

IROBOT CORP
Form 10-Q
August 01, 2007

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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 June 30, 2007
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.)**

**63 South Avenue
Burlington, MA 01803
(Address of principal executive offices)
(Zip code)
(781) 345-0200**

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares outstanding of the Registrant's Common Stock as of July 28, 2007 was 24,333,769.

iROBOT CORPORATION
FORM 10-Q
THREE AND SIX MONTHS ENDED June 30, 2007
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The accompanying notes are an integral part of the consolidated financial statements.

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iROBOT CORPORATION
Consolidated Balance Sheets
(in thousands)

| | June 30, 2007 (unaudited) | December 30, 2006 |
|---|--|----------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 10,261 | \$ 5,583 |
| Short-term investments | 60,000 | 64,800 |
| Accounts receivable, net of allowance of \$65 and \$163 at June 30, 2007 and December 30, 2006, respectively | 17,679 | 28,510 |
| Unbilled revenue | 1,489 | 1,961 |
| Inventory, net | 22,008 | 20,890 |
| Other current assets | 1,980 | 2,863 |
| Total current assets | 113,417 | 124,607 |
| Property and equipment, net | 12,128 | 10,701 |
| Total assets | \$ 125,545 | \$ 135,308 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 27,106 | \$ 27,685 |
| Accrued expenses | 4,999 | 7,020 |
| Accrued compensation | 5,513 | 5,227 |
| Deferred revenue | 1,914 | 457 |
| Total current liabilities | 39,532 | 40,389 |
| Commitments and contingencies (Note 8): | | |
| Redeemable convertible preferred stock, 5,000 shares authorized and zero outstanding at June 30, 2007 and December 30, 2006 | | |
| Common stock, \$0.01 par value, 100,000 and 100,000 shares authorized and 24,321 and 23,791 issued and outstanding at June 30, 2007 and December 30, 2006, respectively | 243 | 238 |
| Additional paid-in capital | 117,786 | 117,718 |
| Deferred compensation | (1,028) | (2,326) |
| Accumulated deficit | (30,988) | (20,711) |
| Total stockholders equity | 86,013 | 94,919 |
| Total liabilities and stockholders equity | \$ 125,545 | \$ 135,308 |

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 | | Six Months Ended | |
|---|---------------------------|----------------|-------------------------|----------------|
| | June | | | July 1, |
| | 30, | July 1, | June 30, | 2006 |
| | 2007 | 2006 | 2007 | |
| Revenue: | | | | |
| Product revenue | \$ 41,361 | \$ 29,594 | \$ 75,482 | \$ 62,950 |
| Contract revenue | 5,653 | 4,967 | 11,019 | 9,820 |
| Total revenue | 47,014 | 34,561 | 86,501 | 72,770 |
| Cost of revenue: | | | | |
| Cost of product revenue (1) | 27,238 | 18,833 | 50,724 | 41,300 |
| Cost of contract revenue (1) | 4,552 | 3,951 | 9,436 | 7,500 |
| Total cost of revenue | 31,790 | 22,784 | 60,160 | 48,800 |
| Gross profit | 15,224 | 11,777 | 26,341 | 23,970 |
| Operating expenses: | | | | |
| Research and development (1) | 4,179 | 3,818 | 8,335 | 6,601 |
| Selling and marketing (1) | 10,944 | 5,669 | 18,993 | 14,485 |
| General and administrative (1) | 5,752 | 4,994 | 11,079 | 9,411 |
| Total operating expenses | 20,875 | 14,481 | 38,407 | 30,497 |
| Operating Loss | (5,651) | (2,704) | (12,066) | (6,527) |
| Other income, net | 887 | 949 | 1,818 | 1,869 |
| Loss before income taxes | (4,764) | (1,755) | (10,248) | (4,658) |
| Income tax expense | 12 | 22 | 29 | 36 |
| Net loss | \$ (4,776) | \$ (1,777) | \$ (10,277) | \$ (4,694) |
| Net loss per share | | | | |
| Basic and diluted | \$ (0.20) | \$ (0.08) | \$ (0.43) | \$ (0.20) |
| Number of shares used in per share calculations | | | | |
| Basic and diluted | 24,226 | 23,431 | 24,064 | 23,403 |

(1) Total stock-based compensation recorded in the three and six months ended June 30, 2007

and July 1, 2006
included in the
above figures
breaks down by
expense
classification as
follows:

| | Three Months Ended | | Six Months Ended | |
|--------------------------------|------------------------------|-------------------------|------------------------------|-------------------------|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| Cost of product revenue | \$ 239 | \$ 68 | \$ 359 | \$ 123 |
| Cost of contract revenue | 134 | 57 | 211 | 111 |
| Research and development | 127 | 89 | 118 | 180 |
| Selling and marketing | 450 | 74 | 607 | 106 |
| General and administrative | 578 | 263 | 890 | 518 |
| Total stock-based compensation | \$ 1,528 | \$ 551 | \$ 2,185 | \$ 1,038 |

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

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

| | Six Months Ended | |
|---|--------------------------|-------------------------|
| | June 30, 2007 | July 1, 2006 |
| Cash flows from operating activities: | | |
| Net loss | \$ (10,277) | \$ (4,694) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,459 | 1,844 |
| Loss on disposal of fixed assets | 35 | |
| Stock-based compensation | 2,185 | 1,038 |
| Non-cash director deferred compensation | 55 | |
| Changes in working capital (use) source | | |
| Accounts receivable | 10,831 | 14,936 |
| Unbilled revenue | 472 | 210 |
| Inventory | (1,118) | (940) |
| Other assets | 883 | 264 |
| Accounts payable | (579) | (13,481) |
| Accrued expenses | (2,021) | 860 |
| Accrued compensation | 286 | 466 |
| Provision for contract settlement | | (58) |
| Deferred revenue | 1,457 | 573 |
| Net cash provided by operating activities | 4,668 | 1,018 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (3,921) | (2,211) |
| Purchases of investments | (22,000) | (92,200) |
| Sales of investments | 26,800 | 24,800 |
| Net cash provided by (used in) investing activities | 879 | (69,611) |
| Cash flows from financing activities: | | |
| Income tax withholding payment associated with stock option exercise | (1,588) | |
| Proceeds from stock option exercises | 719 | 223 |
| Tax benefit of disqualifying dispositions | | 38 |
| Net cash provided by (used in) financing activities | (869) | 261 |
| Net increase (decrease) in cash and cash equivalents | 4,678 | (68,332) |
| Cash and cash equivalents, at beginning of period | 5,583 | 76,064 |
| Cash and cash equivalents, at end of period | \$ 10,261 | \$ 7,732 |

Supplemental disclosure of cash flow information:

| | | | |
|----------------------------|----|-----|-----|
| Cash paid for interest | \$ | \$ | 10 |
| Cash paid for income taxes | | 112 | 163 |

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

During the six months ended June 30, 2007 and July 1, 2006, the Company transferred \$481 and \$459, 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) was incorporated in 1990 as IS Robotics, Inc. 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 June 30, 2007 and for the three and six months ended June 30, 2007 and July 1, 2006 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 30, 2006, filed with the SEC on March 2, 2007.

In the opinion of management, all adjustments necessary to present a fair statement of financial position as of June 30, 2007 and results of operations and cash flows for the periods ended June 30, 2007 and July 1, 2006 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.

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iROBOT CORPORATION

Notes To Consolidated Financial Statements Continued
(unaudited)

Reclassification

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

Fiscal Year-End

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

Revenue Recognition

The Company derives its revenue from product sales, government research and development contracts, and commercial research and development contracts. The Company sells products directly to customers and indirectly through resellers and distributors. The Company recognizes revenue from sales of home robots under the terms of the customer agreement upon transfer of title to the customer, net of estimated returns, provided that collection is determined to be probable and no significant obligations remain. Sales to resellers are subject to agreements allowing for limited rights of return for defective products only, rebates and price protection. The Company has typically not taken product returns except for defective products. Accordingly, the Company reduces revenue for its estimates of liabilities for these rights at the time the related sale is recorded. The Company makes an estimate of sales returns for products sold by resellers directly or through its distributors based on historical returns experience. 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.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123(R), *Share-Based Payment*, which establishes accounting for the equity instruments exchanged for employee services. Under the provisions of SFAS No. 123(R), the Company establishes the fair value of each option grant using the Black-Scholes option-pricing model. Given the Company's initial public offering in November 2005 and the resulting short history as a public company, the Company could not rely solely on company specific historical data upon the adoption of SFAS No. 123(R) for purposes of establishing an expected volatility assumption for use in applying the Black-Scholes option-pricing model. Consequently, the Company performed an analysis of several peer companies with similar expected option lives to develop an expected volatility assumption of 65% which was utilized for establishing the fair value of all options granted during fiscal 2006.

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(unaudited)

During the three month period ended March 31, 2007, the Company updated its volatility assumption utilizing a methodology consistent with that described above that included a blend of company specific data since its initial public offering and data from the above-mentioned peer companies for a period covering the expected option lives. Based upon this analysis, the Company established a volatility rate of 55% for use in calculating the fair value of option grants in the six month period ended June 30, 2007. This reduction in the volatility rate assumption had the result of establishing lower fair values and, consequently, lower stock-based compensation expense in the current and future periods, for options granted in the six months ended June 30, 2007.

Upon the adoption of SFAS No. 123(R) on January 1, 2006, the Company assumed a forfeiture rate of 5% for all stock options granted subsequent to its initial public offering with the exception of those issued to executives and directors for which a zero forfeiture rate had been assumed. These rates were in effect for all of fiscal 2006. Effective the beginning of fiscal 2007, the Company established a 2.5% forfeiture rate for executives and directors. In the future, the Company will record incremental stock-based compensation expense if the actual forfeiture rates are lower than estimated and will record a recovery of prior stock-based compensation expense if the actual forfeitures are higher than estimated.

In a recent review of its stock-based compensation accounting methodology, the Company determined that a cumulative adjustment of \$0.5 million of incremental stock-based compensation expense was required due to a correction in the application of SFAS No. 123(R). Upon adoption of SFAS No. 123(R) on January 1, 2006, the Company incorrectly valued 259,700 stock options that were granted between the date that it filed its initial Form S-1 registration statement with the Securities and Exchange Commission on July 27, 2005 and the date it became a public company (November 8, 2005). The Company believes, in accordance with APB 28, paragraph 29, that this adjustment will not be material to its estimated full year results for 2007. In addition, management does not believe the adjustment is material to the amounts reported by the Company in previous periods. This cumulative adjustment is included in the gross profit and operating expenses for the three and six month periods ended June 30, 2007.

Net Income Per Share

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

| | Three Months Ended | | Six Months Ended | |
|---|---------------------------------------|--------------|---------------------------------------|--------------|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| | (In thousands, except per share data) | | (In thousands, except per share data) | |
| Net loss | \$ (4,776) | \$ (1,777) | \$ (10,277) | \$ (4,694) |
| Diluted weighted average shares outstanding | 24,226 | 23,431 | 24,064 | 23,403 |
| Basic and diluted loss per share | \$ (0.20) | \$ (0.08) | \$ (0.43) | \$ (0.20) |

Income Taxes

In June 2006, the FASB issued FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109*, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. Accordingly, the Company adopted FIN 48 beginning December 31, 2006 and the impact of adoption on its opening balance of retained earnings was zero. As of the beginning of fiscal year 2007, the Company had no unrecognized tax benefits and no unrecognized tax benefits

were recorded in the six months ended June 30, 2007. The Company recognizes interest and penalties related to unrecognized tax benefits in its tax provision and there were no accrued interest or penalties as of December 31, 2006 or June 30, 2007.

The Company is subject to taxation in the United States and various states and foreign jurisdictions. The Company's United States federal income tax returns for tax years after 1998 are subject to examination by the Internal Revenue Service. The Company's principal state income tax returns for tax years after 2002 are subject to examination by the state tax authorities.

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(unaudited)

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.

The Company monitors the realization of its deferred tax assets based on changes in circumstances, such as recurring periods of income for tax purposes following historical periods of cumulative losses or changes in tax laws or regulations. The Company's income tax provisions and its assessment of the realizability of its deferred tax assets involve significant judgments and estimates. If the Company generates taxable income through profitable operations in the future it may be required to recognize these deferred tax assets in the near term through the reduction of the valuation allowance which would result in a material benefit to its results of operations in the period in which the benefit is determined, excluding the recognition of the portion of the valuation allowance that relates to stock compensation windfall tax benefits.

Comprehensive Income

SFAS No. 130, *Reporting Comprehensive Income*, establishes standards for the reporting and display of comprehensive income and its components in financial statements. The Company's comprehensive income is equal to the Company's net income for all periods presented.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement does not require any new fair value measurements; rather, it applies under other accounting pronouncements that require or permit fair value measurements. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007. The Company is currently assessing SFAS No. 157 and has not yet determined the impact, if any, that its adoption will have on its result 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. Cash and Cash Equivalents

Cash and cash equivalents include demand deposits, money market accounts, and other highly liquid investments with original maturities of three months or less at the date of acquisition. The Company invests its excess operating cash primarily in money market funds of major financial institutions. Cash equivalents are carried at cost, which approximates fair market value, and interest is accrued as earned.

4. Short-term Investments

The Company's investments are classified as available-for-sale and are recorded at fair value with any unrealized gain or loss recorded as an element of stockholders' equity. The fair value of investments is determined based on quoted market prices at the reporting date for those instruments. As of June 30, 2007, investments consisted of:

| | June 30, 2007 | | December 30, 2006 | |
|------------------------------|----------------|-------------------------|-------------------|-------------------------|
| | Cost | Fair Market Value | Cost | Fair Market Value |
| | (In thousands) | | | |
| Auction Rate Debt Securities | \$60,000 | \$ 60,000 | \$64,800 | \$ 64,800 |

As of June 30, 2007, the Company's investments had maturity dates ranging from November 2027 to August 2045. Despite the long-term contractual maturities of the auction rate securities held at June 30, 2007, all of these

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(unaudited)

securities are available for immediate sale and it is the Company's intention to liquidate these securities within one year.

5. Inventory

Inventory consists of the following at:

| | June 30, 2007 | December 30, 2006 |
|-----------------|------------------------------|----------------------------------|
| | (In thousands) | |
| Raw materials | \$ 1,839 | \$ 1,248 |
| Work in process | 570 | 311 |
| Finished goods | 19,599 | 19,331 |
| | \$ 22,008 | \$ 20,890 |

6. 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 June 30, 2007, there were 1,346,509 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. Prior to the Company's initial public offering, the exercise price for each incentive stock option was determined by the board of directors of the Company to be equal to the fair value of the common stock on the date of grant. In reaching this determination at the time of each such grant, the board of directors considered a broad range of factors, including the illiquid nature of an investment in the Company's common stock, the Company's historical financial performance, the Company's future prospects and the value of preferred stock based on recent financing activities. Subsequent to the Company's initial public offering 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.

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(unaudited)**7. Accrued Expenses**

Accrued expenses consist of the following at:

| | June 30, 2007 | December 30, 2006 |
|----------------------------------|------------------------------|----------------------------------|
| | (In thousands) | |
| Accrued warranty | \$ 2,421 | \$ 2,462 |
| Accrued direct fulfillment costs | 640 | 2,123 |
| Accrued rent | 247 | 284 |
| Accrued sales commissions | 254 | 502 |
| Accrued accounting fees | 437 | 332 |
| Accrued income taxes | 74 | 168 |
| Accrued other | 926 | 1,149 |
| | \$ 4,999 | \$ 7,020 |

8. Commitments and Contingencies***Lease Obligations***

The Company leases its facilities. Rental expense under operating leases for the three months ended June 30, 2007 and July 1, 2006 amounted to \$0.5 million and \$0.5 million, respectively, and for the six months ended June 30, 2007 and July 1, 2006 amounted to \$1.0 million and \$1.0 million, respectively. Future minimum rental payments under operating leases were as follows as of June 30, 2007:

| | Operating Leases (In thousands) |
|------------------------------|--|
| Remainder of 2007 | \$ 909 |
| 2008 | 2,933 |
| 2009 | 2,191 |
| 2010 | 2,131 |
| 2011 | 2,112 |
| Thereafter | 17,420 |
| Total minimum lease payments | \$ 27,696 |

Guarantees and Indemnification Obligations

The Company enters into standard indemnification agreements in the ordinary course of business. Pursuant to these agreements, the Company indemnifies and agrees to reimburse the indemnified party for losses incurred by the indemnified party, generally the Company's customers, in connection with any patent, copyright, trade secret or other proprietary right infringement claim by any third party with respect to the Company's products. The term of these indemnification agreements is generally perpetual any time after execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal. Accordingly,

the Company has no liabilities recorded for these agreements as of June 30, 2007 and December 30, 2006, respectively.

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Notes To Consolidated Financial Statements Continued
(unaudited)

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 7) in the accompanying balance sheets.

Activity related to the warranty accrual was as follows:

| | Three Months Ended | | Six Months Ended | |
|--------------------------------|---------------------------|----------------|-------------------------|----------------|
| | June | July 1, | June | July 1, |
| | 30, | 2006 | 30, | 2006 |
| | 2007 | | 2007 | |
| | (In thousands) | | | |
| Balance at beginning of period | \$ 2,497 | \$ 2,010 | \$ 2,462 | \$ 2,031 |
| Provision | 1,407 | 1,060 | 3,391 | 2,376 |
| Warranty usage(*) | (1,483) | (1,313) | (3,432) | (2,650) |
| Balance at end of period | \$ 2,421 | \$ 1,757 | \$ 2,421 | \$ 1,757 |

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

9. 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 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**iROBOT CORPORATION**Notes To Consolidated Financial Statements Continued
(unaudited)

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

| | Three Months Ended | | Six Months Ended | |
|-----------------------------------|---------------------------|---------------------|-------------------------|---------------------|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| | (In thousands) | | (In thousands) | |
| Revenue: | | | | |
| Home Robots | \$ 17,197 | \$ 16,738 | \$ 36,638 | \$ 39,947 |
| Government & Industrial | 29,817 | 17,823 | 49,863 | 32,823 |
| Total revenue | 47,014 | 34,561 | 86,501 | 72,770 |
| Cost of revenue: | | | | |
| Home Robots | 11,805 | 10,748 | 25,369 | 26,001 |
| Government & Industrial | 19,985 | 12,036 | 34,791 | 22,799 |
| Total cost of revenue | 31,790 | 22,784 | 60,160 | 48,800 |
| Gross profit: | | | | |
| Home Robots | 5,392 | 5,990 | 11,269 | 13,946 |
| Government & Industrial | 9,832 | 5,787 | 15,072 | 10,024 |
| Total gross profit | 15,224 | 11,777 | 26,341 | 23,970 |
| Research and development | | | | |
| Other | 4,179 | 3,818 | 8,335 | 6,601 |
| Selling and marketing | | | | |
| Other | 10,944 | 5,669 | 18,993 | 14,485 |
| General and administrative | | | | |
| Other | 5,752 | 4,994 | 11,079 | 9,411 |
| Other income, net | | | | |
| Other | 887 | 949 | 1,818 | 1,869 |
| Loss before income taxes | | | | |
| Other | \$ (4,764) | \$ (1,755) | \$ (10,248) | \$ (4,658) |

Geographic Information

For the three months ended June 30, 2007 and July 1, 2006, sales to non-U.S. customers accounted for 16.6% and 10.8% of total revenue, respectively, and for the six months ended June 30, 2007 and July 1, 2006, sales to non-U.S. customers accounted for 11.8% and 8.9% of total revenue, respectively.

Significant Customers

For the three months ended June 30, 2007 and July 1, 2006, U.S. federal government orders, contracts and subcontracts accounted for 50.8% and 48.1% of total revenue, respectively, and for the six months ended June 30, 2007 and July 1, 2006, U.S. federal government orders, contracts and subcontracts accounted for 48.7% and 41.8% of total revenue, respectively.

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 December 30, 2006, which has been filed with the Securities and Exchange Commission (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 and Exchange Act of 1934, as amended, and are subject to the safe harbor created by those sections. 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 December 30, 2006, as well as elsewhere in this report. 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 caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made.

Overview

iRobot provides robots that enable people to complete complex tasks in a better way. Founded in 1990 by roboticists who performed research at the Massachusetts Institute of Technology, we have developed proprietary technology incorporating advanced concepts in navigation, mobility, manipulation and artificial intelligence to build industry-leading robots. Our Roomba floor vacuuming, Scooba floor washing and Verro pool cleaning robots perform time-consuming domestic chores, and our PackBot tactical military robots perform battlefield reconnaissance and bomb disposal. In addition, we are developing the Small Unmanned Ground Vehicle reconnaissance robot for the U.S. Army's Future Combat Systems program and, in conjunction with Deere & Company, the R-Gator unmanned ground vehicle. We sell our robots to consumers through a variety of distribution channels, including chain stores and other national retailers, and our on-line store, and to the U.S. military and other government agencies worldwide.

As of June 30, 2007, we had 409 full-time employees. We have developed expertise in most 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, thereby reducing the time, cost and risk of product development. We believe that 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 home robot and military 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 home robot and military 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.

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; valuation allowances (specifically sales returns and other 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

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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 December 30, 2006.

In a recent review of our stock-based compensation accounting methodology, we determined that a cumulative adjustment of \$0.5 million of incremental stock-based compensation expense was required due to a correction in the application of SFAS No. 123(R). Upon adoption of SFAS No. 123(R) on January 1, 2006, we incorrectly valued 259,700 stock options that were granted between the date that we filed our initial Form S-1 registration statement with the Securities and Exchange Commission on July 27, 2005 and the date we became a public company (November 8, 2005). We believe, in accordance with APB 28, paragraph 29, that this adjustment will not be material to our estimated full year results for 2007. In addition, we do not believe the adjustment is material to the amounts reported by us in previous periods. This cumulative adjustment is included in the gross profit and operating expenses for the three and six month periods ended June 30, 2007.

Overview of Results of Operations

The following table sets forth our results of operations as a percentage of revenue for the three and six month periods ended June 30, 2007 and July 1, 2006:

| | Three Months Ended | | Six Months Ended | |
|----------------------------|---------------------------|----------------|-------------------------|----------------|
| | June | July 1, | June | July 1, |
| | 30, | 2006 | 30, | 2006 |
| | 2007 | | 2007 | |
| Revenue | | | | |
| Product revenue | 88.0% | 85.6% | 87.3% | 86.5% |
| Contract revenue | 12.0 | 14.4 | 12.7 | 13.5 |
| Total revenue | 100.0 | 100.0 | 100.0 | 100.0 |
| Cost of Revenue | | | | |
| Cost of product revenue | 57.9 | 54.5 | 58.6 | 56.8 |
| Cost of contract revenue | 9.7 | 11.4 | 10.9 | 10.3 |
| Total cost of revenue | 67.6 | 65.9 | 69.5 | 67.1 |
| Gross profit | 32.4 | 34.1 | 30.5 | 32.9 |
| Operating Expenses | | | | |
| Research and development | 8.9 | 11.0 | 9.6 | 9.1 |
| Selling and marketing | 23.3 | 16.4 | 22.0 | 19.9 |
| General and administrative | 12.2 | 14.5 | 12.8 | 12.9 |
| Total operating expenses | 44.4 | 41.9 | 44.4 | 41.9 |
| Operating loss | (12.0) | (7.8) | (13.9) | (9.0) |
| Other income, net | 1.9 | 2.8 | 2.1 | 2.6 |
| Loss before income taxes | (10.1) | (5.0) | (11.8) | (6.4) |
| Income tax expense | 0.1 | 0.1 | 0.1 | 0.1 |
| Net Loss | (10.2)% | (5.1)% | (11.9)% | (6.5)% |

Comparison of Three and Six Months Ended June 30, 2007 and July 1, 2006**Revenue**

| | Three Months Ended | | | | Six Months Ended | | | |
|---------------|-------------------------------|-------------------------|--------------------------|---------------------------|-------------------------------|-------------------------|--------------------------|---------------------------|
| | June 30, 2007 | July 1, 2006 | Dollar Change | Percent Change | June 30, 2007 | July 1, 2006 | Dollar Change | Percent Change |
| | (Dollars in thousands) | | | | (Dollars in thousands) | | | |
| Total revenue | \$47,014 | \$34,561 | \$12,453 | 36.0% | \$86,501 | \$72,770 | \$13,731 | 18.9% |

Total revenue for the three months ended June 30, 2007 increased to \$47.0 million, or 36.0%, compared to \$34.6 million for the three months ended July 1, 2006. Revenue increased approximately \$0.5 million, or 2.7%, in our home robots business and increased approximately \$11.9 million, or 67.3%, in our government and industrial business.

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The \$0.5 million increase in revenue from our home robots division was driven by an increase in product life cycle revenue (spares and accessories) partially offset by lower sales of home floor care robots, for the three months ended June 30, 2007 as compared to the three months ended July 1, 2006. Total home floor care robots shipped in the three months ended June 30, 2007 was approximately 99,000 units compared to approximately 107,000 units in the three months ended July 1, 2006. The \$11.9 million increase in revenue from our government and industrial business for the three months ended June 30, 2007 as compared to three months ended July 1, 2006 was due to a 78.8% increase in unit shipments of our military robots combined with a 31.4% increase in associated net average selling prices and a 14.2% increase in recurring contract development revenue generated under funded research and development contracts. Also included in this \$11.9 million growth was a decrease of approximately \$1.5 million in product life cycle revenue (robot spares, services and training) from the \$3.4 million of product life cycle revenue in the three months ended July 1, 2006. Total military robot units shipped in the three months ended June 30, 2007 was 152 compared to 85 in the three months ended July 1, 2006.

Total revenue for the six months ended June 30, 2007 increased by \$13.7 million to \$86.5 million, or 18.9%, compared to \$72.8 million for the six months ended July 1, 2006. Revenue decreased approximately \$3.3 million, or 8.3%, in our home robots business and increased approximately \$17.0 million, or 51.9%, in our government and industrial business.

The \$3.3 million decrease in revenue from our home robots division was driven by a 10.5% decrease in net average selling prices that was primarily due to lower sales of our Scooba floor washing robot, which have higher average selling prices than our Roomba floor vacuuming robot, combined with a 3.7% decrease in unit shipments of our total home floor care robots, for the six months ended June 30, 2007 as compared to the six months ended July 1, 2006. Partially offsetting this decrease was a 49.8% increase in product life cycle revenue. Total home floor care robots shipped in the six months ended June 30, 2007 was approximately 227,000 units compared to approximately 237,000 units in the six months ended July 1, 2006. The \$17.0 million increase in revenue from our government and industrial business for the six months ended June 30, 2007 as compared to six months ended July 1, 2006 was due to a 59.6% increase in unit shipments of our military robots combined with a 19.9% increase in associated net average selling prices and a 12.5% increase in recurring contract development revenue generated under funded research and development contracts. Total military robot units shipped in the six months ended June 30, 2007 was 249 compared to 156 in the six months ended July 1, 2006.

Cost of Revenue

| | Three Months Ended | | | | Six Months Ended | | | |
|----------------------------------|------------------------|-----------------|------------------|-------------------|------------------------|-----------------|------------------|-------------------|
| | June 30, 2007 | July 1, 2006 | Dollar Change | Percent Change | June 30, 2007 | July 1, 2006 | Dollar Change | Percent Change |
| | (Dollars in thousands) | | | | (Dollars in thousands) | | | |
| Total cost of revenue | \$31,790 | \$22,784 | \$9,006 | 39.5% | \$60,160 | \$48,800 | \$11,360 | 23.3% |
| As a percentage of total revenue | 67.6% | 65.9% | | | 69.5% | 67.1% | | |

Total cost of revenue increased to \$31.8 million in the three months ended June 30, 2007, compared to \$22.8 million in the three months ended July 1, 2006. The increase is due to higher costs associated with the 78.8% increase in government and industrial unit sales, higher average unit costs in both divisions driven by expansion of our product line into higher end models, and the 14.2% increase in recurring contract revenues generated under funded research and development contracts.

The home robots division cost of revenue increased as a percent of revenue by 4.4 percentage points in the three months ended June 30, 2007 as compared to the three months ended July 1, 2006. This increase was primarily attributable to a 17.6% increase in average unit costs mainly as a result of increased nickel prices, the most significant cost element of our batteries, partially offset by a 3.0% increase in average selling prices

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The government and industrial robots division cost of revenue decreased as a percent of revenue by 0.5 percentage points in the three months ended June 30, 2007 as compared to the three months ended July 1, 2006. This decrease was due to favorable contract costs associated with government approved overhead rate adjustments applied this quarter and absorption of overhead expenses, partially offset by a 19.5% increase in the average unit costs and higher warranty expenses.

Total cost of revenue increased to \$60.2 million in the six months ended June 30, 2007, compared to \$48.8 million in the six months ended July 1, 2006. The increase is due to higher costs associated with the 59.6% increase in government and industrial unit sales and a 7.4% increase in the average unit costs of our government and industrial robots and the 12.5% increase in recurring contract revenues generated under funded research and development contracts.

The home robots division cost of revenue increased as a percent of revenue by 4.1 percentage points in the six months ended June 30, 2007 as compared to the six months ended July 1, 2006. This increase was primarily attributable to higher warranty, overhead and battery costs, due to increased nickel costs, partially offset by lower average unit costs driven by the mix of home robots sold.

The government and industrial robots division cost of revenue increased as a percent of revenue by 0.3 percentage points in the six months ended June 30, 2007 as compared to the six months ended July 1, 2006. This increase was due to higher overhead costs associated with an expanded infrastructure to support our growth and achieve operational scale as well as higher warranty costs offset by the impact of a favorable mix of product vs. contract revenue and the second quarter government approved overhead rate adjustments.

Gross Profit

| | Three Months Ended | | | | Six Months Ended | | | |
|----------------------------------|-----------------------|-----------------|------------------|-------------------|------------------------|-----------------|------------------|-------------------|
| | June 30, 2007 | July 1, 2006 | Dollar Change | Percent Change | June 30, 2007 | July 1, 2006 | Dollar Change | Percent Change |
| | (Dollar in thousands) | | | | (Dollars in thousands) | | | |
| Total gross profit | \$15,224 | \$11,777 | \$3,447 | 29.3% | \$26,341 | \$23,970 | \$2,371 | 9.9% |
| As a percentage of total revenue | 32.4% | 34.1% | | | 30.5% | 32.9% | | |

Gross profit increased 29.3% to \$15.2 million in the three months ended June 30, 2007, from \$11.8 million in the three months ended July 1, 2006. Gross profit as a percentage of revenue decreased to 32.4% in the three months ended June 30, 2007 from 34.1% of revenue in the three months ended July 1, 2006. This decrease in gross profit as a percentage of total revenue was the result of the home robots division gross profit decreasing 4.4 percentage points offset by the government and industrial division increasing 0.5 percentage points, each compared to the three months ended July 1, 2006.

Gross profit increased 9.9% to \$26.3 million in the six months ended June 30, 2007, from \$24.0 million in the six months ended July 1, 2006. Gross profit as a percentage of revenue decreased to 30.5% in the six months ended June 30, 2007 from 32.9% of revenue in the six months ended July 1, 2006. This decrease in gross profit as a percentage of total revenue was the result of the home robots division gross profit decreasing 4.1 percentage points and by the government and industrial division decreasing 0.3 percentage points, each compared to the six months ended July 1, 2006.

Table of Contents*Research and Development*

| | Three Months Ended | | | | Six Months Ended | | | |
|--|------------------------|-----------------|------------------|-------------------|------------------------|-----------------|------------------|-------------------|
| | June 30, 2007 | July 1, 2006 | Dollar Change | Percent Change | June 30, 2007 | July 1, 2006 | Dollar Change | Percent Change |
| | (Dollars in thousands) | | | | (Dollars in thousands) | | | |
| Total research and development expense | \$4,179 | \$3,818 | \$361 | 9.5% | \$8,335 | \$6,601 | \$1,734 | 26.3% |
| As a percentage of total revenue | 8.9% | 11.0% | | | 9.6% | 9.1% | | |

Research and development expenses increased by \$0.4 million, or 9.5%, to \$4.2 million (8.9% of revenue) in the three months ended June 30, 2007, from \$3.8 million (11.0% of revenue) for the three months ended July 1, 2006. The increase in research and development expenses is primarily due to an increase in compensation and benefit related expenses attributed to increased headcount.

Research and development expenses increased by \$1.7 million, or 26.3%, to \$8.3 million (9.6% of revenue) in the six months ended June 30, 2007, from \$6.6 million (9.1% of revenue) for the six months ended July 1, 2006. The increase in research and development expenses is primarily due to an increase of \$0.9 million in compensation, benefit related expenses and travel attributed to increased headcount. Consulting and material costs associated with internal research and development projects increased by \$0.2 million and \$0.6 million, respectively.

In 2007, we intend to continue to invest in research and development to respond to and anticipate customer needs and we expect quarterly spending to approximate the levels we experienced in the three months ended June 30, 2007. Given the seasonality of our business and the impact on quarterly revenues, research and development expenses are expected to fluctuate as a percent of revenue throughout the year. For the full fiscal year 2007, we expect research and development expenses to be approximately 7% of revenue as compared to the 8.9% we experienced in the three months ended June 30, 2007.

Overall research and development headcount increased to 106 at June 30, 2007 compared to 89 as of July 1, 2006, an increase of 17 employees or 19%.

In addition to our internal research and development activities discussed above, we incur research and development expenses under funded development arrangements with both governments and industrial third parties. For the three and six months ended June 30, 2007, these expenses amounted to \$4.6 million and \$9.4 million compared to \$4.0 million and \$7.5 million for the three and six months ended July 1, 2006, respectively. In accordance with generally accepted accounting principles, these expenses have been classified as cost of revenue rather than research and development expense.

Selling and Marketing

| | Three Months Ended | | | | Six Months Ended | | | |
|-------------------------------------|------------------------|-----------------|------------------|-------------------|------------------------|-----------------|------------------|-------------------|
| | June 30, 2007 | July 1, 2006 | Dollar Change | Percent Change | June 30, 2007 | July 1, 2006 | Dollar Change | Percent Change |
| | (Dollars in thousands) | | | | (Dollars in thousands) | | | |
| Total selling and marketing expense | \$10,944 | \$5,669 | \$5,275 | 93.0% | \$18,993 | \$14,485 | \$4,508 | 31.1% |
| As a percentage of total revenue | 23.3% | 16.4% | | | 22.0% | 19.9% | | |

Selling and marketing expenses increased by \$5.3 million, or 93.0%, to \$10.9 million (23.3% of revenue) in the three months ended June 30, 2007 from \$5.7 million (16.4% of revenue) in the three months ended July 1, 2006. The increase in selling and marketing expense was primarily driven by increases of \$4.1 million in direct marketing, online

and television media, and direct fulfillment related expenses due primarily to significant growth in our direct business, compensation expense of \$0.4 attributed to increased headcount, and stock compensation expense of \$0.4 million as compared to the three months ended July 1, 2006.

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Selling and marketing expenses increased by \$4.5 million, or 31.1%, to \$19.0 million (22.0% of revenue) in the six months ended June 30, 2007 from \$14.5 million (19.9% of revenue) in the six months ended July 1, 2006. The increase in selling and marketing expense was primarily driven by increases of \$3.2 million in fulfillment expenses and online media due to significant growth in our direct business, compensation expense of \$0.8 million attributed to increased headcount, and stock compensation expense of \$0.5 million as compared to the six months ended July 1, 2006.

For the full fiscal year 2007, we expect selling and marketing expenses to be approximately 19% of revenue with sales and marketing spending, especially media spending, generally increasing as the holiday season approaches.

Overall selling and marketing headcount increased to 34 at June 30, 2007 compared to 26 as of July 1, 2006, an increase of 8 employees or 31% growth.

General and Administrative

| | Three Months Ended | | | | Six Months Ended | | | |
|--|--|---|------------------|-------------------|--|---|------------------|-------------------|
| | June 30, 2007 (Dollars in thousands) | July 1, 2006 (Dollars in thousands) | Dollar Change | Percent Change | June 30, 2007 (Dollars in thousands) | July 1, 2006 (Dollars in thousands) | Dollar Change | Percent Change |
| Total general and administrative expense | \$5,752 | \$4,994 | \$758 | 15.2% | \$11,079 | \$9,411 | \$1,668 | 17.7% |
| As a percentage of total revenue | 12.2% | 14.5% | | | 12.8% | 12.9% | | |

General and administrative expenses increased by \$0.8 million, or 15.2%, to \$5.8 million (12.2% of revenue) in the three months ended June 30, 2007 from \$5.0 million (14.5% of revenue) in the three months ended July 1, 2006. The increase in general and administrative expenses was primarily driven by increases of \$0.4 million in compensation due to increased headcount, \$0.3 million of stock compensation expense, and \$0.1 million in depreciation expense over the comparable period.

General and administrative expenses increased by \$1.7 million, or 17.7%, to \$11.1 million (12.8% of revenue) in the six months ended June 30, 2007 from \$9.4 million (12.9% of revenue) in the six months ended July 1, 2006. The increase in general and administrative expenses was primarily driven by increases of \$1.0 million in compensation and recruiting due to increased headcount, \$0.4 million of stock compensation expense, and \$0.2 million in depreciation expense over the comparable period.

Given the seasonality of our business and the impact on quarterly revenues, general and administrative expenses are expected to fluctuate as a percent of revenue throughout the year. For the full fiscal year 2007, we expect general and administrative expenses to be approximately 9% of revenue as compared to the 12.2% of revenue we experienced in the three months ended June 30, 2007.

Overall general and administrative headcount increased to 82 at June 30, 2007 compared to 66 as of July 1, 2006, an increase of 16 employees or 24% growth.

Other Income, Net

| | Three Months Ended | | | | Six Months Ended | | | |
|-----------------------------------|--|---|------------------|-------------------|--|---|------------------|-------------------|
| | June 30, 2007 (Dollars in thousands) | July 1, 2006 (Dollars in thousands) | Dollar Change | Percent Change | June 30, 2007 (Dollars in thousands) | July 1, 2006 (Dollars in thousands) | Dollar Change | Percent Change |
| Total other income (expense), net | \$887 | \$949 | \$(62) | (6.5%) | \$1,818 | \$1,869 | \$(51) | (2.7%) |
| As a percentage of total revenue | 1.9% | 2.8% | | | 2.1% | 2.6% | | |

Other income, net amounted to \$0.9 million for the three months ended June 30, 2007 compared to \$0.9 million for the three months ended July 1, 2006.

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Other income, net amounted to \$1.8 million for the six months ended June 30, 2007 compared to \$1.9 million for the six months ended July 1, 2006.

Other income, net was directly related to interest income resulting from the investment of the net proceeds from our initial public offering, which closed on November 15, 2005.

Income Tax Provision

| | Three Months Ended | | | | Six Months Ended | | | |
|----------------------------------|--|---|------------------|-------------------|--|---|------------------|-------------------|
| | June 30, 2007 (Dollars in thousands) | July 1, 2006 (Dollars in thousands) | Dollar Change | Percent Change | June 30, 2007 (Dollars in thousands) | July 1, 2006 (Dollars in thousands) | Dollar Change | Percent Change |
| Total income tax provision | \$ 12 | \$ 22 | \$(10) | (45.5%) | \$ 29 | \$ 36 | \$(7) | (19.4%) |
| As a percentage of total revenue | 0.1% | 0.1% | | | 0.1% | 0.1% | | |

The provision for income taxes for the three and six months ended June 30, 2007 and July 1, 2006 consists solely of state taxes.

Liquidity and Capital Resources

At June 30, 2007 our principal sources of liquidity were cash and cash equivalents totaling \$10.3 million, short-term investments of \$60.0 million, and accounts receivable of \$17.7 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. However, cash flow will be impacted in the coming quarters as we build out new leased facilities for occupancy during the second quarter of 2008. Accordingly, our capital spending is generally limited to leasehold improvements, computers, office furniture and product-specific production tooling and test equipment. In the six month periods ended June 30, 2007 and July 1, 2006, we spent \$3.9 million and \$2.2 million, respectively, on capital equipment.

Our home robots product sales are, and are expected to continue to be, highly seasonal. This seasonality typically results in a break even or net use of cash in support of operating needs during the first half of the year with the low point generally occurring in the third quarter, and a favorable cash flow towards the end of the year.

Discussion of Cash Flows

Net cash provided by our operating activities in the six months ended June 30, 2007 was \$4.7 million compared to net cash provided by operating activities of \$1.0 million in the six months ended July 1, 2006. The cash provided by our operating activities in the six months ended June 30, 2007 was primarily due to a decrease in accounts receivable (including unbilled revenue) of \$11.3 million, and a decrease in other assets of \$0.9 million, offset by a net loss of \$10.3 million, an increase in inventory of \$1.1 million and a net decrease in liabilities of \$0.9 million. In addition, in the six months ended June 30, 2007, we had depreciation and amortization of approximately \$2.5 million and stock-based compensation of \$2.2 million, both of which are non-cash expenses. The cash provided by our operating activities in the six months ended July 1, 2006 was primarily due to a decrease in accounts receivable of \$14.9 million offset by a net loss of \$4.7 million, an increase in inventory of \$0.9 million, and a decrease in liabilities of \$11.6 million. In addition, in the six months ended July 1, 2006, we had depreciation and amortization of approximately \$1.8 million and stock-based compensation of \$1.0 million, both of which are non-cash expenses.

Net cash provided by our investing activities was \$0.9 million in the six months ended June 30, 2007 compared to net cash used by our investing activities of \$69.6 million in the six months ended July 1, 2006. Investing activities in the six months ended June 30, 2007 represent the sale of short-term investments of \$26.8 million, offset by the

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purchase of short-term investments of \$22.0 million and the purchase of capital equipment of \$3.9 million. Investing activities in the six months ended July 1, 2006 represent the purchase of short-term investments of \$92.2 million and capital equipment of \$2.2 million, offset by the sale of short-term investments of \$24.8 million.

Net cash used by our financing activities was approximately \$0.9 million in the six months ended June 30, 2007 compared to net cash provided by our financing activities of \$0.3 million in the six months ended July 1, 2006. Included in the financing activities for the six months ended June 30, 2007 was a \$1.6 million payment by us of the minimum tax withholding obligation relating to a stock option exercise during the period. This figure was offset by \$0.7 million of proceeds from the exercise of stock options. Net cash provided by our financing activities for the six months ended July 1, 2006 consist primarily of the proceeds from the exercise of common stock options.

The majority of our long-lived assets for the six months ended June 30, 2007 and July 1, 2006 are located in the United States. However, we have invested in production tooling for the manufacture of the Roomba and Scooba product lines in China.

Working Capital Facility

On June 5, 2007, we entered into a \$35 million unsecured revolving credit facility with Bank of America, N.A. to replace our expired working capital line of credit with Bank of America. The credit facility will be available to fund working capital and other corporate purposes. The interest on loans under our working capital line of credit will accrue, at our election, at either (i) Bank of America's prime rate minus 1% or (ii) the Eurodollar rate plus 1.25%. The credit facility will terminate and all amounts outstanding thereunder will be due and payable in full on June 5, 2010. As of June 30, 2007, we had letters of credit outstanding of \$2.1 million and \$32.9 million available 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 ratio of current assets to current liabilities and a minimum specified annual net income.

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. At June 30, 2007, we were in compliance with all covenants under the credit facility.

Equipment Financing Facility

On June 5, 2007, we entered into a \$15 million secured equipment facility with Banc of America Leasing and Capital, LLC under which we can finance the acquisition of equipment, furniture and leasehold improvements. We may borrow amounts under the equipment facility until July 1, 2008 and any amounts borrowed during that period will accrue interest at 30-day LIBOR plus 1%. After July 1, 2008, all amounts then outstanding under the equipment line will be repaid in 60 equal monthly installments commencing in July 2008 and will accrue interest, at our election, at either a fixed or variable rate of interest. Our obligations under the equipment facility will be secured by any financed equipment. As of June 30, 2007, we had no amounts outstanding and \$15.0 million available under our equipment financing line of credit.

This equipment facility contains customary terms and conditions for equipment facilities of this type, including, without limitation, restrictions on our ability to transfer, encumber or dispose of the financed equipment. In addition, we are required to meet certain financial covenants customary to this type of agreement, including maintaining a minimum specified tangible net worth, a minimum specified ratio of current assets to current liabilities and a minimum specified annual net income.

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This equipment 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, or if we repay all of our indebtedness under our credit facility with Bank of America, N.A., our obligations under this equipment facility may be accelerated. At June 30, 2007, we were in compliance with all covenants under the equipment facility.

Working Capital and Capital Expenditure Needs

We currently have no material cash commitments, except for normal recurring trade payables, expense accruals and operating leases, all of which we anticipate funding through our existing working capital line of credit, working capital and funds provided by operating activities. We do anticipate making significant capital commitments in the next several months for expenditures associated with the planned move to our new corporate headquarters on or about May 1, 2008. These expenditures will be jointly funded by the landlord for this site and by us. Other than this project, we do not currently anticipate significant investment in property, plant and equipment, and we believe that our outsourced approach to manufacturing provides us with flexibility in both managing inventory levels and financing our inventory. We believe our existing cash and cash equivalents, short-term investments, cash provided by operating activities, and funds available through our working capital line of credit will be sufficient to meet our working capital and capital expenditure needs over at least the next twelve months. In the event that our revenue plan does not meet our expectations, we may eliminate or curtail expenditures to mitigate the impact on our working capital. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our marketing and sales activities, the timing and extent of spending to support product development efforts, the timing of introductions of new products and enhancements to existing products, the acquisition of new capabilities or technologies, and the continuing market acceptance of our products and services. Moreover, to the extent that existing cash and cash equivalents, short-term investments, cash from operations, and cash from short-term borrowing are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. Although we are currently not a party to any agreement or binding letter of intent with respect to potential investments in, or acquisitions of, businesses, services or technologies, we may enter into these types of arrangements in the future, which could also require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

Contractual Obligations

We generally do not enter into binding purchase commitments. Our principal commitments consist of obligations under our working capital line of credit, leases for office space and minimum contractual obligations for services. The following table describes our commitments to settle contractual obligations in cash as of June 30, 2007:

| | Payments Due by Period | | | | Total |
|------------------------------|-------------------------------|---------------------|-----------------------|--------------------------|------------------|
| | Less Than 1 Year | 1 to 3 Years | 3 to 5 Years | More Than 5 Years | |
| | | | (In thousands) | | |
| Operating leases | \$ 2,042 | \$ 5,071 | \$ 5,169 | \$ 15,414 | \$ 27,696 |
| Minimum contractual payments | 1,115 | 8,500 | 10,500 | 1,500 | 21,615 |
| Total | \$ 3,157 | \$ 13,571 | \$ 15,669 | \$ 16,914 | \$ 49,311 |

Off-Balance Sheet Arrangements

As of June 30, 2007, we had no off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

Recently Issued Accounting Pronouncements

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

Table of Contents**Item 3. Quantitative and Qualitative Disclosure About Market Risk
Interest Rate Sensitivity**

At June 30, 2007, we had unrestricted cash and cash equivalents of \$10.3 million and short-term investments of \$60.0 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 principal amount of the investment to fluctuate. To minimize this risk in the future, we intend to maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including auction rate 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 June 30, 2007, all of our cash equivalents were held in money market accounts and our short-term investments were comprised of auction rate securities.

Our exposure to market risk also relates to the increase or decrease in the amount of interest expense we would be required to pay on outstanding debt instruments, primarily certain borrowings under our bank line of credit. The advances under this line of credit bear a variable rate of interest determined as a function of the prime rate or the published LIBOR rate at the time of the borrowing. At June 30, 2007, there were no borrowings outstanding under our working capital line of credit or our equipment line.

Exchange Rate Sensitivity

Nearly all of our revenue is derived from transactions denominated in U.S. dollars, even though 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.

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 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 in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. 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.

Part II. Other Information**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 December 30, 2006, 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 December 30, 2006.

Table of Contents**Item 4. Submission of Matters to a Vote of Security Holders**

The Company's annual meeting of stockholders was held on Thursday, June 28, 2007, in Bedford, Massachusetts, at which the following matters were submitted to a vote of the stockholders:

- (a) Votes regarding the election of the persons named below as class II members to the board of directors, each for a three-year term and until his successor has been duly elected and qualified or until his earlier resignation or removal, were as follows:

| | For | Withheld |
|----------------|------------|-----------------|
| Helen Greiner | 20,481,767 | 311,023 |
| George McNamee | 20,373,294 | 419,496 |
| Peter Meekin | 20,693,607 | 109,183 |

- (b) Votes regarding ratification of the appointment of the accounting firm of PricewaterhouseCoopers LLP as the Company's independent registered public accountants for the current fiscal year were as follows:

| For | Against | Abstentions |
|------------|----------------|--------------------|
| 20,626,311 | 147,882 | 18,597 |

Item 5. Other Information

The Company and Kin Yat Industrial Co. Ltd. (Kin Yat) have entered into an Agreement under which Kin Yat will from time to time provide certain services to the Company, including the manufacture and supply of certain consumer products pursuant to purchase orders issued under the Agreement. The Agreement details the procurement relationship between the Company and Kin Yat including terms related to order fulfillment and forecasting, pricing, payments and acceptance, warranties, delivery, intellectual property, indemnification and limitation of liability. The purchase orders describe the deliverables and services to be provided by Kin Yat, including the required product, quantities, delivery dates, prices, destination, carrying method, consignee at destination, shipping instructions and other details as may be reasonably requested by Kin Yat. The Agreement has a term of three years (which will expire if not earlier terminated, on March 23, 2010), and it may be renewed by a written amendment consented to by the Company and Kin Yat. The parties have the right to terminate the Agreement if the other party becomes insolvent or commits an uncured material breach of the Agreement.

Our policy governing transactions in our securities by 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 officers (including Joseph Dyer, President, Government and Industrial Robots; Geoffrey Clear, Senior Vice President, Chief Financial Officer & Treasurer and Glen Weinstein, Senior Vice President, General Counsel & Secretary) of the Company have entered into a trading plan (each a 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 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. However, we undertake no obligation to update or revise the information provided herein, including for revision or termination of an established trading plan, other than in such quarterly and annual reports.

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Item 6. Exhibits

| <i>Exhibit Number</i> | <i>Description</i> |
|-----------------------|---|
| 10.1 | Credit Agreement between the Registrant and Bank of America, N.A., dated as of June 5, 2007 |
| 10.2 | Master Loan and Security Agreement between the Registrant and Banc of America Leasing and Capital, LLC, dated as of June 13, 2007 and Addendum to Master Loan and Security Agreement between the Registrant and Banc of America Leasing Capital, LLC, dated as of June 19, 2007 |
| 10.3** | Manufacturing Agreement between the Registrant and Kin Yat Industrial Co. Ltd., dated as of March 23, 2007 |
| 10.4 + | Amended and Restated 2004 Stock Option and Incentive Plan and forms of agreement thereunder |
| 10.5 + | Form of Deferred Stock Award Agreement under the Registrant's 2005 Stock Option and Incentive Plan |
| 10.6 + | Form of Restricted Stock Award Agreement under the Registrant's 2005 Stock Option and Incentive Plan (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed May 24, 2007 and incorporated by reference herein) |
| 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 |

** Confidential treatment has been requested for portions of this exhibit.

+ 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: August 1, 2007

By: /s/ Geoffrey P. Clear
Geoffrey P. Clear
Senior Vice President, Chief Financial
Officer and Treasurer (Duly Authorized
Officer and Principal Financial Officer)

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