revenue Recognition When 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.

Under cost-plus-fixed-fee type contracts, the Company recognizes revenue based on costs incurred plus a pro rata portion of the total fixed fee. 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 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 the most recent estimates of costs and funding. Changes in job performance, job conditions, and estimated profitability, including those arising from final contract settlements, may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Since many contracts extend over a long period of time, revisions in cost and funding estimates during the progress of work have the effect of adjusting earnings applicable to past performance in the current period. When the current contract estimate indicates a loss, a provision is made for the total anticipated loss in the current period. Revenue earned in excess of billings, if any, is recorded as unbilled revenue. Billings in excess of revenue earned, if any, are recorded as deferred revenue.

Accounting for Share-Based Payments

The Company accounts for share-based payments to employees, including grants of employee stock options and awards in the form of restricted shares and restricted stock units under the provisions of SFAS No. 123(R), *Share-Based Payment* (SFAS 123(R)). Under the provisions of SFAS 123(R), the Company establishes the fair value of each option grant using the Black-Scholes option-pricing model. SFAS 123(R) requires the recognition of the fair value of share-based payments as a charge against earnings. The Company recognizes share-based payment expense over the requisite service period of the underlying grants and awards. Based on the provisions of SFAS 123(R), the Company s share-based payment awards are accounted for as equity instruments.

Table of Contents

iROBOT CORPORATION
Notes To Consolidated Financial Statements Continued
(unaudited)

Net Loss Per Share

The following table presents the calculation of both basic and diluted net loss per share:

	Three Months Ended		Six Months Ended	
	June 27, 2009	June 28, 2008	June 27, 2009	June 28, 2008
	(In thousands, except per share data)			
Net loss	$ (2,609)	$ (4,513)	$ (4,396)	$ (8,518)
Diluted weighted average shares outstanding	24,967	24,610	24,946	24,561
Basic and diluted loss per share	$ (0.10)	$ (0.18)	$ (0.18)	$ (0.35)

Income Taxes

Deferred taxes are determined based on the difference between the book and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Valuation allowances are provided if based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

In fiscal 2007, the Company completed an analysis of historical and projected future profitability which resulted in the full release of the valuation allowance relating to federal deferred tax assets. The Company continues to maintain a valuation allowance against state deferred tax assets due to less certainty of their realizability given the shorter expiration period associated with them and the generation of state tax credits in excess of the state tax liability. At June 27, 2009, the Company has total deferred tax assets of $15.5 million and a valuation allowance of $3.4 million resulting in a net deferred tax asset of $12.1 million.

Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. The Company has adopted the provisions of SFAS 157 as of December 30, 2007, for financial instruments. Although the adoption of SFAS 157 did not materially impact its financial condition, results of operations, or cash flow, the Company is now required to provide additional disclosures as part of its financial statements.

In February 2008, FASB issued FSP FAS 157-2, which delayed the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This FSP partially deferred the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. The Company has adopted the provisions of SFAS 157 as of December 28, 2008 for nonfinancial assets and nonfinancial liabilities. This adoption did not impact the Company s consolidated financial statements.

SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Table of Contents

iROBOT CORPORATION
Notes To Consolidated Financial Statements Continued
(unaudited)

The Company s assets measured at fair value on a recurring basis subject to the disclosure requirements of SFAS 157 at June 27, 2009, were as follows:

	Fair Value Measurements as of June 27, 2009 (In thousands)		
Description	**Level 1**	**Level 2**	**Level 3**
Assets:			
Money Market Accounts	$ 46,542	$	$
Total assets measured at fair value	$ 46,542		

Goodwill

Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and intangible assets acquired. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, the Company tests goodwill for impairment at the reporting unit level (operating segment or one level below an operating segment) annually or more frequently if the Company believes indicators of impairment exist. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying values, including goodwill. If the carrying amount of a reporting unit exceeds the reporting unit s fair value, the Company performs the second step of the goodwill impairment test to determine the amount of impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit s goodwill with the carrying value of that goodwill.

Recent Accounting Pronouncements

In December 2007, FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R) and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51(* SFAS 160). SFAS 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. The provisions of SFAS 141R and SFAS 160 are effective for fiscal years beginning on or after December 15, 2008. The Company adopted SFAS 141R and SFAS 160 at the beginning of fiscal 2009 and will change its accounting treatment for business combinations, if any, on a prospective basis.

On April 1, 2009, FASB issued FSP FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies,*(FSP FAS 141(R)-1). FSP FAS 141(R)-1 amends and clarifies SFAS 141R, to address application issues regarding the initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. The Company adopted SFAS FSP FAS 141(R)-1 on April 1, 2009 and will change its accounting treatment for business combinations, if any, on a prospective basis.

In May 2009, FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165). SFAS 165 establishes general standards of accounting for disclosing events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for selecting that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009. The implementation of SFAS 165 did not impact the Company s consolidated financial statements.

In June 2009, FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS 167). SFAS 167 amends FASB Interpretation No. 46, *Consolidation of Variable Interest Entities (revised December 2003) an interpretation of ARB No. 51* (FIN 46(R)), to require an enterprise to determine whether its variable interest or interests give it a controlling financial interest in a variable interest entity. The primary beneficiary of a variable interest entity is the enterprise that has both (1) the power to direct the activities of a variable interest entity

iROBOT CORPORATION
Notes To Consolidated Financial Statements Continued
(unaudited)

that most significantly impact the entity s economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. SFAS 167 also amends FIN 46(R) to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. SFAS 167 is effective for all variable interest entities and relationships with variable interest entities existing as of January 1, 2010. The Company does not expect the adoption of the SFAS 167 to have an impact on its financial position or results of operations.

In June 2009, FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162* (SFAS 168). SFAS 168 replaces SFAS No. 162*, The Hierarchy of Generally Accepted Accounting Principles,* to establish the *FASB Accounting Standards Codification* as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in preparation of financial statements in conformity with generally accepted accounting principles in the United States. SFAS 168 is effective for interim and annual periods ending after September 15, 2009. The Company does not expect the adoption of the SFAS 168 to have an impact on its financial position or results of operations.

From time to time, new accounting pronouncements are issued by FASB that are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on the Company s consolidated financial statements upon adoption.

3. Inventory

Inventory consists of the following at:

	June 27, 2009	**December 27, 2008**
	(In thousands)	
Raw materials	$ 4,483	$ 3,443
Work in process	1,327	746
Finished goods	22,828	30,371
	$ 28,638	$ 34,560

4. Stock Option Plans

The Company has options outstanding under three stock incentive plans: the 1994 Stock Option Plan (the 1994 Plan), the 2004 Stock Option and Incentive Plan (the 2004 Plan) and the 2005 Stock Option and Incentive Plan (the 2005 Plan and together with the 1994 Plan and the 2004 Plan, the Plans). The 2005 Plan is the only one of the three plans under which new awards may currently be granted. Under the 2005 Plan, which became effective October 10, 2005, 1,583,682 shares were initially reserved for issuance in the form of incentive stock options, non-qualified stock options, stock appreciation rights, deferred stock awards and restricted stock awards. Additionally, the 2005 Plan provides that the number of shares reserved and available for issuance under the plan will automatically increase each January 1, beginning in 2007, by 4.5% of the outstanding number of shares of common stock on the immediately preceding December 31. Stock options returned to the Plans as a result of their expiration, cancellation or termination are automatically made available for issuance under the 2005 Plan. Eligibility for incentive stock options is limited to those individuals whose employment status would qualify them for the tax treatment associated with incentive stock options in accordance with the Internal Revenue Code of 1986, as amended. As of June 27, 2009, there were 2,126,176 shares available for future grant under the 2005 Plan.

Options granted under the Plans are subject to terms and conditions as determined by the compensation committee of the board of directors, including vesting periods. Options granted under the Plans are exercisable in full at any time subsequent to vesting, generally vest over periods from zero to five years, and expire seven or ten years from the date of grant or, if earlier, 60 or 90 days from employee termination. The exercise price of incentive

iROBOT CORPORATION
Notes To Consolidated Financial Statements Continued
(unaudited)

stock options is equal to the closing price on the NASDAQ Global Market on the date of grant. The exercise price of nonstatutory options may be set at a price other than the fair market value of the common stock.

On April 24, 2009, in connection with his appointment, Jeffrey A. Beck, president, home robots division was granted a stock option exercisable for 150,000 shares of the Company s common stock at the closing price of $9.80 and 35,000 restricted stock units. The stock option will vest 25% on the first anniversary of the grant date and quarterly over the following three years, and the restricted stock units will vest 25% on each anniversary of the grant date.

On May 28, 2009, the Company s stockholders approved an amendment to the 2005 Plan and a one-time stock option exchange program, as described in the Company s definitive proxy statement for its 2009 Annual Meeting of Stockholders, filed with the SEC on April 13, 2009 (the Proxy Statement). Under the option exchange program (the Offer), the Company offered to exchange certain out-of-the-money stock options previously granted under the 2004 Plan and 2005 Plan for new stock options exercisable for fewer shares of common stock with lower exercise prices and extended vesting terms (the New Options). Pursuant to the Offer, a total of 141 eligible participants tendered, and the Company accepted for cancellation, options to purchase an aggregate of 678,850 shares of the Company s common stock with exercise prices greater than or equal to $13.37. There were an aggregate of 1,360,632 of shares of common stock underlying all eligible options. The eligible options that were accepted for cancellation represented approximately 50% of the total shares of common stock underlying all of the eligible options. In accordance with the terms and conditions of the Offer, on May 29, 2009, the Company issued New Options to purchase an aggregate of 310,607 shares of common stock in exchange for the cancellation of the tendered eligible options. The exchange ratios were designed to result in the fair value, for accounting purposes, of the New Options being approximately equal to the fair value of the exchanged eligible options to ensure the Company minimized any additional compensation expense in connection with the Offer; and none was incurred. The exercise price per share of each New Option granted in the Offer is $12.50, the closing price of the Company s common stock on the NASDAQ Global Market on May 29, 2009.

On June 26, 2009 each of the Company s eight non-employee board members was issued an annual grant of 10,000 stock options with an exercise price per share of $13.46. These stock options will vest 100% on the first anniversary of the grant date.

The Company has determined that grants, exercises and other stock-based compensation activity, other than the items mentioned above, during the six months ended June 27, 2009 were not material.

5. Accrued Expenses

Accrued expenses consist of the following at:

	June 27, 2009	December 27, 2008
	(In thousands)	
Accrued warranty	$ 5,303	$ 5,380
Accrued direct fulfillment costs	1,564	1,236
Accrued rent	501	470
Accrued sales commissions	291	801
Accrued accounting fees	524	376
Accrued income taxes		248
Accrued other	2,783	2,478
	$ 10,966	$ 10,989

Table of Contents

iROBOT CORPORATION
Notes To Consolidated Financial Statements Continued
(unaudited)

6. Commitments and Contingencies

Lease Obligations

The Company leases its facilities. Rental expense under operating leases for the three months ended June 27, 2009 and June 28, 2008 amounted to $1.0 million and $1.5 million, respectively, and for the six months ended June 27, 2009 and June 28, 2008 amounted to $2.0 million and $2.1 million, respectively. The Company recorded $0.7 million of expense in the three month period ended June 28, 2008 for remaining lease commitments, net of estimated sublease income, at its former corporate headquarters in Burlington, Massachusetts. Future minimum rental payments under operating leases were as follows as of June 27, 2009:

	Operating Leases (In thousands)
Remainder of 2009	$ 1,310
2010	2,434
2011	2,307
2012	2,254
2013	2,087
Thereafter	12,698
Total minimum lease payments	$ 23,090

Sales Taxes

The Company collects and remits sales tax in jurisdictions in which it has a physical presence or it believes nexus exists, which therefore obligates the Company to collect and remit sales tax. The Company is not currently aware of any asserted claims for sales tax liabilities for prior taxable periods.

The Company continually evaluates whether it has established a nexus in new jurisdictions with respect to sales tax. The Company has recorded a liability for potential exposure in several states where there is uncertainty about the point in time at which the Company established a sufficient business connection to create nexus. The Company continues to analyze possible sales tax exposure, but does not currently believe that any individual claim or aggregate claims that might arise will ultimately have a material effect on its consolidated results of operations, financial position or cash flows.

Guarantees and Indemnification Obligations

The Company enters into standard indemnification agreements in the ordinary course of business. Pursuant to these agreements, the Company indemnifies and agrees to reimburse the indemnified party for losses incurred by the indemnified party, generally the Company s customers, in connection with any patent, copyright, trade secret or other proprietary right infringement claim by any third party with respect to the Company s products. The term of these indemnification agreements is generally perpetual any time after execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of June 27, 2009 and June 28, 2008, respectively.

Warranty

The Company provides warranties on most products and has established a reserve for warranty based on identified or estimated warranty costs. The reserve is included as part of accrued expenses (Note 5) in the accompanying balance sheets.

11

Table of Contents