

IROBOT CORP
Form 10-K
February 21, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2011

OR

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

Commission file no. 000-51598

iROBOT CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of

incorporation or organization)

8 Crosby Drive, Bedford, MA

(Address of principal executive offices)

77-0259 335

(I.R.S. Employer

Identification No.)

01730

(Zip Code)

(781) 430-3000

(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Common Stock, \$0.01 par value per share The NASDAQ Stock Market LLC

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SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

Indicate by check-mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check-mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

(Do not check if a smaller

reporting company)

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

The aggregate market value of the Common Stock held by nonaffiliates of the registrant was approximately \$899,000,000 based on the last reported sale of the Common Stock on the NASDAQ Global Market on July 1, 2011.

As of February 13, 2012, there were 27,328,700 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant intends to file a definitive Proxy Statement pursuant to Regulation 14A within 120 days of the end of the fiscal year ended December 31, 2011. Portions of such Proxy Statement are incorporated by reference into Part III of this Form 10-K.

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iROBOT CORPORATION
ANNUAL REPORT ON FORM 10-K

Year Ended December 31, 2011

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PART I

ITEM 1. BUSINESS

This Annual Report on Form 10-K contains forward-looking statements. All statements other than statements of historical facts contained in this Annual Report on Form 10-K, including statements regarding our future results of operations and financial position, business strategy, plans and objectives of management for future operations, and plans for product development and manufacturing are forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We discuss certain of these risks in greater detail in the Risk Factors section and elsewhere in this Annual Report on Form 10-K. Also, these forward-looking statements speak only as of the date of this Annual Report on Form 10-K, and we have no plans to update our forward-looking statements to reflect events or circumstances occurring after the date of this Annual Report. We caution readers not to place undue reliance upon any such forward-looking statements.

iRobot, Roomba, Scooba, iRobot Dirt Dog, PackBot, Warrior, FirstLook, Looj, Verro, Create, Virtual Wall, Home Base, and Aware are trademarks of iRobot Corporation.

Overview

iRobot Corporation (iRobot or the Company or we) designs and builds robots that make a difference. For over 20 years, we have developed proprietary technology incorporating advanced concepts in navigation, mobility, manipulation and artificial intelligence to build industry-leading robots. Our home care robots perform time-consuming domestic chores while our government and industrial robots perform tasks such as battlefield reconnaissance and bomb disposal, multi-purpose tasks for local police and first responders, and long-endurance oceanic missions. We sell our robots to consumers through a variety of distribution channels, including chain stores and other national retailers, and through our on-line store, and to the U.S. military and other government agencies worldwide. We maintain certifications for AS9100 and Capability Maturity Model Integration, or CMMI, which enable us to service our military products and services.

Since our founding, we have accumulated expertise in all the disciplines necessary to design and build durable, high-performance and cost-effective robots through the close integration of software, electronics and hardware. Our core technologies serve as reusable building blocks that we adapt and expand to develop next generation and new products, reducing the time, cost and risk of product development. Our significant expertise in robot design and engineering, combined with our management team's experience in military and consumer markets, positions us to capitalize on the growth we expect in the market for robot-based products. We believe that the sophisticated technologies in our existing consumer and military applications are adaptable to a broad array of markets such as law enforcement, homeland security, commercial cleaning, elder care, energy services, home automation, healthcare, landscaping, agriculture, construction and other vertical markets.

Over the past nine years, we sold more than 7 million of our home care robots. We also sold during that time more than 4,500 of our tactical military robots, most of which have been sold to the U.S. military and deployed on missions in Afghanistan and Iraq.

Strategy

Our goal is to design and market innovative robots that make a difference and are adaptable for use in a broad range of applications. We intend to increase the penetration of our products in existing markets, expand existing products into new markets, and develop and launch new products into current and adjacent markets. Our strategy is to maintain a leadership position by delivering robotic technology-based remote presence and automated home maintenance solutions that delight our customers and anticipate their needs, while extending our technical leadership in the areas of robot autonomy, manipulation and platforms. Remote presence is the core of our military robots which save lives by keeping warfighters at safe standoff distances from hazards while they perform dangerous, difficult and persistent missions. With increasing levels of autonomy, continued mobility

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improvements, more sophisticated sensor suites and advanced human interfaces, remote presence systems will expand in effectiveness and efficiency and reduce the requirements for actual physical operator presence and control. In the area of automated home maintenance, we seek to improve the quality of life with robotic solutions requiring as little human physical intervention as possible. Key elements of our strategy include:

Leverage Common Platforms and Software. By committing long-term to a given platform and providing incremental upgrades, we create a valuable installed base that supports third-party development and greatly simplifies service and support. When entering new product areas that cannot be serviced with existing platforms, we intend to develop a multi-generational platform strategy that allows for rapid learning and long-term incremental improvements. Through the use and development of a common software architecture, we intend to create a robot intelligence system of enduring value and build a formidable advantage that stifles competition. Our common software will allow high reuse, reducing development costs of new systems and payloads, as well as reducing development timelines.

Continued Growth through Profitability, Operational Excellence and Customer Focus. We intend to consistently improve our profitability through disciplined allocation of resources and by reducing costs of materials, adjusting prices, optimizing our product and channel mix and focusing on our discretionary spending. We will continue to focus on improving the scalability and efficiency of our supply chain process and on mitigating single source supply exposure. We will identify, develop and enhance product features and functionality while also aggressively focusing on product reliability.

Leverage Research and Development Across Different Products and Markets. We leverage our research and development across all of our products and markets. For example, we use technological expertise developed through government-funded research and development projects across our other product development efforts. Similarly, expertise developed while designing consumer products is used in designing products for government and industrial applications. This strategy helps us avoid the need to start each robot project from scratch, developing robots in a cost-effective manner and minimizing time to market.

Continue to Strengthen Our Brand. Our robots' performance and uniqueness have enabled us to obtain strong word-of-mouth and extensive press coverage leading to increasing brand awareness, brand personality and momentum. We intend to continue to invest in our marketing programs to strengthen our brand recognition and reinforce our message of innovation, reliability, safety and value.

Complement Core Competencies with Strategic Alliances. Our core competencies are the design, development and marketing of robots. We rely on strategic alliances to provide complementary competencies that we integrate into our products and to enhance market access. We outsource certain non-core activities, such as manufacturing and back-office functions, which helps us focus our resources on our core competencies.

Develop a Community of Third-Party Developers Around Our Platforms. We have developed products around which communities of researchers, third-party developers or robot enthusiasts can create related accessories, software and complementary products. We intend to foster this community by making our products into extensible platforms with open interfaces designed to carry payloads.

Technology

We are focused on behavior-based, artificially-intelligent systems developed to meet customer requirements in multiple market segments. In contrast to robotic manufacturing equipment or entertainment systems that are designed to repeat actions in specific, known environments, our systems are designed to complete missions in complex and dynamic real-world environments.

Our robots rely on the interplay among behavior-based artificially intelligent systems, real-world dynamic sensors, user-friendly interfaces and tightly-integrated, electromechanical designs to accomplish their missions efficiently.

AWARE Robot Intelligence Systems. Our proprietary AWARE Robot Intelligence Systems are code bases that enable the behavioral control of robots. Moreover, the AWARE systems include modules that control

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behaviors, sensor fusion, power management and communication. Our AWARE systems allow our Roomba floor vacuuming robot and our Scooba floor washing robot to clean an entire floor while navigating around obstacles and not falling down stairs, and also allow our PackBot robots and our other unmanned ground vehicles to accomplish complex missions such as waypoint navigation and real-time obstacle avoidance.

Real-World, Dynamic Sensing. The degree of intelligence that our robots display is directly attributable to their ability to perceive or sense the world around them. Using specialized hardware and signal processing, we have developed sensors that fit particular cost-performance criteria. In other cases, we use off-the-shelf sensing hardware, such as laser scanners, cameras and optical sensors.

User-Friendly Interfaces. Our robots allow users to interact and instruct our robots in intuitive ways without extensive end-user set-up, installation, training or instruction. For example, our Roomba robots require only one button to have the robot begin its mission, determine the size of the room to be cleaned, thoroughly clean the room and return to its re-charger, right out of the box without any pre-programmed knowledge of the user's home. Similarly, our PackBot robots use intuitive controllers, interoperable between systems, that integrate high-level supervisory commands from the user into the behaviors of the robot.

Tightly-Integrated, Electromechanical Design. Our products rely on our ability to build inherently robust integrated electrical and mechanical components into required form factors. For instance, the computer that powers the PackBot tactical military robot must withstand being dropped from more than ten feet onto concrete. Such high performance specifications require tight design integration.

Combining these four components, we have created proprietary, reusable building blocks of robotics capabilities, including mobility platforms, manipulators, navigation and control algorithms and user interfaces. Our technology building blocks typically allow us to take a known platform and modify it for a new mission instead of starting from scratch for each application. We believe this allows us to design and develop innovative robots cost-effectively.

Products and Development Contracts

We design and market robots for the consumer and government and industrial markets. With two decades of leadership in the robot industry, we remain committed to establishing robot and software platforms for invention and discovery, building key partnerships to develop mission-critical payloads and creating robots that improve the standards of safety and living worldwide.

Consumer Products

We sell various products that are designed for use in and around the home. Our current consumer products are focused on both indoor and outdoor cleaning applications. We believe our consumer products provide value to our customers by delivering better cleaning solutions at an affordable price and by freeing people from repetitive home cleaning tasks.

We currently offer multiple Roomba floor vacuuming robots with varying price points ranging from \$349 to \$599 based upon performance characteristics. Our Roomba robot's compact disc shape allows it to clean under beds and other furniture, resulting in cleaner floors since the Roomba can access more of the floor than standard upright vacuum cleaners. In addition, Roomba eliminates the need to push a vacuum—it cleans automatically upon the push of a button. The Roomba 700 series robots, introduced in 2011, offers improved debris pick up, a larger debris bin that vigorously pulls debris and hair off brushes into the bin, and dual HEPA air filters that capture dust particles as fine as 0.3 microns.

We currently offer several Scooba floor washing robots with price points ranging from \$279 to \$499. Our Scooba robot's innovative cleaning process allows the robot to simultaneously sweep, wash, scrub and dry hard floors, all at the touch of a button. Unlike a conventional mop that spreads dirty water on the floor, Scooba will apply only fresh water and cleaning solution to the floor from a clean tank. Scooba will clean dirt and grime, is safe for use on all sealed, hard floor surfaces, including wood and tile, and is smart enough to avoid carpet. The Scooba 230, introduced in 2011, is sleek, compact and perfectly sized for hard-to-reach areas like behind bathroom sinks and toilets.

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Our Verro Pool Cleaning Robot is used to clean a residential pool and removes debris as small as two microns from the pool floor, walls and stairs. Verro is brought to market under the iRobot brand through a relationship with the Aqua Products Group companies including AquaJet LLC and Aquatron, Inc., which developed the pool cleaning robots. There are three models available.

Our Looj Gutter Cleaning Robot was designed to simplify the difficult and dangerous job of gutter cleaning. The Looj cleans an entire stretch of gutter, reducing the number of times a ladder must be repositioned and climbed during gutter cleaning. The Looj also features a detachable handle that doubles as a wireless remote control, providing full control of the robot while cleaning.

Government and Industrial Products

In government and industrial product markets, we currently offer both ground and maritime unmanned vehicles. Our tactical ground robots include the combat-tested 510 PackBot line of small, unmanned ground robots, the 310 SUGV and XM1216 SUGV (Small Unmanned Ground Vehicle) multi-purpose ground robots, the 110 FirstLook small, light, throwable robot, and the 710 Warrior multi-purpose robot capable of carrying heavy payloads. The PackBot, SUGV, FirstLook, and Warrior robots comprise a family of robots using many common platform components and offer our patented flipper technology that enables robots to easily climb stairs, navigate rubble, and penetrate inaccessible areas. These robots are designed to keep war fighters and public safety officials out of harm's way and are designed for high-performance, durability and ease of use while performing search, reconnaissance, mapping, bomb disposal and other dangerous missions. As of December 31, 2011, more than 4,500 robots have been delivered to military and civil defense forces and research communities worldwide. The robots are currently priced between approximately \$20,000 and \$350,000 per unit, depending on configuration and quantities ordered.

We continue to refine the PackBot product line, focusing on enhanced modularity and providing new capabilities to support a variety of mission scenarios. Our unique Aware 2 software is incorporated into the advanced 510 PackBot chassis and operator control unit. As a result, PackBot can support multiple configurations and payloads with the same chassis and operator control unit, providing customers with a single robot capable of performing a variety of missions. iRobot also utilizes Configure-To-Order (CTO) procurement options for our commercial 510 PackBot, allowing customers to tailor the product to their specific mission needs. The combined benefits of the Aware 2 software and CTO procurement options establish the 510 PackBot as a truly modular multi-mission robotic platform.

The 310 and XM1216 SUGVs continue to see strong demand as a family of lightweight, backpackable robots well suited to dismounted operations in Afghanistan. Over 300 310 SUGV mini-EODs were delivered in 2011. The XM1216 SUGV Increment I infantry robot has been fielded in Afghanistan and over 100 units and spares have been delivered. Increment 1 follow-on development efforts continued in 2011 and a successful critical design review was completed in July 2011. Despite the termination of the Brigade Combat Team Modernization (BCTM) program in 2011, the SUGV design improvement work has been continued under a different government contract and is expected to reach production in 2014.

Within our maritime business, the 1KA Seaglider is a long endurance autonomous underwater vehicle designed for oceanic missions to measure temperature, salinity, current profiles and other data for the scientific and research community, military planners, and offshore oil engineers. During 2011, we made significant engineering improvements to the Seaglider, increasing payload volume by 650% and payload mass by 100%. The increased overall payload capacity enabled the integration of a greater suite of sensors, including a Current Profiler, providing invaluable data for the offshore oil & gas industry, and a radiation scintillation sensor enabling the monitoring of water-borne radiation.

Contract Research and Development Projects

We are involved in several contract development projects with various U.S. governmental agencies and departments. The durations of these projects range from a few months to several years. These projects are usually funded as either cost-plus, firm fixed price, or time and materials contracts. In a cost-plus contract, we are

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allowed to recover our actual costs plus a fixed fee. The total price of a cost-plus contract is based primarily on allowable costs incurred, but generally is subject to a maximum contract funding limit. Under a firm fixed price contract, we receive a fixed amount upon satisfying contractually defined deliverables. On our time and materials contracts, we recover a specific amount per hour worked based on a bill rate schedule, plus the cost of direct materials, subcontracts, and other non-labor costs, including an agreed-upon mark-up. A time and materials contract may provide for a not-to-exceed price ceiling, as well as the potential that we will absorb any cost overrun.

Strategic Alliances

Strategic alliances are an important part of our product development and distribution strategies. We rely on strategic alliances to provide technology, complementary product offerings and increased and quicker access to markets. We seek to form relationships with organizations that can provide best-in-class technology or market advantages for establishing iRobot technology in new market segments. For example, in 2011 we signed a joint development and licensing agreement with InTouch Health, a leading remote presence telemedicine solution provider, to explore potential opportunities for healthcare applications on iRobot platforms such as the iRobot Ava mobile robotics platform.

Our strategy of working closely with third parties extends to the design of our products. By offering extensible platforms designed to carry payloads, we have designed and manufactured our products to leverage the work of those individuals and organizations that offer specialized technological expertise. The PackBot, Warrior, FirstLook, Roomba and Scooba robots are designed with open interfaces that allow third-party developers to add payloads to our robots, improving their functionality.

Sales and Distribution Channels

We sell our products through distinct sales channels to the consumer and government and industrial markets. For the fiscal years ended December 31, 2011, January 1, 2011 and January 2, 2010, sales to non-U.S. customers accounted for 45.5%, 42.1% and 33.3% of total revenue, respectively. For the fiscal year ended December 31, 2011, we generated 10.5% of total revenue from our Japanese distributor of our consumer products, Sales on Demand Corporation. For the fiscal years ended December 31, 2011, January 1, 2011 and January 2, 2010, U.S. federal government orders, contracts and subcontracts accounted for 36.1%, 38.4% and 36.9% of total revenue, respectively. For the fiscal years ended December 31, 2011 and January 1, 2011, we generated 9.4% and 17.4% of total revenue from The Boeing Company as a subcontractor under U.S. federal government contracts. For the year ended December 31, 2011 we generated 23.6% of our revenue from two of our international distributors of consumer products: Sales on Demand Corporation (representing our Japanese market) and Robopolis (one of our European distributors of consumer products).

Home Robots

In the United States and Canada, we sell our consumer products through a network of national retailers. In 2011, this network consisted of more than 30 retailers which often sell either one or some combination of our products. Certain smaller domestic retail operations are supported by distributors to whom we sell product directly. In support of these sales activities, we maintain an in-house sales and product management team. Outside of the United States and Canada, our products have been sold in more than 40 countries, primarily through a network of in-country distributors who resell to retail stores in their respective countries. These distributors are supported by our international sales and product marketing team.

Our retail and distributor networks are our primary distribution channels for our consumer products. We also offer products direct-to-consumer through our domestic and international on-line stores, representing 9.6% and 11.5% of total home robots division revenue for fiscal 2011 and 2010, respectively. We have established valuable databases and customer lists that allow us to target directly those consumers most likely to purchase a new robot or upgrade. We believe we maintain a close connection with our customers in each of our markets, which provides an enhanced position from which to improve our distribution and product offerings.

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Government and Industrial

We sell our government and industrial products directly to end users and indirectly through prime contractors and distributors. While the majority of government and industrial products have been sold to date to various operations within the U.S. federal government, we also sell to state and local as well as to international government organizations and research labs and universities. Our military products are sold overseas in compliance with the International Traffic in Arms Regulations, or ITAR. We have sold our products to the governments of various countries in the past several years, including the United Kingdom, France, Germany, Sweden, Norway, Italy, Israel, Australia, Republic of Korea, Singapore, Bosnia, Lithuania, Qatar, Taiwan, South Africa and Canada.

Our government products are sold by a team of sales specialists with significant experience in selling to government and defense agencies. All of these individuals have years of experience selling military products to government procurement offices, both in the United States and internationally. We maintain a direct sales and support presence in Europe.

Customer Service and Support

We also provide ongoing customer service and support. Consumer customer service representatives, the majority of whom are employees of outsourced service organizations or our distribution partners, are extensively trained on the technical intricacies of our consumer products. Government and industrial customer representatives are usually former military personnel who are experienced in logistical and technical support requirements for military operations.

Marketing and Brand

We market our home robots to end-user customers through our sales and marketing teams as well as through our extensive network of retailers and in-country distributors. We market our government and industrial products directly through our team of government sales specialists to end users and indirectly through prime contractors. Our website is also playing an increasing role in supporting brand awareness, addressing customer questions and serving as a showcase for our products.

Our marketing strategy is to increase our brand awareness and associate the iRobot brand with innovation, reliability, safety and value. Our sales and marketing expenses represented 12.6%, 12.6% and 13.7% of our total revenue in 2011, 2010 and 2009, respectively. We expect to continue to invest in national advertising, consumer and industry trade shows, direct marketing and public relations to further build brand awareness.

We believe that we have built a trusted, recognized brand by providing high-quality robots. We believe that customer word-of-mouth has been a significant driver of our brand's success to date, which can work very well for products that inspire a high level of user loyalty because users are likely to share their positive experiences. Our grass-roots marketing efforts focus on feeding this word-of-mouth momentum and we use public relations as well as advertising to promote our products.

Our innovative robots and public relations campaigns have generated extensive press coverage. In addition, iRobot and our consumer robots have won several awards and our inclusion among the first-tier partners on the U.S. Army's Brigade Combat Team Modernization program has greatly enhanced our brand and awareness among government and industrial customers. Through these efforts, we have been able to build our brand, and we expect that our reputation for innovative products and customer support will continue to play a significant role in our growth and success.

Manufacturing

Our core competencies are the design, development and marketing of robots. Our manufacturing strategy is to outsource non-core competencies, such as the production of our robots, to third-party entities skilled in manufacturing. By relying on the outsourced manufacture of both our consumer and military robots, we can focus our engineering expertise on the design of robots.

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Manufacturing a new product requires a close relationship between our product designers and the manufacturing organizations. Using multiple engineering techniques, our products are introduced to the selected production facility at an early-development stage and the feedback provided by manufacturing is incorporated into the design before tooling is finalized and mass production begins. As a result, we believe that we can significantly reduce the time required to move a product from its design phase to mass production deliveries, with improved quality and yields.

We outsource the manufacturing of our consumer products to three contract manufacturers, each of which manufactures at a single plant in China. Our PackBot, Small Unmanned Ground Vehicle (SUGV) and Maritime families of government and industrial products are each manufactured by separate contract manufacturers located in the United States.

Research and Development

We believe that our future success depends upon our ability to continue to develop new products and product accessories, and enhancements to and applications for our existing products. For the years ended December 31, 2011, January 1, 2011 and January 2, 2010, our research and development expenses were \$36.5 million, \$24.8 million and \$14.7 million, respectively. In addition to our internal research and development activities, for the years ended December 31, 2011, January 1, 2011 and January 2, 2010, we have incurred research and development expenses under funded development arrangements with governments and industrial third parties of \$26.5 million, \$27.1 million and \$30.8 million, respectively. Of our total research and development spending in 2011, 2010 and 2009, approximately 40.2%, 50.4% and 63.9%, respectively was funded by government-sponsored research and development contracts. For the years ended December 31, 2011, January 1, 2011 and January 2, 2010, the combined investment in future technologies, classified as cost of revenue and research and development expense, was \$63.0 million, \$51.9 million and \$45.5 million, respectively. We intend to continue our investment in research and development to respond to and anticipate customer needs, and to enable us to introduce new products over the next few years that will continue to address our existing and adjacent market sectors.

Our research and development is conducted by teams dedicated to particular projects. Our domestic research and development efforts are primarily located at our headquarters in Bedford, Massachusetts, our office in Durham, North Carolina, and our special projects engineering office in San Luis Obispo, California.

Our research and development efforts for our next-generation products are supported by a variety of sources. Our next-generation military products are predominately supported by U.S. governmental research organizations. Government funding is provided to further the development of robot technologies with the expectation that if the projects result in the development of technically viable prototypes, the government will purchase multiple production units for future use in the field. The government funding that we receive allows us to accelerate the development of multiple technologies. While the U.S. government retains certain rights to military projects that it has funded, such as the right to use inventions and disclose technical data relating to those projects without constraining the recipient's use of that data, we retain ownership of patents and know-how and are generally free to develop other commercial products, both consumer and industrial, utilizing the technologies developed during these projects. The rights which the government retains, however, may allow it to provide use of patent rights and know-how to others, and some of the know-how might be used by these third parties for their own development of consumer and industrial products. Similarly, expertise developed while designing consumer products is used in designing products for government and industrial applications. We also work with strategic collaborators to develop industry-specific technologies.

Competition

The market for robots is highly competitive, rapidly evolving and subject to changing technologies, shifting customer needs and expectations and the likely increased introduction of new products. We believe that a number of established companies have developed or are developing robots that will compete directly with our product offerings, and many of our competitors have significantly more financial and other resources than we possess.

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Our competitors include developers of robot floor cleaning products, developers of small unmanned ground vehicles, established government contractors working on unmanned systems, and developers of small unmanned underwater vehicles.

While we believe many of our customers purchase our Roomba floor vacuuming robots and Scooba floor washing robots as a supplement to, rather than a replacement for, their traditional vacuum cleaners and wet floor cleaning methods, we do compete in some cases with providers of traditional cleaning products.

We believe that the principal competitive factors in the market for robots include product features, performance for the intended mission, cost of purchase, total cost of system operation, including maintenance and support, ease of use, integration with existing equipment, quality, reliability, customer support, brand and reputation.

Our ability to remain competitive will depend to a great extent upon our ongoing performance in the areas of product development and customer support. We cannot provide assurance that our products will continue to compete favorably or that we will be successful in the face of increasing competition from new products and enhancements introduced by existing competitors or new companies entering the markets in which we provide products.

Intellectual Property

We believe that our continued success depends in large part on our proprietary technology, the intellectual skills of our employees and the ability of our employees to continue to innovate. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as confidentiality agreements, to establish and protect our proprietary rights.

As of December 31, 2011, we held 97 U.S. patents and more than 175 pending U.S. patent applications. Also, we held 108 foreign patents, additional design registrations, and more than 100 pending foreign applications. Our U.S. patents will begin to expire in 2019. We will continue to file and prosecute patent (or design registration, as applicable) applications when and where appropriate to attempt to protect our rights in our proprietary technologies. We also encourage our employees to continue to invent and develop new technologies so as to maintain our competitiveness in the marketplace. It is possible that our current patents, or patents which we may later acquire, may be successfully challenged or invalidated in whole or in part. It is also possible that we may not obtain issued patents for our pending patent applications or other inventions we seek to protect. In that regard, we sometimes permit certain intellectual property to lapse or go abandoned under appropriate circumstances and due to uncertainties inherent in prosecuting patent applications, sometimes patent applications are rejected and we subsequently abandon them. It is also possible that we may not develop proprietary products or technologies in the future that are patentable, or that any patent issued to us may not provide us with any competitive advantages, or that the patents of others will harm or altogether preclude our ability to do business.

Our registered U.S. trademarks include iRobot, Roomba, Scooba, iRobot Dirt Dog, Create, PackBot, FasTac, Aware, Home Base, Looj, Verro, Virtual Wall, and Warrior. Our marks iRobot, Roomba, Scooba, and certain other trademarks, have also been registered in selected foreign countries.

Our means of protecting our proprietary rights may not be adequate and our competitors may independently develop technology that is similar to ours. Legal protections afford only limited protection for our technology. The laws of many countries do not protect our proprietary rights to as great an extent as do the laws of the United States. Despite our efforts to protect our proprietary rights, unauthorized parties have in the past attempted, and may in the future attempt, to copy aspects of our products or to obtain and use information that we regard as proprietary. Third parties may also design around our proprietary rights, which may render our protected products less valuable, if the design around is favorably received in the marketplace. In addition, if any of our products or the technology underlying our products is covered by third-party patents or other intellectual property rights, we could be subject to various legal actions. We cannot assure you that our products do not infringe patents held by others or that they will not in the future. We have received in the past communications from third parties relating to technologies used in our Roomba floor vacuuming robots that have alleged infringement of

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patents or violation of other intellectual property rights. In response to these communications, we have contacted these third parties to convey our good faith belief that we do not infringe the patents in question or otherwise violate those parties' rights. Although there have been no additional actions or communications with respect to these allegations, we cannot assure you that we will not receive further correspondence from these parties, or not be subject to additional allegations of infringement from others. Litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity, misappropriation, or other claims. Any such litigation could result in substantial costs and diversion of our resources. Moreover, any settlement of or adverse judgment resulting from such litigation could require us to obtain a license to continue to use the technology that is the subject of the claim, or otherwise restrict or prohibit our use of the technology. Any required licenses may not be available to us on acceptable terms, if at all. If we attempt to design around the technology at issue or to find another provider of suitable alternative technology to permit us to continue offering applicable software or product solutions, our continued supply of software or product solutions could be disrupted or our introduction of new or enhanced software or products could be significantly delayed.

Regulations

We are subject to various government regulations, including various U.S. federal government regulations as a contractor and subcontractor to the U.S. federal government. Among the most significant U.S. federal government regulations affecting our business are:

the Federal Acquisition Regulations and supplemental agency regulations, which comprehensively regulate the formation and administration of, and performance under government contracts;

the Truth in Negotiations Act, which requires certification and disclosure of all cost and pricing data in connection with contract negotiations;

the Cost Accounting Standards, which impose accounting requirements that govern our right to reimbursement under cost-based government contracts;

the Foreign Corrupt Practices Act, which prohibits U.S. companies from providing anything of value to a foreign official to help obtain, retain or direct business, or obtain any unfair advantages;

the False Claims Act and the False Statements Act, which, respectively, impose penalties for payments made on the basis of false facts provided to the government, and impose penalties on the basis of false statements, even if they do not result in a payment; and

laws, regulations and executive orders restricting the use and dissemination of information classified for national security purposes and the exportation of certain products and technical data.

We also need special security clearances to continue working on and advancing certain of our projects with the U.S. federal government. Classified programs generally will require that we comply with various Executive Orders, federal laws and regulations and customer security requirements that may include restrictions on how we develop, store, protect and share information, and may require our employees to obtain government clearances.

The nature of the work we do for the federal government may also limit the parties who may invest in or acquire us. Export laws may keep us from providing potential foreign acquirers with a review of the technical data they would be acquiring. In addition, there are special requirements for foreign parties who wish to buy or acquire control or influence over companies that control technology or produce goods in the security interests of the United States. There may need to be a review under the Exon-Florio provisions of the Defense Production Act. Finally, the government may require a prospective foreign owner to establish intermediaries to actually run that part of the company that does classified work, and establishing a subsidiary and its separate operation may make such an acquisition less appealing to such potential acquirers.

In addition, the export from the United States of many of our products may require the issuance of a license by the U.S. Department of Commerce under the Export Administration Act, as amended, and its implementing Regulations as kept in force by the International Emergency

Economic Powers Act of 1977, as amended. Some

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of our products may require the issuance of a license by the U.S. Department of State under the Arms Export Control Act and its implementing Regulations, which licenses are generally harder to obtain and take longer to obtain than do Export Administration Act licenses.

Our business may require the compliance with state or local laws designed to limit the uses of personal user information gathered online or require online services to establish privacy policies.

Government and Industrial Product Backlog

Our government and industrial product backlog consists of written orders or contracts to purchase our products received from our government and industrial customers. Total backlog of product sales to government and industrial customers, which includes federal, state, local and foreign governments, and non-government customers, as of December 31, 2011 and January 1, 2011 amounted to approximately \$7.6 million and \$23.9 million, respectively. Our funded research and development contracts may be cancelled or delayed at any time without significant, if any, penalty. As a result, we believe that backlog with respect to our funded research and development is not meaningful. There can be no assurance that any of our backlog will result in revenue.

Employees

As of December 31, 2011, we had 619 full-time employees located in the United States and abroad, of whom 257 are in research and development, 153 are in operations, 86 are in sales and marketing and 123 are in general and administration. We believe that we have a good relationship with our employees.

Available Information

We were incorporated in California in August 1990 under the name IS Robotics, Inc. and reincorporated as IS Robotics Corporation in Massachusetts in June 1994. We reincorporated in Delaware as iRobot Corporation in December 2000. We conduct operations and maintain a number of subsidiaries in the United States and abroad, including operations in Hong Kong, the United Kingdom and China. We also maintain iRobot Securities Corporation, a Massachusetts securities corporation, to invest our cash balances on a short-term basis. Our website address is www.irobot.com. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge through the investor relations page of our internet website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

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ITEM 1A. RISK FACTORS

We operate in a rapidly changing environment that involves a number of risks, some of which are beyond our control. This discussion highlights some of the risks which may affect future operating results. These are the risks and uncertainties we believe are most important for you to consider. 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. If any of the following risks or uncertainties actually occurs, our business, financial condition and operating results would likely suffer.

Risks Related to Our Business

We operate in an emerging market, which makes it difficult to evaluate our business and future prospects.

Robots represent a new and emerging market. Accordingly, our business and future prospects are difficult to evaluate. We cannot accurately predict the extent to which demand for consumer robots will increase, if at all. Moreover, there are only a limited number of major programs under which the U.S. federal government is currently funding the development or purchase of military robots. You should consider the challenges, risks and uncertainties frequently encountered by companies using new and unproven business models in rapidly evolving markets. These challenges include our ability to:

generate sufficient revenue and gross margin to maintain profitability;

acquire and maintain market share in our consumer and military markets;

attract and retain customers of our consumer robots;

develop and renew government contracts for our military robots;

attract and retain additional engineers and other highly-qualified personnel;

expand our product offerings beyond our existing robots; and

adapt to new or changing policies and spending priorities of governments and government agencies.

If we fail to successfully address these and other challenges, risks and uncertainties, our business, results of operations and financial condition would be materially harmed.

Our financial results often vary significantly from quarter-to-quarter due to a number of factors, which may lead to volatility in our stock price.

Our quarterly revenue and other operating results have varied in the past and are likely to continue to vary significantly from quarter-to-quarter. These fluctuations will be due to numerous factors including:

the size and timing of orders from military and other government agencies;

the size, timing and mix of orders from retail stores and international distributors for our home care robots;

the mix of products that we sell in the period;

disruption of supply of our products from our manufacturers;

seasonality in the sales of our military and consumer products;

the inability to attract and retain qualified, revenue-generating personnel;

unanticipated costs incurred in the introduction of new products;

costs and availability of labor and raw materials;

costs of freight;

changes in our rate of returns for our consumer products;

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our ability to introduce new products and enhancements to our existing products on a timely basis;

warranty costs associated with our consumer products;

the amount of government funding and the political, budgetary and purchasing constraints of our government agency customers; and

cancellations, delays or contract amendments by government agency customers.

We cannot be certain that our revenues will grow at rates that will allow us to maintain profitability during every fiscal quarter, or even every fiscal year. We base our current and future expense levels on our internal operating plans and sales forecasts, including forecasts of holiday sales for our consumer products. A significant portion of our operating expenses, such as research and development expenses, certain marketing and promotional expenses and employee wages and salaries, do not vary directly with sales and are difficult to adjust in the short term. As a result, if sales for a quarter, particularly the final quarter of a fiscal year, are below our expectations, we might not be able to reduce operating expenses for that quarter and, therefore, we would not be able to reduce our operating expenses for the fiscal year. Accordingly, a sales shortfall during a fiscal quarter, and in particular the fourth quarter of a fiscal year, could have a disproportionate effect on our operating results for that quarter or that year. Because of quarterly fluctuations, we believe that quarter-to-quarter comparisons of our operating results are not necessarily meaningful. Moreover, our operating results may not meet expectations of equity research analysts or investors. If this occurs, the trading price of our common stock could fall substantially either suddenly or over time.

Global economic conditions and any associated impact on consumer spending could have a material adverse effect on our business, results of operations and financial condition.

Continued economic uncertainty and reductions in consumer spending may result in reductions in sales of our consumer robots. Additionally, disruptions in credit markets may materially limit consumer credit availability and restrict credit availability of our retail customers, which would also impact purchases of our consumer robots. Any reduction in sales of our consumer robots, resulting from reductions in consumer spending or continued disruption in the availability of credit to retailers or consumers, could materially and adversely affect our business, results of operations and financial condition.

A significant portion of our business currently depends on our consumer robots, and our sales growth and operating results would be negatively impacted if we are unable to enhance our current consumer robots or develop new consumer robots at competitive prices or in a timely manner, or if the consumer robot market does not achieve broad market acceptance.

For the years ended December 31, 2011 and January 1, 2011, we derived 59.8% and 57.2% of our total revenue from our consumer robots, respectively. For the foreseeable future, we expect that a significant portion of our revenue will be derived from sales of consumer robots in general and home floor care products in particular. Accordingly, our future success depends upon our ability to further penetrate the consumer home care market, to enhance our current consumer products and develop and introduce new consumer products offering enhanced performance and functionality at competitive prices. The development and application of new technologies involve time, substantial costs and risks. Our inability to achieve significant sales of our newly introduced robots, or to enhance, develop and introduce other products in a timely manner, or at all, would materially harm our sales growth and operating results.

Even if consumer robots gain wide market acceptance, our robots may not adequately address market requirements and may not continue to gain market acceptance. If robots generally, or our robots specifically, do not gain wide market acceptance, we may not be able to achieve our anticipated level of growth, and our revenue and results of operations would suffer.

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We depend on the U.S. federal government for a significant portion of our revenue, and any reduction in the amount of business that we do with the U.S. federal government would negatively impact our operating results and financial condition.

For the years ended December 31, 2011 and January 1, 2011, we derived 36.1% and 38.4% of our total revenue, respectively, directly or indirectly, from the U.S. federal government and its agencies. Any reduction in the amount of revenue that we derive from a limited number of U.S. federal government agencies without an offsetting increase in new sales to other customers would have a material adverse effect on our operating results. U.S. Government programs in which we participate, or in which we may seek to participate in the future, must compete with other programs for consideration during our nation's budget formulation and appropriation processes, and may be affected by changes in general economic conditions. Budget decisions made in this environment may have long-term consequences for our size and structure and that of the defense industry. It is possible that one or more of our programs will be reduced, extended, or terminated. Reductions in our existing programs, unless offset by other programs and opportunities, could adversely affect our ability to grow our sales and profitability.

Specifically, the defense industry in which we operate is dependent upon the level of equipment expenditures by the armed forces of countries throughout the world, and especially those of the United States, which represents a significant portion of world-wide defense expenditures. The war on terror has increased the level of equipment expenditures by the U.S. armed forces. This level of spending may not be sustainable in light of government spending priorities by the U.S. and the winding down of U.S. armed forces operations in Iraq and Afghanistan. In addition, as a result of the failure of the Joint Select Committee on Deficit Reduction (Super Committee) to agree on a deficit reduction plan, mandatory reductions in defense are required under the Budget Control Act of 2011. The extent and scope of these cuts is difficult to assess at this time. Any decrease in demand for new equipment or use of existing equipment will likely result in a decrease in demand of our products and services, and correspondingly, our revenues, thereby adversely affecting our business, financial condition and results of operations.

Our participation in specific major U.S. federal government programs is critical to both the development and sale of our military robots. For example, in the years ended December 31, 2011 and January 1, 2011, 63.2% and 62.7% of our total contract revenue was derived from our participation in the U.S. Army's BCTM program, respectively. The BCTM program was terminated in 2011 and additional work related to this program is currently funded on an interim basis. Future sales of our military robots will depend largely on our ability to secure contracts with the U.S. military under its robot programs. We expect that there will continue to be only a limited number of major programs under which U.S. federal government agencies will seek to fund the development of, or purchase, robots. Our business will, therefore, suffer if we are not awarded, either directly or indirectly through third-party contractors, government contracts for robots that we are qualified to develop or build. In addition, if the U.S. federal government or government agencies terminate or reduce the related prime contract under which we serve as a subcontractor, revenues that we derive under that contract could be lost, which would negatively impact our business and financial results. Moreover, it is difficult to predict the timing of the award of government contracts and our revenue could fluctuate significantly based on the timing of any such awards.

Even if we continue to receive funding for research and development under these contracts, there can be no assurance that we will successfully complete the development of robots pursuant to these contracts or that, if successfully developed, the U.S. federal government or any other customer will purchase these robots from us. The U.S. federal government has the right when it contracts to use the technology developed by us to have robots supplied by third parties. Any failure by us to complete the development of these robots, or to achieve successful sales of these robots, would harm our business and results of operations. Our business and results of operations could be negatively affected by significant changes in the policies and spending priorities of governments and government agencies. Many of our government customers are subject to stringent budgetary constraints and our continued performance under these contracts, or award of additional contracts from these agencies, could be jeopardized by spending reductions or budget cutbacks at these agencies.

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Our contracts with the U.S. federal government contain certain provisions that may be unfavorable to us and subject us to government audits, which could materially harm our business and results of operations.

Our contracts and subcontracts with the U.S. federal government subject us to certain risks and give the U.S. federal government rights and remedies not typically found in commercial contracts, including rights that allow the U.S. federal government to:

terminate contracts for convenience, in whole or in part, at any time and for any reason;

reduce or modify contracts or subcontracts if its requirements or budgetary constraints change;

cancel multi-year contracts and related orders if funds for contract performance for any subsequent year become unavailable;

exercise production priorities, which allow it to require that we accept government purchase orders or produce products under its contracts before we produce products under other contracts, which may displace or delay production of more profitable orders;

claim certain rights in products provided by us; and

control or prohibit the export of certain of our products.

Several of our prime contracts with the U.S. federal government do not contain a limitation of liability provision, creating a risk of responsibility for direct and consequential damages. Several subcontracts with prime contractors hold the prime contractor harmless against liability that stems from our work and do not contain a limitation of liability. These provisions could cause substantial liability for us, especially given the use to which our products may be put.

In addition, we are subject to audits by the U.S. federal government as part of routine audits of government contracts. As part of an audit, these agencies may review our performance on contracts, cost structures and compliance with applicable laws, regulations and standards. If any of our costs are found to be allocated improperly to a specific contract, the costs may not be reimbursed and any costs already reimbursed for such contract may have to be refunded. Accordingly, an audit could result in a material adjustment to our revenue and results of operations. Moreover, if an audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or debarment from doing business with the government.

If any of the foregoing were to occur, or if the U.S. federal government otherwise ceased doing business with us or decreased the amount of business with us, our business and operating results could be materially harmed and the value of your investment in our common stock could be impaired.

Some of our contracts with the U.S. federal government allow it to use inventions developed under the contracts and to disclose technical data to third parties, which could harm our ability to compete.

Some of our contracts allow the U.S. federal government rights to use, or have others use, patented inventions developed under those contracts on behalf of the government. Some of the contracts allow the federal government to disclose technical data without constraining the recipient in how that data is used. The ability of third parties to use patents and technical data for government purposes creates the possibility that the government could attempt to establish additional sources for the products we provide that stem from these contracts. It may also allow the government the ability to negotiate with us to reduce our prices for products we provide to it. The potential that the government may release some of the technical data without constraint creates the possibility that third parties may be able to use this data to compete with us in the commercial sector.

We depend on single source manufacturers, and our reputation and results of operations would be harmed if these manufacturers fail to meet our requirements.

We currently depend largely on several single source contract manufacturers, for the manufacture of our various families of home care and government products. All contract manufacturers for our home robots are located in China. These manufacturers supply substantially all of the raw materials and provide all facilities and

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labor required to manufacture our products. If these companies were to terminate their arrangements with us or fail to provide the required capacity and quality on a timely basis, we would be unable to manufacture our products until replacement contract manufacturing services could be obtained or volume transferred to an alternative manufacturing partner, each of which is a costly and time-consuming process. We cannot assure you that we would be able to establish alternative manufacturing arrangements on acceptable terms or in a timely manner.

Our reliance on these contract manufacturers involves certain risks, including the following:

lack of direct control over production capacity and delivery schedules;

lack of direct control over quality assurance, manufacturing yields and production costs;

lack of enforceable contractual provisions over the production and costs of consumer products;

risk of loss of inventory while in transit;

risks associated with international commerce, including unexpected changes in legal and regulatory requirements, changes in tariffs and trade policies, risks associated with the protection of intellectual property and political and economic instability; and

our attempts to add additional manufacturing resources may be significantly delayed and thereby create disruptions in production of our products.

Any interruption in the manufacture of our products would be likely to result in delays in shipment, lost sales and revenue and damage to our reputation in the market, all of which would harm our business and results of operations. In addition, while our contract obligations with our contract manufacturers in China are typically denominated in U.S. dollars, changes in currency exchange rates could impact our suppliers and increase our prices.

Any efforts to expand our product offerings beyond our current markets may not succeed, which could negatively impact our operating results.

We have focused on selling our robots in the home floor care and military markets. We plan to expand into other markets. Efforts to expand our product offerings beyond the markets that we currently serve, however, may divert management resources from existing operations and require us to commit significant financial resources to an unproven business, either of which could significantly impair our operating results. Moreover, efforts to expand beyond our existing markets may never result in new products that achieve market acceptance, create additional revenue or become profitable.

If we fail to maintain or increase consumer robot sales through our distribution channels, our operating results would be negatively impacted.

We do not have long-term contracts regarding purchase volumes with any of our retail partners. As a result, purchases generally occur on an order-by-order basis, and the relationships, as well as particular orders, can generally be terminated or otherwise materially changed at any time by our retail partners. A decision by a major retail partner, whether motivated by competitive considerations, financial difficulties, economic conditions or otherwise, to decrease its purchases from us, to reduce the shelf space for our products or to change its manner of doing business with us could significantly damage our consumer product sales and negatively impact our business, financial condition and results of operations. In addition, during recent years, various retailers, including some of our partners, have experienced significant changes and difficulties, including consolidation of ownership, increased centralization of purchasing decisions, restructurings, bankruptcies and liquidations. These and other financial problems of some of our retailers increase the risk of extending credit to these retailers. A significant adverse change in a retail partner relationship with us or in a retail partner's financial position could cause us to limit or discontinue business with that partner, require us to assume more credit risk relating to that partner's receivables or limit our ability to collect amounts related to previous purchases by that partner,

all of which could harm our business and financial condition. Disruption of the iRobot on-line store could also decrease our home care robot sales.

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We face intense competition from other providers of robots, including diversified technology providers, as well as competition from providers offering alternative products, which could negatively impact our results of operations and cause our market share to decline.

We believe that a number of companies have developed or are developing robots that will compete directly with our product offerings. Additionally, large and small companies, government-sponsored laboratories and universities are aggressively pursuing contracts for robot-focused research and development. Many current and potential competitors have substantially greater financial, marketing, research and manufacturing resources than we possess, and there can be no assurance that our current and future competitors will not be more successful than us. Moreover, while we believe many of our customers purchase our floor vacuuming robots as a supplement to, rather than a replacement for, their traditional vacuum cleaners; we also compete in some cases with providers of traditional vacuum cleaners. Our competitors include developers of robot floor cleaning products, developers of small unmanned ground vehicles, established government contractors working on unmanned systems, and developers of small unmanned underwater vehicles.

The market for robots is highly competitive, rapidly evolving and subject to changing technologies, shifting customer needs and expectations and the likely increased introduction of new products. Our ability to remain competitive will depend to a great extent upon our ongoing performance in the areas of product development and customer support.

In the event that the robot market expands, we expect that competition will intensify as additional competitors enter the market and current competitors expand their product lines. Companies competing with us may introduce products that are competitively priced, have increased performance or functionality, or incorporate technological advances that we have not yet developed or implemented. Increased competitive pressure could result in a loss of sales or market share or cause us to lower prices for our products, any of which would harm our business and operating results.

We cannot assure you that our products will continue to compete favorably or that we will be successful in the face of increasing competition from new products and enhancements introduced by existing competitors or new companies entering the markets in which we provide products. Our failure to compete successfully could cause our revenue and market share to decline, which would negatively impact our results of operations and financial condition.

If critical components of our products that we currently purchase from a small number of suppliers become unavailable, we may incur delays in shipment, which could damage our business.

We and our outsourced manufacturers obtain hardware components, various subsystems, raw materials and batteries from a limited group of suppliers, some of which are sole suppliers. We do not have any long-term agreements with these suppliers obligating them to continue to sell components or products to us. If we or our outsourced manufacturers are unable to obtain components from third-party suppliers in the quantities and of the quality that we require, on a timely basis and at acceptable prices, we may not be able to deliver our products on a timely or cost-effective basis to our customers, which could cause customers to terminate their contracts with us, reduce our gross margin and seriously harm our business, results of operations and financial condition. Moreover, if any of our suppliers become financially unstable, we may have to find new suppliers. It may take several months to locate alternative suppliers, if required, or to re-tool our products to accommodate components from different suppliers. We may experience significant delays in manufacturing and shipping our products to customers and incur additional development, manufacturing and other costs to establish alternative sources of supply if we lose any of these sources. We cannot predict if we will be able to obtain replacement components within the time frames that we require at an affordable cost, or at all.

Our products are complex and could have unknown defects or errors, which may give rise to claims against us, diminish our brand or divert our resources from other purposes.

Our robots rely on the interplay among behavior-based artificially intelligent systems, real-world dynamic sensors, user-friendly interfaces and tightly-integrated, electromechanical designs to accomplish their missions. Despite testing, our new or existing products have contained defects and errors and may in the future contain

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defects, errors or performance problems when first introduced, when new versions or enhancements are released, or even after these products have been used by our customers for a period of time. These problems could result in expensive and time-consuming design modifications or warranty charges, delays in the introduction of new products or enhancements, significant increases in our service and maintenance costs, exposure to liability for damages, mandatory or voluntary recall or product upgrades, damaged customer relationships and harm to our reputation, any of which could materially harm our results of operations and ability to achieve market acceptance. Our quality control procedures relating to the raw materials and components that it receives from third-party suppliers as well as our quality control procedures relating to its products after those products are designed, manufactured and packaged may not be sufficient. In addition, increased development and warranty costs, including the costs of any mandatory or voluntary recall, could be substantial and could reduce our operating margins. Moreover, because military robots are used in dangerous situations, the failure or malfunction of any of these robots, including our own, could significantly damage our reputation and support for robot solutions in general. The existence of any defects, errors, or failures in our products could also lead to product liability claims or lawsuits against us. A successful product liability claim could result in substantial cost, diminish our brand and divert management's attention and resources, which could have a negative impact on our business, financial condition and results of operations.

If we are unable to attract and retain additional skilled personnel, we may be unable to grow our business.

To execute our growth plan, we must attract and retain additional, highly-qualified personnel. Competition for hiring these employees is intense, especially with regard to engineers with high levels of experience in designing, developing and integrating robots. Many of the companies with which we compete for hiring experienced employees have greater resources than we have. If we fail to attract new technical personnel or fail to retain and motivate our current employees, our business and future growth prospects could be severely harmed.

We may be sued by third parties for alleged infringement of their proprietary rights, which could be costly, time-consuming and limit our ability to use certain technologies in the future.

If the size of our markets increases, we would be more likely to be subject to claims that our technologies infringe upon the intellectual property or other proprietary rights of third parties. In addition, the vendors from which we license technology used in our products could become subject to similar infringement claims. Our vendors, or we, may not be able to withstand third-party infringement claims. Any claims, with or without merit, could be time-consuming and expensive, and could divert our management's attention away from the execution of our business plan. Moreover, any settlement or adverse judgment resulting from the claim could require us to pay substantial amounts or obtain a license to continue to use the technology that is the subject of the claim, or otherwise restrict or prohibit our use of the technology. There can be no assurance that we would be able to obtain a license from the third party asserting the claim on commercially reasonable terms, if at all, that we would be able to develop alternative technology on a timely basis, if at all, or that we would be able to obtain a license to use a suitable alternative technology to permit us to continue offering, and our customers to continue using, our affected product. In addition, we may be required to indemnify our retail and distribution partners for third-party intellectual property infringement claims, which would increase the cost to us of an adverse ruling in such a claim. An adverse determination could also prevent us from offering our products to others. Infringement claims asserted against us or our vendors may have a material adverse effect on our business, results of operations or financial condition.

If we fail to protect, or incur significant costs in defending, our intellectual property and other proprietary rights, our business and results of operations could be materially harmed.

Our success depends on our ability to protect our intellectual property and other proprietary rights. We rely primarily on patents, trademarks, copyrights, trade secrets and unfair competition laws, as well as license agreements and other contractual provisions, to protect our intellectual property and other proprietary rights. Significant technology used in our products, however, is not the subject of any patent protection, and we may be unable to obtain patent protection on such technology in the future. Moreover, existing U.S. legal standards

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relating to the validity, enforceability and scope of protection of intellectual property rights offer only limited protection, may not provide us with any competitive advantages, and may be challenged by third parties. In addition, the laws of countries other than the United States in which we market our products may afford little or no effective protection of our intellectual property. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property or otherwise gaining access to our technology. Unauthorized third parties may try to copy or reverse engineer our products or portions of our products or otherwise obtain and use our intellectual property. Some of our contracts with the U.S. federal government allow the federal government to disclose technical data regarding the products developed on behalf of the government under the contract without constraining the recipient on how it is used. This ability of the government creates the potential that third parties may be able to use this data to compete with us in the commercial sector. If we fail to protect our intellectual property and other proprietary rights, our business, results of operations or financial condition could be materially harmed.

In addition, defending our intellectual property rights may entail significant expense. We believe that certain products in the marketplace may infringe our existing intellectual property rights. We have, from time to time, resorted to legal proceedings to protect our intellectual property and may continue to do so in the future. We may be required to expend significant resources to monitor and protect our intellectual property rights. Any of our intellectual property rights may be challenged by others or invalidated through administrative processes or litigation. If we resort to legal proceedings to enforce our intellectual property rights or to determine the validity and scope of the intellectual property or other proprietary rights of others, the proceedings could result in significant expense to us and divert the attention and efforts of our management and technical employees, even if we were to prevail.

If we fail to enhance our brand, our ability to expand our customer base will be impaired and our operating results may suffer.

We believe that developing and maintaining awareness of the iRobot brand is critical to achieving widespread acceptance of our existing and future products and is an important element in attracting new customers. Furthermore, we expect the importance of global brand recognition to increase as competition develops. If customers do not perceive our products to be of high quality, our brand and reputation could be harmed, which could adversely impact our financial results. In addition, brand promotion efforts may not yield significant revenue or increased revenue sufficient to offset the additional expenses incurred in building our brand.

We depend on the experience and expertise of our senior management team and key technical employees, and the loss of any key employee may impair our ability to operate effectively.

Our success depends upon the continued services of our senior management team and key technical employees, such as our project management personnel and senior engineers. Moreover, we often must comply with provisions in government contracts that require employment of persons with specified levels of education and work experience. Each of our executive officers, key technical personnel and other employees could terminate his or her relationship with us at any time. The loss of any member of our senior management team might significantly delay or prevent the achievement of our business objectives and could materially harm our business and customer relationships. In addition, because of the highly technical nature of our robots, the loss of any significant number of our existing engineering and project management personnel could have a material adverse effect on our business and operating results.

We are subject to extensive U.S. federal government regulation, and our failure to comply with applicable regulations could subject us to penalties that may restrict our ability to conduct our business.

As a contractor and subcontractor to the U.S. federal government, we are subject to and must comply with various government regulations that impact our operating costs, profit margins and the internal organization and operation of our business. Among the most significant regulations affecting our business are:

the Federal Acquisition Regulations and supplemental agency regulations, which comprehensively regulate the formation and administration of, and performance under government contracts;

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the Truth in Negotiations Act, which requires certification and disclosure of all cost and pricing data in connection with contract negotiations;

the Cost Accounting Standards, which impose accounting requirements that govern our right to reimbursement under cost-based government contracts;

the Foreign Corrupt Practices Act, which prohibits U.S. companies from providing anything of value to a foreign official to help obtain, retain or direct business, or obtain any unfair advantage;

the False Claims Act and the False Statements Act, which, respectively, impose penalties for payments made on the basis of false facts provided to the government, and impose penalties on the basis of false statements, even if they do not result in a payment;

laws, regulations and executive orders restricting the use and dissemination of information classified for national security purposes and the exportation of certain products and technical data;

Certain contracts from the U.S. federal government may require us to maintain certain certifications including but not limited to AS9100 and CMMI;

Contractor Purchasing Systems review (CPSR) requirements, which evaluate the efficiency and effectiveness with which we spend U.S. Government funds; and

The sale of our products in countries outside the United States is regulated by the governments of those countries. While compliance with such regulation will generally be undertaken by international distributors, we may assist with such compliance and in certain cases may be liable if a distributor fails to comply.

We must comply with U.S. laws regulating the export of our products. In addition, we are required to obtain a license from the U.S. federal government to export our PackBot, Warrior, FirstLook and SUGV lines of tactical military robots. We cannot be sure of our ability to obtain any licenses required to export our products or to receive authorization from the U.S. federal government for international sales or domestic sales to foreign persons. Moreover, the export regimes and the governing policies applicable to our business are subject to change. We cannot assure you of the extent that such export authorizations will be available to us, if at all, in the future. In some cases where we act as a subcontractor, we rely upon the compliance activities of our prime contractors, and we cannot assure you that they have taken or will take all measures necessary to comply with applicable export laws. If we or our prime contractor partners cannot obtain required government approvals under applicable regulations in a timely manner or at all, we would be delayed or prevented from selling our products in international jurisdictions, which could materially harm our business, operating results and ability to generate revenue.

Also, we need special clearances to continue working on and advancing certain of our projects with the U.S. federal government. Obtaining and maintaining security clearances for employees involves a lengthy process, and it is difficult to identify, recruit and retain employees who already hold security clearances. If our employees are unable to obtain security clearances in a timely manner, or at all, or if our employees who hold security clearances are unable to maintain the clearances or terminate employment with us, then a customer requiring classified work could terminate the contract or decide not to renew it upon its expiration. In addition, we expect that many of the contracts on which we will bid will require us to demonstrate our ability to obtain facility security clearances and employ personnel with specified types of security clearances. To the extent we are not able to obtain facility security clearances or engage employees with the required security clearances for a particular contract, we may not be able to bid on or win new contracts, or effectively rebid on expiring contracts. Classified programs generally will require that we comply with various Executive Orders, federal laws and regulations and customer security requirements that may include restrictions on how we develop, store, protect and share information, and may require our employees to obtain government clearances.

Our failure to comply with applicable regulations, rules and approvals could result in the imposition of penalties, the loss of our government contracts or our suspension or debarment from contracting with the federal government generally, any of which would harm our business, financial condition and results of operations.

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Acquisitions and potential future acquisitions could be difficult to integrate, divert the attention of key personnel, disrupt our business, dilute stockholder value and impair our financial results.

As part of our business strategy, we intend to consider additional acquisitions of companies, technologies and products that we believe could accelerate our ability to compete in our core markets or allow us to enter new markets. Acquisitions and combinations are accompanied by a number of risks, including the difficulty of integrating the operations and personnel of the acquired companies, the potential disruption of our ongoing business, the potential distraction of management, expenses related to the acquisition and potential unknown liabilities associated with acquired businesses. Any inability to integrate completed acquisitions or combinations in an efficient and timely manner could have an adverse impact on our results of operations. In addition, we may not be able to recognize any expected synergies or benefits in connection with a future acquisition or combination. If we are not successful in completing acquisitions or combinations that we may pursue in the future, we may incur substantial expenses and devote significant management time and resources without a successful result. In addition, future acquisitions could require use of substantial portions of our available cash or result in dilutive issuances of securities.

We may not be able to obtain capital when desired on favorable terms, if at all, or without dilution to our stockholders.

We anticipate that our current cash, cash equivalents, cash provided by operating activities and funds available through our working capital line of credit, will be sufficient to meet our current and anticipated needs for general corporate purposes. We operate in an emerging market, however, which makes our prospects difficult to evaluate. It is possible that we may not generate sufficient cash flow from operations or otherwise have the capital resources to meet our future capital needs. In such cases we may need additional financing to execute on our current or future business strategies. If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders could be significantly diluted, and these newly-issued securities may have rights, preferences or privileges senior to those of existing stockholders. We cannot assure you that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, if and when needed, our ability to fund our operations, take advantage of unanticipated opportunities, develop or enhance our products, or otherwise respond to competitive pressures would be significantly limited. In addition, our access to credit through our working capital line of credit may be limited by the restrictive financial covenants contained in that agreement, which require us to maintain profitability.

Environmental laws and regulations and unforeseen costs could negatively impact our future earnings.

The manufacture and sale of our products in certain states and countries may subject us to environmental and other regulations. We also face increasing complexity in our product design as we adjust to legal and regulatory requirements relating to our products. There is no assurance that such existing laws or future laws will not impair future earnings or results of operations.

Business disruptions resulting from international uncertainties could negatively impact our profitability.

We derive, and expect to continue to derive, a significant portion of our revenue from international sales in various European and Far East markets, and Canada. For the fiscal years ended December 31, 2011 and January 1, 2011, sales to non-U.S. customers accounted for 45.5% and 42.1% of total revenue, respectively. Our international revenue and operations are subject to a number of material risks, including, but not limited to:

difficulties in staffing, managing and supporting operations in multiple countries;

difficulties in enforcing agreements and collecting receivables through foreign legal systems and other relevant legal issues;

fewer legal protections for intellectual property;

foreign and U.S. taxation issues, tariffs, and international trade barriers;

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difficulties in obtaining any necessary governmental authorizations for the export of our products to certain foreign jurisdictions;

potential fluctuations in foreign economies;

government currency control and restrictions on repatriation of earnings;

fluctuations in the value of foreign currencies and interest rates;

general economic and political conditions in the markets in which we operate;

domestic and international economic or political changes, hostilities and other disruptions in regions where we currently operate or may operate in the future;

changes in foreign currency exchange rates;

different and changing legal and regulatory requirements in the jurisdictions in which we currently operate or may operate in the future; and

outside of the United States, we primarily rely on a network of exclusive distributors, some of whom may be operating without written contracts.

Negative developments in any of these areas in one or more countries could result in a reduction in demand for our products, the cancellation or delay of orders already placed, threats to our intellectual property, difficulty in collecting receivables, and a higher cost of doing business, any of which could negatively impact our business, financial condition or results of operations. Moreover, our sales, including sales to customers outside the United States, are primarily denominated in U.S. dollars, and downward fluctuations in the value of foreign currencies relative to the U.S. dollar may make our products more expensive than other products, which could harm our business.

If we experience a disaster or other business continuity problem, we may not be able to recover successfully, which could cause material financial loss, loss of human capital, regulatory actions, reputational harm, or legal liability.

If we experience a local or regional disaster or other business continuity problem, such as an earthquake, terrorist attack, pandemic or other natural or man-made disaster, our continued success will depend, in part, on the availability of our personnel, our office facilities, and the proper functioning of our computer, telecommunication and other related systems and operations. As we grow our operations in new geographic regions, the potential for particular types of natural or man-made disasters, political, economic or infrastructure instabilities, or other country- or region-specific business continuity risks increases.

If we suffer any data breaches involving the designs, schematics or source code for our products, our business and financial results could be adversely affected.

We attempt to securely store our designs, schematics and source code for our products as they are created. A breach, whether physical, electronic or otherwise, of the systems on which this sensitive data is stored could lead to damage or piracy of our products. In addition, we work with e-commerce providers who hold significant sensitive customer data. If we or our partners are subject to data security breaches, we may have a loss in sales or increased costs arising from the restoration or implementation of additional security measures, either of which could materially and adversely affect our business and financial results.

Our income tax provision and other tax liabilities may be insufficient if taxing authorities are successful in asserting tax positions that are contrary to our position. Additionally, there is no guarantee that we will realize our deferred tax assets.

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From time to time, we are audited by various federal, state and local authorities regarding income tax matters. Significant judgment is required to determine our provision for income taxes and our liabilities for federal, state, local and other taxes. Although we believe our approach to determining the appropriate tax treatment is supportable and in accordance with relevant authoritative guidance it is possible that the final tax

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authority will take a tax position that is materially different than that which is reflected in our income tax provision. Such differences could have a material adverse effect on our income tax provision or benefit, in the reporting period in which such determination is made and, consequently, on our results of operations, financial position and/or cash flows for such period.

The realization of our deferred tax assets ultimately depends on the existence of sufficient taxable income in either the carryback or carryforward periods under the tax law. Due to significant estimates utilized in establishing a valuation allowance and the potential for changes in facts and circumstances, it is possible that we will be required to record a valuation allowance in future reporting periods. Our results of operations would be impacted negatively if we determine that a deferred tax asset valuation allowance is required in a future reporting period.

Provisions in our certificate of incorporation and by-laws, our shareholder rights agreement or Delaware law might discourage, delay or prevent a change of control of our company or changes in our management and, therefore, depress the trading price of our common stock.

Provisions of our certificate of incorporation and by-laws and Delaware law may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares of our common stock. These provisions may also prevent or frustrate attempts by our stockholders to replace or remove our management. These provisions include:

limitations on the removal of directors;

a classified board of directors so that not all members of our board are elected at one time;

advance notice requirements for stockholder proposals and nominations;

the inability of stockholders to act by written consent or to call special meetings;

the ability of our board of directors to make, alter or repeal our by-laws; and

the ability of our board of directors to designate the terms of and issue new series of preferred stock without stockholder approval. The affirmative vote of the holders of at least 75% of our shares of capital stock entitled to vote is necessary to amend or repeal the above provisions of our certificate of incorporation. In addition, absent approval of our board of directors, our by-laws may only be amended or repealed by the affirmative vote of the holders of at least 75% of our shares of capital stock entitled to vote.

We have also adopted a shareholder rights agreement that entitles our stockholders to acquire shares of our common stock at a price equal to 50% of the then-current market value in limited circumstances when a third party acquires or announces its intention to acquire 15% or more of our outstanding common stock.

In addition, Section 203 of the Delaware General Corporation Law prohibits a publicly-held Delaware corporation from engaging in a business combination with an interested stockholder, generally a person which together with its affiliates owns, or within the last three years has owned, 15% of our voting stock, for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner.

The existence of the foregoing provisions and anti-takeover measures could limit the price that investors might be willing to pay in the future for shares of our common stock. They could also deter potential acquirers of our company, thereby reducing the likelihood that you could receive a premium for your common stock in an acquisition.

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ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None.

ITEM 2. *PROPERTIES*

Our corporate headquarters are located in Bedford, Massachusetts, where we lease approximately 183,000 square feet. This lease expires on May 1, 2020. We lease 15,700 square feet in Durham, North Carolina supporting our government and industrial division's unmanned underwater vehicles. We lease smaller facilities in Burlington, Massachusetts; Hong Kong; Shenzhen, China; London, England; San Luis Obispo, California; and Crystal City, Virginia. We do not own any real property. We believe that our leased facilities and additional or alternative space available to us will be adequate to meet our needs for the foreseeable future.

ITEM 3. *LEGAL PROCEEDINGS*

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

ITEM 4. *MINE SAFETY DISCLOSURES*

Not Applicable.

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Our common stock is listed on the NASDAQ Global Market under the symbol **IRBT**. The following table sets forth, for the periods indicated, the high and low sales prices per share for our common stock as reported on the NASDAQ Global Market.

	High	Low
Fiscal 2010:		
First quarter	\$ 18.74	\$ 14.45
Second quarter	\$ 22.05	\$ 14.52
Third quarter	\$ 21.36	\$ 16.34
Fourth quarter	\$ 25.27	\$ 17.86
Fiscal 2011:		
First quarter	\$ 33.68	\$ 23.86
Second quarter	\$ 39.00	\$ 29.46
Third quarter	\$ 37.98	\$ 23.17
Fourth quarter	\$ 35.99	\$ 22.46

As of February 13, 2012, there were approximately 27,328,700 shares of our common stock outstanding held by approximately 122 stockholders of record and the last reported sale price of our common stock on the NASDAQ Global Market on February 13, 2012 was \$25.46 per share.

Dividend Policy

We have never declared or paid any cash dividends on our capital stock. We currently expect to retain future earnings, if any, to finance the growth and development of our business and we do not anticipate paying any cash dividends in the foreseeable future.

Issuer Purchases of Equity Securities

The following table sets forth the repurchases of our equity securities during the three months ended December 31, 2011 by or on behalf of us or any affiliated purchaser:

Period	(a) Total number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Fiscal month beginning October 2, 2011 and ended October 29, 2011		\$		
		\$		

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Fiscal month beginning October 30, 2011 and ended December 3, 2011

Fiscal month beginning December 4, 2011 and ended December 31, 2011

2,779(1) \$ 29.85(2)

Total

2,779(1) \$ 29.85(3)

(1) Represents shares of our common stock withheld by us to satisfy the minimum tax withholding obligation in connection with the vesting of restricted stock units held by executive officers.

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(2) The amount represents the last reported sale price of our common stock on the NASDAQ Global Market on the applicable vesting date.

(3) The amount represents the weighted average sale price of all shares of our common stock repurchased during the three months ended December 31, 2011.

ITEM 6. SELECTED FINANCIAL DATA

The selected historical financial data set forth below as of December 31, 2011 and January 1, 2011 and for the years ended December 31, 2011, January 1, 2011 and January 2, 2010 are derived from financial statements, which have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm. Consolidated balance sheets as of December 31, 2011 and January 1, 2011 and the related consolidated statements of income and of cash flows for each of the three years in the period ended December 31, 2011 and notes thereto appear elsewhere in this Annual Report on Form 10-K. The selected historical financial data as of January 2, 2010, December 27, 2008 and December 29, 2007 and for the years ended December 27, 2008 and December 29, 2007 are derived from our financial statements, which have been audited by PricewaterhouseCoopers LLP and which are not included elsewhere in this Annual Report.

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements, the related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Annual Report on Form 10-K. The historical results are not necessarily indicative of the results to be expected for any future period.

	Year Ended				
	December 31, 2011	January 1, 2011	January 2, 2010	December 27, 2008	December 29, 2007
	(In thousands, except earnings per share amounts)				
Consolidated Statements of Income:					
Revenue					
Product revenue	\$ 426,525	\$ 360,394	\$ 262,199	\$ 281,187	\$ 227,457
Contract revenue	38,975	40,558	36,418	26,434	21,624
Total revenue	465,500	400,952	298,617	307,621	249,081
Cost of revenue					
Cost of product revenue	246,905	228,403	176,631	190,250	147,689
Cost of contract revenue	26,477	27,117	30,790	23,900	18,805
Total cost of revenue	273,382	255,520	207,421	214,150	166,494
Gross Margin	192,118	145,432	91,196	93,471	82,587
Operating Expenses					
Research and development	36,498	24,809	14,747	17,566	17,082
Selling and marketing	58,544	50,535	40,902	46,866	44,894
General and administrative	43,753	36,618	30,110	28,840	20,919
Litigation and related expenses					2,341
Total operating expenses	138,795	111,962	85,759	93,272	85,236
Operating (Loss) Income	53,323	33,470	5,437	199	(2,649)
Net Income	\$ 40,191	\$ 25,514	\$ 3,330	\$ 756	\$ 9,060
Net Income Per Common Share Basic	\$ 1.50	\$ 1.00	\$ 0.13	\$ 0.03	\$ 0.37
Diluted	\$ 1.44	\$ 0.96	\$ 0.13	\$ 0.03	\$ 0.36
Shares Used in Per Common Share Calculations					
Basic	26,712	25,394	24,998	24,654	24,229
Diluted	27,924	26,468	25,640	25,533	25,501

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	December 31, 2011	January 1, 2011	January 2, 2010 (In thousands)	December 27, 2008	December 29, 2007
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 166,308	\$ 108,383	\$ 71,856	\$ 40,852	\$ 26,735
Short term investments	17,811	13,928	4,959		16,550
Total assets	332,213	254,331	199,584	163,678	169,092
Total liabilities	89,255	79,424	66,390	44,002	58,865
Total stockholders' equity	242,958	174,907	133,194	119,676	110,227

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information contained in this section has been derived from our consolidated financial statements and should be read together with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. This Annual Report on Form 10-K 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, or the Exchange Act, and are subject to the "safe harbor" created by those sections. In particular, statements contained in this Annual Report on Form 10-K that are not historical facts, including, but not limited to statements concerning new product sales, product development and offerings, Roomba, Scooba, Looj and Verro products, PackBot tactical military robots, the Small Unmanned Ground Vehicle, Seaglider, Negotiator, Ava, our home robots and government and industrial robots divisions, our competition, our strategy, our market position, market acceptance of our products, seasonal factors, revenue recognition, our profits, growth of our revenues, product life cycle revenue, composition of our revenues, our cost of revenues, units shipped, average selling prices, funding of our government and industrial robot development programs, operating expenses, selling and marketing expenses, general and administrative expenses, research and development expenses, and compensation costs, our projected income tax rate, our credit and letter of credit facilities, our valuations of investments, valuation and composition of our stock-based awards, and liquidity, constitute forward-looking statements and are made under these safe harbor provisions. Some of the forward-looking statements can be identified by the use of forward-looking terms such as believes, expects, may, will, should, could, seek, intends, plans, estimates, anticipates, or other comparable terms. Forward-looking statements involve inherent risks and uncertainties, which could cause actual results to differ materially from those in the forward-looking statements. We urge you to consider the risks and uncertainties discussed in greater detail under the heading "Risk Factors" in evaluating our forward-looking statements. We have no plans to update our forward-looking statements to reflect events or circumstances after the date of this report. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made.

Overview

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

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As of December 31, 2011, we had 619 full-time employees. We have developed expertise in the disciplines necessary to build durable, high-performance and cost-effective robots through the close integration of software, electronics and hardware. Our core technologies serve as reusable building blocks that we adapt and expand to develop next generation and new products, reducing the time, cost and risk of product development. Our significant expertise in robot design and engineering, combined with our management team's experience in military and consumer markets, positions us to capitalize on the expected growth in the market for robots.

Although we have successfully launched consumer and government and industrial products, our continued success depends upon our ability to respond to a number of future challenges. We believe the most significant of these challenges include increasing competition in the markets for both our consumer and government and industrial products, our ability to obtain U.S. federal government funding for research and development programs, and our ability to successfully develop and introduce products and product enhancements.

Revenue

We currently derive revenue from product sales, government research and development contracts, and commercial research and development contracts. Product revenue is derived from the sale of our various home cleaning robots and government and industrial robots and related accessories. Research and development revenue is derived from the execution of contracts awarded by the U.S. federal government, other governments and a small number of other partners. In the future, we expect to derive increasing revenue from product maintenance and support services due to a focused effort to market these services to the expanding installed base of our robots.

We currently derive a majority of our product revenue from the sale of our home cleaning robots, and our PackBot and SUGV tactical military robots. For the fiscal years ended December 31, 2011 and January 1, 2011, product revenues accounted for 91.6% and 89.9% of total revenue, respectively. For the fiscal years ended December 31, 2011 and January 1, 2011, our funded research and development contracts accounted for approximately 8.4% and 10.1% of our total revenue, respectively. We expect to continue to perform funded research and development work with the intent of leveraging the technology developed to advance our new product development efforts. In the future, based on changes in operational needs from U.S. armed forces, and significant pressures on U.S. spending levels, we anticipate that revenue from product sales to the U.S. armed forces could remain flat or decrease in the near term. In addition, we expect that revenue from funded research and development contracts could decrease on an absolute dollar basis.

For the fiscal years ended December 31, 2011 and January 1, 2011, approximately 74.0% and 65.7%, respectively, of our home robot product revenue resulted from sales to 15 customers. For fiscal 2011 and fiscal 2010, the customers were comprised of both U.S. retailers and international distributors. Direct-to-consumer revenue generated through our domestic and international on-line stores accounted for 9.6% of our home robot product revenue for the fiscal year ended December 31, 2011 compared to 11.5% in the fiscal year ended January 1, 2011. We typically sell our recently launched products direct on-line, and then subsequently offer these products through other channels of distribution. In addition, 88.4% and 87.6% of military product revenue, and 95.7% and 96.5% of funded research and development contract revenue, resulted from orders and contracts or subcontracts with the U.S. federal government in the fiscal years ended December 31, 2011 and January 1, 2011, respectively.

For the fiscal years ended December 31, 2011 and January 1, 2011, sales to non-U.S. customers accounted for 45.5% and 42.1% of total revenue, respectively.

Our revenue from product sales is generated through sales to our retail distribution channels, our distributor network and to certain U.S. and foreign governments. We recognize revenue from the sales of home robots under the terms of the customer agreement upon transfer of title and risk of loss to the customer, net of estimated returns, provided that collection is determined to be reasonably assured and no significant obligations remain.

Revenue from our military robot sales and revenue from funded research and development contracts are occasionally influenced by the September 30 fiscal year-end of the U.S. federal government. In addition, our revenue can be affected by the timing of the release of new products and the size and timing of contract awards from military and other government agencies. Historically, revenue from consumer product sales has been significantly seasonal, with a majority of our consumer product revenue generated in the second half of the year.

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(in advance of the holiday season). As a result of the growth of our international consumer business, which is less seasonal than our domestic consumer business, our consumer product revenue is currently spread more evenly throughout the year.

Cost of Revenue

Cost of product revenue includes the cost of raw materials and labor that go into the development and manufacture of our products as well as manufacturing overhead costs such as manufacturing engineering, quality assurance, logistics and warranty costs. For the fiscal years ended December 31, 2011 and January 1, 2011, cost of product revenue was 57.9% and 63.4% of total product revenue, respectively. The decrease in cost of product revenue as a percentage of revenue was driven primarily by changes in product mix to higher margin home robot products, improved leverage of our overhead expense against higher revenue, and lower return provisions and warranty expense. Raw material costs, which are our most significant cost items, can fluctuate materially on a periodic basis, although many components have been historically stable. Additionally, unit costs can vary significantly depending on the mix of products sold. There can be no assurance that our costs of raw materials will not increase. Labor costs also comprise a significant portion of our cost of revenue. We outsource the manufacture of our home robots to contract manufacturers in China. While labor costs in China traditionally have been favorable compared to labor costs elsewhere in the world, including the United States, we believe that labor in China is becoming more scarce. In addition fluctuations in currency exchange rates could increase the cost of labor. Consequently, the labor costs for our home robots could increase in the future.

Cost of contract revenue includes the direct labor costs of engineering resources committed to funded research and development contracts, as well as third-party consulting, travel and associated direct material costs. Additionally, we include overhead expenses such as indirect engineering labor, occupancy costs associated with the project resources, engineering tools and supplies and program management expenses. For the fiscal years ended December 31, 2011 and January 1, 2011, cost of contract revenue was 67.9% and 66.9% of total contract revenue, respectively.

Gross Margin

Our gross margin as a percentage of revenue varies according to the mix of product and contract revenue, the mix of products sold, total sales volume, the level of defective product returns, and levels of other product costs such as warranty, scrap, re-work and manufacturing overhead. For the years ended December 31, 2011 and January 1, 2011, gross margin was 41.3% and 36.3% of total revenue, respectively. The increase in margin was driven primarily by changes in product mix to higher margin home robot products, improved leverage of our overhead expense against higher revenue, and lower return provisions and warranty expense.

Research and Development Expenses

Research and development expenses consist primarily of:

salaries and related costs for our engineers;

costs for high technology components used in product and prototype development; and

costs of test equipment used during product development.

We have significantly expanded our research and development capabilities and expect to continue to expand these capabilities in the future. We are committed to consistently maintaining the level of innovative design and development of new products as we strive to enhance our ability to serve our existing consumer and military markets as well as new markets for robots. We anticipate that research and development expenses will increase in absolute dollars but remain relatively flat as a percentage of revenue in the foreseeable future.

For the fiscal years ended December 31, 2011 and January 1, 2011, research and development expense was \$36.5 million and \$24.8 million, or 7.8% and 6.2% of total revenue, respectively.

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 other third parties.

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For the fiscal years ended December 31, 2011 and January 1, 2011, these expenses amounted to \$26.5 million and \$27.1 million, respectively. In accordance with generally accepted accounting principles, these expenses have been classified as cost of revenue rather than research and development expense. For the years ended December 31, 2011 and January 1, 2011, the combined investment in future technologies, classified as cost of revenue and research and development expense, was \$63.0 million and \$51.9 million, respectively.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses consist primarily of:

salaries and related costs for sales and marketing personnel;

salaries and related costs for executives and administrative personnel;

advertising, marketing and other brand-building costs;

fulfillment costs associated with direct-to-consumer sales through our on-line store;

customer service costs;

professional services costs;

information systems and infrastructure costs;

travel and related costs; and

occupancy and other overhead costs.

We anticipate that selling, general and administrative expenses will increase in absolute dollars but remain relatively flat as a percentage of revenue in the foreseeable future as we continue to build the iRobot brand and also maintain company profitability.

For the fiscal years ended December 31, 2011 and January 1, 2011, selling, general and administrative expense was \$102.3 million and \$87.2 million, or 22.0% and 21.7% of total revenue, respectively.

Fiscal Periods

We operate and report using a 52-53 week fiscal year ending on the Saturday closest to December 31. Accordingly, our fiscal quarters will end on the Saturday that falls closest to the last day of the third month of each quarter.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates.

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We believe that of our significant accounting policies, which are described in the notes to our consolidated financial statements, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, we believe that the following accounting policies are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations.

Revenue Recognition

We recognize revenue from sales of consumer products under the terms of the customer agreement upon transfer of title and risk of loss to the customer, which is typically upon the delivery of the product, provided the price is fixed or determinable, collection is determined to be reasonably assured and no significant obligations remain. Sales to domestic resellers are typically subject to agreements allowing for limited rights of return for defective products only, rebates and price protection. Accordingly, we reduce revenue for our estimates of

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liabilities for these rights of return at the time the related sale is recorded. We establish a provision for sales returns for products sold by domestic resellers directly based on historical return experience and other relevant data. Our international distributor agreements do not currently allow for product returns and, as a result, no reserve for returns is established for this group of customers. We have aggregated and analyzed historical returns from domestic resellers and end users which form the basis of our estimate of future sales returns by resellers or end users. When a right of return exists, the provision for these estimated returns is recorded as a reduction of revenue at the time that the related revenue is recorded. If actual returns from retailers differ significantly from our estimates, such differences could have a material impact on our results of operations for the period in which the actual returns become known. Our returns reserve is calculated as a percentage of gross consumer product revenue. A small increase or decrease in our actual experience of returns could have a material impact on our quarterly and annual results of operations. 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. If future trends or our ability to estimate were to change significantly from those experienced in the past, incremental reductions or increases to revenue may result based on this new experience.

Under cost-plus research and development contracts, we recognize revenue based on costs incurred plus a pro-rata portion of the total fixed fee. Costs and estimated gross margins on contracts are recorded as work is performed based on the percentage that incurred costs bear to estimated total costs utilizing the most recent estimates of costs and funding. We recognize revenue on firm fixed price (FFP) contracts using the percentage-of-completion method. For government product FFP contracts revenue is recognized as the product is shipped or in accordance with the contract terms. Changes in job performance, job conditions and estimated profitability, including those arising from final contract settlements and government audit, may result in revisions to costs and income, and are recorded or recognized, as the case may be, 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, 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 Stock-Based Awards

We recognized \$5.2 million of stock-based compensation expense during the fiscal year ended December 31, 2011 for stock options. The unamortized fair value as of December 31, 2011 associated with these grants was \$11.0 million with a weighted-average remaining recognition period of 2.39 years.

The risk-free interest rate is derived from the average U.S. Treasury constant maturity rate, which approximates the rate in effect at the time of grant, commensurate with the expected life of the instrument. The dividend yield is zero based upon the fact that we have never paid and have no present intention to pay cash dividends. Prior to 2010, the expected term calculation was based upon the simplified method provided under the relevant authoritative guidance. During 2010, we began to rely solely on company specific historical data to calculate the expected term. Given our initial public offering in November 2005 and the resulting short history as a public company, we could not rely solely on company specific historical data for purposes of establishing expected volatility. Consequently, prior to 2010, we performed an analysis that included company specific historical data combined with data of several peer companies with similar expected option lives to develop expected volatility assumptions. During 2010, we began to rely solely on company specific historical data for purposes of establishing expected volatility.

Based upon the above assumptions, the weighted average fair value of each stock option granted for the fiscal year ended December 31, 2011 was \$16.55.

During the fiscal year ended December 31, 2011, the Company recognized \$3.6 million of stock-based compensation associated with restricted stock units. Unamortized expense associated with restricted stock units at December 31, 2011, was \$11.7 million.

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We have assumed a forfeiture rate for all stock options, restricted stock awards and restricted stock-based units granted subsequent to the Company's initial filing of its Form S-1 with the SEC. In the future, we 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.

Accounting for stock-based awards requires significant judgment and the use of estimates, particularly surrounding assumptions such as stock price volatility and expected option lives to value equity-based compensation.

Accounting for 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.

We monitor the realization of our deferred tax assets based on changes in circumstances, for example, recurring periods of income for tax purposes following historical periods of cumulative losses or changes in tax laws or regulations. Our income tax provision and our assessment of the ability to realize our deferred tax assets involve significant judgments and estimates. In fiscal 2007, we 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. In fiscal 2010, based on recent and expected increased future profitability the valuation allowance relating to state deferred tax assets was released. At December 31, 2011, we have total deferred tax assets of \$21.5 million with no valuation allowance.

Warranty

We typically provide a one-year warranty (with the exception of European consumer products which typically have a two-year warranty period and our government and industrial spares which typically have a warranty period of less than one year) against defects in materials and workmanship and will either repair the goods, provide replacement products at no charge to the customer or refund amounts to the customer for defective products. We record estimated warranty costs, based on historical experience by product, at the time we recognize product revenue. As the complexity of our products increases, we could experience higher warranty claims relative to sales than we have previously experienced, and we may need to increase these estimated warranty reserves.

Inventory Valuation

We value our inventory at the lower of the actual cost of our inventory or its current estimated market value. We write down inventory for obsolescence or unmarketable inventories based upon assumptions about future demand and market conditions. Actual demand and market conditions may be lower than those that we project and this difference could have a material adverse effect on our gross margin if inventory write-downs beyond those initially recorded become necessary. Alternatively, if actual demand and market conditions are more favorable than those we estimated at the time of such a write-down, our gross margin could be favorably impacted in future periods.

Table of Contents**Overview of Results of Operations**

The following table sets forth our results of operations for the periods shown:

	Fiscal Year Ended		
	December 31, 2011	January 1, 2011 (In thousands)	January 2, 2010
Revenue			
Product revenue	\$ 426,525	\$ 360,394	\$ 262,199
Contract revenue	38,975	40,558	36,418
Total revenue	465,500	400,952	298,617
Cost of Revenue			
Cost of product revenue(1)	246,905	228,403	176,631
Cost of contract revenue(1)	26,477	27,117	30,790
Total cost of revenue	273,382	255,520	207,421
Gross margin	192,118	145,432	91,196
Operating Expenses			
Research and development(1)	36,498	24,809	14,747
Selling and marketing(1)	58,544	50,535	40,902
General and administrative(1)	43,753	36,618	30,110
Total operating expenses	138,795	111,962	85,759
Operating Income	53,323	33,470	5,437
Other Income (Expense), Net	218	504	(81)
Income Before Income Taxes	53,541	33,974	5,356
Income Tax Expense	13,350	8,460	2,026
Net Income	\$ 40,191	\$ 25,514	\$ 3,330

(1) Stock-based compensation recorded in fiscal 2011, 2010 and 2009 breaks down by expense classification as follows.

	Fiscal Year Ended		
	December 31, 2011	January 1, 2011 (In thousands)	January 2, 2010
Cost of product revenue	\$ 1,197	\$ 1,311	\$ 1,127
Cost of contract revenue	478	446	575
Research and development	743	725	351
Selling and marketing	724	1,161	1,410
General and administrative	5,642	4,522	4,099

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The following table sets forth our results of operations as a percentage of revenue for the periods shown:

	Fiscal Year Ended		
	December 31, 2011	January 1, 2011	January 2, 2010
Revenue			
Product revenue	91.6%	89.9%	87.8%
Contract revenue	8.4	10.1	12.2
Total revenue	100.0	100.0	100.0
Cost of Revenue			
Cost of product revenue	53.0	57.0	59.2
Cost of contract revenue	5.7	6.7	10.3
Total cost of revenue	58.7	63.7	69.5
Gross margin	41.3	36.3	30.5
Operating Expenses			
Research and development	7.8	6.2	4.9
Selling and marketing	12.6	12.6	13.7
General and administrative	9.4	9.1	10.1
Total operating expenses	29.8	27.9	28.7
Operating Income	11.5	8.4	1.8
Other Income (Expense), Net	0.0	0.1	0.0
Income Before Income Taxes	11.5	8.5	1.8
Income Tax Expense	2.9	2.1	0.7
Net Income	8.6%	6.4%	1.1%

Comparison of Years Ended December 31, 2011 and January 1, 2011*Revenue*

	Fiscal Year Ended			
	December 31, 2011	January 1, 2011	Dollar Change (In thousands)	Percent Change
Total Revenue	\$ 465,500	\$ 400,952	\$ 64,548	16.1%

Our revenue increased 16.1% to \$465.5 million in fiscal 2011 from \$401.0 million in fiscal 2010. Revenue increased approximately \$49.2 million, or 21.5%, in our home robots division and \$15.3 million, or 8.9%, in our government and industrial division.

The \$49.2 million increase in revenue from our home robots division was driven by an 8.0% increase in units shipped and a 13.2% increase in net average selling price. In fiscal 2011, international home robots revenue increased \$44.3 million and domestic home robots revenue increased \$4.9 million. Total home robots shipped in fiscal 2011 were 1,371,000 units compared to 1,269,000 units in fiscal 2010. The increase in home robots division revenue and units shipped was primarily attributable to international sales increasing 29.3% due to increased demand in our European and Asian markets, particularly Japan. The increase in demand was driven by demand for our new Roomba 700 series robot, an increase in marketing programs by us and our international distributors and continued efforts to increase international retail outlets for our home

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robots products across various countries. Domestic retail sales of our home robot products increased 7.9% and domestic direct sales through our website increased 2.3% in fiscal 2011 as compared to fiscal 2010. The increase in domestic retail

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demand is due in part to our increased and sustained domestic marketing activities which began in the fourth quarter of 2010. The increase in our direct to consumer sales through our website was driven by the introduction of our Roomba 700 series and Scooba 230 robots. Home robots division revenue from international sales was 70.3% of total home robots division revenue in fiscal 2011 as compared to 66.0% in fiscal 2010. The increase in net average selling prices was primarily driven by customer mix and product mix relating to the introduction of our Roomba 700 series and Scooba 230 robots.

The \$15.3 million increase in revenue from our government and industrial robots division was driven by a \$4.5 million increase in product life cycle revenue (spare parts, accessories) and a \$12.5 million increase in government and industrial robot revenue offset by a \$1.6 million decrease in recurring contract development revenue generated under research and development contracts. The \$4.5 million increase in product life cycle revenue is the result of a higher installed base of our government and industrial robots. The \$1.6 million decrease in recurring contract development revenue generated under research and development contracts was primarily the result of decreases in funding and timing of work efforts for our Maritime and Warrior programs. The \$12.5 million increase in government and industrial robots revenue was primarily due to a 27.7% increase in net average selling prices partially offset by a 11.3% decrease in units shipped in fiscal 2011 as compared to fiscal 2010. The increase in net average selling price was due to product mix primarily attributable to PackBot and SUGV units with a higher selling price shipped in fiscal 2011 as compared to lower priced PackBot FasTac units and lower priced configuration of SUGV units shipped in fiscal 2010. Total government and industrial robots shipped in fiscal 2011 were 773 units compared to 871 units in fiscal 2010.

Cost of Revenue

	Fiscal Year Ended		Dollar Change	Percent Change
	December 31, 2011	January 1, 2011		
			(In thousands)	
Total cost of revenue	\$ 273,382	\$ 255,520	\$ 17,862	7.0%
As a percentage of total revenue	58.7%	63.7%		

Total cost of revenue increased to \$273.4 million in fiscal 2011, compared to \$255.5 million in fiscal 2010. The increase is primarily due to the 8.0% increase in home robot units shipped in fiscal 2011 as compared to fiscal 2010.

Gross Margin

	Fiscal Year Ended		Dollar Change	Percent Change
	December 31, 2011	January 1, 2011		
			(In thousands)	
Total gross margin	\$ 192,118	\$ 145,432	\$ 46,686	32.1%
As a percentage of total revenue	41.3%	36.3%		

Gross margin increased \$46.7 million, or 32.1%, to \$192.1 million (41.3% of revenue) in fiscal 2011 from \$145.4 million (36.3% of revenue) in fiscal 2010. The increase in gross margin as a percentage of revenue was the result of the home robots division gross margin increasing 5.2 percentage points and the government and industrial robots division gross margin increasing 4.3 percentage points. The 5.2 percentage point increase in the home robots division is attributable to changes in customer and product mix to higher margin home robots products including the introduction of our Roomba 700 series and Scooba 230 robots, improved leverage of our overhead expense against higher revenue, and lower return provisions and warranty expense in fiscal 2011 as compared to fiscal 2010. The 4.3 percentage point increase in the government and industrial robots division is primarily due to lower overhead expenses with improved leverage of our overhead expense against higher revenue, lower sustaining engineering expense and lower warranty expense in fiscal 2011 as compared to fiscal 2010.

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	Fiscal Year Ended			
	December 31, 2011	January 1, 2011	Dollar Change (In thousands)	Percent Change
Total research and development	\$ 36,498	\$ 24,809	\$ 11,689	47.1%
As a percentage of total revenue	7.8%	6.2%		

Research and development expenses increased by \$11.7 million, or 47.1%, to \$36.5 million (7.8% of revenue) in fiscal 2011. This was driven by increases in our home robots division of \$8.8 million, government and industrial robots division of \$1.8 million and other research and development expense of \$1.1 million primarily relating to ongoing development of our common software platform. The increase in other research and development expense is due to increases in compensation and benefits, consulting and materials associated with internal research and development projects in both our home robots and government and industrial robots divisions. The increase in our home robots division is primarily the result of our increased efforts in the areas of new product development. The increase in our government and industrial robots division is the result of our increased efforts in product development relating to our FirstLook, PackBot and Warrior programs.

In addition to our research and development activities classified as research and development expense, we incur research and development expenses under funded development arrangements with governments and industrial third parties. For fiscal 2011, these expenses amounted to \$26.5 million, compared to \$27.1 million for fiscal 2010. In accordance with generally accepted accounting principles, these expenses have been classified as cost of contract revenue rather than research and development expense. The combined investment in future technologies, classified as cost of revenue and research and development expense, was \$63.0 million for fiscal 2011, compared to \$51.9 million for fiscal 2010.

Selling and Marketing

	Fiscal Year Ended			
	December 31, 2011	January 1, 2011	Dollar Change (In thousands)	Percent Change
Total selling and marketing	\$ 58,544	\$ 50,535	\$ 8,009	15.8%
As a percentage of total revenue	12.6%	12.6%		

Selling and marketing expenses increased by \$8.0 million, or 15.8%, to \$58.5 million (12.6% of revenue) in fiscal 2011 from \$50.5 million (12.6% of revenue) in fiscal 2010. This was driven by an increase in our home robots division of \$6.4 million primarily attributable to increases in advertising as part of our continued global marketing and branding efforts, other marketing, compensation, and employee-related expense for fiscal 2011 as compared to fiscal 2010. Selling and marketing expenses in our government and industrial robots division increased by \$1.2 million attributable to an increase in compensation, trade show, depreciation related to demonstration robots and travel expenses in fiscal 2011.

In fiscal 2012, we expect to continue to invest in sales and marketing to increase brand awareness. Accordingly, we anticipate selling and marketing expenses will increase in absolute dollars but remain at the same level or slightly above fiscal 2011 as a percentage of revenue.

General and Administrative

	Fiscal Year Ended			
	December 31, 2011	January 1, 2011	Dollar Change (In thousands)	Percent Change
General and administrative	\$ 43,753	\$ 36,618	\$ 7,135	19.5%
As a percentage of total revenue	9.4%	9.1%		

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General and administrative expenses increased by \$7.1 million, or 19.5%, to \$43.8 million (9.4% of revenue) in fiscal 2011 from \$36.6 million (9.1% of revenue) in fiscal 2010. This increase is primarily attributable to increased compensation and employee benefit expenses related to increased headcount, incentive compensation expense, stock-based compensation expense, enterprise software expense, consulting expense, legal expense primarily attributable to our international expansion and intellectual property prosecution and enforcement, and expenses relating to four robots sent to Japan to explore reactor buildings at the Fukushima Daiichi nuclear plant.

Other Income (Expense), Net

	Fiscal Year Ended		Dollar Change (In thousands)	Percent Change
	December 31, 2011	January 1, 2011		
Other Income (expense), net	\$ 218	\$ 504	\$ (286)	(56.7)%
As a percentage of total revenue	0.0%	0.1%		

Other income (expense), net amounted to \$0.2 million in fiscal 2011 compared to \$0.5 million in fiscal 2010. Other income (expense), net, for fiscal 2011 was related to interest income of \$1.0 million offset by foreign currency exchange losses of \$0.5 million resulting from foreign currency exchange rate fluctuations and other expenses of \$0.3 million. Other income (expense), net, for fiscal 2010 was related to interest income of \$0.8 million offset by foreign currency exchange losses of \$0.3 million resulting from foreign currency exchange rate fluctuations.

Income Tax Provision

	Fiscal Year Ended		Dollar Change (In thousands)	Percent Change
	December 31, 2011	January 1, 2011		
Income tax provision	\$ 13,350	\$ 8,460	\$ 4,890	57.8%
As a percentage of total revenue	2.9%	2.1%		

We recorded a tax provision of \$13.4 million and \$8.5 million for fiscal 2011 and fiscal 2010, respectively. The \$13.4 million provision for fiscal 2011 was based upon a 2011 effective income tax rate of 29.7% offset by a net tax benefit of \$3.5 million resulting from the completion in the period of a comprehensive evaluation of our research and development credit and domestic manufacturing deductions. The \$8.5 million provision for fiscal 2010 was based upon a projected 2010 effective tax rate of 31.5% offset by a \$2.3 million one-time benefit associated with the full release of our valuation allowance relating to state deferred tax assets.

The decrease in the projected effective tax rates from 31.5% in 2010 to 29.7% in 2011 was primarily due to higher domestic manufacturing deductions in 2011, partially offset by the release of our valuation allowance relating to state deferred tax assets in fiscal 2010.

*Comparison of Years Ended January 1, 2011 and January 2, 2010**Revenue*

	Fiscal Year Ended		Dollar Change (In thousands)	Percent Change
	January 1, 2011	January 2, 2010		
Total Revenue	\$ 400,952	\$ 298,617	\$ 102,335	34.3%

Our revenue increased 34.3% to \$401.0 million in fiscal 2010 from \$298.6 million in fiscal 2009. Revenue increased approximately \$63.5 million, or 38.3%, in our home robots division and \$38.8 million, or 29.3%, in our government and industrial division.

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The \$63.5 million increase in revenue from our home robots division was driven by a 28.4% increase in units shipped and a 9.7% increase in net average selling price. Total home robots shipped in fiscal 2010 were 1,269,000 units compared to 988,000 units in fiscal 2009. The increase in home robot division revenue and units shipped was primarily attributable to increased international sales of our home robot products resulting from our efforts to increase our global presence. In fiscal 2010, international home robot revenue increased \$62.3 million, domestic home robot revenue from our retail channel increased \$3.4 million, and domestic home robot revenue from our direct channel decreased \$2.2 million as compared to fiscal 2009. Home robot division revenue from international sales, which consist of products having a higher average selling price than products sold to domestic customers, was 66.0% of total home robot division revenue in fiscal 2010 as compared to 53.8% in fiscal 2009.

The \$38.8 million increase in revenue from our government and industrial division was driven by a \$20.2 million increase in government and industrial robot revenue, a \$14.5 million increase in product life cycle revenue (spare parts and accessories), and a \$4.1 million increase in recurring contract development revenue generated under research and development contracts. The \$20.2 million increase in government and industrial robots revenue was due to a 10.3% increase in units shipped in fiscal 2010 as compared to fiscal 2009. The \$14.5 million increase in product life cycle revenue was the result of a higher installed base of our government and industrial robots, which during fiscal 2010 included product life cycle revenue related to our SUGV 310 product. The \$4.1 million increase in recurring contract development revenue generated under research and development contracts was primarily attributable to an increase in funding of our SUGV program offset by decreases in funding of our PackBot and Warrior programs. Total government and industrial robots shipped in fiscal 2010 were 871 units compared to 789 units in fiscal 2009.

Cost of Revenue

	Fiscal Year Ended		Dollar Change	Percent Change
	January 1, 2011	January 2, 2010		
			(In thousands)	
Total cost of revenue	\$ 255,520	\$ 207,421	\$ 48,099	23.2%
As a percentage of total revenue	63.7%	69.5%		

Total cost of revenue increased to \$255.5 million in fiscal 2010, compared to \$207.4 million in fiscal 2009. The increase is primarily due to the 28.4% increase in home robot units shipped and the 10.3% increase in government and industrial units shipped.

Gross Margin

	Fiscal Year Ended		Dollar Change	Percent Change
	January 1, 2011	January 2, 2010		
			(In thousands)	
Total gross margin	\$ 145,432	\$ 91,196	\$ 54,236	59.5%
As a percentage of total revenue	36.3%	30.5%		

Gross margin increased \$54.2 million, or 59.5%, to \$145.4 million (36.3% of revenue) in fiscal 2010 from \$91.2 million (30.5% of revenue) in fiscal 2009. The increase in gross margin as a percentage of revenue was the result of the home robots division gross margin increasing 7.8 percentage points and the government and industrial division gross margin increasing 2.9 percentage points. The 7.8 percentage point increase in the home robots division is attributable to lower return provisions, the increase in units shipped through our higher-margin international channel, price increases on certain international products, continued product cost reduction efforts, lower excess and obsolete inventory provisions and improved leverage of our overhead expense against higher revenue in fiscal 2010 as compared to fiscal 2009. The 2.9 percentage point increase in the government and industrial division is primarily attributable to leveraging our overhead expense against higher revenue, and an increase in higher-margin product life cycle revenue, partially offset by a decrease due to product mix primarily attributable to a significant number of SUGV 310 units shipped in fiscal 2010 as compared to fiscal 2009. Our

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margins relating to contract revenue increased in fiscal 2010 as compared to fiscal 2009 due to higher-margin firm-fixed-priced contracts awarded in 2010.

Research and Development

	Fiscal Year Ended		Dollar Change (In thousands)	Percent Change
	January 1, 2011	January 2, 2010		
Total research and development	\$ 24,809	\$ 14,747	\$ 10,062	68.2%
As a percentage of total revenue	6.2%	4.9%		

Research and development expenses increased by \$10.1 million, or 68.2%, to \$24.8 million (6.2% of revenue) in fiscal 2010, from \$14.7 million (4.9% of revenue) for fiscal 2009. The increase in research and development expenses is primarily due to increases in compensation, recruiting, employee benefits, materials and consulting costs associated with internal research and development projects in our home robots division and expenses related to our healthcare research. The increase in our home robots division is primarily the result of our increased efforts in the areas of product development and advanced development relating to our consumer products.

In addition to our research and development activities classified as research and development expense, we incur research and development expenses under funded development arrangements with governments and industrial third parties. For fiscal 2010, these expenses amounted to \$27.1 million, compared to \$30.8 million for fiscal 2009. In accordance with generally accepted accounting principles, these expenses have been classified as cost of contract revenue rather than research and development expense. The combined investment in future technologies, classified as cost of revenue and research and development expense, was \$51.9 million for fiscal 2010, compared to \$45.5 million for fiscal 2009.

Selling and Marketing

	Fiscal Year Ended		Dollar Change (In thousands)	Percent Change
	January 1, 2011	January 2, 2010		
Total selling and marketing	\$ 50,535	\$ 40,902	\$ 9,633	23.6%
As a percentage of total revenue	12.6%	13.7%		

Selling and marketing expenses increased by \$9.6 million, or 23.6%, to \$50.5 million (12.6% of revenue) in fiscal 2010 from \$40.9 million (13.7% of revenue) in fiscal 2009. This was driven by an increase in our home robots division of \$7.9 million attributable to increases in advertising, promotions, on-line media, sales commission expenses as a result of higher sales, and an increase in compensation and employee-related expense supporting our international home robot sales for fiscal 2010 as compared to fiscal 2009. Selling and marketing expenses in our government and industrial division increased by \$1.7 million attributable to an increase in compensation expenses and other expenses relating to bid and proposal activities, and sales commissions as a result of higher sales in fiscal 2010 as compared to fiscal 2009.

In fiscal 2011, we expect to continue to invest in sales and marketing to increase brand awareness. Accordingly, we anticipate selling and marketing expenses will increase in absolute dollars but remain at the same level or slightly above fiscal 2010 as a percentage of revenue.

General and Administrative

	Fiscal Year Ended		Dollar Change (In thousands)	Percent Change
	January 1, 2011	January 2, 2010		
General and administrative	\$ 36,618	\$ 30,110	\$ 6,508	21.6%
As a percentage of total revenue	9.1%	10.1%		

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General and administrative expenses increased by \$6.5 million, or 21.6%, to \$36.6 million (9.1% of revenue) in fiscal 2010 from \$30.1 million (10.1% of revenue) in fiscal 2009. This increase is attributable to increased compensation, benefit and recruiting expenses related to increased headcount and an increase in incentive compensation expense, stock-based compensation, and an increase in legal expense, primarily attributable to our international expansion and intellectual property prosecution and enforcement, for fiscal 2010 as compared to fiscal 2009.

Other Income (Expense), Net

	Fiscal Year Ended		Dollar Change (In thousands)	Percent Change
	January 1, 2011	January 2, 2010		
Other Income (expense), net	\$ 504	\$ (81)	\$ 585	Not Meaningful
As a percentage of total revenue	0.1%	0.0%		

Other income (expense), net amounted to \$0.5 million in fiscal 2010 compared to \$(0.1) million in fiscal 2009. Other income (expense), net, for fiscal 2010 was related to interest income of \$0.8 million offset by foreign currency exchange losses of \$0.3 million resulting from foreign currency exchange rate fluctuations. Other income (expense), net, for fiscal 2009 was directly related to foreign currency exchange losses resulting from foreign currency exchange rate fluctuations.

Income Tax Provision

	Fiscal Year Ended		Dollar Change (In thousands)	Percent Change
	January 1, 2011	January 2, 2010		
Income tax provision	\$ 8,460	\$ 2,026	\$ 6,434	Not Meaningful
As a percentage of total revenue	2.1%	0.7%		

In fiscal 2010, we recorded a \$8.5 million tax provision based on an effective income tax rate of 24.9%. The provision for income taxes for fiscal 2010 consists of \$10.2 million of federal taxes, \$0.1 million of foreign taxes and \$(1.8) million of state taxes, which includes the \$2.3 million associated with the full release of our valuation allowance relating to state deferred tax assets.

In fiscal 2009, we recorded a \$2.0 million tax provision based on an effective income tax rate of 38%. The provision for income taxes for fiscal 2009 consists of \$1.6 million of federal taxes and \$0.4 million of state taxes. Included in the 2009 provision is a \$0.2 million provision associated with an out-of-period error correction with respect to the earnings of our India subsidiary and a \$0.3 million one-time benefit from the conversion of incentive stock options to non-qualified stock options as a result of our stock option exchange program which concluded in our second fiscal quarter of 2009.

Liquidity and Capital Resources

At December 31, 2011, our principal sources of liquidity were cash and cash equivalents totaling \$166.3 million, short-term investments of \$17.8 million and accounts receivable of \$43.3 million.

We manufacture and distribute our products through contract manufacturers and third-party logistics providers. We believe that this approach gives us the advantages of relatively low capital investment and significant flexibility in scheduling production and managing inventory levels. By leasing our office facilities, we also minimize the cash needed for expansion. Accordingly, our capital spending is generally limited to leasehold improvements, computers, office furniture, product-specific production tooling, internal use software and test equipment. In the fiscal years ended December 31, 2011 and January 1, 2011, we spent \$13.0 million and \$12.6 million, respectively, on capital equipment.

Our strategy for delivering home robots products to our distributors and retail customers gives us the flexibility to provide container shipments directly to the retailer from China and, alternatively, allows our

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distributors and retail partners to take possession of product on a domestic basis. Accordingly, our home robots product inventory consists of goods shipped to our third-party logistics providers for the fulfillment of distributor, retail and direct-to-consumer sales. Our inventory of government and industrial products is relatively low as they are generally built to order. Our contract manufacturers are responsible for purchasing and stocking the majority of components required for the production of our products, and they typically invoice us when the finished goods are shipped.

The balance of cash and short-term investments of \$184.1 million at December 31, 2011 is primarily the result of improving profitability and our on-going focus on managing working capital. As of December 31, 2011, we did not have any borrowings outstanding under our working capital line of credit and had \$1.7 million in letters of credit outstanding under our revolving letter of credit facility.

Discussion of Cash Flows

Net cash provided by operating activities for the fiscal year ended December 31, 2011 was \$55.7 million, an increase of \$6.5 million compared to the \$49.2 million of net cash provided by operating activities for the fiscal year ended January 1, 2011. The increase in net cash provided by operating activities was primarily driven by the following factors:

An increase in cash of \$14.7 million resulting from net income of \$40.2 million in 2011 versus net income of \$25.5 million in 2010;

An increase in cash of \$3.2 million resulting from non-cash depreciation and amortization of \$10.3 million and losses on the disposition of fixed assets of \$0.6 million in 2011 versus non-cash depreciation and amortization of \$7.5 million and losses on the disposition of fixed assets of \$0.2 million in 2010. The losses on disposition of fixed assets in 2011 primarily relate to four robots sent to Japan to explore reactor buildings at the Fukushima Daiichi nuclear plant;

A decrease in cash of \$6.6 million resulting from an increase in accounts receivable (including unbilled revenue) of \$7.6 million in 2011 versus an increase of \$1.0 million in 2010, primarily due to growth in revenue;

A decrease in cash of \$9.2 million resulting from an increase in inventory of \$3.9 million in 2011 versus a decrease of \$5.3 million in 2010, primarily due to increased inventory requirements to support growth in our home robots division revenue and expansion of the home robots product line;

A decrease in cash of \$4.3 million (offset as an increase in cash from financing activities) resulting from an increase in the tax benefit associated with excess stock-based compensation deductions of \$6.9 million in 2011 versus an increase of \$2.6 million in 2010 primarily due to an increasing number of stock options exercised in 2011;

An increase in cash of \$1.6 million resulting from an increase in accounts payable of \$9.7 million in 2011 versus an increase of \$8.1 million in 2010, primarily due to the timing of purchases and payments to suppliers;

A decrease in cash of \$4.2 million resulting from an increase in accrued compensation of \$0.1 million in 2011 versus an increase of \$4.3 million in 2010, primarily due to the impact of improving profitability on the incentive compensation expense in 2010 and related payment in 2011; and

An increase in cash of \$11.1 million resulting from a decrease in deferred tax assets of \$6.1 million in 2011 compared to an increase of \$5.0 million in 2010, primarily due to the estimated net utilization of deferred tax assets in 2011 and the impact of the release of a valuation allowance on state deferred tax assets in 2010.

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Net cash used in investing activities for the fiscal year ended December 31, 2011 was \$17.2 million, representing a decrease of \$4.4 million compared to the \$21.6 million of net cash used in investing activities for the fiscal year ended January 1, 2011. This decrease in net cash used in investing activities was primarily driven by the following:

Purchase of investments, net of the proceeds from the sale of investments, of \$4.2 million in 2011, compared to the purchase of investments, net of the proceeds from the sale of investments, of \$9.0 million in 2010; and

The purchase of property and equipment of \$13.0 million in 2011, compared to \$12.6 million in 2010, primarily due to an increase in self-constructed and demonstration assets, an increase in leasehold improvements associated with expansion of the office space at our headquarters facility, and the upgrade of our ERP system in 2011.

Net cash provided by financing activities for the fiscal year ended December 31, 2011 was \$19.4 million, an increase of \$10.5 million compared to the \$8.9 million of net cash provided by financing activities for the fiscal year ended January 1, 2011. The increase is due primarily to an increase in proceeds from stock option exercises of \$6.8 million and an increase in the tax benefit associated with excess stock-based compensation deductions of \$4.3 million.

Working Capital Facilities

Credit Facility

We have an unsecured revolving credit facility with Bank of America, N.A., which is available to fund working capital and other corporate purposes. As of December 31, 2011, the total amount available for borrowing under our credit facility was \$75.0 million and the full amount was available for borrowing. The interest on loans under our credit facility accrues at a rate between LIBOR plus 1% and LIBOR plus 1.5%, based on our ratio of indebtedness to Adjusted EBITDA, and the credit facility termination date is June 30, 2014.

As of December 31, 2011, we had no outstanding borrowings 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 consolidated net worth, a minimum ratio of indebtedness to Adjusted EBITDA, and a minimum specified interest coverage ratio.

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

As of December 31, 2011, we were in compliance with all covenants under the revolving credit facility.

Letter of Credit Facility

On January 4, 2011, we entered into a revolving letter of credit facility with Bank of America, N.A. The credit facility is available to fund letters of credit on our behalf up to an aggregate outstanding amount of \$5 million. We may terminate at any time, subject to proper notice, or from time to time permanently reduce the amount of the credit facility.

We pay a fee on outstanding letters of credit issued under the credit facility at a rate between LIBOR plus 1% and LIBOR plus 1.5% per annum, based on our ratio of indebtedness to Adjusted EBITDA. In addition, we pay a fee equal to 0.25% per annum of the actual daily amount by which the credit facility exceeds the aggregate undrawn amount of all outstanding letters of credit under the credit facility plus the aggregate of all

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unreimbursed drawings under all letters of credit under the credit facility. The maturity date for letters of credit issued under the credit facility must be no later than seven days prior to June 30, 2014.

As of December 31, 2011, we had letters of credit outstanding of \$1.7 million under our revolving letter of credit facility. The 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, its 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 consolidated net worth, a minimum ratio of indebtedness to Adjusted EBITDA and a minimum specified ratio of EBIT to interest expense.

The credit facility also 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, the lender may accelerate the obligations under the credit facility.

As of December 31, 2011, we were in compliance with all covenants under the revolving letter of credit 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 working capital, funds provided by operating activities and our existing working capital line of credit. 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. As part of our business strategy, we may consider additional acquisitions of companies, technologies and products, 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 December 31, 2011:

	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	\$ 3,030	\$ 5,062	\$ 5,010	\$ 8,187	\$ 21,289
Minimum contractual payments	794	4,194			4,988
Other obligations	123				123
Total	\$ 3,947	\$ 9,256	\$ 5,010	\$ 8,187	\$ 26,400

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Our minimum contractual payments consist of payments to our provider of direct fulfillment services for direct to consumer sales of our home robots and a key component supplier for our home robots, which payments are incurred in the ordinary course of business. Based on an analysis of actual fees for 2011 there was a shortfall between our actual transaction fees and our contractual minimum fees for services. Expense accruals for the amount of this shortfall have been recorded to selling and marketing expenses in fiscal 2011. Other obligations consist of software license and services agreement for our home robots division customer service web support.

Off-Balance Sheet Arrangements

As of December 31, 2011, we had no off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

Recently Issued Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued amended guidance on fair value measurement and related disclosures. The new guidance clarifies the concepts applicable for fair value measurement of non-financial assets and requires the disclosure of quantitative information about the unobservable inputs used in a fair value measurement. This guidance will be effective for reporting periods beginning after December 15, 2011, and will be applied prospectively. We do not anticipate a material impact on our consolidated financial statements as a result of the adoption of this amended guidance.

In June 2011, the FASB amended its accounting guidance on the presentation of other comprehensive income (OCI) in an entity's financial statements. The amended guidance eliminates the option to present the components of OCI as part of the statement of changes in shareholders equity and provides two options for presenting OCI: in a statement included in the income statement or in a separate statement immediately following the income statement. The amendments do not change the guidance for the items that have to be reported in OCI or when an item of OCI has to be moved into net income. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We do not anticipate that our adoption of this guidance will have a material impact on our consolidated results.

In September 2011, the FASB issued updated guidance on the periodic testing of goodwill for impairment. The updated guidance gives companies the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The amendment is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The updated accounting guidance is effective for fiscal years beginning after December 15, 2011, with early adoption permitted. We elected to adopt the updated guidance in 2011. The adoption of this guidance did not impact our consolidated financial statements.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Risk

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

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Interest Rate Sensitivity

At December 31, 2011, we had unrestricted cash and cash equivalents of \$166.3 million and short term investments of \$17.8 million. The unrestricted cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. Some of the securities in which we invest, however, may be subject to market risk. This means that a change in prevailing interest rates may cause the fair market value of the investment to fluctuate. To minimize this risk in the future, we intend to maintain our portfolio of cash equivalents in a variety of securities, commercial paper, money market funds, debt securities and certificates of deposit. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. As of December 31, 2011, all of our cash and cash equivalents were held in demand deposits and money market accounts.

Our exposure to market risk also relates to the increase or decrease in the amount of interest expense we must pay on any outstanding debt instruments, primarily certain borrowings under our working capital line of credit. The advances under the working capital line of credit bear a variable rate of interest determined as a function of the LIBOR rate at the time of the borrowing. At December 31, 2011, we had letters of credit outstanding of \$1.7 million under our revolving letter of credit facility.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

iROBOT CORPORATION

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

iRobot Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of iRobot Corporation and its subsidiaries at December 31, 2011 and January 1, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts

February 17, 2012

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iROBOT CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31, 2011	January 1, 2011
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 166,308	\$ 108,383
Short term investments	17,811	13,928
Accounts receivable, net of allowance of \$87 and \$88 at December 31, 2011 and January 1, 2011, respectively	43,338	34,056
Unbilled revenue	2,362	4,012
Inventory	31,089	27,160
Deferred tax assets	15,344	12,917
Other current assets	7,928	6,137
Total current assets	284,180	206,593
Property and equipment, net	29,029	25,620
Deferred tax assets	6,127	8,338
Other assets	12,877	13,780
Total assets	\$ 332,213	\$ 254,331
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 48,406	\$ 38,689
Accrued expenses	17,188	15,790
Accrued compensation	17,879	17,827
Deferred revenue and customer advances	1,527	3,534
Total current liabilities	85,000	75,840
Long term liabilities	4,255	3,584
Commitments and contingencies (Note 11):		
Redeemable convertible preferred stock, 5,000,000 shares authorized and no shares issued or outstanding		
Common stock, \$0.01 par value, 100,000,000 and 100,000,000 shares authorized and 27,216,555 and 25,844,840 shares issued and outstanding at December 31, 2011 and January 1, 2011, respectively	272	258
Additional paid-in capital	184,395	156,620
Retained earnings	58,140	17,949
Accumulated other comprehensive income	151	80
Total stockholders equity	242,958	174,907
Total liabilities, redeemable convertible preferred stock and stockholders equity	\$ 332,213	\$ 254,331

See accompanying Notes to Consolidated Financial Statements

Table of Contents**iROBOT CORPORATION****CONSOLIDATED STATEMENTS OF INCOME**

	Fiscal Year Ended		
	December 31, 2011	January 1, 2011	January 2, 2010
	(In thousands, except per share amounts)		
Revenue:			
Product revenue	\$ 426,525	\$ 360,394	\$ 262,199
Contract revenue	38,975	40,558	36,418
Total revenue	465,500	400,952	298,617
Cost of revenue:			
Cost of product revenue(1)	246,905	228,403	176,631
Cost of contract revenue(1)	26,477	27,117	30,790
Total cost of revenue	273,382	255,520	207,421
Gross margin	192,118	145,432	91,196
Operating expenses:			
Research and development(1)	36,498	24,809	14,747
Selling and marketing(1)	58,544	50,535	40,902
General and administrative(1)	43,753	36,618	30,110
Total operating expenses	138,795	111,962	85,759
Operating income	53,323	33,470	5,437
Other income (expense), net	218	504	(81)
Income before income taxes	53,541	33,974	5,356
Income tax expense	13,350	8,460	2,026
Net income	\$ 40,191	\$ 25,514	\$ 3,330
Net income per share			
Basic	\$ 1.50	\$ 1.00	\$ 0.13
Diluted	\$ 1.44	\$ 0.96	\$ 0.13
Number of shares used in per share calculations			
Basic	26,712	25,394	24,998
Diluted	27,924	26,468	25,640

(1) Stock-based compensation recorded in fiscal 2011, 2010 and 2009 breaks down by expense classification as follows:

CONSOLIDATED STATEMENTS OF INCOME**Fiscal Year Ended**

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	December 31, 2011	January 1, 2011 (In thousands)	January 2, 2010
Cost of product revenue	\$ 1,197	\$ 1,311	\$ 1,127
Cost of contract revenue	478	446	575
Research and development	743	725	351
Selling and marketing	724	1,161	1,410
General and administrative	5,642	4,522	4,099

See accompanying Notes to Consolidated Financial Statements

Table of Contents**iROBOT CORPORATION****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	Common Stock		Additional Paid-In Capital	Deferred Compensation	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Stockholders' Equity	Comprehensive Income
	Shares	Value						
Balance at December 27, 2008	24,810,736	\$ 248	\$ 130,637	\$ (314)	\$ (10,895)	\$	\$ 119,676	
Issuance of common stock for exercise of stock options	243,791	3	735				738	
Vesting of restricted stock units	42,829							
Tax benefit of excess stock based compensation deduction								