

IROBOT CORP
Form 10-Q
November 05, 2010

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**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 October 2, 2010
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
(State or other jurisdiction of
incorporation or organization)**

**77-0259 335
(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 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 Smaller reporting company
(Do not check if a 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 October 29, 2010 was 25,456,123.

iROBOT CORPORATION
FORM 10-Q
THREE AND NINE MONTHS ENDED OCTOBER 2, 2010
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iROBOT CORPORATION
Consolidated Balance Sheets
(unaudited)

	October 2, 2010	January 2, 2010
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 90,603	\$ 71,856
Short term investments	16,576	4,959
Accounts receivable, net of allowance of \$90 at October 2, 2010 and January 2, 2010	27,794	35,171
Unbilled revenue	2,534	1,831
Inventory	33,969	32,406
Deferred tax assets	9,922	8,669
Other current assets	3,062	4,119
Total current assets	184,460	159,011
Property and equipment, net	22,389	20,230
Deferred tax assets	8,183	6,089
Other assets	13,889	14,254
Total assets	\$ 228,921	\$ 199,584
 LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 35,677	\$ 30,559
Accrued expenses	14,061	14,384
Accrued compensation	13,117	13,525
Deferred revenue and customer advances	2,023	3,908
Total current liabilities	64,878	62,376
Long term liabilities	3,692	4,014
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; 25,443,144 and 25,091,619 issued and outstanding at October 2, 2010 and January 2, 2010, respectively	254	251
Additional paid-in capital	149,025	140,613
Deferred compensation		(64)
Retained earnings (accumulated deficit)	10,949	(7,565)
Accumulated other comprehensive income (loss)	123	(41)
Total stockholders equity	160,351	133,194

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Total liabilities, redeemable convertible preferred stock and stockholders' equity	\$ 228,921	\$ 199,584
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The accompanying notes are an integral part of the consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	October	September	October	September
	2,	26,	2,	26,
	2010	2009	2010	2009
Revenue:				
Product revenue	\$ 85,051	\$ 69,080	\$ 257,107	\$ 171,380
Contract revenue	9,172	9,539	29,850	25,515
Total revenue	94,223	78,619	286,957	196,895
Cost of revenue:				
Cost of product revenue (1)	54,472	46,415	165,897	116,952
Cost of contract revenue (1)	6,494	8,009	21,116	23,133
Total cost of revenue	60,966	54,424	187,013	140,085
Gross margin	33,257	24,195	99,944	56,810
Operating expenses:				
Research and development (1)	6,185	3,159	16,375	10,633
Selling and marketing (1)	10,734	9,514	30,959	27,420
General and administrative (1)	8,904	7,420	26,693	21,915
Total operating expenses	25,823	20,093	74,027	59,968
Operating income (loss)	7,434	4,102	25,917	(3,158)
Other income (expense), net	299	112	368	(96)
Income (loss) before income taxes	7,733	4,214	26,285	(3,254)
Income tax expense (benefit)	701	1,620	7,771	(1,452)
Net income (loss)	\$ 7,032	\$ 2,594	\$ 18,514	\$ (1,802)
Net income (loss) per share				
Basic	\$ 0.28	\$ 0.10	\$ 0.73	\$ (0.07)
Diluted	\$ 0.27	\$ 0.10	\$ 0.70	\$ (0.07)
Number of shares used in calculations per share				
Basic	25,428	25,025	25,293	24,974
Diluted	26,480	25,670	26,319	24,974

(1) Total stock-based compensation recorded in the

three and nine
months ended
October 2, 2010
and
September 26,
2009 included
in the above
figures breaks
down by
expense
classification as
follows:

	Three Months Ended		Nine Months Ended	
	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
Cost of product revenue	\$ 310	\$ 267	\$ 997	\$ 758
Cost of contract revenue	101	139	337	464
Research and development	211	89	488	187
Selling and marketing	240	351	885	1,006
General and administrative	1,079	1,016	3,325	2,944

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)

	Nine Months Ended	
	October	September
	2,	26,
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ 18,514	\$ (1,802)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	5,673	6,153
Loss on disposal of property and equipment	117	176
Stock-based compensation	6,032	5,359
Benefit from deferred tax assets	(3,867)	(347)
Non-cash director deferred compensation	99	99
Changes in operating assets and liabilities (use) source		
Accounts receivable	7,377	(8,004)
Unbilled revenue	(703)	(523)
Inventory	(1,563)	9,907
Other assets	1,010	(1,111)
Accounts payable	5,118	8,243
Accrued expenses	(315)	673
Accrued compensation	(408)	4,453
Deferred revenue	(1,885)	1,612
Long term liabilities	(322)	(322)
Net cash provided by operating activities	34,877	24,566
Cash flows from investing activities:		
Additions of property and equipment	(7,537)	(3,401)
Purchases of investments	(30,461)	
Sales of investments	19,000	
Net cash used in investing activities	(18,998)	(3,401)
Cash flows from financing activities:		
Proceeds from stock option exercises	2,297	495
Income tax withholding payment associated with restricted stock vesting	(284)	(76)
Tax benefit of excess stock-based compensation deductions	855	311
Net cash provided by financing activities	2,868	730
Net increase in cash and cash equivalents	18,747	21,895
Cash and cash equivalents, at beginning of period	71,856	40,852
Cash and cash equivalents, at end of period	\$ 90,603	\$ 62,747

Supplemental disclosure of cash flow information:

Cash paid for income taxes	\$ 12,198	\$ 608
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Supplemental disclosure of noncash investing and financing activities:

During the nine months ended October 2, 2010 and September 26, 2009, the Company transferred \$1,945 and \$1,425, respectively, of inventory to fixed assets.

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 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 of America.

The accompanying financial data as of October 2, 2010 and for the three and nine months ended October 2, 2010 and September 26, 2009 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 January 2, 2010, filed with the SEC on February 19, 2010.

In the opinion of management, all adjustments necessary to state fairly its statement of financial position as of October 2, 2010 and results of operations and cash flows for the periods ended October 2, 2010 and September 26, 2009 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 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 resellers are typically 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 for 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. 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.

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, and provisionally approved by, the Defense Contract Management Agency (DCMA). Annually, the Company submits final indirect billing rates to DCMA based upon actual costs incurred throughout the year. These final billing rates are subject to audit by the Defense Contract Audit Agency, 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. 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 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 and government audit, 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 by establishing the fair value of each option grant

using the Black-Scholes option-pricing model and the fair value of awards based on stock price at the time of grant. The fair value of share-based payments is recorded by the Company as a charge against earnings. The Company recognizes share-based payment expense over the requisite

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(unaudited)

service period of the underlying grants and awards. The Company's share-based payment awards are accounted for as equity instruments.

Net Income (Loss) Per Share

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

	Three Months Ended		Nine Months Ended	
	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
Net income (loss)	\$ 7,032	\$ 2,594	\$ 18,514	\$ (1,802)
Weighted average shares outstanding	25,428	25,025	25,293	24,974
Dilutive effect of employee stock options and restricted shares	1,052	645	1,026	
Diluted weighted average shares outstanding	26,480	25,670	26,319	24,974
Basic income (loss) per share	\$ 0.28	\$ 0.10	\$ 0.73	\$ (0.07)
Diluted income (loss) per share	\$ 0.27	\$ 0.10	\$ 0.70	\$ (0.07)

Potentially dilutive securities representing approximately 1.2 million and 2.3 million shares of common stock for the three month periods ended October 2, 2010 and September 26, 2009, respectively, and approximately 1.0 million and 3.1 million shares of common stock for the nine months ended October 2, 2010 and September 26, 2009, respectively, were excluded from the computation of diluted earnings per share for these periods because their effect would have been antidilutive.

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 performing its quarterly assessment, the Company determined it had sufficient history of profitability and sufficient projected future profitability to fully release its valuation allowance relating to state deferred tax assets during the three month period ended October 2, 2010. At October 2, 2010, the Company has total deferred tax assets of \$18.1 million.

The Company has projected an effective 2010 income tax rate of 38%. The Company has recorded a tax provision of \$0.7 million, which reflects the projected 2010 tax rate and the \$2.3 million associated with the full release of its valuation allowance relating to state deferred tax assets. This \$0.7 million expense compares to \$1.6 million tax expense for the three months ended September 26, 2009 based on a projected effective 2009 income tax rate of 36%.

Table of Contents**iROBOT CORPORATION**Notes To Consolidated Financial Statements (Continued)
(unaudited)**Comprehensive Income**

Comprehensive income includes unrealized gains on certain investments. The differences between net income and comprehensive income were as follows:

	Three Months Ended		Nine Months Ended	
	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
	(In thousands)			
Net income (loss), as reported	\$ 7,032	\$ 2,594	\$ 18,514	\$ (1,802)
Unrealized gains on investments, net of tax	87		164	
Total comprehensive income (loss)	\$ 7,119	\$ 2,594	\$ 18,678	\$ (1,802)

Fair Value Measurements

The authoritative guidance for fair value 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.

The Company's assets measured at fair value on a recurring basis at October 2, 2010, were as follows:

Description	Fair Value Measurements as of October 2, 2010		
	Level 1	Level 2 (In thousands)	Level 3
Assets:			
Money market accounts	\$ 5,087	\$	\$
Investment in bonds		16,576	
Total assets measured at fair value	\$ 5,087	\$ 16,576	\$

The Company's assets measured at fair value on a recurring basis at January 2, 2010, were as follows:

Description	Fair Value Measurements as of January 2, 2010		
	Level 1	Level 2 (In thousands)	Level 3
Assets:			
Money market accounts	\$ 20,077	\$	\$
Investment in bonds		4,959	
Total assets measured at fair value	\$ 20,077	\$ 4,959	\$

In each table above, the bond investments are valued based on observable market inputs as of the Company's reporting date and are included in Level 2 inputs. In determining the fair value of our Level 2 bond investments, the

Company considers the appropriateness of a model and assumptions used by a pricing vendor to price the investments. The pricing vendor's model relies on a comprehensive multi-dimensional relational model that uses standard inputs including benchmark yields, reported trades, broker/dealer quotes, issue spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. The bond investments are recorded at fair value and marked-to-market at the end of each reporting period and realized and unrealized gains and losses are included in comprehensive income (loss) for that period. The fair value of the Company's bond investments are included in short term investments in its consolidated balance sheet.

Table of Contents**iROBOT CORPORATION**Notes To Consolidated Financial Statements (Continued)
(unaudited)***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. 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 June 2009, the Financial Accounting Standards Board (FASB) issued an amendment to the accounting and disclosure requirements for the consolidation of variable interest entities (VIEs). The elimination of the concept of a Qualifying Special Purpose Entity (QSPE), removes the exception from applying the consolidation guidance within this amendment. This amendment requires an enterprise to perform a qualitative analysis when determining whether or not it must consolidate a VIE and requires an enterprise to continuously reassess whether it must consolidate a VIE. Additionally, this amendment requires enhanced disclosures about an enterprise's involvement with VIEs and any significant change in risk exposure due to that involvement, as well as how its involvement with VIEs impacts the enterprise's financial statements. Finally, an enterprise will be required to disclose significant judgments and assumptions used to determine whether or not to consolidate a VIE. This amendment is effective for financial statements issued for fiscal years beginning after November 15, 2009. The implementation of this amendment did not impact the Company's consolidated financial statements.

In January 2010, FASB updated the disclosure requirements for fair value measurements. The updated guidance requires companies to disclose separately the investments that transfer in and out of Levels 1 and 2 and the reasons for those transfers. Additionally, in the reconciliation for fair value measurements using significant unobservable inputs (Level 3), companies should present separately information about purchases, sales, issuances and settlements. The Company adopted the updated guidance at the beginning of fiscal 2010, except for the disclosures about purchases, sales, issuances and settlements in the Level 3 reconciliation, which are effective for fiscal years beginning after December 15, 2010. The Company will adopt the remaining guidance at the beginning of fiscal 2011. The adoption of the required guidance did not have an impact on the Company's financial position, results of operations, or disclosures. The Company does not expect that the adoption of the remaining guidance will have an impact on its financial position, results of operations, or disclosures.

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:

	October 2, 2010	January 2, 2010
	(In thousands)	
Raw materials	\$ 7,055	\$ 3,735
Work in process	590	687
Finished goods	26,324	27,984

\$ 33,969 \$ 32,406

Table of Contents**iROBOT CORPORATION**Notes To Consolidated Financial Statements (Continued)
(unaudited)**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 October 2, 2010, there were 1,969,564 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 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 October 1, 2010, in connection with the commencement of their employment, the Company granted three employees stock options exercisable for an aggregate of 100,000 shares of the Company's common stock and 28,000 restricted stock units. Additionally, on October 1, 2010, the Company granted to certain employees an annual merit grant totaling 40,420 restricted stock units. Also, on October 1, 2010 in connection with their promotions, the Company granted three employees, including executive officers, stock options exercisable for an aggregate of 38,073 shares of the Company's common stock and 10,344 restricted stock units. Each of the above stock options have a per share exercise price of \$18.61, the closing price of the Company's common stock on NASDAQ on October 1, 2010. The stock options will vest 25% on the first anniversary of the grant date and quarterly thereafter over the following three years. The restricted stock units will vest 25% on each anniversary of the grant date.

5. Accrued Expenses

Accrued expenses consist of the following:

	October 2, 2010	January 2, 2010
	(In thousands)	
Accrued warranty	\$ 8,699	\$ 6,105
Accrued direct fulfillment costs	1,032	1,836
Accrued rent	577	532
Accrued sales commissions	339	472
Accrued accounting fees	495	401
Accrued income taxes	749	2,177
Accrued other	2,170	2,861
	\$ 14,061	\$ 14,384

Table of Contents**iROBOT CORPORATION**Notes To Consolidated Financial Statements (Continued)
(unaudited)**6. Commitments and Contingencies*****Lease Obligations***

Rental expense under operating leases for the three months ended October 2, 2010 and September 26, 2009 were \$1.0 million and \$0.9 million, respectively, and for the nine months ended October 2, 2010 and September 26, 2009 were \$2.8 million and \$3.0 million, respectively. Future minimum rental payments under operating leases were as follows as of October 2, 2010:

	Operating Leases (In thousands)
Remainder of 2010	\$ 696
2011	2,850
2012	2,589
2013	2,409
2014	2,383
Thereafter	12,710
Total minimum lease payments	\$ 23,637

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 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 October 2, 2010 and January 2, 2010, 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.

Activity related to the warranty accrual was as follows:

Three Months Ended**Nine Months Ended**

	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
	(In thousands)		(In thousands)	
Balance at beginning of period	\$ 7,395	\$ 5,303	\$ 6,105	\$ 5,380
Provision	1,908	1,910	5,003	4,439
Warranty usage(1)	(604)	(861)	(2,409)	(3,467)
Balance at end of period	\$ 8,699	\$ 6,352	\$ 8,699	\$ 6,352

(1) Warranty usage includes the expiration of product warranties unutilized.

Table of Contents**iROBOT CORPORATION**

Notes To Consolidated Financial Statements (Continued)
(unaudited)

7. Industry Segment, Geographic Information and Significant Customers

The Company operates in two reportable segments, the home robots division and government and industrial division. The nature of products and types of customers for the two segments vary significantly. As such, the segments are managed separately.

Home Robots

The Company's home robots division offers products to consumers through a network of retail businesses throughout the United States, to certain countries through international distributors and retailers, and through the Company's on-line store. The Company's home robots division includes mobile robots used in the maintenance of domestic households.

Government and Industrial

The Company's government and industrial division offers products through a small U.S. government-focused sales force, while products are sold to a limited number of countries, other than the United States, through international distribution. The Company's government and industrial robots are used by various U.S. and foreign governments, primarily for reconnaissance and bomb disposal missions.

The table below presents segment information about revenue, cost of revenue, gross margin and income (loss) before income taxes:

	Three Months Ended		Nine Months Ended	
	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
Revenue:				
Home Robots	\$ 54,650	\$ 44,331	\$ 160,101	\$ 111,253
Government & Industrial	39,573	34,288	126,856	85,642
Total revenue	94,223	78,619	286,957	196,895
Cost of revenue:				
Home Robots	32,967	30,881	97,707	77,542
Government & Industrial	27,999	23,543	89,306	62,543
Total cost of revenue	60,966	54,424	187,013	140,085
Gross margin:				
Home Robots	21,683	13,450	62,394	33,711
Government & Industrial	11,574	10,745	37,550	23,099
Total gross margin	33,257	24,195	99,944	56,810
Research and development	6,185	3,159	16,375	10,633
Selling and marketing	10,734	9,514	30,959	27,420
General and administrative	8,904	7,420	26,693	21,915
Other income (expense), net	299	112	368	(96)
Income (loss) before income taxes	\$ 7,733	\$ 4,214	\$ 26,285	\$ (3,254)

Geographic Information

For the three months ended October 2, 2010 and September 26, 2009, sales to non-U.S. customers accounted for 40.7% and 33.6% of total revenue, respectively, and for the nine months ended October 2, 2010 and September 26, 2009, sales to non-U.S. customers accounted for 40.9% and 34.6% of total revenue, respectively.

Table of Contents**iROBOT CORPORATION**Notes To Consolidated Financial Statements (Continued)
(unaudited)*Significant Customers*

For the three months ended October 2, 2010 and September 26, 2009, U.S. federal government orders, contracts and subcontracts accounted for 37.9% and 36.3% of total revenue, respectively, and for the nine months ended October 2, 2010 and September 26, 2009, U.S. federal government orders, contracts and subcontracts accounted for 39.2% and 36.7% of total revenue, respectively.

8. Goodwill and Other Intangible Assets

The carrying amount of the goodwill at October 2, 2010 of \$7.9 million is from the acquisition of Nekton Research, LLC completed in September 2008.

Other intangible assets include the value assigned to completed technology, research contracts, and a trade name. The estimated useful lives for all of these intangible assets are two to ten years. The intangible assets are being amortized on a straight-line basis, which is consistent with the pattern that the economic benefits of the intangible assets are expected to be utilized.

Intangible assets at October 2, 2010 and January 2, 2010 consisted of the following:

	October 2, 2010			January 2, 2010		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
	(In thousands)					
Completed technology	\$ 3,700	\$ 775	\$ 2,925	\$ 3,700	\$ 496	\$ 3,204
Research contracts	100	96	4	100	64	36
Tradename	700	150	550	700	96	604
Total	\$ 4,500	\$ 1,021	\$ 3,479	\$ 4,500	\$ 656	\$ 3,844

Amortization expense related to acquired intangible assets was \$119,000 and \$365,000 for the three and nine months ended October 2, 2010, respectively. The estimated future amortization expense related to current intangible assets in the current fiscal year and each of the four succeeding fiscal years is expected to be as follows:

	(In thousands)
Remainder of 2010	\$ 115
2011	444
2012	444
2013	444
2014	444
Total	\$ 1,891

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion of the financial condition and results of operations of iRobot Corporation should be read in conjunction with the consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the audited financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended January 2, 2010, which has been filed with the SEC. This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the "safe harbor" created by those sections. In particular, statements contained in this Quarterly Report on Form 10-Q, and in the documents incorporated by reference into this Quarterly Report on Form 10-Q, that are not historical facts, including, but not limited to statements concerning new product sales, product development and offerings, Roomba, Scooba, Looj and Verro products, PackBot tactical military robots, the Small Unmanned Ground Vehicle, Seaglider, Negotiator, our home robot and government and industrial robots divisions, our competition, our strategy, our market position, market acceptance of our products, seasonal factors, revenue recognition, our profits, growth of our revenues, composition of our revenues, our cost of revenues, operating expenses, selling and marketing expenses, general and administrative expenses, research and development expenses, and compensation costs, our projected income tax rate, our credit facility and equipment facility, our valuations of investments, valuation and composition of our stock-based awards, and liquidity, constitute forward-looking statements and are made under these safe harbor provisions. Some of the forward-looking statements can be identified by the use of forward-looking terms such as "believes," "expects," "may," "will," "should," "could," "seek," "intends," "plans," "estimates," "anticipates," or other comparable terms. Forward-looking statements involve inherent risks and uncertainties which could cause actual results to differ materially from those in the forward-looking statements, including those risks and uncertainties described in our Annual Report on Form 10-K for the year ended January 2, 2010, as well as elsewhere in this Quarterly Report on Form 10-Q. We urge you to consider the risks and uncertainties discussed in our Annual Report on Form 10-K and in Item 1A contained herein in evaluating our forward-looking statements. We have no plan to update our forward-looking statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made.

Overview

iRobot designs and builds robots that make a difference. For over 20 years, we have developed proprietary technology incorporating advanced concepts in navigation, mobility, manipulation and artificial intelligence to build industry-leading robots. Our Roomba floor vacuuming robot and Scooba floor washing robot perform time-consuming domestic chores in the home, while our Looj gutter cleaning robot and Verro pool cleaning robot perform tasks outside the home. Our PackBot and Small Unmanned Ground Vehicle (SUGV) tactical ground military robots perform battlefield reconnaissance and bomb disposal. Our Negotiator ground robot performs multi-purpose tasks for local police and first responders. Our 1Ka Seaglider unmanned underwater robot performs long endurance oceanic missions. We sell our robots to consumers through a variety of distribution channels, including chain stores and other national retailers, and through our on-line store, and to the U.S. military and other government agencies worldwide. We maintain certifications for AS9100 and Capability Maturity Model Integration. These certifications enable us to service our military products and services.

As of October 2, 2010, we had 643 full-time employees. We have developed expertise in the disciplines necessary to build durable, high-performance and cost-effective robots through the close integration of software, electronics and hardware. Our core technologies serve as reusable building blocks that we adapt and expand to develop next generation and new products, reducing the time, cost and risk of product development. Our significant expertise in robot design and engineering, combined with our management team's experience in military and consumer markets, positions us to capitalize on the expected growth in the market for robots.

Although we have successfully launched consumer and government and industrial products, our continued success depends upon our ability to respond to a number of future challenges. We believe the most significant of these challenges include increasing competition in the markets for both our consumer and government and industrial

products, our ability to obtain U.S. federal government funding for research and development programs, and our ability to successfully develop and introduce products and product enhancements.

Table of Contents**Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates and judgments, in particular those related to revenue recognition (specifically sales returns and other allowances); valuation allowances; assumptions used in valuing stock-based compensation instruments; evaluating loss contingencies; and valuation allowances for deferred tax assets. Actual amounts could differ significantly from these estimates. Our management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the amounts of revenue and expenses that are not readily apparent from other sources. Additional information about these critical accounting policies may be found in the Management's Discussion and Analysis of Financial Condition and Results of Operations section included in our Annual Report on Form 10-K for the fiscal year ended January 2, 2010.

Overview of Results of Operations

The following table sets forth our results of operations as a percentage of revenue for the three and nine month periods ended October 2, 2010 and September 26, 2009:

	Three Months Ended		Nine Months Ended	
	October	September	October	September
	2,	26,	2,	26,
	2010	2009	2010	2009
Revenue				
Product revenue	90.3%	87.9%	89.6%	87.0%
Contract revenue	9.7	12.1	10.4	13.0
Total revenue	100.0	100.0	100.0	100.0
Cost of revenue				
Cost of product revenue	57.8	59.0	57.8	59.4
Cost of contract revenue	6.9	10.2	7.4	11.7
Total cost of revenue	64.7	69.2	65.2	71.1
Gross margin	35.3	30.8	34.8	28.9
Operating expenses				
Research and development	6.6	4.0	5.7	5.5
Selling and marketing	11.4	12.1	10.8	13.9
General and administrative	9.4	9.5	9.3	11.1
Total operating expenses	27.4	25.6	25.8	30.5
Operating income (loss)	7.9	5.2	9.0	(1.6)
Other income (expense), net	0.3	0.2	0.2	(0.1)
Income (loss) before income taxes	8.2	5.4	9.2	(1.7)
Income tax expense (benefit)	0.7	2.1	2.7	(0.8)

Net income (loss)	7.5%	3.3%	6.5%	(0.9)%
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Comparison of Three and Nine Months Ended October 2, 2010 and September 26, 2009

Revenue

	Three Months Ended				Nine Months Ended			
	October 2, 2010	September 26, 2009	Dollar Change	Percent Change	October 2, 2010	September 26, 2009	Dollar Change	Percent Change
Total revenue	\$ 94,223	\$ 78,619	\$ 15,604	19.8%	\$ 286,957	\$ 196,895	\$ 90,062	45.7%

Total revenue for the three months ended October 2, 2010 increased to \$94.2 million, or 19.8%, compared to \$78.6 million for the three months ended September 26, 2009. Revenue increased approximately \$10.3 million, or 23.3%, in our home robots division and increased approximately \$5.3 million, or 15.4%, in our government and industrial division.

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The \$10.3 million increase in revenue from our home robots division for the three months ended October 2, 2010 was driven by a 6.6% increase in units shipped and a 15.6% increase in net average selling price as compared to the three months ended September 26, 2009. Total home robots shipped in the three months ended October 2, 2010 were 308,000 units compared to 289,000 units in the three months ended September 26, 2009. The increase in home robot division revenue and units shipped was primarily attributable to increased international sales of our home robot products resulting from our increased efforts to expand our global presence. In the three months ended October 2, 2010, international home robot revenue increased \$12.8 million and domestic home robot revenue decreased \$2.5 million as compared to the three months ended September 26, 2009. Home robot division revenue from international sales, which consist of products having a higher average selling price than products sold to domestic customers, was 63.7% of total home robot division revenue in the three month period ending October 2, 2010 as compared to 49.7% in the three month period ended September 26, 2009.

The \$5.3 million increase in revenue from our government and industrial division was driven by a \$1.9 million increase in government and industrial robot revenue, a \$3.7 million increase in product life cycle revenue (spare parts and accessories), partially offset by a \$0.4 million decrease in recurring contract development revenue generated under research and development contracts. The \$1.9 million increase in government and industrial robots revenue was primarily due to a 17.0% increase in units shipped partially offset by a 5.9% decrease in net average selling prices in the three month period ended October 2, 2010 as compared to the three month period ended September 26, 2009. The decrease in average selling price was due to product mix primarily attributable to a significant number of SUGV 310 units shipped in the three-month period ended October 2, 2010. The \$3.7 million increase in product life cycle revenue is the result of a higher installed base of our government and industrial robots which during the three month period ended October 2, 2010 includes product life cycle revenue related to our SUGV 310 product. The \$0.4 million decrease in recurring contract development revenue generated under research and development contracts was the result of decreases in funding of our PackBot, Warrior and Research programs partially offset by an increase in funding of our SUGV program. Total government and industrial robots shipped in the three months ended October 2, 2010 were 186 units compared to 159 units in the three months ended September 26, 2009.

Total revenue for the nine months ended October 2, 2010 increased to \$287.0 million, or 45.7%, compared to \$196.9 million for the nine months ended September 26, 2009. Revenue increased approximately \$48.8 million, or 43.9%, in our home robots division and increased approximately \$41.2 million, or 48.1%, in our government and industrial division.

The \$48.8 million increase in revenue from our home robots division for the nine months ended October 2, 2010 was driven by a 33.9% increase in units shipped and a 9.7% increase in net average selling price as compared to the nine months ended September 26, 2009. Total home robots shipped in the nine months ended October 2, 2010 were 889,000 units compared to 664,000 units in the nine months ended September 26, 2009. The increase in home robot division revenue and units shipped was primarily attributable to increased international sales of our home robot products resulting from our increased efforts to expand our global presence. In the nine months ended October 2, 2010, international home robot revenue increased \$47.7 million, domestic home robot revenue from our retail channel increased \$2.8 million, and domestic home robot revenue from our direct channel decreased \$1.7 million as compared to the nine months ended September 26, 2009. Home robot division revenue from international sales, which consist of products having a higher average selling price than products sold to domestic customers, was 66.9% of total home robot division revenue in the nine month period ending October 2, 2010 as compared to 53.3% in the nine month period ended September 26, 2009.

The \$41.2 million increase in revenue from our government and industrial division was driven by a \$24.6 million increase in government and industrial robot revenue, a \$12.3 million increase in product life cycle revenue (spare parts and accessories), and a \$4.3 million increase in recurring contract development revenue generated under research and development contracts. The \$24.6 million increase in government and industrial robots revenue was due to a 52.6% increase in units shipped in the nine month period ended October 2, 2010 as compared to the nine month period ended September 26, 2009. The \$12.3 million increase in product life cycle revenue is the result of a higher installed base of our government and industrial robots, which, during the nine month period ended October 2, 2010 included product life cycle revenue related to our SUGV 310 product. The \$4.3 million increase in recurring contract development

revenue generated under research and development contracts was primarily attributable to an increase in funding of our SUGV program offset by decreases in funding of our PackBot and Warrior programs. Total government and industrial robots shipped in the nine months ended October 2, 2010 were 702 units compared to 460 units in the nine months ended September 26, 2009.

Table of Contents*Cost of Revenue*

	Three Months Ended				Nine Months Ended			
	October 2, 2010	September 26, 2009 (In thousands)	Dollar Change	Percent Change	October 2, 2010	September 26, 2009 (In thousands)	Dollar Change	Percent Change
Total cost of revenue	\$ 60,966	\$ 54,424	\$ 6,542	12.0%	\$ 187,013	\$ 140,085	\$ 46,928	33.5%
As a percentage of total revenue	64.7%	69.2%			65.2%	71.1%		

Total cost of revenue increased to \$61.0 million in the three months ended October 2, 2010, compared to \$54.4 million in the three months ended September 26, 2009. The increase is primarily due to the 6.6% increase in home robot units shipped and the 17.0% increase in government and industrial units shipped.

Total cost of revenue increased to \$187.0 million in the nine months ended October 2, 2010, compared to \$140.1 million in the nine months ended September 26, 2009. The increase is primarily due to the 33.9% increase in home robot units shipped and the 52.6% increase in government and industrial units shipped.

Gross Margin

	Three Months Ended				Nine Months Ended			
	October 2, 2010	September 26, 2009 (In thousands)	Dollar Change	Percent Change	October 2, 2010	September 26, 2009 (In thousands)	Dollar Change	Percent Change
Total gross margin	\$ 33,257	\$ 24,195	\$ 9,062	37.5%	\$ 99,944	\$ 56,810	\$ 43,134	75.9%
As a percentage of total revenue	35.3%	30.8%			34.8%	28.9%		

Gross margin increased \$9.1 million, or 37.5%, to \$33.3 million (35.3% of revenue) in the three months ended October 2, 2010 from \$24.2 million (30.8% of revenue) in the three months ended September 26, 2009. The increase in gross margin as a percentage of revenue was the result of the home robots division gross margin increasing 9.4 percentage points partially offset by the government and industrial division gross margin decreasing 2.1 percentage points. The 9.4 percentage point increase in the home robots division is attributable to the increase in units shipped through our higher-margin international channel, price increases on certain international products, continued product cost reduction efforts, lower excess and obsolete inventory provisions, improved leverage of our overhead expense against higher revenue, lower return provisions, and lower warranty expense in the three month period ended October 2, 2010 as compared to the three month period ended September 26, 2009. The 2.1 percentage point decrease in the government and industrial division is due to product mix primarily attributable to a significant number of SUGV 310 units shipped, and increased overhead expenses in the three month period ended October 2, 2010 as compared to the three month period ended September 26, 2009.

Gross margin increased \$43.1 million, or 75.9%, to \$99.9 million (34.8% of revenue) in the nine months ended October 2, 2010 from \$56.8 million (28.9% of revenue) in the nine months ended September 26, 2009. The increase in gross margin as a percentage of revenue was the result of the home robots division gross margin increasing 8.7 percentage points and the government and industrial division gross margin increasing 2.6 percentage points. The 8.7 percentage point increase in the home robots division is attributable to lower return provisions, the increase in units shipped through our higher-margin international channel, price increases on certain international products, continued product cost reduction efforts, lower excess and obsolete inventory provisions and improved leverage of our overhead expense against higher revenue in the nine month period ended October 2, 2010 as compared to the nine month period ended September 26, 2009. The 2.6 percentage point increase in the government and industrial division

is primarily attributable to leveraging our overhead expense against higher revenue partially offset by a decrease due to product mix primarily attributable to a significant number of SUGV 310 units shipped in the nine month period ended October 2, 2010 as compared to the nine month period ended September 26, 2009.

Table of Contents*Research and Development*

	Three Months Ended				Nine Months Ended			
	October 2, 2010	September 26, 2009	Dollar Change (In thousands)	Percent Change	October 2, 2010	September 26, 2009	Dollar Change (In thousands)	Percent Change
Total research and development	\$ 6,185	\$ 3,159	\$ 3,026	95.8%	\$ 16,375	\$ 10,633	\$ 5,742	54.0%
As a percentage of total revenue	6.6%	4.0%			5.7%	5.5%		

Research and development expenses increased by \$3.0 million, or 95.8%, to \$6.2 million (6.6% of revenue) in the three months ended October 2, 2010 from \$3.2 million (4.0% of revenue) for the three months ended September 26, 2009. The increase in research and development expenses is primarily due to increases in compensation and benefits and materials associated with internal research and development projects in both our home robots and government and industrial divisions and expenses related to our newly created healthcare business unit. The increase in our home robots division is primarily the result of our increased efforts in the areas of product development and advanced development relating to our consumer products.

Research and development expenses increased by \$5.7 million, or 54.0%, to \$16.4 million (5.7% of revenue) in the nine months ended October 2, 2010 from \$10.6 million (5.5% of revenue) for the nine months ended September 26, 2009. The increase in research and development expenses is primarily due to increases in compensation, recruiting, employee benefits, materials and consulting costs associated with internal research and development projects in our home robots division and expenses related to our newly created healthcare business unit. The increase in our home robots division is primarily the result of our increased efforts in the areas of product development and advanced development relating to our consumer products.

In addition to our research and development activities classified as research and development expense, we incur research and development expenses under funded development arrangements with governments and industrial third parties. For the three and nine months ended October 2, 2010, these expenses amounted to \$6.5 million and \$21.1 million, respectively, compared to \$8.0 million and \$23.1 million for the three and nine months ended September 26, 2009, respectively. These expenses have been classified as cost of revenue rather than research and development expense. The combined investment in future technologies, classified as cost of revenue and research and development expense, was \$12.7 million and \$37.5 million, respectively, for the three and nine months ended October 2, 2010, compared to \$11.2 million and \$33.8 million for the three and nine months ended September 26, 2009, respectively.

Selling and Marketing

	Three Months Ended				Nine Months Ended			
	October 2, 2010	September 26, 2009	Dollar Change (In thousands)	Percent Change	October 2, 2010	September 26, 2009	Dollar Change (In thousands)	Percent Change
Total selling and marketing	\$ 10,734	\$ 9,514	\$ 1,220	12.8%	\$ 30,959	\$ 27,420	\$ 3,539	12.9%
As a percentage of total revenue	11.4%	12.1%			10.8%	13.9%		

Selling and marketing expenses increased by \$1.2 million, or 12.8%, to \$10.7 million (11.4% of revenue) in the three months ended October 2, 2010 from \$9.5 million (12.1% of revenue) in the three months ended September 26, 2009. This was driven by an increase in our home robots division of \$0.7 million primarily attributable to increases in on-line media, other marketing, compensation, and employee-related expense supporting our international home robot

sales for the three months ended October 2, 2010 as compared to the three months ended September 26, 2009. Selling and marketing expenses in our government and industrial division increased by \$0.5 million attributable to an increase in compensation expenses relating to bid and proposal activities and sales commissions in the three months ended October 2, 2010 as compared to the three months ended September 26, 2009.

Selling and marketing expenses increased by \$3.5 million, or 12.9%, to \$31.0 million (10.8% of revenue) in the nine months ended October 2, 2010 from \$27.4 million (13.9% of revenue) in the nine months ended September 26, 2009. This was driven by an increase in our home robots division of \$2.2 million attributable to increases in on-line media, promotions, sales commission expenses as a

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result of higher sales, and an increase in compensation and employee-related expense supporting our international home robot sales for the nine months ended October 2, 2010 as compared to the nine months ended September 26, 2009. Selling and marketing expenses in our government and industrial division increased by \$1.2 million attributable to an increase in compensation expenses relating to bid and proposal activities, and sales commissions as a result of higher sales in the nine months ended October 2, 2010 as compared to the nine months ended September 26, 2009.

General and Administrative

	Three Months Ended				Nine Months Ended			
	October 2, 2010	September 26, 2009	Dollar Change	Percent Change	October 2, 2010	September 26, 2009	Dollar Change	Percent Change
	(In thousands)				(In thousands)			
Total general and administrative	\$ 8,904	\$ 7,420	\$ 1,484	20.0%	\$ 26,693	\$ 21,915	\$ 4,778	21.8%
As a percentage of total revenue	9.4%	9.5%			9.3%	11.1%		

General and administrative expenses increased by \$1.5 million, or 20.0%, to \$8.9 million (9.4% of revenue) in the three months ended October 2, 2010 from \$7.4 million (9.5% of revenue) in the three months ended September 26, 2009. This increase is attributable to increased compensation and employee benefits expenses related to increased headcount, and an increase in legal expense, primarily attributable to our international expansion and intellectual property prosecution and enforcement, for the three months ended October 2, 2010 as compared to the three months ended September 26, 2009.

General and administrative expenses increased by \$4.8 million, or 21.8%, to \$26.7 million (9.3% of revenue) in the nine months ended October 2, 2010 from \$21.9 million (11.1% of revenue) in the nine months ended September 26, 2009. This increase is attributable to increased compensation, benefit and recruiting expenses related to increased headcount and an increase in incentive compensation expense, stock based compensation, and an increase in legal expense, primarily attributable to our international expansion and intellectual property prosecution and enforcement, for the nine months ended October 2, 2010 as compared to the nine months ended September 26, 2009.

Other Income (Expense), Net

	Three Months Ended				Nine Months Ended			
	October 2, 2010	September 26, 2009	Dollar Change	Percent Change	October 2, 2010	September 26, 2009	Dollar Change	Percent Change
	(In thousands)				(In thousands)			
Total other income (expense), net	\$ 299	\$ 112	\$ 187	167.0%	\$ 368	\$ (96)	\$ 464	Not Meaningful
As a percentage of total revenue	0.3%	0.2%			0.2%	(0.1)%		

Other income (expense), net, amounted to \$0.3 million for the three months ended October 2, 2010 compared to \$0.1 million for the three months ended September 26, 2009. Other income (expense), net, for the three month period ended October 2, 2010 was related to interest income of \$0.2 million and foreign currency exchange gains of \$0.1 million resulting from foreign currency exchange rate fluctuations. Other income (expense), net, for the three month period ended September 26, 2009 was directly related to foreign currency exchange losses resulting from foreign currency exchange rate fluctuations.

Other income (expense), net, amounted to \$0.4 million for the nine months ended October 2, 2010 compared to \$(0.1) million for the nine months ended September 26, 2009. Other income (expense), net, for the nine month period ended October 2, 2010 was related to interest income of \$0.6 million offset by foreign currency exchange losses of \$0.2 million resulting from foreign currency exchange rate fluctuations. Other income (expense), net, for the nine

month period ended September 26, 2009 was directly related to foreign currency exchange losses resulting from foreign currency exchange rate fluctuations.

Table of Contents*Income Tax Expense (Benefit)*

	Three Months Ended				Nine Months Ended			
	October 2, 2010	September 26, 2009	Dollar Change	Percent Change	October 2, 2010	September 26, 2009	Dollar Change	Percent Change
	(In thousands)				(In thousands)			
Total income tax expense (benefit)	\$ 701	\$ 1,620	\$ (919)	(56.7)%	\$ 7,771	\$ (1,452)	\$ 9,223	Not Meaningful
As a percentage of total revenue	0.7%	2.1%			2.7%	(0.8)%		

In the three months ended October 2, 2010, we projected an effective 2010 income tax rate of 38%. The tax provision we recorded is \$0.7 million, which reflects the projected 2010 tax rate and the \$2.3 million associated with the full release of our valuation allowance relating to state deferred tax assets. This \$0.7 million expense compares to \$1.6 million tax expense for the three months ended September 26, 2009 based on a projected effective 2009 income tax rate of 36%.

In the nine months ended October 2, 2010, we projected an effective 2010 income tax rate of 38%. We recorded a tax provision of \$7.8 million, which is reflective of the projected 2010 tax rate and the \$2.3 million associated with the full release of our valuation allowance relating to state deferred tax assets. This \$7.8 million expense compares to a \$1.5 million tax benefit for the nine months ended September 26, 2009 based on a projected effective 2009 income tax rate of 36%.

Liquidity and Capital Resources

At October 2, 2010, our principal sources of liquidity were cash and cash equivalents totaling \$90.6 million, short-term investments of \$16.6 million and accounts receivable of \$27.8 million.

We manufacture and distribute our products through contract manufacturers and third-party logistics providers. We believe that this approach gives us the advantages of relatively low capital investment and significant flexibility in scheduling production and managing inventory levels. By leasing our office facilities, we also minimize the cash needed for expansion. Accordingly, our capital spending is generally limited to leasehold improvements, computers, office furniture and product-specific production tooling, internal use software and test equipment. In the nine months ended October 2, 2010 and September 26, 2009, we spent \$7.5 million and \$3.4 million, respectively, on capital equipment.

Our strategy for delivering products to our retail customers gives us the flexibility to provide container shipments directly to the retailer from China and, alternatively, allows our retail partners to take possession of product on a domestic basis. Accordingly, our home robots product inventory consists of goods shipped to our third-party logistic providers for the fulfillment of retail orders and direct-to-consumer sales. Our inventory of government and industrial products is relatively low as they are generally built to order. Our contract manufacturers are responsible for purchasing and stocking the majority of components required for the production of our products, and they invoice us when the finished goods are shipped.

The balance of cash and short-term investments of \$107.2 million at October 2, 2010 is primarily the result of our significant focus over the past year on managing working capital. As of October 2, 2010, we did not have any borrowings outstanding under our existing working capital line of credit and had \$1.8 million letters of credit outstanding under our working capital line of credit.

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Discussion of Cash Flows

Net cash provided by operating activities for the nine months ended October 2, 2010 was \$34.9 million, an increase of \$10.3 million compared to the \$24.6 million of net cash provided by operating activities for the nine months ended September 26, 2009. The increase in net cash provided by operating activities was primarily driven by the following factors:

An increase in cash of \$20.3 million resulting from net income of \$18.5 million in 2010 versus a net loss of \$1.8 million in 2009;

An increase in cash of \$15.4 million resulting from a decrease in accounts receivable of \$7.4 million in 2010 versus an increase of \$8.0 million in 2009, primarily due to aggressive collections and a reduction in days sales outstanding;

A decrease in cash of \$11.5 million resulting from an increase in inventory of \$1.6 million in 2010 versus a decrease of \$9.9 million in 2009, primarily due to the introduction of new products in our government and industrial division and increased demand for our home robot products;

A decrease in cash of \$4.1 million resulting from an increase in accounts payable and accrued expenses of \$4.8 million in 2010 versus an increase of \$8.9 million in 2009, primarily due to a general increase in business activity and timing of payments to suppliers;

A decrease in cash of \$4.9 million resulting from a decrease in accrued compensation of \$0.4 million in 2010 versus an increase of \$4.5 million in 2009, primarily due to the disbursement of cash under our incentive compensation plan in the first quarter of 2010; and

A decrease in cash of \$3.5 million resulting from a decrease in deferred revenue of \$1.9 million in 2010 compared to an increase of \$1.6 million in 2009, primarily due to net increase in extended warranty contracts of \$1.3 million recorded in 2009 and a contract modification in 2010.

Net cash used in investing activities for the nine months ended October 2, 2010 was \$19.0 million, representing an increase of \$15.6 million compared to the \$3.4 million of net cash used in investing activities for the nine months ended September 26, 2009. This increase in net cash used in investing activities was primarily driven by the following:

Purchase of investments of \$30.5 million in 2010, partially offset by the sale of investments of \$19.0 million in 2010; and

The purchase of property and equipment of \$7.5 million in 2010, compared to \$3.4 million in 2009, primarily due to an increase in self-constructed and demonstration assets, and tooling related to new products in our government and industrial division and a new contract manufacturer in our home robots division.

Net cash provided from financing activities for the nine months ended October 2, 2010 was \$2.9 million, an increase of \$2.2 million compared to the \$0.7 million of net cash provided by financing activities for the nine months ended September 26, 2009. The increase is due primarily to an increase in proceeds from stock option exercises.

Working Capital Facility

We have an unsecured revolving credit facility with Bank of America, N.A., which is available to fund working capital and other corporate purposes. The total amount available for borrowing under our credit facility is \$40.0 million. As of October 2, 2010, \$38.2 million was available for borrowing. The interest on loans under our credit facility will accrue, at our election, at either (i) the greater of the BBA LIBOR Daily Floating Rate or the Prime Rate of Lender plus fifty (50) basis points, or (ii) the LIBOR rate plus 2.00%. The credit facility will terminate and all amounts outstanding thereunder will be due and payable in full on June 5, 2012.

As of October 2, 2010, we had letters of credit outstanding of \$1.8 million under our working capital line of credit. This credit facility contains customary terms and conditions for credit facilities of this type, including restrictions on

our ability to incur or guaranty additional indebtedness, create liens, enter into transactions with affiliates, make loans or investments, sell assets, pay dividends or make distributions on, or repurchase, our stock, and consolidate or merge with other entities.

In addition, we are required to meet certain financial covenants customary with this type of agreement, including maintaining a minimum specified tangible net worth, a minimum specified adjusted EBITDA, and minimum specified interest coverage ratio.

This credit facility contains customary events of default, including for payment defaults, breaches of representations, breaches of affirmative or negative covenants, cross defaults to other material indebtedness, bankruptcy and failure to discharge certain judgments. If a default occurs and is not cured within any applicable cure period or is not waived, our obligations under the credit facility may be accelerated.

As of October 2, 2010, we were in compliance with all covenants under the credit facility.

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Recently Issued Accounting Pronouncements

See Footnote 2 to the Consolidated Financial Statements for a discussion of recently issued accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Sensitivity

At October 2, 2010, we had unrestricted cash and cash equivalents of \$90.6 million and short term investments of \$16.6 million. The unrestricted cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. Some of the securities in which we invest, however, may be subject to market risk. This means that a change in prevailing interest rates may cause the fair market value of the investment to fluctuate. To minimize this risk in the future, we intend to maintain our portfolio of cash equivalents in a variety of securities, commercial paper, money market funds, debt securities and certificates of deposit. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. As of October 2, 2010, all of our cash and cash equivalents were held in interest-bearing demand deposits and money market accounts.

Our exposure to market risk also relates to the increase or decrease in the amount of interest expense we must pay on any outstanding debt instruments, primarily certain borrowings under our working capital line of credit. The advances under the working capital line of credit bear a variable rate of interest determined as a function of the prime rate or the LIBOR rate at the time of the borrowing. At October 2, 2010, we had letters of credit outstanding of \$1.8 million under our working capital line of credit.

Exchange Rate Sensitivity

We maintain sales and business operations in foreign countries. As such, we have exposure to adverse changes in exchange rates associated with operating expenses of our foreign operations, but we believe this exposure to be immaterial. Additionally, we accept orders for home robot products in currencies other than the U.S. dollar. We regularly monitor the level of non-U.S. dollar accounts receivable balances to determine if any actions, including possibly entering into foreign currency forward contracts, should be taken to minimize the impact of fluctuating exchange rates on our results of operations. Our international revenue is primarily denominated in U.S. dollars and therefore any fluctuations in the Euro or any other non-U.S. dollar currencies will have minimal direct impact on our international revenue. However, as the U.S. dollar strengthens or weakens against other currencies, our international distributors may be impacted, which could affect their profitability and our ability to maintain current pricing levels on our international consumer products.

Item 4. Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective at a reasonable assurance level in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms; and (ii) accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely discussions regarding required disclosure. We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**Part II. Other Information****Item 1. Legal Proceedings**

From time to time and in the ordinary course of business, we are subject to various claims, charges and litigation. The outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to us, which could materially affect our financial condition or results of operations.

Item 1A. Risk Factors

We operate in a rapidly changing environment that involves a number of risks that could materially affect our business, financial condition or future results, some of which are beyond our control. In addition to the other information set forth in this report, the risks and uncertainties that we believe are most important for you to consider are discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended January 2, 2010, which could materially affect our business, financial condition or future results. Additional risks and uncertainties not presently known to us, which we currently deem immaterial or which are similar to those faced by other companies in our industry or business in general, may also impair our business operations. There are no material changes to the Risk Factors described in our Annual Report on Form 10-K for the fiscal year ended January 2, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth the repurchases of our equity securities during the three months ended October 2, 2010 by or on behalf of us or any affiliated purchaser:

Period	(a) Total number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Fiscal month beginning July 4, 2010 and ended July 31, 2010	239(1)	\$ 20.27(2)		
Fiscal month beginning August 1, 2010 and ended August 28, 2010				
Fiscal month beginning August 29, 2010 and ended October 2, 2010				
Total	239(1)	\$ 20.27(3)		

(1) Represents shares of our common stock withheld by us to satisfy the minimum tax withholding obligation in

connection with the vesting of restricted stock units held by executive officers.

- (2) The amount represents the last reported sale price of our common stock on the NASDAQ Global Market on the applicable vesting date.
- (3) The amount represents the weighted average sale price of all shares of our common stock repurchased during the three months ended October 2, 2010.

Item 5. Other Information

Our policy governing transactions in our securities by our directors, officers, and employees permits our officers, directors, funds affiliated with our directors, and certain other persons to enter into trading plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. We have been advised that certain of our officers and directors (including Colin Angle, Chief Executive Officer, Joseph Dyer, Chief Operating Officer, Glen Weinstein, Senior Vice President, General Counsel and Secretary, Alison Dean, Senior Vice President of Corporate Finance and Principal Accounting Officer, Robert Moses, President Government and Industrial Division, Rodney Brooks, Director, and Helen Greiner, Director) of the Company have entered into trading plans (each a

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Plan and collectively, the Plans) covering periods after the date of this quarterly report on Form 10-Q in accordance with Rule 10b5-1 and our policy governing transactions in our securities. Generally, under these trading plans, the individual relinquishes control over the transactions once the trading plan is put into place. Accordingly, sales under these plans may occur at any time, including possibly before, simultaneously with, or immediately after significant events involving our company.

We anticipate that, as permitted by Rule 10b5-1 and our policy governing transactions in our securities, some or all of our officers, directors and employees may establish trading plans in the future. We intend to disclose the names of our executive officers and directors who establish a trading plan in compliance with Rule 10b5-1 and the requirements of our policy governing transactions in our securities in our future quarterly and annual reports on Form 10-Q and 10-K filed with the Securities and Exchange Commission. We, however, undertake no obligation to update or revise the information provided herein.

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Item 6. Exhibits

Exhibit

Number

Description

10.1*†	Form of Executive Agreement between the Registrant and certain executive officers of the Registrant, as amended
31.1*	Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934
31.2*	Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934
32.1*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith

† Indicates a management contract or any compensatory plan, contract or arrangement

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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.

iROBOT CORPORATION

Date: November 5, 2010

By: /s/ JOHN LEAHY
John Leahy
Executive Vice President, Chief
Financial Officer and Treasurer (Duly
Authorized Officer and Principal
Financial Officer)

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