

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED March 29, 2008

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 000-51598

iROBOT CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

77-0259 335
(I.R.S. Employer
Identification No.)

8 Crosby Drive
Bedford, MA 01730
(Address of principal executive offices)
(Zip code)

(781) 430-3000
(Registrant's telephone number, including area code)

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

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

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

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

The number of shares outstanding of the Registrant's Common Stock as of April 25, 2008 was 24,577,069.

iROBOT CORPORATION
FORM 10-Q
THREE MONTHS ENDED MARCH 29, 2008
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The accompanying notes are an integral part of the consolidated financial statements.

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

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

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

iROBOT CORPORATION

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

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

(1) Total stock-based compensation recorded in the three months ended March 29, 2008 and March 31, 2007 included in the above figures breaks down by expense classification as follows:

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

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

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

	Three Months Ended	
	March 29, 2008	March 31, 2007
Cash flows from operating activities:		
Net loss	\$ (4,005)	\$ (5,501)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,566	1,206
Loss on disposal of fixed assets	45	35
Stock-based compensation	938	657
Non-cash director deferred compensation	24	28
Changes in working capital — (use) source		
Accounts receivable	25,758	12,273
Unbilled revenue	(365)	418
Inventory	(994)	4,691
Other assets	(4,069)	1,030
Accounts payable	(16,731)	(9,870)
Accrued expenses	(2,061)	(1,907)
Accrued compensation	521	(682)
Deferred revenue	(448)	69
Net cash provided by operating activities	<u>179</u>	<u>2,447</u>
Cash flows from investing activities:		
Purchase of property and equipment	(3,937)	(1,798)
Purchases of investments	(29,997)	(15,400)
Sales of investments	29,050	19,800
Net cash provided by (used in) investing activities	<u>(4,884)</u>	<u>2,602</u>
Cash flows from financing activities:		
Income tax withholding payment associated with stock option exercise	—	(1,588)
Proceeds from stock option exercises	570	353
Tax benefit of disqualifying dispositions	261	—
Net cash provided by (used in) financing activities	<u>831</u>	<u>(1,235)</u>
Net increase (decrease) in cash and cash equivalents	(3,874)	3,814
Cash and cash equivalents, at beginning of period	26,735	5,583
Cash and cash equivalents, at end of period	<u>\$ 22,861</u>	<u>\$ 9,397</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 40	\$ —
Cash paid for income taxes	24	98

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

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

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

iROBOT CORPORATION

Notes To Consolidated Financial Statements (unaudited)

1. Description of Business

iRobot Corporation (“iRobot” or the “Company”) was incorporated in 1990 to develop robotics and artificial intelligence technologies and apply these technologies in producing and marketing robots. The majority of the Company’s revenue is generated from product sales and government and industrial research and development contracts.

The Company is subject to risks common to companies in high-tech industries including, but not limited to, uncertainty of progress in developing technologies, new technological innovations, dependence on key personnel, protection of proprietary technology, compliance with government regulations and uncertainty of market acceptance of products.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include those of iRobot and its subsidiaries, after elimination of all intercompany accounts and transactions. iRobot has prepared the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States.

The accompanying financial data as of March 29, 2008 and for the three months ended March 29, 2008 and March 31, 2007 has been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and the notes thereto included in its Annual Report on Form 10-K for the fiscal year ended December 29, 2007, filed with the SEC on February 25, 2008.

In the opinion of management, all adjustments necessary to present a fair statement of financial position as of March 29, 2008 and results of operations and cash flows for the periods ended March 29, 2008 and March 31, 2007 have been made. The results of operations and cash flows for any interim period are not necessarily indicative of the operating results and cash flows for the full fiscal year or any future periods.

Use of Estimates

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates these estimates and judgments, including those related to revenue recognition, sales returns, bad debts, warranty claims, inventory reserves, valuation of investments, assumptions used in valuing stock-based compensation instruments and income taxes. The Company bases these estimates on historical and anticipated results, and trends and on various other assumptions that the Company believes are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from the Company’s estimates.

Fiscal Year-End

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

Revenue Recognition

The Company derives its revenue from product sales, government research and development contracts, and commercial research and development contracts. The Company sells products directly to customers and indirectly through resellers and distributors. The Company recognizes revenue from sales of home robots under the terms of the customer agreement upon transfer of title to the customer, net of estimated returns, provided that collection is determined to be probable and no significant obligations remain. Sales to resellers are subject to agreements allowing for limited rights of return for defective products only, rebates and price protection. The Company has typically not taken product returns except for defective products. Accordingly, the Company reduces revenue for its estimates of liabilities for these rights at the time the related sale is recorded. The Company makes an estimate of sales returns for products sold by resellers directly or through its distributors based on historical returns experience and other relevant data. The Company has aggregated and analyzed historical returns from resellers and end users which form the basis of its estimate of future sales returns by resellers or end users. In accordance with Statement of Financial Accounting Standards No. 48, *Revenue Recognition When Right of Return Exists*, the provision for these estimated returns is recorded as a reduction of revenue at the time that the related revenue is recorded. If actual returns differ significantly from its estimates, such differences could have a material impact on the Company's results of operations for the period in which the returns become known. The estimates for returns are adjusted periodically based upon historical rates of returns. The estimates and reserve for rebates and price protection are based on specific programs, expected usage and historical experience. Actual results could differ from these estimates.

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

Accounting for Share-Based Payments

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

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Net Income Per Share

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

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

Income Taxes

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

In fiscal 2007, the Company completed an analysis of historical and projected future profitability which resulted in the full release of the valuation allowance relating to federal deferred tax assets. The Company continues to maintain a valuation allowance against state deferred tax assets due to less certainty of their realizability given the shorter expiration period associated with them and the generation of state tax credits in excess of the state tax liability. At March 29, 2008, the Company has total deferred tax assets of \$12.8 million and a valuation allowance of \$2.6 million resulting in a net deferred tax asset of \$10.2 million.

Comprehensive Loss

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

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

Fair Value Measurements

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

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

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

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

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

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

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

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

Recent Accounting Pronouncements

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

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

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

In December 2007, FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ("SFAS 141R") and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51* ("SFAS 160"). SFAS 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. The provisions of SFAS 141R and SFAS 160 are effective for fiscal years beginning on or after December 15, 2008. The Company is currently evaluating the potential impact of adoption of SFAS 141R and SFAS 160 and has not yet determined the impact, if any, that their adoption will have on its results of operations or financial condition.

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

3. Inventory

Inventory consists of the following at:

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

4. Stock Option Plans

The Company has options outstanding under four stock incentive plans: the 1994 Stock Option Plan (the "1994 Plan"), the 2001 Special Stock Option Plan (the "2001 Plan"), the 2004 Stock Option and Incentive Plan (the "2004 Plan") and the 2005 Stock Option and Incentive Plan (the "2005 Plan" and together with the 1994 Plan, the 2001 Plan and the 2004 Plan, the "Plans"). The 2005 Plan is the only one of the four plans under which new awards may currently be granted. Under the 2005 Plan, which became effective October 10, 2005, 1,583,682 shares were initially reserved for issuance in the form of incentive stock options, non-qualified stock options, stock appreciation rights, deferred stock awards and restricted stock awards. Additionally, the 2005 Plan provides that the number of shares reserved and available for issuance under the plan will automatically increase each January 1, beginning in 2007, by 4.5% of the outstanding number of shares of common stock on the immediately preceding December 31. Stock options returned to the Plans as a result of their expiration, cancellation or termination are automatically made available for issuance under the 2005 Plan. Eligibility for incentive stock options is limited to those individuals whose employment status would qualify them for the tax treatment associated with incentive stock options in accordance with the Internal Revenue Code. As of March 29, 2008, there were 2,026,805 shares available for future grant under the 2005 Plan.

Options granted under the Plans are subject to terms and conditions as determined by the compensation committee of the board of directors, including vesting periods. Options granted under the Plans are exercisable in full at any time subsequent to vesting, generally vest over periods from 0 to 5 years, and expire 7 or 10 years from the date of grant or, if earlier, 60 or 90 days from employee termination. The exercise price of incentive stock options is equal to the closing price on the NASDAQ Global Market on the date of grant. The exercise price of nonstatutory options may be set at a price other than the fair market value of the common stock.

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5. Accrued Expenses

Accrued expenses consist of the following at:

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

6. Commitments and Contingencies

Lease Obligations

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

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

Sales Taxes

The Company collects and remits sales tax in jurisdictions in which it has a physical presence or it believes a nexus exists, which therefore obligates the Company to collect and remit sales tax. The Company is not currently aware of any asserted claims for sales tax liabilities for prior taxable periods. The Company is currently being audited by one state but does not believe this is likely to result in any material liability.

The Company has conducted an evaluation of whether it has established a nexus in various jurisdictions with respect to sales tax. As a result of this evaluation, the Company recorded a liability for potential exposure in one state. In an effort to mitigate its potential liability, the Company intends to approach this state pursuant to voluntary disclosure arrangements. The Company continues to analyze possible sales tax exposure, but does not currently believe that any individual claim or aggregate claims that might arise will ultimately have a material effect on its consolidated results of operations, financial position or cash flows.

Guarantees and Indemnification Obligations

The Company enters into standard indemnification agreements in the ordinary course of business. Pursuant to these agreements, the Company indemnifies and agrees to reimburse the indemnified party for losses incurred by the indemnified party, generally the Company's customers, in connection with any patent, copyright, trade secret or other proprietary right infringement claim by any third party with respect to the Company's products. The term of these indemnification agreements is generally perpetual any time after execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification

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agreements is unlimited. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of March 29, 2008 and December 29, 2007, respectively.

Warranty

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

Activity related to the warranty accrual was as follows:

	Three Months Ended	
	March 29, 2008	March 31, 2007
	(In thousands)	
Balance at beginning of period	\$ 2,491	\$ 2,462
Provision	1,541	1,984
Warranty usage(*)	(1,508)	(1,949)
Balance at end of period	<u>\$ 2,524</u>	<u>\$ 2,497</u>

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

7. Industry Segment, Geographic Information and Significant Customers

The Company operates in two reportable segments, the home robots division and government and industrial division.

The nature of products and types of customers for the two segments vary significantly. As such, the segments are managed separately.

Home Robots

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

Government and Industrial

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

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

	Three Months Ended	
	March 29, 2008	March 31, 2007
(In thousands)		
Revenue:		
Home Robots	\$ 30,148	\$ 19,441
Government & Industrial	27,154	20,046
Total revenue	<u>57,302</u>	<u>39,487</u>
Cost of revenue:		
Home Robots	22,079	13,564
Government & Industrial	19,863	14,806
Total cost of revenue	<u>41,942</u>	<u>28,370</u>
Gross profit:		
Home Robots	8,069	5,877
Government & Industrial	7,291	5,240
Total gross profit	<u>15,360</u>	<u>11,117</u>
Research and development		
Other	3,973	4,156
Selling and marketing		
Other	11,458	8,049
General and administrative		
Other	6,778	5,327
Other income, net		
Other	495	931
Loss before income taxes		
Other	<u>\$ (6,354)</u>	<u>\$ (5,484)</u>

Geographic Information

For the three months ended March 29, 2008 and March 31, 2007, sales to non-U.S. customers accounted for 19.6% and 6.1% of total revenue, respectively.

Significant Customers

For the three months ended March 29, 2008 and March 31, 2007, U.S. federal government orders, contracts and subcontracts accounted for 43.7% and 46.5% of total revenue, respectively.

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

The following discussion of the financial condition and results of operations of iRobot Corporation should be read in conjunction with the consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the audited financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 29, 2007, which has been filed with the Securities and Exchange Commission (the "SEC"). This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, and are subject to the "safe harbor" created by those sections. In particular, statements contained in this Quarterly Report on Form 10-Q, and in the documents incorporated by reference into this Quarterly Report on Form 10-Q, that are not historical facts, including, but not limited to statements concerning new product sales, product development and offerings, Roomba, Scooba, Looj, Verro and ConnectR products, PackBot tactical military robots, our home robot and government and industrial robots divisions, our competition, our strategy, our market position, market acceptance of our products, seasonal factors, revenue recognition, our profits, growth of our revenues, composition of our revenues, our cost of revenues, operating expenses, selling and marketing expenses, general and administrative expenses, research and development expenses, and compensation costs, our projected income tax rate, our ability to attract and retain qualified personnel, our credit facility and equipment facility, our valuations of investments, valuation and composition of our stock-based awards, SFAS 123(R), and liquidity, constitute forward-looking statements and are made under these safe harbor provisions. Some of the forward-looking statements can be identified by the use of forward-looking terms such as "believes," "expects," "may," "will," "should," "could," "seek," "intends," "plans," "estimates," "anticipates," or other comparable terms. Forward-looking statements involve inherent risks and uncertainties which could cause actual results to differ materially from those in the forward-looking statements, including those risks and uncertainties described in our Annual Report on Form 10-K for the year ended December 29, 2007, as well as elsewhere in this report. We urge you to consider the risks and uncertainties discussed in our Annual Report on Form 10-K and in Item 1A contained herein in evaluating our forward-looking statements. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made.

Overview

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

As of March 29, 2008, we had 452 full-time employees. We have developed expertise in most disciplines necessary to build durable, high-performance and cost-effective robots through the close integration of software, electronics and hardware. Our core technologies serve as reusable building blocks that we adapt and expand to develop next generation and new products, 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 military products, our continued success depends upon our ability to respond to a number of future challenges. We believe the most significant of these challenges include increasing competition in the markets for both our consumer and military products, our ability to obtain U.S. federal government funding for research and development programs, and our ability to successfully develop and introduce products and product enhancements.

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Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates and judgments, in particular those related to revenue recognition; valuation allowances (specifically sales returns and other allowances); assumptions used in valuing stock-based compensation instruments; evaluating loss contingencies; and valuation allowances for deferred tax assets. Actual amounts could differ significantly from these estimates. Our management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the amounts of revenue and expenses that are not readily apparent from other sources. Additional information about these critical accounting policies may be found in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2007.

Overview of Results of Operations

The following table sets forth our results of operations as a percentage of revenue for the three month periods ended March 29, 2008 and March 31, 2007:

	Three Months Ended	
	March 29, 2008	March 31, 2007
Revenue		
Product revenue	88.3%	86.4%
Contract revenue	11.7	13.6
Total revenue	100.0	100.0
Cost of Revenue		
Cost of product revenue	63.2	59.5
Cost of contract revenue	10.0	12.3
Total cost of revenue	73.2	71.8
Gross profit	26.8	28.2
Operating Expenses		
Research and development	6.9	10.5
Selling and marketing	20.0	20.4
General and administrative	11.9	13.5
Total operating expenses	38.8	44.4
Operating loss	(12.0)	(16.2)
Other income, net	0.9	2.3
Loss before income taxes	(11.1)	(13.9)
Income tax expense (benefit)	(4.1)	0.0
Net loss	(7.0)%	(13.9)%

[Table of Contents](#)**Comparison of Three Months Ended March 29, 2008 and March 31, 2007***Revenue*

	Three Months Ended			Percent Change
	March 29, 2008	March 31, 2007 (Dollars in thousands)	Dollar Change	
Total revenue	\$57,302	\$39,487	\$17,815	45.1%

Total revenue for the three months ended March 29, 2008 increased to \$57.3 million, or 45.1%, compared to \$39.5 million for the three months ended March 31, 2007. Revenue increased approximately \$10.7 million, or 55.1%, in our home robots business and increased approximately \$7.1 million, or 35.5%, in our government and industrial business.

The \$10.7 million increase in revenue from our home robots division for the three months ended March 29, 2008 was driven by a \$9.2 million increase in home floor care robots revenue due to a 31.9% increase in units shipped and a 16.1% increase in average selling prices, and a \$1.4 million increase in product life cycle revenue (spares and accessories), as compared to the three months ended March 31, 2007. Total home floor care robots shipped in the three months ended March 29, 2008 were approximately 169,000 units compared to approximately 129,000 units in the three months ended March 31, 2007. The \$7.1 million increase in revenue from our government and industrial business for the three months ended March 29, 2008 as compared to three months ended March 31, 2007 was due to a \$5.6 million increase in product sales of our military robots driven by a 60.8% increase in units shipped, 156 units compared to 97 units, partially offset by an 8.0% decrease in associated net average selling prices related to product mix primarily attributable to expansion of our military product line into lower priced models. In addition, there was an increase of \$1.3 million in recurring contract development revenue generated under funded research and development contracts.

Cost of Revenue

	Three Months Ended			Percent Change
	March 29, 2008	March 31, 2007 (Dollars in thousands)	Dollar Change	
Total cost of revenue	\$41,942	\$28,370	\$13,572	47.8%
As a percentage of total revenue	73.2%	71.8%		

Total cost of revenue increased to \$41.9 million in the three months ended March 29, 2008, compared to \$28.4 million in the three months ended March 31, 2007. The increase is primarily due to higher costs associated with the 31.9% increase in home robot unit sales and 60.8% increase in government and industrial unit sales.

The home robots division cost of revenue increased as a percent of revenue by 3.5 percentage points in the three months ended March 29, 2008 as compared to the three months ended March 31, 2007. This increase was primarily attributable to shipments to Linens 'N Things for which we recorded costs, but did not recognize revenue due to collectability concerns given their financial condition and recent bankruptcy filing.

The government and industrial robots division cost of revenue decreased as a percent of revenue by 0.7 percentage points in the three months ended March 29, 2008 as compared to the three months ended March 31, 2007. This was due to a 16.2% decrease in average unit costs related to product mix primarily attributable to expansion of our military product line into lower priced models in our government and industrial division.

Gross Profit

	Three Months Ended			Percent Change
	March 29, 2008	March 31, 2007 (Dollar in thousands)	Dollar Change	
Total gross profit	\$15,360	\$11,117	\$4,243	38.2%
As a percentage of total revenue	26.8%	28.2%		

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Gross profit increased \$4.2 million, or 38.2%, to \$15.4 million (26.8% of revenue) in the three months ended March 29, 2008, from \$11.1 million (28.2% of revenue) in the three months ended March 31, 2007. The decrease in gross profit as a percentage of revenue in the three months ended March 29, 2008 compared to the three months ended March 31, 2007 was the result of the home robots division gross profit decreasing 3.5 percentage points, partially offset by the government and industrial division increasing 0.7 percentage points. The 3.5 percentage point decrease in the home robots division is primarily attributable to shipments to Linens 'N Things for which we recorded costs but did not recognize revenue due to collectability concerns given their financial condition and recent bankruptcy filing. The government and industrial increase was primarily the result of overhead leverage.

Research and Development

	Three Months Ended			Percent Change
	March 29, 2008	March 31, 2007	Dollar Change	
Total research and development expense	\$3,973	\$4,156	\$(183)	(4.4%)
As a percentage of total revenue	6.9%	10.5%		

Research and development expenses decreased by \$0.2 million, or 4.4%, to \$4.0 million (6.9% of revenue) in the three months ended March 29, 2008, from \$4.2 million (10.5% of revenue) for the three months ended March 31, 2007. The decrease in research and development expenses is primarily due to a decrease in material costs associated with internal research and development projects.

Given the seasonality of our business and the impact on quarterly revenues, research and development expenses are expected to fluctuate as a percent of revenue throughout the year.

Overall research and development headcount decreased to 104 at March 29, 2008 compared to 107 as of March 31, 2007, a decrease of 3 employees or 3%.

In addition to our internal research and development activities discussed above, we incur research and development expenses under funded development arrangements with both governments and industrial third parties. For the three months ended March 29, 2008, these expenses amounted to \$5.7 million compared to \$4.9 million for the three months ended March 31, 2007. In accordance with accounting principles generally accepted in the United States, these expenses have been classified as cost of revenue rather than research and development expense. Headcount for research and development under funded development arrangements increased to 65 at March 29, 2008 compared to 60 at March 31, 2007, an increase of 5 employees or 8%.

Selling and Marketing

	Three Months Ended			Percent Change
	March 29, 2008	March 31, 2007	Dollar Change	
Total selling and marketing expense	\$11,458	\$8,049	\$3,409	42.4%
As a percentage of total revenue	20.0%	20.4%		

Selling and marketing expenses increased by \$3.4 million, or 42.4%, to \$11.5 million (20.0% of revenue) in the three months ended March 29, 2008 from \$8.0 million (20.4% of revenue) in the three months ended March 31, 2007. The increase was primarily driven by increases of \$1.8 million in television, online and print media and \$1.0 million in direct fulfillment related expenses due primarily to a 50.7% growth in our direct business. Our direct business, which carries a higher selling and marketing cost per revenue dollar than retail sales, accounted for 26.1% of our home robots division revenue in the three months ended March 29, 2008 compared to 26.8% in the three months ended March 31, 2007. Marketing consulting and research increased by \$0.6 million as compared to the three months ended March 31, 2007.

Overall selling and marketing headcount increased to 36 at March 29, 2008 compared to 29 as of March 31, 2007, an increase of 7 employees or 24.1% growth, primarily due to headcount growth in our overseas territories.

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	Three Months Ended			Percent Change
	March 29, 2008	March 31, 2007	Dollar Change	
Total general and administrative expense	\$6,778	\$5,327	\$1,451	27.2%
As a percentage of total revenue	11.9%	13.5%		

General and administrative expenses increased by \$1.5 million, or 27.2%, to \$6.8 million (11.8% of revenue) in the three months ended March 29, 2008 from \$5.3 million (13.5% of revenue) in the three months ended March 31, 2007. The increase in general and administrative expenses was driven by increases of \$0.6 million in compensation expense due to increased headcount, \$0.3 million in stock-based compensation, \$0.3 million in bad debt expense associated with collectability concerns of receivables due from Linens 'N Things given their financial condition and recent bankruptcy filing, and \$0.2 million in various other expenses, over the comparable period last year.

Overall general and administrative headcount increased to 97 at March 29, 2008 compared to 74 as of March 31, 2007, an increase of 23 employees or 31.1% growth.

For the full fiscal year 2008, we expect total operating expenses consisting of Research and Development, Selling and Marketing, and General and Administrative to be approximately 31% to 33% of revenue.

Other Income, Net

	Three Months Ended			Percent Change
	March 29, 2008	March 31, 2007	Dollar Change	
Total other income, net	\$495	\$931	\$(436)	(46.8%)
As a percentage of total revenue	0.9%	2.3%		

Other income, net amounted to \$0.5 million for the three months ended March 29, 2008 compared to \$1.0 million for the three months ended March 31, 2007.

Other income, net was directly related to interest income resulting from the investment in auction rate securities and money market accounts. The lower other income, net for the three month period ended March 29, 2008 as compared to the three month period ended March 31, 2007 is attributable to lower average auction rate securities and money market account balances and due to reduced interest rates earned on the portfolio.

Income Tax Provision

	Three Months Ended			Percent Change
	March 29, 2008	March 31, 2007	Dollar Change	
Total income tax provision (benefit)	\$(2,349)	\$ 17	\$(2,366)	N/A
As a percentage of total revenue	(4.1%)	0.0%		

In the three months ending March 29, 2008, we recorded a \$2.3 million tax benefit based on a projected effective 2008 income tax rate of 37%.

Liquidity and Capital Resources

At March 29, 2008, our principal sources of liquidity were cash and cash equivalents totaling \$22.9 million and accounts receivable of \$21.9 million.

As of March 29, 2008, we held auction rate securities with a par value of approximately \$17.5 million and a fair value of approximately \$15.4 million. The fair values of these securities are estimated utilizing a discounted cash flow model which also considered limited secondary market indicators as of March 29, 2008. These analyses consider, among other things, the collateralization underlying the security investments, the creditworthiness of the counterparty, and the timing of expected future cash flows. These securities were also compared, when possible, to other observable market data with similar characteristics to the securities held by us. As

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a result of the temporary declines in fair value for our auction rate securities, which we attribute to liquidity issues of the securities rather than credit issues, we have recorded an unrealized loss of \$2.1 million to Accumulated other comprehensive loss on the balance sheet. A substantial majority of the underlying assets of these auction rate securities are student loans which are backed by the federal government under the Federal Family Education Loan Program. In February 2008, auctions began to fail for these securities and each auction since then has failed. Based on the overall failure rate of these auctions, the frequency of the failures, and the underlying maturities of the securities, a portion of which are greater than 30 years, we have classified these investments as long-term assets on our balance sheet.

If the issuers of our auction rate securities are unable to successfully close future auctions or refinance their debt in the near term and their credit ratings deteriorate, we may in the future be required to record additional unrealized losses or an impairment charge on these investments. Based on our expected operating cash flows and our other sources of cash, we do not anticipate that the current lack of liquidity on these investments will affect our ability to execute our current business plan.

We manufacture and distribute our products through contract manufacturers and third-party logistics providers. We believe that this approach gives us the advantages of relatively low capital investment and significant flexibility in scheduling production and managing inventory levels. By leasing our office facilities, we also minimize the cash needed for expansion. However, cash flow will be impacted in the coming months as we finalize the build out of new leased facilities for occupancy during the second quarter of 2008. Accordingly, our capital spending is generally limited to leasehold improvements, computers, office furniture and product-specific production tooling and test equipment. In the three-month periods ended March 29, 2008 and March 31, 2007, we spent \$3.9 million, and \$1.8 million, respectively, the majority of which was for leasehold improvements.

Discussion of Cash Flows

Net cash provided by our operating activities in the three months ended March 29, 2008 was \$0.2 million compared to net cash provided by operating activities of \$2.4 million in the three months ended March 31, 2007. The cash provided by our operating activities in the three months ended March 29, 2008 was primarily due to a decrease in accounts receivable (including unbilled revenue) of \$25.3 million, partially offset by a net loss of \$4.0 million, a decrease in accounts payable of \$16.7 million, a decrease in accrued expenses of \$2.0 million, an increase in inventory of \$1.0 million and an increase in other assets of \$4.1 million. In addition, in the three months ended March 29, 2008, we had depreciation and amortization expenses of approximately \$1.6 million and stock-based compensation of \$0.9 million, both of which are non-cash expenses. The cash provided by our operating activities in the three months ended March 31, 2007 was primarily due to a decrease in accounts receivable (including unbilled revenue) of \$12.7 million, a decrease in inventory of \$4.7 million, and a decrease in other assets of \$1.0 million, partially offset by a net loss of \$5.5 million and a net decrease in liabilities of \$12.4 million. In addition, in the three months ended March 31, 2007, we had depreciation and amortization expenses of approximately \$1.2 million and stock-based compensation of \$0.7 million, both of which are non-cash expenses.

Net cash used by our investing activities was \$4.9 million in the three months ended March 29, 2008 compared to net cash provided by our investing activities of \$2.6 million in the three months ended March 31, 2007. Investing activities in the three months ended March 29, 2008 represent the sale of investments of \$29.0 million, offset by the purchase of investments of \$30.0 million and the purchase of capital equipment and leasehold improvements of \$3.9 million. Investing activities in the three months ended March 31, 2007 represent the purchase of short-term investments of \$15.4 million and capital equipment of \$1.8 million, offset by the sale of short-term investments of \$19.8 million.

Net cash provided by our financing activities was approximately \$0.8 million in the three months ended March 29, 2008 compared to net cash used by our financing activities of \$1.2 million in the three months ended March 31, 2007. Included in the financing activities for the three months ended March 29, 2008 was \$0.6 million in proceeds from the exercise of stock options. Net cash used by our financing activities for the three months ended March 31, 2007 includes a \$1.6 million payment by us of the minimum tax withholding obligation relating to a stock option exercise during the period. This figure was offset by \$0.4 million of proceeds from the exercise of stock options.

Working Capital Facility

On June 5, 2007, we entered into a \$35.0 million unsecured revolving credit facility with Bank of America, N.A. to replace our expired working capital line of credit with Bank of America. The credit facility will be available to fund working capital and other corporate purposes. The interest on loans under our working capital line of credit will accrue, at our election, at either (i) Bank of America's prime rate minus 1% or (ii) the Eurodollar rate plus 1.25%. The credit facility will terminate and all amounts outstanding thereunder will be due and payable in full on June 5, 2010. As of March 29, 2008, we had letters of credit outstanding of \$2.1 million and \$32.9 million available under our working capital line of credit. This credit facility contains customary terms and conditions for credit facilities of this type, including restrictions on our ability to incur or guaranty additional indebtedness, create liens, enter into transactions with affiliates, make loans or investments, sell assets, pay dividends or make distributions on, or repurchase, our stock, and consolidate or merge with other entities.

In addition, we are required to meet certain financial covenants customary with this type of agreement, including maintaining a minimum specified tangible net worth, a minimum specified ratio of current assets to current liabilities and a minimum specified annual net income.

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

For the quarter ended March 29, 2008, Bank of America, N.A. formally waived compliance with the minimum specified ratio of current assets to current liabilities. We were in compliance with all other covenants under the credit facility.

Equipment Financing Facility

On June 5, 2007, we entered into a \$15.0 million secured equipment facility with Banc of America Leasing and Capital, LLC under which we can finance the acquisition of equipment, furniture and leasehold improvements. We may borrow amounts under the equipment facility until July 1, 2008 and any amounts borrowed during that period will accrue interest at 30-day LIBOR plus 1%. After July 1, 2008, all amounts then outstanding under the equipment line will be repaid in 60 equal monthly installments commencing in July 2008 and will accrue interest, at our election, at either a fixed or variable rate of interest. Our obligations under the equipment facility will be secured by any financed equipment. As of March 29, 2008, we had no amounts outstanding and \$15.0 million available under our equipment financing line of credit.

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

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

For the quarter ended March 29, 2008, Bank of America Leasing & Capital, LLC formally waived compliance with the minimum specified ratio of current assets to current liabilities. We were in compliance with all other covenants under the equipment facility.

Working Capital and Capital Expenditure Needs

We currently have no material cash commitments, except for normal recurring trade payables, expense accruals

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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 have made significant capital commitments for expenditures associated with the recent move to our new corporate headquarters. These expenditures have been jointly funded by our landlord at this site and by us. Other than this project, we do not currently anticipate significant investment in property, plant and equipment, and we believe that our outsourced approach to manufacturing provides us with flexibility in both managing inventory levels and financing our inventory. We believe our existing cash and cash equivalents, short-term investments, cash provided by operating activities, and funds available through our working capital line of credit will be sufficient to meet our working capital and capital expenditure needs over at least the next twelve months. In the event that our revenue plan does not meet our expectations, we may eliminate or curtail expenditures to mitigate the impact on our working capital. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our marketing and sales activities, the timing and extent of spending to support product development efforts, the timing of introductions of new products and enhancements to existing products, the acquisition of new capabilities or technologies, and the continuing market acceptance of our products and services. Moreover, to the extent that existing cash and cash equivalents, short-term investments, cash from operations, and cash from short-term borrowing are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. Although we are currently not a party to any agreement or binding letter of intent with respect to potential investments in, or acquisitions of, businesses, services or technologies, we may enter into these types of arrangements in the future, which could also require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

Contractual Obligations

We generally do not enter into binding purchase commitments. Our principal commitments consist of obligations under our working capital line of credit, leases for office space and minimum contractual obligations for services. The following table describes our commitments to settle contractual obligations in cash as of March 29, 2008:

	Payments Due by Period				Total
	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years	
Operating leases	\$ 3,307	\$ 4,532	\$ 4,359	\$ 14,786	\$ 26,984
Minimum contractual payments	2,694	9,500	7,000	—	19,194
Total	<u>\$ 6,001</u>	<u>\$ 14,032</u>	<u>\$ 11,359</u>	<u>\$ 14,786</u>	<u>\$ 46,178</u>

Off-Balance Sheet Arrangements

As of March 29, 2008, we had no off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

Recently Issued Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Sensitivity

At March 29, 2008, we had unrestricted cash and cash equivalents of \$22.9 million. The unrestricted cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. Some of the securities in which we invest, however, may be subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. To minimize this risk in the future, we intend to maintain our portfolio of cash equivalents 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 March 29, 2008, all of our cash equivalents were held in money market accounts.

As of March 29, 2008, we held auction rate securities with a par value of approximately \$17.5 million and a fair value of approximately \$15.4 million, classified as long-term assets. As a result of the temporary declines in fair value for our auction rate securities, which we attribute to liquidity issues of the securities rather than credit issues, we have recorded an unrealized loss of \$2.1 million to Accumulated other comprehensive loss on the balance sheet. A substantial majority of the underlying assets of these auction rate securities are student loans which are backed by the federal government under the Federal Family Education Loan Program. In February 2008, auctions began to fail for these securities and each auction since then has failed. Effective January 1, 2008, we determine the fair market values of our financial instruments based on the fair value hierarchy established in SFAS 157 which requires an entity to maximize the use of observable inputs (Level 1 and Level 2 inputs) and minimize the use of unobservable inputs (Level 3 inputs) when measuring fair value. Given the current failures in the auction markets to provide quoted market prices of the securities as well as the lack of any correlation of these instruments to other observable market data, we valued these securities using a discounted cash flow methodology, as well as consideration of secondary markets, with the most significant input categorized as Level 3. Significant inputs that went into the model were the credit quality of the issuer, the percentage and the types of guarantees (such as Federal Family Education Loan Program—FFELP), the probability of the auction succeeding or the security being called, and an illiquidity discount factor. Changes in the assumptions of our model based on dynamic market conditions could have a significant impact on the valuation of these securities, which may lead us in the future to take additional unrealized losses, unrealized gains, or an impairment charge for these securities.

Our exposure to market risk also relates to the increase or decrease in the amount of interest expense we must pay on our outstanding debt instruments, primarily certain borrowings under our working capital line of credit and our equipment financing facility. The advances under the working capital line of credit bear a variable rate of interest determined as a function of the prime rate or the Eurodollar rate at the time of the borrowing. The advances under the equipment financing facility bear either a variable or fixed rate of interest, at our election, determined as a function of the LIBOR rate at the time of borrowing. At March 29, 2008, there were no amounts outstanding under our working capital line of credit or our equipment financing facility.

Exchange Rate Sensitivity

We maintain sales and business operations in foreign countries. As such, we have exposure to adverse changes in exchange rates associated with operating expenses of our foreign operations. In late 2007, we began to accept orders for home robot products in currencies other than the U.S. dollar and we expect this practice to continue in the future. 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.

Item 4. Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective in ensuring that information required to be disclosed by us in reports that we file or submit

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under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

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

Part II. Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

We operate in a rapidly changing environment that involves a number of risks that could materially affect our business, financial condition or future results, some of which are beyond our control. In addition to the other information set forth in this report, the risks and uncertainties that we believe are most important for you to consider are discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 29, 2007, which could materially affect our business, financial condition or future results. There are no material changes to the Risk Factors described in our Annual Report on Form 10-K for the fiscal year ended December 29, 2007, other than changes to the risk factor listed below entitled "***We invest in auction rate securities that are subject to market risk and the recent problems in the financial markets could adversely affect the value and liquidity of our assets.***" This risk factor has been amended to reflect an update regarding our investments in auction rate securities. 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.

We invest in auction rate securities that are subject to market risk and the recent problems in the financial markets could adversely affect the value and liquidity of our assets.

As of March 29, 2008, we held auction rate securities with a par value of approximately \$17.5 million and a fair value of approximately \$15.4 million, all of which were purchased in January or February of 2008. As a result of the temporary declines in fair value for our auction rate securities, which we attribute to liquidity issues of the securities rather than credit issues, we have recorded an unrealized loss of \$2.1 million to Accumulated other comprehensive loss on the balance sheet. A substantial majority of the underlying assets of these auction rate securities are student loans which are backed by the federal government under the Federal Family Education Loan Program. In February 2008, auctions for these securities began to fail and each such auction since then has failed. As a result, our ability to liquidate our investments in the near term may be limited, and we may not be able to recover any of the carrying value of our investments in these securities. An auction failure means that the parties wishing to sell securities could not carry out the transaction. Based on our expected operating cash flows, and our other potential sources of cash, including our available line of credit, we do not anticipate that the potential lack of liquidity on these securities in the near-term will affect our ability to execute our current business plan. While we do not currently anticipate the lack of liquidity of these auction rate securities to adversely affect our ability to conduct business, we will not be able to access these funds until a future auction for these securities is successful or until we sell the securities in a secondary market. In addition, if the credit rating of either the security issuer or the third-party insurer underlying these securities deteriorates, we may be required to adjust the carrying value of these securities through an impairment charge.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Issuer Purchases of Equity Securities**

The following table sets forth the repurchases of our equity securities during the three months ended March 29, 2008 by or on behalf of us or any affiliated purchaser:

Period(1)	(a) Total number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)
Fiscal month beginning December 30, 2007 and ended January 26, 2008	0.25 (2)	\$18.08 (3)
Total	<u>0.25</u> (2)	<u>\$18.08</u> (3)

- (1) There were no other repurchases of our equity securities by or on behalf of us or any affiliated purchaser during the three months ended March 29, 2008.
- (2) On January 1, 2008, in connection with the settlement of phantom stock for shares of our common stock pursuant to the iRobot Corporation Non-Employee Directors' Deferred Compensation Program, we automatically settled the remaining fractional shares of phantom stock for cash.
- (3) The amount represents the last reported sale price of our common stock on the NASDAQ Global Market on December 31, 2007.

Item 5. Other Information

Our policy governing transactions in our securities by our directors, officers, and employees permits our officers, directors, funds affiliated with our directors, and certain other persons to enter into trading plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. We have been advised that certain of our officers (including Colin Angle, Chief Executive Officer and Glen Weinstein, Senior Vice President, General Counsel & Secretary) of the Company have entered into a trading plan (each a "Plan" and collectively, the "Plans") covering periods after the date of this quarterly report on Form 10-Q in accordance with Rule 10b5-1 and our policy governing transactions in our securities. Generally, under these trading plans, the individual relinquishes control over the transactions once the trading plan is put into place. Accordingly, sales under these plans may occur at any time, including possibly before, simultaneously with, or immediately after significant events involving our company.

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

On April 30, 2008, the Company and Geoffrey P. Clear entered into a Transitional Services and Departure Agreement (the "Agreement"). Pursuant to the Agreement, Mr. Clear will continue to be employed by the Company as the Senior Finance Advisor to the CEO to assist in the transition of his responsibilities, effective upon commencement of the employment of the Company's new chief financial officer.

The Agreement also provides the following, among other things: (i) continuation of salary at Mr. Clear's current rate until his separation from the Company; (ii) the opportunity for Mr. Clear to receive a pro-rated bonus for fiscal 2008; (iii) continuation of certain change in control benefits pursuant to Mr. Clear's previous executive agreement until his separation from the Company; and (iv) accelerated vesting of unvested stock options, restricted stock and restricted stock units upon Mr. Clear's separation from the Company. The foregoing description of the Agreement does not purport to be complete and is qualified in its entirety by reference to the Agreement, which is filed as Exhibit 10.2 hereto, and is incorporated herein by reference.

Table of Contents

Item 6. Exhibits

<i>Exhibit Number</i>	<i>Description</i>
10.1†	Senior Executive Incentive Compensation Plan
10.2†	Transitional Services and Departure Agreement by and between iRobot Corporation and Geoffrey P. Clear, dated April 30, 2008
31.1	Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934
31.2	Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

iROBOT CORPORATION

Date: May 5, 2008

By: /s/ Geoffrey P. Clear

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

EXHIBIT INDEX

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

IROBOT CORPORATION
SENIOR EXECUTIVE INCENTIVE COMPENSATION PLAN

1. Purpose

This Senior Executive Incentive Compensation Plan (the “Incentive Plan”) is intended to provide an incentive for superior work and to motivate eligible executives of iRobot Corporation (the “Company”) and its subsidiaries toward even higher achievement and business results, to tie their goals and interests to those of the Company and its stockholders and to enable the Company to attract and retain highly qualified executives. The Incentive Plan is for the benefit of Covered Executives (as defined below).

2. Covered Executives

From time to time, the Compensation Committee of the Board of Directors of the Company (the “Compensation Committee”) may select certain key executives (the “Covered Executives”) to be eligible to receive bonuses hereunder.

3. Administration

The Compensation Committee shall have the sole discretion and authority to administer and interpret the Incentive Plan.

4. Bonus Determinations

(a) A Covered Executive may receive a bonus payment under the Incentive Plan based upon the attainment of performance targets that are established by the Compensation Committee and relate to financial and operational metrics with respect to the Company or any of its subsidiaries (the “Performance Goals”), including, but not limited to, the following: revenue, earnings per share, EBITDA and specific strategic milestones.

(b) Except as otherwise set forth in this Section 4(b): (i) any bonuses paid to Covered Executives under the Incentive Plan shall be based upon objectively determinable bonus formulas that tie such bonuses to one or more performance targets relating to the Performance Goals, (ii) bonus formulas for Covered Executives shall be adopted in each performance period by the Compensation Committee and (iii) no bonuses shall be paid to Covered Executives unless and until the Compensation Committee makes a determination with respect to the attainment of the performance objectives. Notwithstanding the foregoing, the Company may adjust bonuses payable under the Incentive Plan based on achievement of individual performance goals or pay bonuses (including, without limitation, discretionary bonuses) to Covered Executives under the Incentive Plan based upon such other terms and conditions as the Compensation Committee may in its discretion determine.

(c) Each Covered Executive shall have a targeted bonus opportunity for each performance period. The maximum bonus payable to a Covered Executive under the Plan is 200% of the Covered Executive’s bonus opportunity.

(d) The payment of a bonus to a Covered Executive with respect to a performance period shall be conditioned upon the Covered Executive's employment by the Company on the last day of the performance period; provided, however, that the Compensation Committee may make exceptions to this requirement, in its sole discretion, including, without limitation, in the case of a Covered Executive's termination of employment, retirement, death or disability.

5. Timing of Payment

The Performance Goals will be measured at the end of each fiscal year after the Company's financial reports have been published. If the Performance Goals are met, payments will be made within 30 days thereafter, but not later than March 15.

6. Amendment and Termination

The Company reserves the right to amend or terminate the Incentive Plan at any time in its sole discretion.

TRANSITIONAL SERVICES AND DEPARTURE AGREEMENT

This Transitional Services and Departure Agreement (the "Agreement") is entered into by and between iRobot Corporation (the "Company") and Geoffrey P. Clear ("Executive") as of April 30, 2008.

WITNESSETH:

WHEREAS, as of the date of this Agreement, Executive is employed by the Company as its Principal Financial Officer ("PFO");

WHEREAS, Executive has indicated his decision to transition from his employment at the Company, and Executive and the Company have mutually agreed that his employment will end on or before December 31, 2008 (the actual last day of Executive's employment shall be referred to herein as the "Departure Date");

WHEREAS, on a later date, the Company and the Executive may mutually agree to enter into a supplementary agreement pursuant to which the Executive provides services to the Company that are outside of the usual course of the Company's business on a part-time, independent contractor basis, at the rate of \$1500 per full work day of services;

WHEREAS, Executive wishes to pursue consulting opportunities in emerging growth companies with revenues of \$50 to \$300 million;

WHEREAS, Executive and the Company now desire to extinguish all prior agreements relating to severance pay and benefits including, without limitation, the Executive Agreement by and among iRobot Corporation and Executive dated March 15, 2006 (the "Executive Agreement") (except to the extent certain sections of the Executive Agreement are specifically preserved herein) and replace all such agreements with this Agreement which sets forth the terms and conditions of the Executive's transition and ending of his employment with the Company.

NOW THEREFORE, in consideration of the mutual promises contained in this Agreement, Executive and Company agree as follows:

1. Continuation of Services. The Company will continue to employ Executive on an at-will basis through the Departure Date and, unless otherwise directed by the Company, Executive shall continue to work and provide services as PFO to the Company on a regular full-time basis through the Departure Date; provided, however, the Company may, in its discretion, reduce Executive's duties, responsibilities and required time commitment (but not his Salary (as defined below)). It is understood that the Company has commenced a search for a replacement PFO. If the Company's search efforts are successful and a new PFO commences his employment prior to December 31, 2008, the Executive shall work cooperatively with the Company for as long as the Company pays the Executive his Salary pursuant to Section 2(a) and, regardless of whether Executive remains an employee, to transition his responsibilities to the new PFO ("Transitional Services"). It is further understood and agreed that, from the date a new PFO commences employment at the Company through the Departure Date, the Executive shall no longer be PFO and shall be the "Senior Finance Advisor to the CEO." As Senior Finance Advisor to the CEO, Executive will no longer be a member of the Company's senior management team and, among other things, he will not be eligible to participate in the Senior Executive Incentive Compensation Plan.

2. Payments and Benefits to Executive.

(a) *Salary Continuation.* Executive will continue to receive his current salary at the rate of \$10,700 per bi-weekly pay period, less applicable deductions and withholdings ("Salary") on the Company's regular payroll dates through the Departure Date; provided however, if the Departure Date occurs prior to December 31, 2008 because (i) the Company

terminates Executive's employment without Cause, or (ii) Executive resigns from employment at the Company in order to commence alternative employment at a non-competitive entity, the Company shall continue Executive's Salary through December 31, 2008 provided Executive signs and does not revoke (within the time frames set forth in the document) a general release of claims in a form acceptable to the Company ("General Release") and Executive continues to provide Company with Transitional Services and/or such other post-employment assistance that the Company may reasonably require until December 31, 2008. For purposes of this Agreement, "Cause" shall mean any one or more of the following: (i) Executive's willful failure or refusal (except due to disability or a condition reasonably likely to be deemed a disability with the passage of time) to perform substantially his/her duties on behalf of the Company for a period of thirty (30) days after receiving written notice identifying in reasonable detail the nature of such failure or refusal; (ii) Executive's conviction of, entry of a plea of guilty or *nolo contendere* to, or admission of guilt in connection with a felony; (iii) disloyalty, willful misconduct or breach of fiduciary duty by Executive which causes material harm to the Company; or (iv) Executive's willful violation of any confidentiality, inventions or non-competition agreement which causes material harm to the Company. Notwithstanding the foregoing, Executive shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to him a copy of a resolution duly adopted by the Company's Board of Directors (the "Board") (excluding Executive if he is a Director) at a meeting of the Board called and held for (but not necessarily exclusively for) that purpose (after reasonable notice to Executive and an opportunity for Executive, together with counsel of his choice, to be heard by the Board) finding that Executive has, in the good faith opinion of the Board, engaged in conduct constituting Cause and specifying the particulars thereof in reasonable detail.

(b) *Usual Benefits.* Consistent with the Company's policies, Executive shall continue to be eligible for employee benefits, including medical and dental benefits, and shall continue to accrue vacation through the Departure Date. The Company shall pay Executive any accrued but unused vacation no later than the next regular payroll date following the Departure Date. In addition, the Company shall reimburse Executive for business expenses incurred on or before the Departure Date, in accordance with Company's expense reimbursement practices. Executive's eligibility to participate in other employee benefits, including in the Company's 401(k) Savings Plan, ceases as of the Departure Date consistent with the terms of those plans.

(c) *Health Benefit Continuation.* In the event (i) Executive's employment is terminated by the Company without Cause or (ii) Executive resigns from employment at the Company in order to commence alternative employment at a noncompetitive entity prior to December 31, 2008, Executive will be provided with the opportunity to receive Company-paid health benefit continuation. Specifically, if Executive signs and does not revoke a General Release, and continues to provide the Company Transitional Services and/or such other post-employment assistance that the Company may reasonably require until December 31, 2008, and elects to continue his medical and dental insurance coverage after the Departure Date under the law known as COBRA, the Company shall pay a percentage of the medical and dental insurance premiums for Executive and his dependents, equal to the same percentage of such premiums paid by the Company during the Executive's employment, from the Departure Date until the earlier of: (i) December 31, 2008, (ii) the date Executive and his dependents become eligible for health or dental insurance through another employer, or (iii) the date Executive and his dependents become ineligible for COBRA for any reason (the "Benefit Continuation Period"). Executive shall promptly notify the Company upon becoming eligible for health or dental insurance from

another employer or upon becoming otherwise ineligible for COBRA. If Executive elects COBRA continuation coverage, he may continue coverage for himself and any dependents after the end of the Benefit Continuation Period at his own expense for the remainder of the COBRA period, to the extent he and they remain eligible.

(d) *Acceleration of Unvested Stock Options and Restricted Stock.* Schedule A hereto sets forth a summary of certain outstanding stock options and restricted stock awards granted to Executive by the Company pursuant to the Company's stock option and incentive plans ("Stock Option Plans") and the relevant award agreements related to such grants (collectively, the "Award Agreements"). Subject to the Executive satisfying each of the Separation Conditions, any then unvested options and restricted stock shall vest effective on the Departure Date. All provisions of the Award Agreements shall remain in full force and effect in accordance with their respective terms. Nothing in this Section 2(d) shall be construed to amend, change or alter Executive's rights and obligations with respect to exercising his vested options, including those pursuant to his December 19, 2002 Option Grant under the Amended and Restated 1994 Stock Plan which provides, among other things, that Executive has 60 days from the Departure Date to exercise his vested options. For purposes of this Agreement "Separation Conditions" shall mean, Executive: (i) fulfills his service duties and responsibilities as set forth in Sections 1 and 2(a) of this Agreement in a satisfactory manner as determined in good faith by the Board of Directors through the Departure Date; (ii) is not terminated by the Company for Cause, and (iii) after the Departure Date, signs (within 21 days after receipt) and does not revoke (within seven days after signing) a General Release.

(e) *Bonus Payment.* Executive has the opportunity to earn a bonus payment (the "Bonus Payment") provided that each of the following conditions are met: (i) bonuses are

paid pursuant to either (x) the Senior Executive Incentive Compensation Plan in effect for the Company's 2008 fiscal year ("FY2008") or (y) bonuses are paid pursuant to the Company's 2008 Incentive Compensation Plan, and (ii) Executive satisfies each of the Separation Conditions set forth in Section 2(d). Executive's Bonus Payment, if any, shall be calculated as follows: (Executive's Salary) x (the percentage of FY2008 during which Executive was employed by the Company as PFO) x (the percentage that the Company would have used to calculate the Executive's bonus pursuant to the Senior Executive 2008 Incentive Compensation Plan if Executive had satisfied the employee conditions of the Plan, such percentage not to exceed 40%) + (Executive's Salary) x (the percentage of FY2008 during which Executive was employed by the Company as Senior Finance Advisor to the CEO) x (the percentage that the Company would have used to calculate the Executive's bonus pursuant to the 2008 Incentive Compensation Plan if Executive had satisfied the employee conditions of the Plan, such percentage not to exceed 40%). The Bonus Payment shall not be earned unless and until all of the Separation Conditions are fully satisfied and provided the Company is satisfied that the Executive continued to provide Company with Transitional Services and/or such other post-employment assistance that the Company reasonably required through December 31, 2008. The Bonus Payment shall be paid at such time as when the Company's other employees receive bonus payments but in no event later than March 15, 2009. The Bonus Payment opportunity set forth in this Section 2(e) shall be in lieu of and fully supersede any rights Executive may have or have had to bonus or other incentive compensation.

3. General Release of Claims. Executive hereby irrevocably and unconditionally releases, acquits and forever discharges the Company, its affiliated and related entities, its and their respective predecessors, successors and assigns, its and their respective employee benefit

plans and fiduciaries of such plans, and the current and former officers, directors, shareholders, employees, attorneys, accountants and agents of each of the foregoing in their official and personal capacities (collectively referred to as the “Releasees”) generally from all claims, demands, debts, damages and liabilities of every name and nature, known or unknown (“Claims”) that, as of the date when Executive signs this Agreement, Executive has, ever had, now claims to have or ever claimed to have had against any or all of the Releasees. This release includes, without limitation, all Claims: relating to Executive’s employment by and termination of employment with the Company; of wrongful discharge; of breach of contract; of breach of the Executive Agreement; of retaliation or discrimination under federal, state or local law of the United States (including, without limitation, Claims of age discrimination or retaliation under the Age Discrimination in Employment Act, Claims of disability discrimination or retaliation under the Americans with Disabilities Act, and Claims of discrimination or retaliation under Title VII of the Civil Rights Act of 1964); under any other federal or state statute; of defamation or other torts; of violation of public policy; for wages, bonuses, incentive compensation, stock, stock options, vacation pay or any other compensation or benefits; and for damages or other remedies of any sort, including, without limitation, compensatory damages, punitive damages, injunctive relief and attorney’s fees; *provided*, however, that this release shall not affect his rights under this Agreement. As a material inducement to the Company to enter into this Agreement, Executive represents that he has not assigned to any third party and has not filed with any agency or court any Claim released by this Agreement.

4. Change in Control Benefits. In the event of a Change in Control (as defined in the Executive Agreement), prior to the Departure Date Executive shall be entitled to immediate accelerated vesting as set forth in Section 6 of the Executive Agreement. In addition, Section 10

of the Executive Agreement shall remain in full force and effect and is hereby incorporated by reference. In all other respects, the Executive Agreement is superseded by this Agreement.

5. Tax Treatment. The Company shall undertake to make deductions, withholdings and tax reports with respect to payments and benefits under this Agreement to the extent that it reasonably and in good faith determines that it is required to make such deductions, withholdings and tax reports. Payments under this Agreement shall be subject to any such deductions or withholdings. Nothing in this Agreement shall be construed to require the Company to make any payments to compensate Executive for any adverse tax effect associated with any payments or benefits or for any deduction or withholding from any payment or benefit.

6. Return of Property. Executive acknowledges that all documents, records, apparatus, equipment and other physical property which were furnished or will be furnished to Executive in connection with his employment at the Company remain and will remain the sole property of the Company. Executive will return to the Company all such materials and property when requested by the Company. In any event, Executive will return all such materials and property on or before the Departure Date, including, without limitation, all computer equipment, laptops, software, keys and access cards, credit cards, cell phone, files and any documents (including computerized data and any copies made of any computerized data or software) containing information concerning the Company, its business or its business relationships (in the latter two cases, actual or prospective). In the event that Executive discovers that he continues to retain any such property after the termination of his employment, he shall return it to the Company immediately. After fulfilling his return of property obligations, Executive shall delete and finally purge any duplicates of files or documents that may contain Company information from any computer or other device that remains his property after the Departure Date.

Notwithstanding the above, Executive will be allowed to keep his current laptop computer and PDA/cell phone, including portability of the cell phone number, provided all company data has been removed (restored to its original purchase condition) by the Company's IT department.

7. Confidentiality and Existing Restrictive Covenants. Executive shall not disclose to any third party any information which, during his employment, he knew, or reasonably should have known, is considered by the Company to be confidential and/or proprietary. The foregoing obligation is in addition to, and not in lieu of, any obligation set forth in any confidentiality or non-disclosure agreement previously signed by Executive including the iRobot Corp. Invention Confidentiality Agreement dated February 3, 2003 which terms and conditions shall remain in full force and effect and are hereby incorporated by reference. Similarly, the terms of any existing agreement between the Company and Executive containing restrictive covenants, including, without limitation, the Noncompetition and Nonsolicitation Agreement between Executive and the Company dated March 15, 2006 (all such agreements referred to in this Section 6 shall be collectively referred to as "Restrictive Covenants") shall remain in full force and effect and are hereby incorporated by reference.

8. Future Cooperation. During his employment and thereafter, Executive agrees to cooperate reasonably with the Company and all of its affiliates and related entities, including its and their outside counsel, in connection with the contemplation, prosecution and defense of all phases of existing, past and future litigation about which the Company believes Executive may have knowledge or information. Executive further agrees to make himself available at mutually convenient times during and outside of regular business hours as reasonably deemed necessary by the Company's counsel. Executive agrees to appear without the necessity of a subpoena and to testify truthfully in any legal proceedings in which the Company calls him as a witness. The

Company shall reimburse Executive for out-of-pocket business expenses incurred directly as the result of requested future cooperation, in accordance with Company's expense reimbursement practices.

9. Suspension /Termination of Payments. In the event that Executive fails to comply with any of his obligations under this Agreement including but not limited to the provisions of the Agreement which have been incorporated by reference, in addition to any other legal or equitable remedies it may have for such breach the Company shall have the right to terminate or suspend its payments or benefits to or made on behalf of Executive under this Agreement. The termination or suspension of such payments in the event of such breach by Executive will not affect his continuing obligations under this Agreement.

10. Legal Representation. This Agreement is a legally binding document and his signature will commit Executive to its terms. Executive acknowledges that he has been advised to discuss all aspects of this Agreement with his attorney, and that he has carefully read and fully understands all of the provisions of this Agreement and that he is voluntarily entering into this Agreement.

11. Absence of Reliance. In signing this Agreement, Executive is not relying upon any promises or representations made by anyone at or on behalf of the Company.

12. Non-Admission. This Agreement shall not in any way be construed as an admission by the Company of any liability or any act of wrongdoing whatsoever against Executive. The Company specifically disclaims any liability or wrongdoing whatsoever against Executive or any other person on the part of the Company, its affiliates, and their current and former agents, employees and shareholders.

13. Enforceability. If any portion or provision of this Agreement (including, without limitation, any portion or provision of any section of this Agreement or portions of the Agreement that have been incorporated by reference) shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this Agreement, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

14. Waiver. No waiver of any provision of this Agreement shall be effective unless made in writing and signed by the waiving party. The failure of any party to require the performance of any term or obligation of this Agreement, or the waiver by any party of any breach of this Agreement, shall not prevent any subsequent enforcement of such term or obligation or be deemed a waiver of any subsequent breach.

15. Enforcement.

(a) *Jurisdiction.* Executive and the Company hereby agree that the courts of the Commonwealth of Massachusetts shall have the exclusive jurisdiction to consider any matters related to this Agreement, including without limitation any claim for violation of this Agreement. With respect to any such court action, Executive (i) submits to the jurisdiction of such courts, (ii) consents to service of process, and (iii) waives any other requirement (whether imposed by statute, rule of court or otherwise) with respect to personal jurisdiction or venue.

(b) *Relief.* Executive agrees that it would be difficult to measure any harm caused to the Company that might result from any breach by Executive of his promises set forth in Sections 6, 7 or 8 and that in any event money damages would be an inadequate remedy for any such breach. Accordingly, if Executive breaches, or proposes to breach, any portion of his

obligations under Sections 6, 7 or 8, the Company shall be entitled, in addition to all other remedies it may have, to an injunction or other appropriate equitable relief to restrain any such breach, without showing or proving any actual damage to the Company and without the necessity of posting a bond.

16. Governing Law; Interpretation. This Agreement shall be interpreted and enforced under the laws of the Commonwealth of Massachusetts without regard to conflict of laws principles. In the event of any dispute, this Agreement is intended by the parties to be construed as a whole, to be interpreted in accordance with its fair meaning, and not to be construed strictly for or against either Executive or the Company or the “drafter” of all or any portion of this Agreement.

17. Entire Agreement. This Agreement, including all provisions that are incorporated by reference, the Indemnification Agreement, the Stock Option Plan, Award Agreements, and the Restrictive Covenants between Executive and the Company constitute the entire agreement between Executive and the Company. This Agreement supersedes any previous agreements or understandings between Executive and the Company relating to the subject matter herein including, without limitation, the Executive Agreement, except as specifically provided in Section 4 of this Agreement.

18. Time for Consideration and Effective Date. Executive acknowledges and agrees that he had the opportunity to consider this Agreement for more than twenty-one (21) days before signing it and that no modifications to this Agreement had the effect of restarting the twenty one day consideration period. To accept this Agreement, Executive must return a signed original of this Agreement so that it is received by the undersigned at or before April 24, 2008. If Executive signs this Agreement before April 24, 2008, he acknowledges by signing this

Agreement that such decision was entirely voluntary and that he had the opportunity to consider this Agreement for more than a twenty-one (21) day period. For the period of seven (7) days from the date when this Agreement becomes fully executed, Executive has the right to revoke this Agreement by written notice to the undersigned. For such a revocation to be effective, it must be delivered so that it is received by the undersigned at or before the expiration of the seven (7) day revocation period. This Agreement shall not become effective or enforceable during the revocation period. This Agreement shall become effective on the first business day following the expiration of the revocation period (the "Effective Date"). Notwithstanding the foregoing, the Company may withdraw the offer of this Agreement or may void this Agreement before the Effective Date if Executive (i) is terminated by the Company for Cause; (ii) fails to cooperate reasonably with requests by the Company; (iii) breaches any other provision of this Agreement.

19. Attorneys' Fees. Each party shall bear his or its own costs and attorney's fees in connection with the negotiation and drafting of this Agreement. In the event of any legal action to enforce this Agreement, including those provisions that have been incorporated by reference, the party that prevails in such action shall be entitled to recover his, or its attorney's fees and costs from the non-prevailing party or parties.

20. No Transfer. Executive represents that he has not assigned or transferred, or purported to assign or transfer, to any person or entity, any Claim against any of the Releasees or any portion thereof or interest therein.

21. Binding Nature of Agreement. This Agreement shall be binding upon each of the parties and upon the heirs, administrators, representatives, executors, successors and assigns of each of them, and shall inure to the benefit of each party and to the heirs, administrators, representatives, executors, successors, and assigns of each of them.

22. Modification of Agreement. This Agreement may be amended, revoked, changed, or modified only upon a written agreement executed by both parties. No waiver of any provision of this Agreement will be valid unless it is in writing and signed by the party against whom such waiver is charged.

23. Counterparts. This Agreement may be executed in counterparts, and each counterpart, when executed, shall have the efficacy of a signed original.

(The remainder of this page is intentionally blank.)

24. Definition. For purposes of this Agreement, the term "Company" shall include the Company and its affiliated and related entities, and its and their respective predecessors, successors and assigns.

This Agreement has been executed as a sealed instrument by Executive and the Company.

EXECUTIVE

/s/ Geoffrey P. Clear
Geoffrey P. Clear

April 30, 2008
Date

iRobot Corporation

By: /s/ Colin Angle
Name: Colin Angle
Title: CEO

April 30, 2008
Date

Clear Separation Agreement
April 30, 2008

EXHIBIT A

Stock Options

<u>Date of Option Grant</u>	<u>Exercise Price</u>	<u>Number of Unexercised Options</u>	<u>Number of Unexercised Options Vested as of 4/30/08</u>	<u>Name of Stock Plan</u>
12/19/2002	\$ 0.55	46,440	46,440	Amended and Restated 1994 Stock Plan
2/8/2005	\$ 4.96	12,000	6,000	Amended and Restated 2004 Stock Option and Incentive Plan
5/25/2007	\$16.03	12,000	0	2005 Stock Option and Incentive Plan

Restricted Stock and Restricted Stock Units (RSU)

<u>Date of Restricted Stock or RSU Grant</u>	<u>Number of Restricted Shares or RSUs</u>	<u>Number of Restricted Shares or RSUs Vested as of 4/30/08</u>	<u>Name of Stock Plan</u>
5/25/2007	3,000	[0	2005 Stock Option and Incentive Plan
3/28/2008	3,350	0	2005 Stock Option and Incentive Plan

Clear Separation Agreement
April 30, 2008

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Certifications

I, Colin M. Angle, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of iRobot Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2008

/s/ COLIN M. ANGLE
Colin M. Angle
Chief Executive Officer

Certifications

I, Geoffrey P. Clear, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of iRobot Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2008

/s/ GEOFFREY P. CLEAR

Geoffrey P. Clear

Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of iRobot Corporation (the "Company") for the period ending March 29, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Colin M. Angle, the Chief Executive Officer of the Company and Geoffrey P. Clear, the Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to our knowledge, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certification is being provided pursuant to 18 U.S.C. 1350 and is not to be deemed a part of the Report, nor is it to be deemed to be "filed" for any purpose whatsoever.

Dated May 5, 2008

/s/ COLIN M. ANGLE
Colin M. Angle
Chief Executive Officer

Dated May 5, 2008

/s/ GEOFFREY P. CLEAR
Geoffrey P. Clear
Chief Financial Officer