IROBOT CORP
Form 10-Q
May 05, 2008

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 March 29, 2008

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 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.

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 April 25, 2008 was 24,577,069.

iROBOT CORPORATION
FORM 10-Q
THREE MONTHS ENDED MARCH 29, 2008
INDEX

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

Table of Contents

iROBOT CORPORATION
Consolidated Balance Sheets
(in thousands)

	March 29, 2008 (unaudited)	December 29, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 22,861	$ 26,735
Short term investments		16,550
Accounts receivable, net of allowance of $350 and $65 at March 29, 2008 and December 29, 2007, respectively	21,923	47,681
Unbilled revenue	2,609	2,244
Inventory, net	46,216	45,222
Deferred tax assets	5,905	5,905
Other current assets	6,337	2,268
Total current assets	105,851	146,605
Property and equipment, net	18,020	15,694
Deferred tax assets	4,293	4,293
Long term investments	15,401	
Other assets	2,500	2,500
Total assets	$ 146,065	$ 169,092
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 27,966	$ 44,697
Accrued expenses	5,926	7,987
Accrued compensation	5,124	4,603
Deferred revenue	1,130	1,578
Total current liabilities	40,146	58,865
Commitments and contingencies (Note 6):		
Redeemable convertible preferred stock, 5,000 shares authorized and zero outstanding at March 29, 2008 and December 29, 2007		
Common stock, $0.01 par value, 100,000 and 100,000 shares authorized and 24,572 and 24,495 issued and outstanding at March 29, 2008 and December 29, 2007, respectively	246	245
Additional paid-in capital	124,018	122,318
Deferred compensation	(593)	(685)
Accumulated deficit	(15,656)	(11,651)
Accumulated other comprehensive loss	(2,096)	
Total stockholders equity	105,919	110,227

Total liabilities, redeemable convertible preferred stock and stockholders equity	$ 146,065	$ 169,092

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

Table of Contents

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

	Three Months Ended	
	March 29, 2008	March 31, 2007
Revenue:		
Product revenue	$ 50,575	$ 34,121
Contract revenue	6,727	5,366
Total revenue	57,302	39,487
Cost of revenue:		
Cost of product revenue (1)	36,195	23,486
Cost of contract revenue (1)	5,747	4,884
Total cost of revenue	41,942	28,370
Gross profit	15,360	11,117
Operating expenses:		
Research and development (1)	3,973	4,156
Selling and marketing (1)	11,458	8,049
General and administrative (1)	6,778	5,327
Total operating expenses	22,209	17,532
Operating loss	(6,849)	(6,415)
Other income, net	495	931
Loss before income taxes	(6,354)	(5,484)
Income tax expense (benefit)	(2,349)	17
Net loss	$ (4,005)	$ (5,501)
Net loss per share		
Basic and diluted	$ (0.16)	$ (0.23)
Number of shares used in per share calculations		
Basic and diluted	24,506	23,902

(1) Total stock-based compensation recorded in the three months ended

March 29, 2008 and March 31, 2007 included in the above figures breaks down by expense classification as follows:

	Three Months Ended	
	March 29, 2008	March 31, 2007
Cost of product revenue	$ 154	$ 120
Cost of contract revenue	59	77
Research and development	(33)	(9)
Selling and marketing	161	157
General and administrative	597	312
Total stock-based compensation	$ 938	$ 657

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)

	Three Months Ended March 29, 2008	March 31, 2007
Cash flows from operating activities:		
Net loss	$ (4,005)	$ (5,501)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,566	1,206
Loss on disposal of fixed assets	45	35
Stock-based compensation	938	657
Non-cash director deferred compensation	24	28
Changes in working capital (use) source		
Accounts receivable	25,758	12,273
Unbilled revenue	(365)	418
Inventory	(994)	4,691
Other assets	(4,069)	1,030
Accounts payable	(16,731)	(9,870)
Accrued expenses	(2,061)	(1,907)
Accrued compensation	521	(682)
Deferred revenue	(448)	69
Net cash provided by operating activities	179	2,447
Cash flows from investing activities:		
Purchase of property and equipment	(3,937)	(1,798)
Purchases of investments	(29,997)	(15,400)
Sales of investments	29,050	19,800
Net cash provided by (used in) investing activities	(4,884)	2,602
Cash flows from financing activities:		
Income tax withholding payment associated with stock option exercise		(1,588)
Proceeds from stock option exercises	570	353
Tax benefit of disqualifying dispositions	261	
Net cash provided by (used in) financing activities	831	(1,235)
Net increase (decrease) in cash and cash equivalents	(3,874)	3,814
Cash and cash equivalents, at beginning of period	26,735	5,583
Cash and cash equivalents, at end of period	$ 22,861	$ 9,397

Supplemental disclosure of cash flow information:

Cash paid for interest	$	40	$	
Cash paid for income taxes		24		98

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

During the three months ended March 29, 2008 and March 31, 2007, the Company transferred $173 and $338, respectively, of inventory to fixed assets.

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

Table of Contents

iROBOT CORPORATION

Notes To Consolidated Financial Statements

(unaudited)

1. Description of Business

iRobot Corporation (iRobot or the Company) was incorporated in 1990 to develop robotics and artificial intelligence technologies and apply 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 and uncertainty of market acceptance of products.

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 March 29, 2008 and for the three months ended March 29, 2008 and March 31, 2007 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. These consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and the notes thereto included in its Annual Report on Form 10-K for the fiscal year ended December 29, 2007, filed with the SEC on February 25, 2008.

In the opinion of management, all adjustments necessary to present a fair statement of financial position as of March 29, 2008 and results of operations and cash flows for the periods ended March 29, 2008 and March 31, 2007 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.

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.

Table of Contents

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 or through its distributors based on historical returns experience and other relevant data. 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 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 (CPFF) 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. Costs and estimated gross profits 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

Net Income Per Share

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

	Three Months Ended	
	March 29, 2008	March 31, 2007
	(In thousands, except per share data)	
Net loss	$ (4,005)	$ (5,501)
Diluted weighted average shares outstanding	24,506	23,902
Basic and diluted loss per share	$ (0.16)	$ (0.23)

Income Taxes

Deferred taxes are determined based on the difference between the financial statement 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 March 29, 2008, the Company has total deferred tax assets of $12.8 million and a valuation allowance of $2.6 million resulting in a net deferred tax asset of $10.2 million.

Comprehensive Loss

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

	Three Months Ended	
	March 29, 2008	March 31, 2007
	(In thousands)	
Net loss, as reported	$ (4,005)	$ (5,501)
Unrealized losses on investments, net of tax	(1,315)	
Total comprehensive loss	$ (5,320)	$ (5,501)

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.

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

The Company has invested in auction rate security instruments, which have been historically classified as available for sale securities and reflected at fair value. Due to recent events in credit markets, however, the auction events for all of these instruments currently held by the Company failed during the first quarter of 2008. Therefore, the fair values of these securities are estimated utilizing a discounted cash flow model which also considered limited secondary market indicators as of March 29, 2008. These analyses consider, among other items, the collateralization underlying the security investments, the timing of expected future cash flows, and the expectation of the next time the security is expected to have a successful auction. These securities were also compared, when possible, to other observable market data with similar characteristics to the securities held by the Company.

As a result of the temporary declines in fair value for the Company s auction rate securities, which the Company attributes to liquidity issues of the securities rather than credit issues, it has recorded an unrealized loss of $2.1 million to accumulated other comprehensive loss on the balance sheet. The auction rate security instruments held by the Company at March 29, 2008 were in securities collateralized by student loan portfolios, the majority of which are guaranteed by the United States government. Historically, these securities have been classified as Short term investments, and at December 29, 2007, the Company held auction rate securities with a par value and fair value of $16.6 million. Due to the Company s belief that the market for these student loan collateralized instruments may take in excess of twelve months to fully recover, the Company has classified these investments as noncurrent and has included them in Long term investments on the unaudited Condensed Consolidated Balance Sheet at March 29, 2008. Any future fluctuation in fair value related to these instruments that the Company deems to be temporary, including any recoveries of the $2.1 million write-down, would be recorded to Accumulated other comprehensive income (loss). If the Company determines that any future valuation adjustment was other than temporary, it would record a charge to earnings as appropriate.

The Company s assets measured at fair value on a recurring basis subject to the disclosure requirements of SFAS 157 at March 29, 2008, were as follows:

	Fair Value Measurements as of March 29, 2008 (in thousands)		
Description	**Level 1**	**Level 2**	**Level 3**
Assets:			
Money Market Accounts	$ 23,629	$	$
Auction Rate Securities			15,401
Total assets measured at fair value	$ 23,629		$ 15,401

The following table presents the Company s assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in SFAS 157 at March 29, 2008:

	Fair Value Measurements of Assets using Level 3 inputs Auction Rate Securities (In thousands)
Beginning balance at December 29, 2007	$
Transfers to Level 3	17,497
Total losses (realized or unrealized)	
Included in other comprehensive loss	(2,096)
Ending balance at March 29, 2008	$ 15,401

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS 157, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. However, on February 12, 2008, the FASB issued FSP FAS 157-2, which delays 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 defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. Effective fiscal 2008, the Company has adopted SFAS 157 except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in FSP FAS 157-2. The Company is currently evaluating the potential impact of adoption of FSP FAS 157-2 and has not yet determined the impact, if any, that its adoption will have on its results of operations or financial condition.

In February 2007, FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 allows entities to voluntarily choose to measure certain financial assets and liabilities at fair value (fair value option). The fair value option may be elected on an instrument-by-instrument basis and is irrevocable, unless a new election date occurs. If the fair value option is elected for an instrument, SFAS

8

159 specifies that unrealized gains and losses for that instrument be reported in earnings at each subsequent reporting date. SFAS 159 was effective for the Company on January 1, 2008. The Company did not apply the fair value option to any of its outstanding instruments and therefore, SFAS 159 did not have an impact on the Company s consolidated financial statements.

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 is currently evaluating the potential impact of adoption of SFAS 141R and SFAS 160 and has not yet determined the impact, if any, that their adoption will have on its results of operations or financial condition.

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:

	March 29, 2008	December 29, 2007
	(In thousands)	
Raw materials	$ 2,772	$ 1,641
Work in process	473	517
Finished goods	42,971	43,064
	$ 46,216	$ 45,222

4. Stock Option Plans

The Company has options outstanding under four stock incentive plans: the 1994 Stock Option Plan (the 1994 Plan), the 2001 Special Stock Option Plan (the 2001 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, the 2001 Plan and the 2004 Plan, the Plans). The 2005 Plan is the only one of the four 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. As of March 29, 2008, there were 2,026,805 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 0 to 5 years, and expire 7 or 10 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.

Table of Contents

5. Accrued Expenses

Accrued expenses consist of the following at:

	March 29, 2008	December 29, 2007
	(In thousands)	
Accrued warranty	$ 2,524	$ 2,491
Accrued direct fulfillment costs	831	1,953
Accrued rent	148	197
Accrued sales commissions	579	1,074
Accrued accounting fees	302	361
Accrued income taxes	9	32
Accrued other	1,533	1,879
	$ 5,926	$ 7,987

6. Commitments and Contingencies

Lease Obligations

The Company leases its facilities. Rental expense under operating leases for the three months ended March 29, 2008 and March 31, 2007 amounted to $0.6 million and $0.5 million, respectively. Future minimum rental payments under operating leases were as follows as of March 29, 2008:

	Operating Leases (In thousands)
Remainder of 2008	$ 2,716
2009	2,337
2010	2,226
2011	2,210
2012	2,162
Thereafter	15,333
Total minimum lease payments	$ 26,984

Sales Taxes

The Company collects and remits sales tax in jurisdictions in which it has a physical presence or it believes a 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 is currently being audited by one state but does not believe this is likely to result in any material liability.

The Company has conducted an evaluation of whether it has established a nexus in various jurisdictions with respect to sales tax. As a result of this evaluation, the Company recorded a liability for potential exposure in one state. In an effort to mitigate its potential liability, the Company intends to approach this state pursuant to voluntary disclosure arrangements. 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

Table of Contents

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 March 29, 2008 and December 29, 2007, respectively.

Warranty

The Company provides warranties on most products and has established a reserve for warranty based on identified 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	
	March 29, 2008	March 31, 2007
	(In thousands)	
Balance at beginning of period	$ 2,491	$ 2,462
Provision	1,541	1,984
Warranty usage(*)	(1,508)	(1,949)
Balance at end of period	$ 2,524	$ 2,497

(*) Warranty usage includes the pro rata expiration of product warranties unutilized.

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 business offers products through a network of retail businesses throughout the United States and to certain countries through international distributors. The Company s home robots division includes mobile robots used in the maintenance of domestic households and sold primarily to retail outlets.

Government and Industrial

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

Table of Contents

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

	Three Months Ended March 29, 2008	March 31, 2007
	(In thousands)	
Revenue:		
Home Robots	$ 30,148	$ 19,441
Government & Industrial	27,154	20,046
Total revenue	57,302	39,487
Cost of revenue:		
Home Robots	22,079	