



**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Form 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2005**

**OR**

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

**Commission file no. 000-51598**

**iROBOT CORPORATION**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of incorporation or organization)*

**63 South Avenue, Burlington, MA**  
*(Address of principal executive offices)*

**77-0259 335**

*(I.R.S. Employer Identification No.)*

**01803**

*(Zip Code)*

**(781) 345-0200**

**(Registrant's telephone number, including area code)**

**SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:**  
**None**

**SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:**  
**Common Stock, \$0.01 par value per share**

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

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Our common stock began trading on the Nasdaq National Market on November 9, 2005. The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on November 9, 2005 was approximately \$223,799,184 based on the initial public offering price of the registrant's common stock on November 9, 2005, of \$24.00 per share. Shares of voting and non-voting stock held by executive officers, directors and holders of more than 5% of the outstanding stock have been excluded from this calculation because such persons or institutions may be deemed affiliates. This determination of affiliate status is not a conclusive determination for other purposes.

As of February 28, 2006, there were 23,425,029 shares of the registrant's Common Stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

The registrant intends to file a definitive Proxy Statement pursuant to Regulation 14A within 120 days of the end of the fiscal year ended December 31, 2005. Portions such Proxy Statement are incorporated by reference into Part III of this Form 10-K.

**iROBOT CORPORATION**  
**ANNUAL REPORT ON FORM 10-K**  
**Year Ended December 31, 2005**

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**PART I**

**ITEM 1. BUSINESS**

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

*iRobot, Roomba, Scooba, PackBot and AWARE are trademarks of iRobot Corporation. Gator, M-Gator and R-Gator are trademarks of Deere & Company.*

**Overview**

iRobot Corporation (“iRobot” or the “Company”) provides robots that enable people to complete complex tasks in a better way. For over 15 years, we have developed proprietary technology incorporating advanced concepts in navigation, mobility, manipulation and artificial intelligence to build industry-leading robots. Our Roomba floor vacuuming robot and recently announced Scooba floor washing robot perform time-consuming domestic chores, and our PackBot tactical military robots perform battlefield reconnaissance and bomb disposal. In addition, we are developing the Small Unmanned Ground Vehicle reconnaissance robot for the U.S. Army’s transformational Future Combat Systems, or FCS, program and, in conjunction with Deere & Company, the R-Gator unmanned ground vehicle. We sell our robots to consumers through a variety of distribution channels, including chain stores and other national retailers, and our on-line store, and to the U.S. military and other government agencies worldwide.

Since our founding by roboticists who performed research at the Massachusetts Institute of Technology, we have accumulated expertise in all the disciplines necessary to build durable, high-performance and cost-effective robots through the close integration of software, electronics and hardware. Our core technologies serve as reusable building blocks that we adapt and expand to develop next generation and new products, reducing the time, cost and risk of product development. For example, our proprietary AWARE Robot Intelligence Systems enable the behavioral control of robots. Our AWARE systems allow our Roomba floor vacuuming robot to clean an entire floor while avoiding obstacles and not falling down stairs, and also allow our PackBot robots and the R-Gator unmanned ground vehicle to accomplish complex missions such as waypoint navigation and real-time obstacle avoidance.

Our significant expertise in robot design and engineering, combined with our management team’s experience in military and consumer markets, positions us to capitalize on the growth we expect in the market for robot-based products. We believe that the sophisticated technologies in our existing consumer and military applications are adaptable to a broad array of markets such as law enforcement, homeland security, commercial cleaning, elderly care, oil services, home automation, landscaping, agriculture and construction. Our strategy is to maintain a leadership position in pursuing new applications for robot solutions by leveraging our ability to innovate, to bring new products to market quickly, to reduce costs through design and outsourcing capabilities, and to commercialize the results of our research, much of which is government funded.

Over the past four years, we sold more than 1.5 million of our home floor care robots. We also sold to the U.S. military during that time more than 300 of our PackBot tactical military robots, most of which have been deployed on missions in Afghanistan and Iraq.

## Strategy

Our objective is to rapidly invent, design, market and support innovative robots that will expand our leadership globally in our existing and newly addressable markets. Key elements of our strategy to achieve this objective include:

*Deliver Great Products and Continue to Expand Our Existing Markets.* Our success is built upon our ability to deliver innovative products rapidly at economical price points and to offer a broad product line to our customers. Within the consumer market today we offer floor cleaning products for various surfaces at multiple price points, as well as a number of product accessories. We are extending our military robot offerings from small, unmanned ground vehicles (such as our PackBot line of robots) to full-scale autonomous vehicles such as R-Gator. In addition, we intend to leverage our increasing installed base to expand our revenues from recurring sales of consumables, services and support.

*Innovate to Penetrate New Markets.* Our goal is to develop innovative robots to perform dull, dirty or dangerous missions. We develop robots with functionalities that are adaptable for use in a broad range of applications. We intend to target new markets, such as law enforcement, homeland security, commercial cleaning, elderly care, oil services, home automation, landscaping, agriculture and construction, where robots can create high value and can provide a better way to complete complex tasks.

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

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

*Continue to Invest Aggressively in Our Business and Our People.* We believe the best path to maximizing long-term profit is to continue to invest significant resources in our business and our people over the next several years. We plan to invest in research and development and sales distribution channels to extend and expand our market. We intend to also continue to hire top talent and invest in our people through training and on-the-job experience. We believe this aggressive reinvestment in our business and our people will help us maintain our market leadership.

*Complement Core Competencies with Strategic Alliances.* Our core competencies are the design, development and marketing of robots. We rely on strategic alliances to provide complementary competencies that we integrate into our products and to enhance market access. For example, our alliance with The Clorox Company, through which Clorox manufactures cleaning fluid, allows us to integrate world-class cleaning technology and know-how into Scooba, our recently launched floor washing robot. Our alliance with Deere & Company allows us to integrate our robot controls, navigation and obstacle avoidance systems with rugged vehicles manufactured by Deere & Company. We outsource other non-core activities, such as manufacturing and back-office functions, which helps us focus our resources on our core competencies.

*Develop a Community of Third-Party Developers Around Our Platforms.* We have developed products around which communities of third-party developers can create related accessories, software and complementary products. We intend to foster this community by making our products into extensible platforms with open interfaces designed to carry payloads. For example, our robots are designed to allow third-party designers to add sensors and other functionalities, such as acoustic sniper detection and web-based control.

## Technology

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

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

*AWARE Robot Intelligence Systems.* Our proprietary AWARE Robot Intelligence Systems are code bases that enable the behavioral control of robots. Moreover, the AWARE Systems include modules that control behaviors, sensor fusion, power management and communication. Our AWARE systems allow our Roomba floor vacuuming robot and our Scooba floor washing robot to clean an entire floor while avoiding obstacles and not falling down stairs, and also allow our PackBot robots and the R-Gator unmanned ground vehicle to accomplish complex missions such as waypoint navigation and real-time obstacle avoidance.

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

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

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

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

## Products and Development Contracts

We design and sell robots for the consumer and government and industrial markets.

### *Consumer Products*

We sell various products that are designed for use in the home. Our current consumer products are focused on floor cleaning tasks. We believe our consumer products provide value to our customers by producing better cleaning results at an affordable price and by freeing people from repetitive home cleaning tasks.

*Home Floor Cleaning Robots.* Over the past four years, we sold more than 1.5 million home floor care robots. We currently offer five Roomba models that comprise our second generation floor vacuuming robots with varying price points and performance characteristics as well as the Scooba floor washing robot.

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Our Roomba robot's compact disc shape allows it to clean under beds and other furniture, resulting in cleaner floors since the Roomba can access more of the floor than standard upright vacuum cleaners. Roomba is programmed to keep operating until the floor is clean. In addition, Roomba eliminates the need to push a vacuum — it cleans automatically upon the push of a button.

All of our current Roomba floor vacuuming robots include the following features:

- the ability to sense a “cliff” or drop-off point and to react by reversing course automatically;
- a non-marring bumper to clean up to obstacles without damaging furniture or walls;
- a wide cleaning path to clean an entire room on a single battery charge;
- an edging brush to clean along surface edges;
- dirt-sensing, which allows the Roomba robot to detect dirtier areas in the home and respond by increasing and extending the intensity of its cleaning efforts in that concentrated space; and
- improved cleaning and maintenance operations, enhancing the user friendliness of the Roomba robot.

Our flagship Roomba Discovery robot also features automatic self-docking, which enables the robot to return to its home base for battery recharging when its battery runs low or it has cleaned the room, and an advanced power system that charges faster and runs longer than many other vacuums. Roomba Discovery can clean, on average, three rooms on a single charge.

The suggested retail price for Roomba Discovery is \$279 per unit. The suggested retail price for our Roomba Red base product is \$149 per unit.

In the third quarter of 2005, we introduced the iRobot Roomba Scheduler — a floor vacuuming robot that cleans a room automatically on a user-determined schedule. The Scheduler robot is available in retail outlets at a suggested retail price of \$329 per unit.

We also offer a Scheduler accessory kit which allows owners of the Roomba Discovery and Roomba Red to upgrade their robot to achieve scheduling capability. In addition to the Scheduler upgrade kit, we offer other accessories that allow users to upgrade and maintain their Roomba, including virtual wall sensing devices that direct Roomba to clean specific areas, batteries and chargers, filters and brushes, and wall mounts. We plan to continue to develop upgrades to our Roomba product line.

*iRobot Scooba*. Scooba, our second major consumer product line, is the first floor washing robot available for home use. Our Scooba robot utilizes the expertise gained from years of Roomba development to create a robot to replace the task of mopping.

Our Scooba robot's innovative cleaning process allows the robot to simultaneously sweep, wash, scrub and dry hard floors, all at the touch of a button. Unlike a conventional mop that spreads dirty water on the floor, Scooba will apply only fresh water and cleaning solution to the floor from a clean tank. Scooba will clean wet spills in addition to dirt and grime, and it is safe for use on all sealed, hard floor surfaces, including wood and tile.

Scooba has the ability to navigate around the room using a light-touch bumper and is smart enough to avoid carpets. Scooba features the most advanced diagnostic system of any of our consumer robots to provide the user with important maintenance feedback and improve user experience and product life. The suggested retail price for Scooba, our floor washing robot, is \$399.

With The Clorox Company, we have developed a specially-engineered cleaning solution for use with the Scooba floor washing robot. We began collaborating with The Clorox Company in 2004 to create a cleaning solution that, when combined with the Scooba, would clean hard floor surfaces and assist in the mobility of the robot. We are currently jointly marketing this specially-engineered cleaning solution with The Clorox Company.

**Government and Industrial Products**

Our current government and industrial product offerings extend from our PackBot line of small, unmanned ground robots to the prototype R-Gator full-scale, autonomous vehicle. Our government and industrial robots are designed for high-performance, durability and ease of use. Our PackBot family of robots are based on a common platform and are currently priced from approximately \$50,000 to \$115,000 per unit.

*iRobot PackBot Scout.* PackBot Scout is a portable, tactical, mobile robot designed for military operations in urban terrain and other 21st century battle missions. This lightweight, rugged robot can be hand-carried and deployed by a single soldier. Already deployed in Afghanistan and Iraq, PackBot Scout is designed to search dangerous or inaccessible areas, providing soldiers with a safe first look so they know what to expect and how to respond. Less than 20 centimeters high and only 18 kilograms fully loaded, PackBot Scout offers five open payload bays for maximum upgrade potential. Rated at more than 400g's, the PackBot Scout is our most rugged PackBot configuration.

*iRobot PackBot Explorer.* PackBot Explorer is designed for performing real-time targeting and battle damage assessment in dangerous or inaccessible areas or other urban warfare scenarios. PackBot Explorer can enter the danger zone before responders are exposed to risk and function as the incident commander's remote information gatherer. PackBot Explorer can help assess the situation, ensure the appropriate response, and reduce risk.

*iRobot PackBot EOD.* PackBot EOD is a rugged, lightweight robot designed to conduct explosive ordnance disposal, hazardous materials, search-and-surveillance and other vital law enforcement tasks for bomb squads, SWAT teams, military units and other authorities. PackBot EOD can handle a full range of improvised explosive devices and conventional ordnance disposal challenges. Our PackBot EOD robot's lightweight and rugged OmniReach Manipulator System can extend up to six feet to safely disrupt improvised explosive devices, military ordnance, land mines and other incendiary devices.

*R-Gator: Autonomous Unmanned Ground Vehicle.* The R-Gator prototype is built on the well-established rugged Deere & Company M-Gator military utility vehicle platform and enhanced with iRobot robotic controls, navigation and obstacle avoidance systems. The R-Gator is designed to serve numerous important roles, acting as unmanned scout, "point man," perimeter guard, as well as pack/ammunition/supply carrier for soldiers. In conjunction with Deere & Company, we expect to produce a limited number of R-Gator prototypes in 2006, some of which will be used for evaluation by a number of potential government customers. The net proceeds of R-Gator sales will be shared between us and Deere & Company, subject to recoupment of each party's respective contribution to the project. While early editions of these units will be targeted exclusively for military use, there are many potential industrial applications for the technology derived from the R-Gator program, including potential applications in agriculture, perimeter patrol, above-ground pipeline security and logistics.

**Contract Research and Development Projects**

We are involved in several contract development projects with various U.S. governmental agencies and departments. The durations of these projects range from a few months to several years. These projects are usually funded as either cost-plus arrangements or time and materials contracts. In a cost-plus contract, we are allowed to recover our actual costs plus a fixed fee. The total price on a cost-plus contract is based primarily on allowable costs incurred, but generally is subject to a maximum contract funding limit. On our time and materials contracts, we recover a specific amount per hour worked based on a bill rate schedule, plus the cost of direct materials, subcontracts, and other non-labor costs, including an agreed-upon mark-up. A time and materials contract may provide for a not-to-exceed price ceiling, as well as the potential that we will absorb any cost overrun.

Government funding is provided to further the development of robot technologies to solve various in-field challenges and with the expectation that if the projects result in the development of technically viable prototypes, then the government will purchase multiple production units for future use in the field. The government funding that we receive allows iRobot to accelerate the development of multiple technologies.



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While the U.S. government retains certain rights to military projects that it has funded, such as the right to use inventions and disclose technical data relating to those projects without constraining the recipient's use of that data, we retain ownership of patents and know-how and are generally free to develop other commercial products, including consumer and industrial products, utilizing the technologies developed during these projects. The rights which the government retains, however, may allow it to provide use of patent rights and know-how to others, and some of the know-how might be used by these third parties for their own development of consumer and industrial products. The contract development projects that we are currently undertaking include:

*Small Unmanned Ground Vehicle (SUGV).* FCS is a major program intended to transform the U.S. Army to be strategically responsive and dominant at every point on the spectrum of operations, through real-time network centric communications and systems of a family of manned vehicles and unmanned platforms by the next decade. The FCS program combines advanced technologies, organizations, people and processes with concepts to create new sources of military power that are more responsive, deployable, agile, versatile, lethal, survivable and sustainable. The FCS system of systems is designed to provide increased strategic responsiveness, adaptive modular organizations, and units of action with three to seven days of self-sustainment.

Our specific role in the FCS program is to design and develop the SUGV, which is intended to be the "soldier's robot." The SUGV is expected to be a light-weight, man-portable robot that will support reconnaissance, remote sensing and urban warfare. Our involvement in the FCS program has enabled us to improve various management and control systems and enhance our engineering capabilities to achieve the Software Executive Institute's Configuration Maturity Model, or CMM, certification Level III. The program has also funded the development of earned value measurement and advanced modeling and simulation.

*NEOMover.* New Explosive Ordnance Mover, or NEOMover, is a 200-pound gross weight tracked vehicle, capable of transporting a 150-pound payload, with a small footprint and extremely high mobility sponsored by the Technical Support Working Group, or TSWG. The NEOMover design incorporates a number of concepts present in other iRobot remote controlled vehicles and demonstrates many of the advantages that modular payloads and common interfaces can bring to the explosive ordnance disposal community. There are two goals of this effort. The first is to advance the maturity levels of the NEOMover hardware, firmware and software, and to enhance environmental ruggedness to a level suitable for small quantity manufacturing and evaluation of NEOMover platforms in field trials. The second is to maintain a level of architectural openness for future component integration with other TSWG common architecture components to enable continued future development.

*Wayfarer.* Wayfarer is an applied research project funded by the U.S. Army Tank-automotive and Armaments Command, or TACOM, to develop fully-autonomous urban reconnaissance capabilities for our PackBot robot. On today's battlefields, urban reconnaissance is vital to the safety and effectiveness of the soldier. Teleoperated robots can extend the soldier's vision, but their applications are limited by communications range and available bandwidth. Wayfarer is being designed to increase the survival rates and effectiveness of urban soldiers by extending their vision beyond communications range. Wayfarer robots are being designed to perform the following fully-autonomous reconnaissance missions:

- *Route Reconnaissance.* Move ahead of the soldier along a planned route of advance and return maps and video of what lies ahead.
- *Perimeter Reconnaissance.* Traverse the entire perimeter of a building complex and return with maps and video.
- *Street-Based Reconnaissance.* Navigate down city streets using street-following behaviors along with GPS/ INS and return maps and video of the urban terrain. The modular Wayfarer navigation payload connects to the standard PackBot payload interface and includes light detection and ranging, or LIDAR, stereo vision, forward-looking infrared, or FLIR, and inertial navigation system sensor hardware.

## Strategic Alliances

Our strategic alliances are an important part of our product development and distribution strategies. We rely on strategic alliances to provide technology, complementary product offerings and increased and quicker access to markets. We seek to form relationships with those entities that can provide best-in-class technology or complementary market advantages for establishing iRobot technology in new market segments.

Among the strategic alliances we have established with commercial entities are the following:

*Deere & Company.* We have entered into a strategic business agreement with the commercial and consumer equipment division of Deere & Company to explore and potentially collaborate on multiple projects involving technology and product development and commercialization efforts. We have collaborated with Deere & Company on the development of the R-Gator unmanned ground vehicle. Deere & Company has provided funded research and development, access to its M-Gator military utility vehicle platform and certain other technology, and we have provided robot technologies, including our AWARE Robot Intelligence Systems. Technology jointly developed under the agreement will be owned by both Deere & Company and us, and technology independently developed by either Deere & Company or us will be owned by the developing party. We and Deere & Company expect to produce a limited number of R-Gator prototypes for evaluation by potential government contractors. Net proceeds from sales of the R-Gator generally will be shared equally between us and Deere & Company, subject to recoupment of each party's respective contribution to the project.

To facilitate management of the R-Gator project and additional collaborative activities, we and Deere & Company have established a joint management committee to develop proposals for projects, oversee and report on the progress and fulfillment of projects, and seek opportunities to further the goals of the strategic business relationship through joint demonstration of technology and products at trade shows, industry days and internal management reviews. We believe that our strategic alliance with Deere & Company will lead to technologies, and later products, that are directly applicable to serving markets such as agricultural and construction equipment, in which we believe autonomous vehicles can play a significant role. Under the agreement, we have agreed not to work with any third party on projects competitive with certain Deere & Company products if Deere & Company makes minimum annual payments to us under the agreement of at least \$2.0 million, or as otherwise mutually agreed.

*The Clorox Company.* We have entered into a joint development and license agreement with The Clorox Company, whereby Clorox is the exclusive provider of the cleaning solution for the Scooba floor washing robot. Our alliance with The Clorox Company allows us to integrate their cleaning technology and know-how into our floor washing robot, improves consumer perception and awareness of our brand by association and through joint marketing, and provides a necessary product component at an affordable price.

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

## Sales and Distribution Channels

We sell our products through distinct sales channels to the consumer and government and industrial markets.

### *Consumer*

We sell our consumer products through a network of national retailers. In 2005, these products were sold by 19 retailers representing over 7,000 stores in the United States. We also offer our products through the iRobot on-line store on our website. Internationally, our products are sold in over 40 countries, primarily through in-country distributors who resell to retail stores in their respective countries.

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We have a philosophy to choose supportive channel partners, and we have grown, and intend to continue to selectively grow our retail network globally and by product line. We began with four retailers in 2002, grew to twelve retailers in 2003 and 15 retailers in 2004, and have continued to expand our retail network to 19 retailers in 2005. Certain smaller domestic retail operations are supported by distributors to whom we sell product directly. Approximately 51% and 65% of our total revenue was generated from our top 15 consumer customers for the years ended December 31, 2005 and 2004, respectively. The table below represents the top 15 consumer customers for the year ended December 31, 2005.

- Amazon.com
- Bed Bath & Beyond
- Best Buy
- Brookstone
- Cosmo Corp
- Home Shopping Network
- Kohl's
- Linens n' Things
- M. Block & Sons
- Mitsui & Co
- Sam's Club
- Sears
- Target
- The Home Depot
- The Sharper Image

Our retail network is our primary distribution channel for our consumer products. Although not currently a material component of our product sales, we maintain, and intend to expand our direct-to-consumer offerings through the iRobot on-line store. We have established valuable databases and customer lists that allow us to target directly those consumers most likely to purchase a new robot or upgrade. We believe we maintain a close connection with our customers in each of our markets to provide an enhanced position from which to improve our distribution and product offerings.

In the United States, we maintain an in-house sales and product management team of eleven employees. Outside the United States and Canada we sell our consumer products through distributors. Our consumer distribution strategy is intended to increase our global penetration and presence while maintaining high quality standards to ensure end-user satisfaction.

### ***Government and Industrial***

We sell our government and industrial products directly to end users and indirectly through prime contractors. While the majority of government and industrial products have been sold to date to various operations within the U.S. federal government, we also sell to state and local government organizations. Our military products are sold overseas in compliance with the International Trafficking in Arms Regulations, or ITAR. We have sold our products to the governments of various countries in the past several years, including France, Germany, Singapore and Sweden.

Customers and sponsors for our government products and contracts for the year ended December 31, 2005 include:

#### **Research Support Agencies**

- U.S. Defense Advanced Research Projects Agency (DARPA)
- U.S. Space and Warfare Command (SPAWAR)
- U.S. Army Tank-automotive and Armaments Command (TACOM)
- Technical Support Working Group (TSWG)

#### **Government Customers**

- U.S. Army
- U.S. Marine Corps
- U.S. Navy
- U.S. Air Force

Our government products are sold by a team of six government sales specialists with over 40 years of cumulative experience in selling to government and defense agencies. All of these individuals have years of experience selling military products to government procurement offices, both in the United States and internationally. We maintain a direct sales and support presence in Europe.

### ***Customer Service and Support***

We also invest in our ongoing customer service and support. Consumer customer service representatives, some of whom are in-house and some of whom are outsourced, are extensively trained on the technical intricacies of our consumer products. Government and industrial customer representatives are usually former military personnel who are experienced in logistical and technical support requirements for military operations.

### **Marketing and Brand**

iRobot markets its home robots in the United States to end-user customers directly through our sales and product management team of eleven employees. We also market our consumer products in the United States through our retail network of 19 national retailers and internationally through in-country distributors. We market our government and industrial products directly through our team of six government sales specialists to end users and indirectly through prime contractors. We also market our product offerings through the iRobot website. Our marketing strategy is to increase our brand awareness and associate the iRobot brand with innovation, reliability, safety and value. Our sales and marketing expenses represented 15.3% and 14.8% of our total revenue in 2005 and 2004, respectively.

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

Our innovative robots and public relations campaign have generated extensive press coverage. In addition, iRobot and our consumer robots have won several awards and our inclusion as one of 15 prime contractors on the FCS program has greatly enhanced our brand and awareness among government and industrial customers. Through these efforts, we have been able to build our brand, and we expect that our reputation for innovative products and word-of-mouth support will continue to play a significant role in our growth and success.

We expect to accelerate our investment in national advertising, consumer and industry trade shows, direct marketing and public relations to further build brand awareness. We believe that our significant in-house experience designing direct campaigns and promotional materials, combined with our media-targeting expertise, gives us a significant competitive advantage.

Our website is also playing an increasing role in supporting brand awareness, addressing customer questions and serving as a showcase for our products. Our consumer robots and accessories are sold through our online store.

### **Manufacturing**

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

Using our engineering team of over 100 roboticists, we believe that we can rapidly prototype design concepts and products to achieve optimal value, produce products at lower cost points and optimize our designs for manufacturing requirements, size and functionality.

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

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Since 2002, we have outsourced the manufacturing of our consumer products to one contract manufacturer, Jetta Company Limited at a single plant in China. Jetta Company Limited has been manufacturing products since 1977 and brings substantial experience to our production requirements. Jetta Company Limited has several manufacturing locations and last year expanded one of its facilities to increase capacity for the production of our Roomba and Scooba robots. Combined with our own engineering operations in India and Hong Kong, this allows us to design our products in the United States, use our own engineers in India and Hong Kong as the technical interface with the facilities in China, and benefit from the experience of Jetta Company Limited and its engineers.

Our government and industrial products are manufactured by Gem City Engineering Corporation at one plant in Dayton, Ohio. Gem City Engineering Corporation's location is particularly important as military products supplied to the U.S. government must have the majority of their content manufactured in the United States. Gem City Engineering Corporation has multiple facilities and relies on other subcontractors for certain component manufacturing capabilities. Gem City Engineering Corporation has been in the business of manufacturing primarily metal-tooled products since 1936, and has produced numerous products for military contractors. We believe that their engineers are skilled in the production of products meeting military specifications, preparing final products for military inspection and conducting quality reviews.

### **Research and Development**

We believe that our future success depends upon our ability to continue to develop new products and product accessories, and enhancements to and applications for our existing products. For the years ended December 31, 2005, 2004 and 2003, our research and development expenses were \$11.5 million, \$5.5 million and \$3.8 million, respectively. In addition to our internal research and development activities, for the years ended December 31, 2005, 2004 and 2003, we have incurred research and development expenses under funded development arrangements with governments and industrial third parties of \$12.5 million, \$8.4 million and \$6.1 million, respectively. Of our total research and development spending in 2005 and 2004, approximately 37.2% and 41.7%, respectively was funded by government-sponsored research and development contracts. We intend to accelerate our investment in research and development to respond to and anticipate customer needs, and to enable us to introduce new products over the next few years that will continue to address our existing market sectors.

#### ***Team Organization***

Our research and development is conducted by small teams of individuals dedicated to particular projects. Current research and development teams include the Roomba team, Scooba team, NEOMover team and PackBot team. Teams are typically comprised of less than ten employees including one team leader and electrical, software and mechanical engineers. In connection with our FCS SUGV program involving more than 50 employees, we have instituted a formal integrated product team structure consisting of integrated System of Systems, Integrated Logistical Support, Program Operations and Business Operations teams to work together to deliver a platform that integrates with the FCS system of systems.

#### ***Global Engineering***

Our research and development efforts are primarily located at our headquarters in Burlington, Massachusetts, and our special projects' engineering office in San Luis Obispo, California. In addition, we have an engineering design center in India and a product development team working out of Hong Kong. Our global engineering development process for consumer products allows us to leverage the time differences between our United States operations and our teams in Asia resulting in a fast, low cost global design and manufacturing cycle. The first stage of the cycle takes place in our Burlington, Massachusetts office where we focus on product definition, prototyping, market research and financial analysis. We then create a design that is manufacturable, complete modeling and simulation and initial validation of the product/market concept. After the initial development of the prototypes, we leverage the teams in India and Hong Kong for the production stage of the cycle. During this stage, engineers on two continents work around the clock on refining the designs, preparing the product for manufacturing and working through the issues for pilot production.

including detailed regression testing. The product is then turned over to the contract manufacturer for volume production.

### ***Spiral Development***

One of the methods we use to develop military products is a “spiral development” process to get field tested equipment to the troops quickly. After we develop a new product or product upgrade that will fill the desired capability of the user, it is tested with soldiers in the field. The user provides performance feedback on the product to the in-field engineer. Revisions are made quickly to retest in the field. This method has allowed our research and development team to not only make revisions on existing products quickly and efficiently, but also to capture feedback for future upgrades and innovations to meet user needs. An example of our spiral development process was the introduction of our first PackBot tactical military robot. When the PackBot was first deployed by the U.S. Army in Afghanistan, we sent one of our technical program managers into the field with the robot. The soldiers gave feedback upon returning from a mission, and our development team made the desired changes to the software. These changes were then downloaded to the PackBot in Afghanistan, sometimes even before the next mission. In addition, based on design ideas from the soldiers using the PackBot, our engineers developed the PackBot Explorer, a recent addition to our PackBot product line. We intend to solicit similar user feedback in the field for the new prototype R-Gator intelligent vehicle to capture the users’ operational requirements as the product advances in development.

### ***Leveraged Model***

Our research and development efforts for our next-generation products are supported by a variety of sources. Our research and development efforts for our next-generation military products are predominately supported by U.S. governmental research organizations such as the Defense Advanced Research Projects Agency, or DARPA, U.S. Space and Warfare Command, or SPAWAR, Technical Support Working Group, or TSWG, and the U.S. Army’s FCS program. While the U.S. government retains certain rights in the research projects that it has funded, we retain ownership of patents and know-how and are generally free to develop other commercial products, including consumer and industrial products, utilizing the technologies developed during these projects. Similarly, expertise developed while designing consumer products is used in designing products for government and industrial applications. We also work with strategic collaborators to develop industry-specific technologies. Moreover, we continue to reinvest in advanced research and development projects to maintain our technical capability and to enhance our product offerings.

### **Competition**

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

- developers of robotic floor care products such as AB Electrolux, Alfred Kärcher GmbH & Co., Samsung Electronics Co., Ltd., LG Electronics Inc., Infinuvo/ Metapo, Inc, Matsutek Enterprises Co Ltd. and Yujin Robotic Co. Ltd.;
- developers of small unmanned ground vehicles such as Foster-Miller, Inc. — a wholly owned subsidiary of QinetiQ North America, Inc., Allen-Vanguard Corporation, and Remotec — a division of Northrop Grumman Corporation; and
- established government contractors working on unmanned systems such as Lockheed Martin Corporation, BAE Systems, Inc. and General Dynamics Corporation.

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

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

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

### **Intellectual Property**

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

As of December 31, 2005, we held 24 U.S. patents and more than 25 pending U.S. patent applications. Also, we held six foreign patents and more than 20 pending foreign patent applications. Our first U.S. patent is set to expire in 2008. We do not expect the expiration of this patent to adversely affect our intellectual property position. Our other U.S. patents will begin to expire in 2019. We will continue to file and prosecute patent (or design registration, as applicable) applications when and where appropriate to attempt to protect our rights in our proprietary technologies. We also encourage our employees to continue to invent and develop new technologies so as to maintain our competitiveness in the marketplace. It is possible that our current patents, or patents which we may later acquire, may be successfully challenged or invalidated in whole or in part. It is also possible that we may not obtain issued patents for our pending patent applications or other inventions we seek to protect. In that regard, we sometimes permit certain intellectual property to lapse or go abandoned under appropriate circumstances and due to uncertainties inherent in prosecuting patent applications, sometimes patent applications are rejected and we subsequently abandon them. It is also possible that we may not develop proprietary products or technologies in the future that are patentable, or that any patent issued to us may not provide us with any competitive advantages, or that the patents of others will harm or altogether preclude our ability to do business.

Our registered U.S. trademarks include iRobot, Roomba, PackBot and Virtual Wall. Our marks, iRobot and Roomba, and certain other trademarks, have also been registered in selected foreign countries.

Our means of protecting our proprietary rights may not be adequate and our competitors may independently develop technology that is similar to ours. Legal protections afford only limited protection for our technology. The laws of many countries do not protect our proprietary rights to as great an extent as do the laws of the United States. Despite our efforts to protect our proprietary rights, unauthorized parties have in the past attempted, and may in the future attempt, to copy aspects of our products or to obtain and use information that we regard as proprietary. Third parties may also design around our proprietary rights, which may render our protected products less valuable, if the design around is favorably received in the marketplace. In addition, if any of our products or the technology underlying our products is covered by third-party patents or other intellectual property rights, we could be subject to various legal actions. We cannot assure you that our products do not infringe patents held by others or that they will not in the future. We have received in the past communications from third parties relating to technologies used in our Roomba floor vacuuming robots that have alleged infringement of patents or violation of other intellectual property rights. In response to these communications, we have contacted these third parties to convey our good faith belief that we do not infringe the patents in question or otherwise violate those parties' rights. Although there have been no additional actions or communications with respect to these allegations, we cannot assure you that we will not receive further correspondence from these parties, or not be subject to additional allegations of infringement from others. Litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement

or invalidity, misappropriation, or other claims. Any such litigation could result in substantial costs and diversion of our resources. Moreover, any settlement of or adverse judgment resulting from such litigation could require us to obtain a license to continue to use the technology that is the subject of the claim, or otherwise restrict or prohibit our use of the technology. Any required licenses may not be available to us on acceptable terms, if at all. If we attempt to design around the technology at issue or to find another provider of suitable alternative technology to permit us to continue offering applicable software or product solutions, our continued supply of software or product solutions could be disrupted or our introduction of new or enhanced software or products could be significantly delayed.

## Regulations

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

- the Federal Acquisition Regulations and supplemental agency regulations, which comprehensively regulate the formation and administration of, and performance under government contracts;
- the Truth in Negotiations Act, which requires certification and disclosure of all cost and pricing data in connection with contract negotiations;
- the Cost Accounting Standards, which impose accounting requirements that govern our right to reimbursement under cost-based government contracts;
- the Foreign Corrupt Practices Act, which prohibits U.S. companies from providing anything of value to a foreign official to help obtain, retain or direct business, or obtain any unfair advantages;
- the False Claims Act and the False Statements Act, which, respectively, impose penalties for payments made on the basis of false facts provided to the government, and impose penalties on the basis of false statements, even if they do not result in a payment; and
- laws, regulations and executive orders restricting the use and dissemination of information classified for national security purposes and the exportation of certain products and technical data.

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

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

In addition, the export from the United States of many of our products may require the issuance of a license by the U.S. Department of Commerce under the Export Administration Act, as amended, and its implementing Regulations as kept in force by the International Emergency Economic Powers Act of 1977, as amended. Some of our products may require the issuance of a license by the U.S. Department of State under the Arms Export Control Act and its implementing Regulations, which licenses are generally harder to obtain and take longer to obtain than do Export Administration Act licenses.



### **Government Product Backlog**

Our government product backlog consists of written orders or contracts to purchase our products received from our government customers. Total backlog of product sales to government customers as of December 31, 2005 amounted to approximately \$10.9 million, with all orders scheduled for shipment within nine months. We did not maintain detailed backlog data as of the end of the comparable prior year period primarily because the volume of orders that we received prior to January 1, 2005 was not sufficient to result in significant backlog. We do not have long-term contracts with non-government customers, and purchases from our non-government customers generally occur on an order-by-order basis, which can be terminated or modified at any time by these customers. In addition, our funded research and development contracts may be cancelled or delayed at any time without significant, if any, penalty. As a result, we believe that backlog with respect to product sales to our non-government customers and funded research and development is not meaningful. There can be no assurance that any of our backlog will result in revenue.

### **Employees**

As of December 31, 2005, we had 276 full-time employees located in the United States and abroad, of whom 142 are in research and development, 46 are in operations, 24 are in sales and marketing and 64 are in general and administration. We believe that we have a good relationship with our employees.

### **Available Information**

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

## ITEM 1A. RISK FACTORS

We operate in a rapidly changing environment that involves a number of risks, some of which are beyond our control. This discussion highlights some of the risks which may affect future operating results. These are the risks and uncertainties we believe are most important for you to consider. Additional risks and uncertainties not presently known to us, which we currently deem immaterial or which are similar to those faced by other companies in our industry or business in general, may also impair our business operations. If any of the following risks or uncertainties actually occurs, our business, financial condition and operating results would likely suffer.

### Risks Related to Our Business

***Our future profitability is uncertain, and we have a limited operating history on which you can base your evaluation of our business.***

We have historically incurred significant losses including net losses of \$10.8 million and \$7.4 million in the years ended December 31, 2002 and 2003, respectively. As a result of operating losses, we had an accumulated deficit of \$24.3 million at December 31, 2005. Because we operate in a rapidly evolving industry, we have difficulty predicting our future operating results, and we cannot be certain that our revenue will grow at rates that will allow us to maintain profitability on a quarterly or annual basis. In addition, we only have a limited operating history on which you can base your evaluation of our business. If we fail to maintain profitability, the market price of our common stock will likely fall.

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

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

- generate sufficient revenue and gross profit to maintain profitability;
- acquire and maintain market share in our consumer and military markets;
- manage growth in our operations;
- attract and retain customers of our consumer robots;
- develop and renew government contracts for our military robots;
- attract and retain additional roboticists and other highly-qualified personnel;
- adapt to new or changing policies and spending priorities of governments and government agencies; and
- access additional capital when required and on reasonable terms.

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

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

Our quarterly revenue and other operating results have varied in the past and are likely to continue to vary significantly from quarter-to-quarter. For instance, our consumer product revenue is significantly seasonal and, historically, as much as 75% of our revenue from sales of consumer products has been generated in the second

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half of the year. This variability may lead to volatility in our stock price as equity research analysts and investors respond to these quarterly fluctuations. These fluctuations will be due to numerous factors including:

- seasonality in the sales of our consumer products;
- the size and timing of orders from military and other government agencies;
- the mix of products that we sell in the period;
- disruption of supply of our products from our manufacturers;
- the inability to attract and retain qualified, revenue-generating personnel;
- unanticipated costs incurred in the introduction of new products;
- costs of labor and raw materials;
- changes in our rate of returns for our consumer products;
- our ability to introduce new products and enhancements to our existing products on a timely basis;
- price reductions;
- the amount of government funding and the political, budgetary and purchasing constraints of our government agency customers; and
- cancellations, delays or contract amendments by government agency customers.

Revenue for any particular quarter and revenue from sales of our consumer products are difficult to predict. Chain stores and other national retailers typically place orders for the holiday season in the third quarter and early in the fourth quarter. The timing of these holiday season shipments could materially affect our third or fourth quarter results in any fiscal year. Because of quarterly fluctuations, we believe that quarter-to-quarter comparisons of our operating results are not necessarily meaningful. Moreover, our operating results may not meet expectations of equity research analysts or investors. If this occurs, the trading price of our common stock could fall substantially either suddenly or over time.

***A majority of our business currently depends on our consumer robots, and our sales growth and operating results would be negatively impacted if we are unable to enhance our current consumer robots or develop new consumer robots at competitive prices or in a timely manner.***

For the years ended December 31, 2005 and 2004, we derived 65.4% and 73.8% of our total revenue from our home floor care robots, respectively. For the foreseeable future, we expect that a majority of our revenue will continue to be derived from sales of consumer home floor care products. Accordingly, our future success depends upon our ability to further penetrate the consumer home floor care market, to enhance our current consumer products and develop and introduce new consumer products offering enhanced performance and functionality at competitive prices. The development and application of new technologies involve time, substantial costs and risks. For example, we have devoted significant time and incurred significant expenses in connection with developing our Scooba robot, which is designed to sweep, wash, scrub and dry hard floors, and we have recently made our Scooba robot available for volume distribution. Our results in 2006 will depend in part on the success of this new product line, and there can be no assurance that it will attain market acceptance. Our inability, for technological or other reasons, to achieve significant sales of our Scooba robot, or to enhance, develop and introduce other products in a timely manner, or at all, would materially harm our sales growth and operating results.

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

For the years ended December 31, 2005 and December 31, 2004, we derived 28.3% and 20.1% of our total revenue, respectively, directly or indirectly, from the U.S. federal government and its agencies. Any reduction in the amount of revenue that we derive from the U.S. federal government without an offsetting increase in new sales to other customers would have a material adverse effect on our operating results.

Our participation in specific major U.S. federal government programs is critical to both the development and sale of our military robots. For example, in the years ended December 31, 2005 and 2004, 59.7% and 35.9% of our contract revenue was derived from our participation in the U.S. Army's Future Combat Systems program, respectively. Future sales of our PackBot robots will depend largely on our ability to secure contracts with the U.S. Army under its robot programs. We expect that there will continue to be only a limited number of major programs under which U.S. federal government agencies will seek to fund the development of, or purchase, robots. Our business will, therefore, suffer if we are not awarded, either directly or indirectly through third-party contractors, government contracts for robots that we are qualified to develop or build. In addition, if the U.S. federal government or government agencies terminate or reduce the related prime contract under which we serve as a subcontractor, revenues that we derive under that contract could be lost, which would negatively impact our business and financial results. Moreover, it is difficult to predict the timing of the award of government contracts and our revenue could fluctuate significantly based on the timing of any such awards.

Even if we continue to receive funding for research and development under these contracts, there can be no assurance that we will successfully complete the development of robots pursuant to these contracts or that, if successfully developed, the U.S. federal government or any other customer will purchase these robots from us. The U.S. federal government has the right when it contracts to use the technology developed by us to have robots supplied by third parties. Any failure by us to complete the development of these robots, or to achieve successful sales of these robots, would harm our business and results of operations.

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

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

- terminate contracts for convenience, in whole or in part, at any time and for any reason;
- reduce or modify contracts or subcontracts if its requirements or budgetary constraints change;
- cancel multi-year contracts and related orders if funds for contract performance for any subsequent year become unavailable;
- exercise production priorities, which allow it to require that we accept government purchase orders or produce products under its contracts before we produce products under other contracts, which may displace or delay production of more profitable orders;
- claim certain rights in products provided by us; and
- control or prohibit the export of certain of our products.

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

In addition, we are subject to audits by the U.S. federal government as part of routine audits of government contracts. As part of an audit, these agencies may review our performance on contracts, cost

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

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

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

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

***Government contracts are subject to a competitive bidding process that can consume significant resources without generating any revenue.***

Government contracts are frequently awarded only after formal competitive bidding processes, which are protracted. In many cases, unsuccessful bidders for government agency contracts are provided the opportunity to protest certain contract awards through various agency, administrative and judicial channels. If any of the government contracts awarded to us are protested, we may be required to expend substantial time, effort and financial resources without realizing any revenue with respect to the potential contract. The protest process may substantially delay our contract performance, distract management and result in cancellation of the contract award entirely.

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

We currently depend on one contract manufacturer, Jetta Company Limited, to manufacture our consumer products at a single plant in China and rely on one contract manufacturer, Gem City Engineering Corporation, to manufacture our military products at a single plant in the United States. Moreover, we do not have a long-term contract with Jetta Company Limited and the manufacture of our consumer products is provided on a purchase-order basis. These manufacturers supply substantially all of the raw materials and provide all facilities and labor required to manufacture our products. If these companies were to terminate their arrangements with us or fail to provide the required capacity and quality on a timely basis, we would be unable to manufacture our products until replacement contract manufacturing services could be obtained. To qualify a new contract manufacturer, familiarize it with our products, quality standards and other requirements, and commence volume production is a costly and time-consuming process. We cannot assure you that we would be able to establish alternative manufacturing relationships on acceptable terms.

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

- lack of direct control over production capacity and delivery schedules;
- lack of direct control over quality assurance, manufacturing yields and production costs;

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- lack of enforceable contractual provisions over the production and costs of consumer products;
- risk of loss of inventory while in transit from China; and
- risks associated with international commerce with China, including unexpected changes in legal and regulatory requirements, changes in tariffs and trade policies, risks associated with the protection of intellectual property and political and economic instability.

Any interruption in the manufacture of our products would be likely to result in delays in shipment, lost sales and revenue and damage to our reputation in the market, all of which would harm our business and results of operations. In addition, while our contract obligations with our contract manufacturer in China are typically denominated in U.S. dollars, changes in currency exchange rates could impact our suppliers and increase our prices. In particular, the Chinese government announced in 2005 that the Chinese yuan has moved to a managed floating exchange rate regime, which could lead to our suppliers in China negotiating increased pricing terms with us.

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

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

***If we are unable to implement appropriate controls and procedures to manage our growth, we may not be able to successfully implement our business plan.***

Our headcount and operations are growing rapidly. This rapid growth has placed, and will continue to place, a significant strain on our management, administrative, operational and financial infrastructure. From December 31, 2004 to December 31, 2005, the number of our employees increased from 148 to 276. We anticipate further growth will be required to address increases in our product offerings and the geographic scope of our customer base. Our success will depend in part upon the ability of our senior management to manage this growth effectively. To do so, we must continue to hire, train, manage and integrate a significant number of qualified managers and engineers. If our new employees perform poorly, or if we are unsuccessful in hiring, training, managing and integrating these new employees, or retaining these or our existing employees, our business may suffer.

In addition, to manage the expected continued growth of our headcount and operations, we will need to continue to improve our information technology infrastructure, operational, financial and management controls and reporting systems and procedures, and manage expanded operations in geographically distributed locations. Our expected additional headcount and capital investments will increase our costs, which will make it more difficult for us to offset any future revenue shortfalls by offsetting expense reductions in the short term. If we fail to successfully manage our growth we will be unable to successfully execute our business plan, which could have a negative impact on our business, financial condition or results of operations.

***If the consumer robot market does not experience significant growth or if our products do not achieve broad acceptance, we will not be able to achieve our anticipated level of growth.***

We derive a substantial portion of our revenue from sales of our consumer robots. For the year ended December 31, 2005 and 2004, consumer robots accounted for 65.4% and 73.8% of total revenue respectively. We cannot accurately predict the future growth rate or the size of the consumer robot market. Demand for consumer robots may not increase, or may decrease, either generally or in specific geographic markets, for

particular types of robots or during particular time periods. The expansion of the consumer robot market and the market for our products depends on a number of factors, such as:

- the cost, performance and reliability of our products and products offered by our competitors;
- public perceptions regarding the effectiveness and value of robots;
- customer satisfaction with robots; and
- marketing efforts and publicity regarding robots.

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

***Our business and results of operations could be adversely affected by significant changes in the policies and spending priorities of governments and government agencies.***

We derive a substantial portion of our revenue from sales to and contracts with U.S. federal, state and local governments and government agencies, and subcontracts under federal government prime contracts. For the years ended December 31, 2005 and December 31, 2004, U.S. federal government orders, contracts and subcontracts accounted for 28.3% and 20.1%, of total revenue, respectively. We believe that the success and growth of our business will continue to depend on our successful procurement of government contracts either directly or through prime contractors. Many of our government customers are subject to stringent budgetary constraints and our continued performance under these contracts, or award of additional contracts from these agencies, could be jeopardized by spending reductions or budget cutbacks at these agencies. We cannot assure you that future levels of expenditures and authorizations will continue for governmental programs in which we provide products and services. A significant decline in government expenditures generally, or with respect to programs for which we provide products, could adversely affect our government product and funded research and development revenues and prospects, which would harm our business, financial condition and operating results. Our operating results may also be negatively impacted by other developments that affect these governments and government agencies generally, including:

- changes in government programs that are related to our products and services;
- adoption of new laws or regulations relating to government contracting or changes to existing laws or regulations;
- changes in political or public support for security and defense programs;
- delays or changes in the government appropriations process;
- uncertainties associated with the war on terror and other geo-political matters; and
- delays in the payment of our invoices by government payment offices.

These developments and other factors could cause governments and governmental agencies, or prime contractors that use us as a subcontractor, to reduce their purchases under existing contracts, to exercise their rights to terminate contracts at-will or to abstain from renewing contracts, any of which would cause our revenue to decline and could otherwise harm our business, financial condition and results of operations.

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

We believe that a number of companies have developed or are developing robots that will compete directly with our product offerings. Additionally, large and small companies, government-sponsored laboratories and universities are aggressively pursuing contracts for robot-focused research and development. Many current and potential competitors have substantially greater financial, marketing, research and manufacturing

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resources than we possess, and there can be no assurance that our current and future competitors will not be more successful than us. Moreover, while we believe many of our customers purchase our floor vacuuming robots as a supplement to, rather than a replacement for, their traditional vacuum cleaners; we also compete in some cases with providers of traditional vacuum cleaners. Our current principal competitors include:

- developers of robotic floor care products such as AB Electrolux, Alfred Kärcher GmbH & Co., Samsung Electronics Co., Ltd., LG Electronics Inc., Infinuvo/ Metapo, Inc., Matsutek Enterprises Co Ltd. and Yujin Robotic Co. Ltd.;
- developers of small unmanned ground vehicles such as Foster-Miller, Inc. — a wholly owned subsidiary of QinetiQ North America, Inc., Allen-Vanguard Corporation, and Remotec — a division of Northrop Grumman Corporation; and
- established government contractors working on unmanned systems such as Lockheed Martin Corporation, BAE Systems, Inc. and General Dynamics Corporation.

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

The market for robots is highly competitive, rapidly evolving and subject to changing technologies, shifting customer needs and expectations and the likely increased introduction of new products. Our ability to remain competitive will depend to a great extent upon our ongoing performance in the areas of product development and customer support. We cannot assure you that our products will continue to compete favorably or that we will be successful in the face of increasing competition from new products and enhancements introduced by existing competitors or new companies entering the markets in which we provide products. Our failure to compete successfully could cause our revenue and market share to decline, which would negatively impact our results of operations and financial condition.

***Our business is significantly seasonal and, because many of our expenses are based on anticipated levels of annual revenue, our business and operating results will suffer if we do not achieve revenue consistent with our expectations.***

Our consumer product revenue is significantly seasonal. Historically, as much as 75% of our revenue from sales of consumer products has been, and a majority of such revenue is expected to continue to be, generated in the second half of the year. As a result of this seasonality, we believe that quarter-to-quarter comparisons of our operating results are not necessarily meaningful and that these comparisons cannot be relied upon as indicators of future performance.

We base our current and future expense levels on our internal operating plans and sales forecasts, including forecasts of holiday sales for our consumer products. Most of our operating expenses, such as research and development expenses, advertising and promotional expenses and employee wages and salaries, do not vary directly with sales and are difficult to adjust in the short term. As a result, if sales for a quarter, particularly the final quarter of a fiscal year, are below our expectations, we might not be able to reduce operating expenses for that quarter and, therefore, would not be able to reduce our operating expenses for the fiscal year. Accordingly, a sales shortfall during a fiscal quarter, and in particular the fourth quarter of a fiscal year, could have a disproportionate effect on our operating results for that quarter or that year. As a result of these factors, we may report operating results that do not meet the expectations of equity research analysts and investors. This could cause the trading price of our common stock to decline.



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

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

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

Our robots rely on the interplay among behavior-based artificially intelligent systems, real-world dynamic sensors, friendly user interfaces and tightly-integrated, electromechanical designs to accomplish their missions. Despite testing, our new or existing products have contained defects and errors and may in the future contain defects, errors or performance problems when first introduced, when new versions or enhancements are released, or even after these products have been used by our customers for a period of time. These problems could result in expensive and time-consuming design modifications or warranty charges, delays in the introduction of new products or enhancements, significant increases in our service and maintenance costs, exposure to liability for damages, damaged customer relationships and harm to our reputation, any of which could materially harm our results of operations and ability to achieve market acceptance. In addition, increased development and warranty costs could be substantial and could reduce our operating margins. For instance, we are engaged in a dispute relating to a contract, entered into in 2001, with a UK government agency that is claiming it is entitled to a refund of all payments made by it for the design and development of a robot for ordnance disposal. Moreover, because military robots are used in dangerous situations, the failure or malfunction of any of these robots, including our own, could significantly damage our reputation and support for robot solutions in general. The existence of any defects, errors, or failures in our products could also lead to product liability claims or lawsuits against us. A successful product liability claim could result in substantial cost, diminish our brand and divert management's attention and resources, which could have a negative impact on our business, financial condition and results of operations.

***The robot industry is and will likely continue to be characterized by rapid technological change, which will require us to develop new products and product enhancements, and could render our existing products obsolete.***

Continuing technological changes in the robot industry and in the markets in which we sell our robots could undermine our competitive position or make our robots obsolete, either generally or for particular types of services. Our future success will depend upon our ability to develop and introduce a variety of new capabilities and enhancements to our existing product offerings, as well as introduce a variety of new product offerings, to address the changing needs of the markets in which we offer our robots. Delays in introducing new products and enhancements, the failure to choose correctly among technical alternatives or the failure to offer innovative products or enhancements at competitive prices may cause existing and potential customers to forego purchases of our products and purchase our competitors' products. Moreover, the development of new

products has required, and will require, that we expend significant financial and management resources. We have incurred, and expect to continue to incur, significant research and development expenses in connection with our efforts to expand our product offerings. If we are unable to devote adequate resources to develop new products or cannot otherwise successfully develop new products or enhancements that meet customer requirements on a timely basis, our products could lose market share, our revenue and profits could decline, or we could experience operating losses. Moreover, if we are unable to offset our product development costs through sales of existing or new products or product enhancements, our operating results and gross margins would be negatively impacted.

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

To execute our growth plan, we must attract and retain additional highly-qualified personnel. Competition for hiring these employees is intense, especially with regard to engineers with high levels of experience in designing, developing and integrating robots. Many of the companies with which we compete for hiring experienced employees have greater resources than we have. In addition, in making employment decisions, particularly in the high-technology industries, job candidates often consider the value of the equity they are to receive in connection with their employment. Therefore, significant volatility in the price of our stock may adversely affect our ability to attract or retain technical personnel. Furthermore, changes to accounting principles generally accepted in the United States relating to the expensing of stock options may discourage us from granting the sizes or types of stock options that job candidates may require to accept our offer of employment. If we fail to attract new technical personnel or fail to retain and motivate our current employees, our business and future growth prospects could be severely harmed.

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

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

***If we fail to maintain or increase our consumer robot sales through our primary distribution channels, which include third-party retailers, our product sales and results of operations would be negatively impacted.***

Chain stores and other national retailers are the primary distribution channels for our consumer robots and accounted for approximately 47.8% and 57.9% of our total revenue for the years ended December 31, 2005 and 2004, respectively. We do not have long-term contracts regarding purchase volumes with any of our distributors. As a result, purchases generally occur on an order-by-order basis, and the relationships, as well as particular orders, can generally be terminated or otherwise materially changed at any time by our distributors. A decision by a major retail distributor, whether motivated by competitive considerations, financial difficul-

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ties, economic conditions or otherwise, to decrease its purchases from us, to reduce the shelf space for our products or to change its manner of doing business with us could significantly damage our consumer product sales and negatively impact our business, financial condition and results of operations. In addition, during recent years, various retailers, including some of our distributors, have experienced significant changes and difficulties, including consolidation of ownership, increased centralization of purchasing decisions, restructurings, bankruptcies and liquidations. These and other financial problems of some of our retailers increase the risk of extending credit to these retailers. A significant adverse change in a retail distributor relationship with us or in a retail distributor's financial position could cause us to limit or discontinue business with that distributor, require us to assume more credit risk relating to that distributor's receivables or limit our ability to collect amounts related to previous purchases by that distributor, all of which could harm our business and financial condition. Disruption of the iRobot on-line store could also decrease our consumer robot sales.

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

We believe that developing and maintaining awareness of the iRobot brand is critical to achieving widespread acceptance of our existing and future products and is an important element in attracting new customers. Furthermore, we expect the importance of global brand recognition to increase as competition develops. Successful promotion of our brand will depend largely on the effectiveness of our marketing efforts, including our mass media outreach, in-store training and presentations and public relations, and our ability to provide customers with reliable and technically sophisticated robots at competitive prices. If customers do not perceive our products to be of high quality, our brand and reputation could be harmed, which could adversely impact our financial results. In addition, brand promotion efforts may not yield significant revenue or increased revenue sufficient to offset the additional expenses incurred in building our brand. If we incur substantial expenses to promote and maintain our brand, we may fail to attract sufficient customers to realize a return on our brand-building efforts, and our business would suffer.

***If our existing collaborations are unsuccessful or we fail to establish new collaborations, our ability to develop and commercialize additional products could be significantly harmed.***

If we cannot maintain our existing collaborations or establish new collaborations, we may not be able to develop additional products. We anticipate that some of our future products will be developed and commercialized in collaboration with companies that have expertise outside the robot field. For example, we are currently collaborating with Deere & Company on the development of the R-Gator unmanned ground vehicle, and The Clorox Company on the cleaning solution used in our Scooba floor washing robot. Under these collaborations, we may be dependent on our collaborators to fund some portion of development of the product or to manufacture and market either the primary product that is developed pursuant to the collaboration or complementary products required in order to operate our products. In addition, we cannot assure you that we will be able to establish additional collaborative relationships on acceptable terms.

Our existing collaborations and any future collaborations with third parties may not be scientifically or commercially successful. Factors that may affect the success of our collaborations include the following:

- our collaborators may not devote the resources necessary or may otherwise be unable to complete development and commercialization of these potential products;
- our existing collaborations and future collaborations may be subject to termination on short notice;
- our collaborators may be pursuing alternative technologies or developing alternative products, either on their own or in collaboration with others, that may be competitive with our products, which could affect our collaborators' commitment to the collaboration with us;
- reductions in marketing or sales efforts or a discontinuation of marketing or sales of our products by our collaborators could reduce our revenue;
- our collaborators may terminate their collaborations with us, which could make it difficult for us to attract new collaborators or harm our reputation in the business and financial communities; and

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- our collaborators may pursue higher priority programs or change the focus of their development programs, which would weaken our collaborators' commitment to us.

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

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

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

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

- the Federal Acquisition Regulations and supplemental agency regulations, which comprehensively regulate the formation and administration of, and performance under government contracts;
- the Truth in Negotiations Act, which requires certification and disclosure of all cost and pricing data in connection with contract negotiations;
- the Cost Accounting Standards, which impose accounting requirements that govern our right to reimbursement under cost-based government contracts;
- the Foreign Corrupt Practices Act, which prohibits U.S. companies from providing anything of value to a foreign official to help obtain, retain or direct business, or obtain any unfair advantage;
- the False Claims Act and the False Statements Act, which, respectively, impose penalties for payments made on the basis of false facts provided to the government, and impose penalties on the basis of false statements, even if they do not result in a payment; and
- laws, regulations and executive orders restricting the use and dissemination of information classified for national security purposes and the exportation of certain products and technical data.

Also, we need special clearances to continue working on and advancing certain of our projects with the U.S. federal government. For example, if we were to lose our security clearance, we would be unable to continue to participate in the U.S. Army's Future Combat Systems program. Classified programs generally will require that we comply with various Executive Orders, federal laws and regulations and customer security requirements that may include restrictions on how we develop, store, protect and share information, and may require our employees to obtain government clearances.

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

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

Our success depends on our ability to protect our intellectual property and other proprietary rights. We rely primarily on patents, trademarks, copyrights, trade secrets and unfair competition laws, as well as license agreements and other contractual provisions, to protect our intellectual property and other proprietary rights. Significant technology used in our products, however, is not the subject of any patent protection, and we may be unable to obtain patent protection on such technology in the future. Moreover, existing U.S. legal standards relating to the validity, enforceability and scope of protection of intellectual property rights offer only limited protection, may not provide us with any competitive advantages, and may be challenged by third parties. In addition, the laws of countries other than the United States in which we market our products may afford little or no effective protection of our intellectual property. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property or otherwise gaining access to our technology. Unauthorized third parties may try to copy or reverse engineer our products or portions of our products or otherwise obtain and use our intellectual property. Some of our contracts with the U.S. federal government allow the federal government to disclose technical data regarding the products developed on behalf of the government under the contract without constraining the recipient on how it is used. This ability of the government creates the potential that third parties may be able to use this data to compete with us in the commercial sector. If we fail to protect our intellectual property and other proprietary rights, our business, results of operations or financial condition could be materially harmed.

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

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

As part of our business strategy, we intend to consider acquisitions of companies, technologies and products that we believe could accelerate our ability to compete in our core markets or allow us to enter new markets. Acquisitions involve numerous risks, any of which could harm our business, including:

- difficulties in integrating the operations, technologies, products, existing contracts, accounting and personnel of the target company and realizing the anticipated synergies of the combined businesses;
- difficulties in supporting and transitioning customers, if any, of the target company;
- diversion of financial and management resources from existing operations;
- the price we pay or other resources that we devote may exceed the value we realize, or the value we could have realized if we had allocated the purchase price or other resources to another opportunity;
- risks of entering new markets in which we have limited or no experience;
- potential loss of key employees, customers and strategic alliances from either our current business or the target company's business;
- Assumption of unanticipated problems or latent liabilities, such as problems with the quality of the target company's products; and
- inability to generate sufficient revenue to offset acquisition costs.

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Acquisitions also frequently result in the recording of goodwill and other intangible assets which are subject to potential impairments in the future that could harm our financial results. In addition, if we finance acquisitions by issuing convertible debt or equity securities, our existing stockholders may be diluted, which could lower the market price of our common stock. As a result, if we fail to properly evaluate acquisitions or investments, we may not achieve the anticipated benefits of any such acquisitions, and we may incur costs in excess of what we anticipate. The failure to successfully evaluate and execute acquisitions or investments or otherwise adequately address these risks could materially harm our business and financial results.

***We will incur significant increased costs as a result of operating as a public company, and our management will be required to devote substantial time to new compliance initiatives.***

Prior to November 9, 2005, we were a private company. As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the Securities and Exchange Commission and the NASDAQ National Market, have imposed various new requirements on public companies, including requiring changes in corporate governance practices. Our management and other personnel will need to devote a substantial amount of time to these new compliance initiatives. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. For example, we expect these new rules and regulations to make it more difficult and more expensive for us to obtain and/or renew our director and officer liability insurance, and we may be required to incur substantial costs to maintain the same or similar coverage.

In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. In particular, commencing in 2006, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management time on compliance-related issues. We currently do not have an internal audit group, and we will evaluate the need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline and we could be subject to sanctions or investigations by the NASDAQ National Market, the Securities and Exchange Commission or other regulatory authorities, which would require additional financial and management resources.

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

We anticipate that our current cash, cash equivalents, cash provided by operating activities and funds available through our working capital line of credit, will be sufficient to meet our current and anticipated needs for general corporate purposes. We operate in an emerging market, however, which makes our prospects difficult to evaluate. It is possible that we may not generate sufficient cash flow from operations or otherwise have the capital resources to meet our future capital needs. If this occurs, we may need additional financing to execute on our current or future business strategies, including to:

- hire additional roboticists and other personnel;
- develop new or enhance existing robots and robot accessories;
- enhance our operating infrastructure;

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- acquire complementary businesses or technologies; or
- otherwise respond to competitive pressures.

If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders could be significantly diluted, and these newly-issued securities may have rights, preferences or privileges senior to those of existing stockholders. We cannot assure you that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, if and when needed, our ability to fund our operations, take advantage of unanticipated opportunities, develop or enhance our products, or otherwise respond to competitive pressures would be significantly limited.

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

The manufacture and sale of our products in certain states and countries may subject us to environmental and other regulations. We also face increasing complexity in our product design as we adjust to new and upcoming requirements relating to our products, including the restrictions on lead and certain other substances in electronics that will apply to specified electronics products put on the market in the European Union as of July 1, 2006 (Restriction of Hazardous Substances in Electrical and Electronic Equipment Directive). Similar laws and regulations have been or may be enacted in other regions, including in the United States, Canada, Mexico, China and Japan. There is no assurance that such existing laws or future laws will not impair future earnings or results of operations.

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

We derive, and expect to continue to derive, a portion of our revenue from international sales in various European markets, Canada, Japan, Korea and Singapore. For the fiscal years ended December 31, 2005 and 2004, sales to non-U.S. customers accounted for 9.9% and 7.4% of total revenue, respectively. Our international revenue and operations are subject to a number of material risks, including, but not limited to:

- difficulties in staffing, managing and supporting operations in multiple countries;
- difficulties in enforcing agreements and collecting receivables through foreign legal systems and other relevant legal issues;
- fewer legal protections for intellectual property;
- foreign and U.S. taxation issues and international trade barriers;
- difficulties in obtaining any necessary governmental authorizations for the export of our products to certain foreign jurisdictions;
- potential fluctuations in foreign economies;
- Government currency control and restrictions on repatriation of earnings;
- Fluctuations in the value of foreign currencies and interest rates;
- general economic and political conditions in the markets in which we operate;
- domestic and international economic or political changes, hostilities and other disruptions in regions where we currently operate or may operate in the future; and
- different and changing legal and regulatory requirements in the jurisdictions in which we currently operate or may operate in the future.

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

the value of foreign currencies relative to the U.S. dollar may make our products more expensive than other products, which could harm our business.

***If we are unable to continue to obtain U.S. federal government authorization regarding the export of our products, or if current or future export laws limit or otherwise restrict our business, we could be prohibited from shipping our products to certain countries, which would harm our ability to generate revenue.***

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

#### **Risks Related to Ownership of Our Common Stock**

***An active trading market for our common stock may not be available on a consistent basis, which could depress the market price of our common stock.***

Prior to November 9, 2005, there was no public market for our common stock. An active trading market for shares of our common stock may not be available or be sustained on a consistent basis. If no trading market is sustained, securities analysts may not initiate or maintain research coverage of our company, which could further depress the market for our common stock.

***A significant portion of our total outstanding shares may be sold into the public market in the near future, which could cause the market price of our common stock to drop significantly, even if our business is doing well.***

Sales of a substantial number of shares of our common stock in the public market could occur at any time after the expiration of the lock-up agreements entered into in connection with our initial public offering. As of February 28, 2006 we had 23,425,029 shares of common stock outstanding, of which 18,562,281 shares, or 79.2%, will be eligible for sale, subject to any applicable volume limitations under federal securities laws, in the near future as set forth below.

<u>Number of Shares</u>	<u>% of Total Outstanding</u>	<u>Date Available for Sale Into Public Market</u>
18,467,109	78.8%	On May 7, 2006, subject to extension in specified instances, due to expiration of lock-up agreements between the holders of these shares and the underwriters in our initial public offering. However, Morgan Stanley & Co. Incorporated and J.P Morgan Securities Inc. can waive the provisions of these lock-up agreements and allow these stockholders to sell their shares at any time
95,172	0.4%	On May 7, 2006, subject to extension in specified instances, due to expiration of lock-up agreements between the holders of these shares and us. However, with the underwriters' consent, we can waive the provisions of these lock-up agreements and allow these stockholders to sell their shares at any time



These sales, or the market perception that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock.

***Our directors and management will exercise significant control over our company, which will limit your ability to influence corporate matters.***

Immediately following our initial public offering, our directors and executive officers and their affiliates collectively beneficially owned approximately 52.6% of our outstanding common stock. As a result, these stockholders, if they act together, will be able to influence our management and affairs and all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change in control of our company and might negatively affect the market price of our common stock.

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

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

- limitations on the removal of directors;
- a classified board of directors so that not all members of our board are elected at one time;
- advance notice requirements for stockholder proposals and nominations;
- the inability of stockholders to act by written consent or to call special meetings;
- the ability of our board of directors to make, alter or repeal our by-laws; and
- the ability of our board of directors to designate the terms of and issue new series of preferred stock without stockholder approval.

The affirmative vote of the holders of at least 75% of our shares of capital stock entitled to vote is necessary to amend or repeal the above provisions of our certificate of incorporation. In addition, absent approval of our board of directors, our by-laws may only be amended or repealed by the affirmative vote of the holders of at least 75% of our shares of capital stock entitled to vote.

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

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

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

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES**

Our corporate headquarters are located in Burlington, Massachusetts, where we lease approximately 82,000 square feet. This lease expires on December 31, 2008. We lease 6,150 square feet of space at an adjacent facility in Burlington for our prototype work on unmanned ground vehicles. We also lease 7,550 square feet in Mysore, India and we lease smaller facilities in Hong Kong; San Luis Obispo, California; and Crystal City, Virginia. We do not own any real property. We believe that our leased facilities and additional or alternative space available to us will be adequate to meet our needs for the foreseeable future.

**ITEM 3. LEGAL PROCEEDINGS**

From time to time in the ordinary course of our business, we may be involved in disputes or litigation relating to claims arising out of our operations. 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 and adversely affect our financial condition or results of operations.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

On October 10, 2005, we sent a written consent to our stockholders requesting approval of the following matters in connection with our proposed initial public offering: (i) the amendment and restatement of our Amended and Restated Certificate of Incorporation to provide for certain corporate governance requirements and increases to our authorized capital stock to be effective prior to the closing of the offering; (ii) the election of Colin M. Angle and Ronald Chwang, to serve as Class I directors until the date of the annual meeting of stockholders next following the year ending December 31, 2005 or until his earlier death, resignation or removal; (iii) the election of Helen Greiner, George C. McNamee and Peter Meekin to serve as Class II directors until the date of the annual meeting of stockholders next following the year ending December 31, 2006 or until his or her earlier death, resignation or removal; (iv) the election of Rodney A. Brooks, Andrea Geisser and Jacques S. Gansler to serve as Class III directors until the date of the annual meeting of stockholders next following the year ending December 31, 2007 or until his earlier death, resignation or removal; (v) the amendment and restatement of our Amended and Restated By-laws to provide for certain changes consistent with our becoming a public company; (vi) the further amendment and restatement of our Amended and Restated Certificate of Incorporation to eliminated the terms of our preferred stock outstanding prior to the closing of the offering; and (vii) the adoption of our 2005 Stock Option and Incentive Plan. All such actions were effected pursuant to an action by written consent of our stockholders pursuant to Section 228 of the Delaware General Corporation Law.

A total of 13,527,303 shares of our stock out of 19,964,633 shares issued and outstanding (on an as-converted to common stock basis) voted in favor of these matters.

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock commenced trading on the Nasdaq National Market on November 9, 2005 under the symbol "IRBT". The following table sets forth the high and low sale prices for our common stock for fiscal 2005 since our initial public offering as reported on the Nasdaq National Market.

	<u>High</u>	<u>Low</u>
<b>Fiscal 2005:</b>		
Fourth quarter*	\$ 37.33	\$ 26.29

\* Our common stock began trading on November 9, 2005.

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As of February 28, 2006, there were approximately 23,425,029 shares of our common stock outstanding held by approximately 216 stockholders of record and the last reported sale price of our common stock on the Nasdaq National Market on February 28, 2006 was \$27.50 per share.

### **Dividend Policy**

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

### **Recent Sales of Unregistered Securities; Uses of Proceeds from Registered Securities**

In November 2005, we issued 16,155 shares of common stock to a bank upon its exercise of a warrant to purchase shares of common stock, pursuant to the conversion rights contained in the warrant agreement.

In connection with our initial public offering, all outstanding shares of our Series A convertible preferred stock, Series B convertible preferred stock, Series C convertible preferred stock, Series D convertible preferred stock, Series E convertible preferred stock and Series F convertible preferred stock were converted into 9,557,246 shares of common stock.

The issuance of securities described above were deemed to be exempt from registration under the Securities Act of 1933 in reliance on Section 4(2) of the Securities Act of 1933 as transactions by an issuer not involving any public offering. The recipients of securities in each such transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the share certificates and other instruments issued in such transactions. The sales of these securities were made without general solicitation or advertising.

During the period from January 1, 2005 through the closing of our initial public offering on November 15, 2005, we granted options to purchase an aggregate of 1,148,475 shares of our common stock pursuant to our 2004 Stock Option and Incentive Plan and 2005 Stock Option and Incentive Plan, at a weighted average exercise price of \$10.3497 per share. In addition, we issued 426,533 shares of common stock during the period covered by this report in connection with the exercise of outstanding options under our 1994 Stock Option Plan, our 2001 Special Stock Option Plan, our 2004 Stock Option and Incentive Plan, and our 2005 Stock Option and Incentive Plan by 53 optionees, at a weighted exercise price of \$1.3956 per share. These option exercises resulted in aggregate proceeds to us of approximately \$595,252. No underwriters were involved in the foregoing stock or option issuances. The foregoing stock and option issuances were exempt from registration under the Securities Act of 1933, as amended, either pursuant to Rule 701 under the Act, as transactions pursuant to a compensatory benefit plan, or pursuant to Section 4(2) under the Act, as a transaction by an issuer not involving a public offering.

The aggregate net proceeds from the sale by us of 3,260,870 shares of our common stock, \$0.01 par value, in our initial public offering was approximately \$70.4 million. We did not receive any proceeds from the sale by selling shareholders of 1,684,130 shares of our common stock sold in the initial public offering. The representatives for the several underwriters in the offering were Morgan Stanley & Co. Incorporated, J.P. Morgan Securities Inc., First Albany Capital Inc., Needham & Company, LLC and Adams Harkness, Inc.. All of the shares of common stock sold in the offering were registered under the 1933 Act on a Registration Statement on Form S-1 (Reg. No. 333-126907). To date, none of our net proceeds from the initial public offering has been applied. Pending such application we have invested the net proceeds of the offering in cash, cash equivalents and auction rate securities with maturities ranging from 30 to 90 days in accordance with our investment policy. None of our net proceeds were paid directly or indirectly to directors, officers, persons owning ten percent or more of our equity securities, or our affiliates.

### **Issuer Purchases of Equity Securities**

During the quarter ended December 31, 2005, there were no repurchases made by us or on our behalf, or by any "affiliated purchasers", of shares of our common stock.

**ITEM 6. SELECTED FINANCIAL DATA**

The selected historical financial data set forth below as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003 are derived from our financial statements, which have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm, and which are included elsewhere in this Annual Report on Form 10-K. The selected historical financial data as of December 31, 2003, 2002 and 2001 and for the years ended December 31, 2002 and 2001 are derived from our financial statements which have been audited by PricewaterhouseCoopers LLP and which are not included elsewhere in this Annual Report.

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

	Year Ended December 31,				
	2005	2004	2003	2002	2001
(In thousands, except earnings per share amounts)					
<b>Consolidated Statement of Operations:</b>					
<b>Revenue</b>					
Product revenue(1)	\$ 124,547	\$ 82,147	\$ 45,896	\$ 6,955	\$ 1,408
Contract revenue	17,352	12,365	7,661	7,223	12,077
Royalty revenue	69	531	759	639	27
Total revenue	<u>141,968</u>	<u>95,043</u>	<u>54,316</u>	<u>14,817</u>	<u>13,512</u>
<b>Cost of Revenue</b>					
Cost of product revenue	81,822	59,321	31,194	4,896	1,148
Cost of contract revenue	12,476	8,371	6,143	11,861	8,566
Total cost of revenue	<u>94,298</u>	<u>67,692</u>	<u>37,337</u>	<u>16,757</u>	<u>9,714</u>
Gross Profit (Loss)(1)	47,670	27,351	16,979	(1,940)	3,798
<b>Operating Expenses</b>					
Research and development	11,506	5,504	3,848	1,736	1,846
Selling and marketing(2)	21,765	14,106	12,757	1,911	—
General and administrative	11,891	7,298	7,764	5,217	4,669
Stock-based compensation	398	—	—	—	—
Total operating expenses	<u>45,560</u>	<u>26,908</u>	<u>24,369</u>	<u>8,864</u>	<u>6,515</u>
Operating Income (Loss)	2,110	443	(7,390)	(10,804)	(2,717)
Net Income (Loss)	<u>\$ 2,610</u>	<u>\$ 219</u>	<u>\$ (7,411)</u>	<u>\$ (10,774)</u>	<u>\$ (2,632)</u>
Net Income (Loss) Attributable to Common Stockholders	<u>\$ 1,553</u>	<u>\$ 118</u>	<u>\$ (7,411)</u>	<u>\$ (10,774)</u>	<u>\$ (2,632)</u>
<b>Net Income (Loss) Per Common Share</b>					
Basic	\$ 0.13	\$ 0.01	\$ (0.79)	\$ (2.00)	\$ (0.50)
Diluted	\$ 0.11	\$ 0.01	\$ (0.79)	\$ (2.00)	\$ (0.50)
<b>Shares Used in Per Common Share Calculations</b>					
Basic	12,007	9,660	9,352	5,391	5,312
Diluted	14,331	19,183	9,352	5,391	5,312

(1) Beginning in the first quarter of 2004, we converted from recognizing revenue from U.S. consumer product sales on a “sell-through” basis (when retail stores sold our robots) to a “sell-in” basis (when our

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robots are shipped to retail stores). As a result of this conversion, our revenue and gross profit in the first quarter of 2004 included \$5.7 million and \$2.5 million, respectively, from robots shipped prior to 2004.

- (2) In 2001, we did not separately break out selling and marketing expenses from general and administrative expenses.

	2005	2004	December 31, 2003	2002	2001
	(In thousands)				
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 76,064	\$ 19,441	\$ 4,620	\$ 3,014	\$ 7,179
Total assets	124,935	45,137	27,827	8,705	10,580
Total liabilities	37,379	31,921	25,624	12,049	3,182
Total redeemable convertible preferred stock	—	37,506	27,562	14,639	14,639
Total stockholders' equity (deficit)	87,556	(24,290)	(25,359)	(17,983)	(7,241)

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

The information contained in this section has been derived from our consolidated financial statements and should be read together with our consolidated financial statements and related notes included elsewhere in this Annual Report. This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, and are subject to the "safe harbor" created by those sections. Some of the forward-looking statements can be identified by the use of forward-looking terms such as "believes," "expects," "may," "will," "should," "seek," "intends," "plans," "estimates," "anticipates," or other comparable terms. Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those in the forward-looking statements. We urge you to consider the risks and uncertainties discussed in greater detail under the heading "Risk Factors" in evaluating our forward-looking statements. We have no plans to update our forward-looking statements to reflect events or circumstances after the date of this report. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made.

#### Overview

iRobot 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, 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 FCS program and, in conjunction with Deere & Company, the R-Gator unmanned ground vehicle. We sell our robots to consumers through a variety of distribution channels, including chain stores and other national retailers, and our on-line store, and to the U.S. military and other government agencies worldwide.

As of December 31, 2005, we had 276 full-time employees, of whom over 100 are engineers specializing in the design of robots. We have developed expertise in all the disciplines necessary to build durable, high-performance and cost-effective robots through the close integration of software, electronics and hardware. Our core technologies serve as reusable building blocks that we adapt and expand to develop next generation and new products, reducing the time, cost and risk of product development. Our significant expertise in robot design and engineering, combined with our management team's experience in military and consumer markets, positions us to capitalize on the expected growth in the market for robots.

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Over the past four years, we have sold more than 1.5 million of our home floor care robots. We have also sold to the U.S. military more than 300 of our PackBot tactical military robots, most of which have been deployed on missions in Afghanistan and Iraq.

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.

### ***Initial Public Offering***

On November 15, 2005, we completed our initial public offering of 4,945,000 shares of common stock at \$24.00 per share, comprised of 3,260,870 primary shares and 1,684,130 shares offered by selling stockholders, which includes the exercise of the over-allotment option by the underwriters of the offering. In connection with the offering, all of the outstanding shares of our preferred stock were converted into an equal number of shares of common stock. The sale of the 3,260,870 shares of common stock in connection with our initial public offering resulted in net proceeds to us of approximately \$70.4 million after deducting underwriters' discounts and offering-related expenses. A summary of the terms of the offering can be found in our Registration Statement No. 333-126907 on Form S-1, as amended, as filed with the Securities and Exchange Commission.

### ***Revenue***

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

We currently derive a majority of our product revenue from the sale of our home floor care robots and our PackBot tactical military robots. For the fiscal years ended December 31, 2005 and 2004, product revenues accounted for 87.7% and 86.4% of total revenue, respectively. For the fiscal years ended December 31, 2005 and 2004, our funded research and development contracts accounted for approximately 12.2% and 13.0% of our total revenue, respectively. We expect to continue to perform funded research and development work with the intent of leveraging the technology developed to advance our new product development efforts. In the future, however, we expect that revenue from funded research and development contracts could grow modestly on an absolute dollar basis and represent a decreasing percentage of our total revenue due to the anticipated growth in consumer and military product revenue.

We have historically derived royalty revenue from the licensing of technology to a third party. Due to the discontinuation of sales of the third-party products incorporating our technology, we do not expect to generate significant royalty revenue in the future from our existing products.

For the fiscal years ended December 31, 2005 and 2004 approximately 78.6% and 82.2%, respectively, of our consumer product revenue resulted from sales to 15 customers, primarily U.S. retailers. In addition, 87.5% and 86.3% of military product revenue, and 71.6% and 78.1% of funded research and development contract revenue, resulted from orders and contracts with the U.S. federal government in the fiscal years ended December 31, 2005 and 2004, respectively.

For the fiscal years ended December 31, 2005 and 2004, sales to non-U.S. customers accounted for 9.9% and 7.4% of total revenue, respectively.

Our revenue from product sales is generated through sales to our retail distribution channels, our distributor network and to certain U.S. and foreign governments. In 2002, when our Roomba robot was first commercially introduced and throughout 2003, we recognized revenue from our U.S. consumer product sales

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on a “sell-through basis” (when retail stores sold our Roomba robots to end users). In the first quarter of 2004, we began recognizing revenue from U.S. consumer product sales on a “sell-in basis” (when our robots are shipped by us to the retail stores). As a result of this change in accounting treatment, in the first quarter of 2004 we recognized \$5.7 million of product revenue from products shipped prior to 2004. This one-time increase impacts period-to-period comparisons relating to 2004. Revenue from sales of our military robots is recognized upon the later to occur of shipment or customer acceptance.

Revenue from consumer product sales is significantly seasonal, with a majority of our consumer product revenue generated in the second half of the year (in advance of the holiday season). The timing of holiday season shipments could materially affect our third or fourth quarter consumer product revenue in any fiscal year. Revenue from our military robot sales and revenue from funded research and development contracts are occasionally influenced by the September 30 fiscal year-end of the U.S. federal government, but are not otherwise significantly seasonal. In addition, our revenue can be affected by the timing of the release of new products and the award of new contracts.

### ***Cost of Revenue***

Cost of product revenue includes the cost of raw materials and labor that go into the development and manufacture of our products as well as manufacturing overhead costs such as manufacturing engineering, quality assurance, logistics and warranty costs. For the fiscal years ended December 31, 2005 and 2004, cost of product revenue was 65.6% and 72.2% of total product revenue, respectively. Raw material costs, which are our most significant cost items, generally have not fluctuated materially as a percentage of revenue since the introduction of our robots in 2002. There can be no assurance, however, that our costs of raw materials will not increase. Labor costs also comprise a significant portion of our cost of revenue. Compared to our PackBot tactical military robots, labor costs for our home floor cleaning robots comprise a greater percentage of the associated cost of revenue. We outsource the manufacture of our home floor cleaning robots to a contract manufacturer in China. While labor costs in China traditionally have been favorable compared to labor costs elsewhere in the world, including the United States, we believe that labor in China is becoming more scarce. Consequently, the labor costs for our home floor cleaning robots could increase in the future.

Cost of contract revenue includes the direct labor costs of engineering resources committed to funded research and development contracts, as well as third-party consulting, travel and associated direct material costs. Additionally, we include overhead expenses such as indirect engineering labor, occupancy costs associated with the project resources, engineering tools and supplies and program management expenses. For the fiscal years ended December 31, 2005 and 2004, cost of contract revenue was 71.9% and 67.7% of total contract revenue, respectively.

### ***Gross Profit***

Our gross profit as a percentage of revenue varies according to the mix of product and contract revenue, the mix of products sold and the total sales volume. Currently, our consumer robots typically have a higher gross profit as a percentage of revenue than our military robots due to lower-volume production of our military robots. For the years ended December 31, 2005 and 2004, gross profit was 33.6% and 28.8% of total revenue, respectively.

As a result of the change in accounting from a “sell-through” to “sell-in” basis, we recognized \$2.5 million of gross profit in the first quarter of 2004, which disproportionately increased our gross profit as a percentage of revenues in that quarter and in 2004.

***Research and Development Expenses***

Research and development expenses consist primarily of:

- salaries and related costs for our engineers;
- costs for high technology components used in product and prototype development; and
- costs of test equipment used during product development.

We have significantly expanded our research and development capabilities and expect to continue to expand these capabilities in the future. An example of this is the engineering design center we opened in India late in 2005. Substantially all of our research and development is performed in the United States, although we maintain engineering personnel in India and Hong Kong to serve as a liaison between our U.S.-based engineering staff and our outsourced manufacturer in China. We are committed to increasing the level of innovative design and development of new products as we strive to enhance our ability to serve our existing consumer and military markets as well as new markets for robots. Accordingly, we anticipate that research and development expenses will continue to increase in absolute dollars for the foreseeable future.

For the fiscal years ended December 31, 2005 and 2004, research and development expense was \$11.5 million and \$5.5 million, or 8.1% and 5.8% of total revenue, respectively.

In addition to our internal research and development activities discussed above, we incur research and development expenses under funded development arrangements with both governments and industrial third parties. For the fiscal years ended December 31, 2005 and 2004, these expenses amounted to \$12.5 million and \$8.4 million, respectively. In accordance with generally accepted accounting principles, these expenses have been classified as cost of revenue rather than research and development expense.

***Selling, General and Administrative Expenses***

Our selling, general and administrative expenses consist primarily of:

- salaries and related costs for sales and marketing personnel;
- salaries and related costs for executives and administrative personnel;
- advertising, marketing and other brand-building costs;
- professional services costs;
- information systems and infrastructure costs;
- travel and related costs; and
- occupancy and other overhead costs.

As we focus on increasing our market penetration and continuing to build brand awareness, we anticipate that selling, general and administrative expenses will continue to increase both in absolute dollars and as a percentage of sales for the foreseeable future, as we intend to continue aggressively building on the iRobot brand. We also expect our general and administrative expenses will increase due to the costs associated with being a public company, including costs associated with compliance with Section 404 of the Sarbanes-Oxley Act, directors' and officers' liability insurance, increased professional services, and a new investor relations function.

For the fiscal years ended December 31, 2005 and 2004, selling, general and administrative expense was \$33.7 million and \$21.4 million, or 23.7% and 22.5% of total revenue, respectively.

***Stock-Based Compensation Expenses***

We have recorded deferred stock-based compensation expense related to grants of stock options made after January 1, 2005. This amount represents the difference between the exercise price of an option awarded to an employee and the amount retrospectively assessed to be the fair market value of the underlying shares on



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the date of grant. We incur stock-based compensation expense as we amortize the deferred stock-based compensation amounts over the related vesting periods, up to five years. In addition, we have awarded options to non-employees to purchase our common stock. Stock-based compensation expenses related to non-employees are measured on a fair-value basis using the Black-Scholes valuation model on the date of grant and amortized over the applicable vesting period.

Deferred stock-based compensation based on outstanding stock options at December 31, 2005 is approximately \$3.0 million. In addition, we expect to record aggregate amortization of stock-based compensation expense of approximately \$0.7 million, \$0.7 million, \$0.7 million, \$0.7 million and \$0.2 million for fiscal years 2006, 2007, 2008, 2009 and 2010, respectively, from these outstanding options, subject to continued vesting of options.

As further described in Accounting for Stock-Based Awards, we currently anticipate that the adoption of SFAS No. 123R will result in approximately \$3.0 million of additional stock compensation expense in fiscal 2006.

For the fiscal year ended December 31, 2005 and 2004, stock-based compensation expense was \$0.4 million and zero dollars, or 0.3% and zero percent of total revenue, respectively.

### ***Fiscal Periods***

Historically, our fiscal year ended on December 31 and our fiscal quarters ended on March 31, June 30, September 30 and December 31. Reference to fiscal 2004, for example, refers to the fiscal year ended December 31, 2004. Beginning in fiscal 2005, we operate and report using a 52-53 week fiscal year ending on the Saturday closest to December 31. Accordingly, each of our fiscal quarters ends on the Saturday that falls closest to the last day of the third calendar month of the quarter.

### **Critical Accounting Policies and Estimates**

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

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

### ***Revenue Recognition***

We recognize revenue from sales of consumer products under the terms of the customer agreement upon transfer of title to the customer, provided the price is fixed or determinable, 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. We have historically not taken product returns except for defective products. Accordingly, we reduce revenue for our estimates of liabilities for these rights at the time the related sale is recorded. We establish a provision for sales returns for products sold by resellers directly or through our distributors based on historical return experience. We have aggregated and analyzed historical returns from resellers and end users which form the basis of our 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 from retailers differ significantly from our estimates, such differences could have a material impact on our results of operations for the period in which the actual returns become known. Our returns reserve is calculated as a percentage of gross consumer product revenue. A one percentage point increase or decrease in our actual

experience of returns would have a material impact on our quarterly and annual results of operations. The estimates for returns are adjusted periodically based upon historical rates of returns. The estimates and reserve for rebates and price protection are based on specific programs, expected usage and historical experience. Actual results could differ from these estimates. Through 2003, we recognized revenue on sales to certain distributors and retail customers upon their sale to the end user. Starting in the first quarter of 2004, as a result of our accumulation of sufficient experience to reasonably estimate allowances for product returns, we adopted the standard industry practice of recognizing revenue on all sales upon delivery of product to distributors and retail stores and established a related allowance for future returns based upon historical experience. If future trends or our ability to estimate were to change significantly from those experienced in the past, incremental reductions or increases to revenue may result based on this new experience.

Under cost-plus research and development contracts, we recognize revenue based on costs incurred plus a pro-rata portion of the total fixed fee. We recognize revenue on fixed-price contracts using the percentage-of-completion method. Costs and estimated gross profits on contracts are recorded as work is performed based on the percentage that incurred costs bear to estimated total costs utilizing the most recent estimates of costs and funding. 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 recorded or recognized, as the case may be, in the period in which the revisions are determined. Since many contracts extend over a long period of time, revisions in cost and funding estimates during the progress of work have the effect of adjusting earnings applicable to past performance in the current period. When the current contract estimate indicates a loss, provision is made for the total anticipated loss in the current period. Revenue earned in excess of billings, if any, is recorded as unbilled revenue. Billings in excess of revenue earned, if any, are recorded as deferred revenue.

#### ***Accounting for Stock-Based Awards***

We apply Accounting Principles Board No. 25, *Accounting for Stock Issued to Employees*, and related interpretations (Opinion 25), in accounting for our stock-based compensation plan. Accordingly, compensation expense is recorded for options issued to employees in fixed amounts and with fixed exercise prices only to the extent that such exercise prices are less than the fair market value at the date of grant. We follow the disclosure provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), as amended by Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure*. All stock-based awards to non-employees are accounted for at their fair value in accordance with SFAS 123 and related interpretations.

We have historically granted stock options at exercise prices equivalent to the fair value of our common stock as estimated by our board of directors, with input from management, as of the date of grant. Because there was no public market for our common stock prior to our initial public offering on November 9, 2005, our board of directors determined the fair value of our common stock by considering a number of objective and subjective factors, including our operating and financial performance and corporate milestones, the prices at which we sold shares of convertible preferred stock, the superior rights and preferences of securities senior to our common stock at the time of each grant and the risk and the historical, non-liquid nature of our common stock. We have not historically obtained contemporaneous valuations by an unrelated valuation specialist because, at the time of the issuances of stock options, we believed our estimates of the fair value of our common stock to be reasonable based on the foregoing factors.

In connection with our initial public offering, we retrospectively assessed the fair value of our common stock for options granted during the period from July 1, 2004 to November 8, 2005. As a result of this reassessment, we determined that the fair market values used in granting options for the period from July 1, 2004 to December 31, 2004 were reasonable and appropriate. For the period from January 1, 2005 through November 8, 2005, we determined that the estimated fair value of our common stock increased from \$4.60 to \$21.60 due to a number of factors such as, among other things, the likelihood of an initial public offering, our improving operating results and the achievement of other corporate milestones in 2005. Consequently as more fully disclosed in Note 10 to our consolidated financial statements, we recorded deferred compensation expense associated with these grants of approximately \$3.4 million in the twelve months ended December 31,

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2005. We recorded \$0.4 million of aggregate amortization of stock-based compensation expense in the fiscal year ended December 31, 2005 and expect to record aggregate amortization of stock-based compensation expense of \$0.7 million, \$0.7 million, \$0.7 million, \$0.7 million and \$0.2 million for 2006, 2007, 2008, 2009 and 2010, respectively.

On December 16, 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R). SFAS 123R eliminates the alternative of applying the intrinsic value measurement provisions of Opinion 25 to stock compensation awards issued to employees. Instead, SFAS 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost must be recognized over the period during which an employee is required to provide services in exchange for the award, known as the requisite service period, which is usually the vesting period.

We have adopted Statement No. 123R effective January 1, 2006 using the "modified-prospective method." Under this method, awards that are granted, modified, or settled after the date of adoption are measured and accounted for in accordance with SFAS No. 123R. Unvested equity-classified awards that were granted prior to the effective date of SFAS 123R will continue to be accounted for in accordance with SFAS No. 123, except that amounts must be recognized in the financial statements. We expect to apply the Black-Scholes valuation model in determining the fair value of share-based payments to employees, which will then be amortized on a straight-line basis. Based on our preliminary determination we expect that the adoption of SFAS No. 123R will result in approximately \$3.0 million of additional stock compensation expense in fiscal 2006.

### **Accounting for Income Taxes**

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

To date, for U.S. federal income tax purposes, we have operated in a loss position. We have \$10.8 million of net operating loss carry-forwards as of December 31, 2005, although the use of these net operating loss carry-forwards may be limited by changes in our ownership. We expect that these net operating loss carry-forwards will impact our effective tax rate over the next several years. There, however, can be no assurance as to the rate at which these net operating loss carry-forwards can be utilized, or as to whether there will be any other tax incentives available after 2005.

We monitor the realization of our deferred tax assets based on changes in circumstances, for example, recurring periods of income for tax purposes following historical periods of cumulative losses or changes in tax laws or regulations. Our income tax provision and our assessment of the realizability of our deferred tax assets involve significant judgments and estimates. If we continue to generate taxable income through profitable operations in future years we may be required to recognize these deferred tax assets through the reduction of the valuation allowance which would result in a material benefit to our results of operations in the period in which the benefit is determined, excluding the recognition of the portion of the valuation allowance which relates to stock compensation.

### **Warranty**

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

[Table of Contents](#)**Inventory Valuation**

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

**Overview of Results of Operations**

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

	Fiscal Year Ended December 31,		
	2005	2004	2003
	(In thousands)		
<b>Revenue</b>			
Product revenue(1)	\$ 124,547	\$ 82,147	\$ 45,896
Contract revenue	17,352	12,365	7,661
Royalty revenue	69	531	759
Total revenue	<u>141,968</u>	<u>95,043</u>	<u>54,316</u>
<b>Cost of Revenue</b>			
Cost of product revenue	81,822	59,321	31,194
Cost of contract revenue	12,476	8,371	6,143
Total cost of revenue	<u>94,298</u>	<u>67,692</u>	<u>37,337</u>
Gross profit(1)	47,670	27,351	16,979
<b>Operating Expenses</b>			
Research and development	11,506	5,504	3,848
Selling and marketing	21,765	14,106	12,757
General and administrative	11,891	7,298	7,764
Stock-based compensation(2)	398	—	—
Total operating expenses	<u>45,560</u>	<u>26,908</u>	<u>24,369</u>
Operating Income (Loss)	2,110	443	(7,390)
Other Income (Expense), Net	676	(80)	15
Income (Loss) Before Income Taxes	<u>2,786</u>	<u>363</u>	<u>(7,375)</u>
Income Tax Expense	176	144	36
Net Income (Loss)	<u>\$ 2,610</u>	<u>\$ 219</u>	<u>\$ (7,411)</u>

- (1) Beginning in the first quarter of 2004, we converted from recognizing revenue from U.S. consumer product sales on a “sell-through” basis (when retail stores sold our robots) to a “sell-in” basis (when our robots are shipped to retail stores). As a result of this conversion, our revenue and gross profit in the first quarter of 2004 included \$5.7 million and \$2.5 million, respectively, from robots shipped prior to 2004.
- (2) Stock-based compensation recorded in 2005 breaks down by expense classification as follows. In 2004 and 2003 we did not have any stock-based compensation.

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	Year Ended December 31, 2005	
	(In thousands)	
Cost of product revenue	\$	58
Cost of contract revenue		33
Research and development		95
Selling and marketing		32
General and administrative		180
Total stock-based compensation	\$	398

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

	Fiscal Year Ended December 31,		
	2005	2004	2003
Revenue			
Product revenue	87.8%	86.4%	84.5%
Contract revenue	12.2	13.0	14.1
Royalty revenue	0.0	0.6	1.4
Total revenue	100.0	100.0	100.0
Cost of Revenue			
Cost of product revenue	57.6	62.4	57.4
Cost of contract revenue	8.8	8.8	11.3
Total cost of revenue	66.4	71.2	68.7
Gross profit	33.6	28.8	31.3
Operating Expenses			
Research and development	8.1	5.8	7.1
Selling and marketing	15.3	14.8	23.5
General and administrative	8.4	7.7	14.3
Stock-based compensation	0.3	—	—
Total operating expenses	32.1	28.3	44.9
Operating Income (Loss)	1.5	0.5	(13.6)
Other Income (Expense), Net	0.4	(0.1)	—
Income (Loss) Before Income Taxes	1.9	0.4	(13.6)
Income Tax Expense	0.1	0.2	—
Net Income (Loss)	1.8%	0.2%	(13.6)%

#### Comparison of Years Ended December 31, 2005 and 2004

##### Revenue

Our revenue increased 49.4% to \$141.9 million in fiscal 2005 from \$95.0 million in fiscal 2004. Revenue increased approximately \$22.6 million, or 31.7%, in our consumer business and \$24.7 million, or 106.4%, in our government and industrial business.

The increase in revenue from our consumer products was primarily driven by continued demand for our Roomba floor vacuuming robots and to a lesser degree, for our Scooba floor washing robot, as it was released late in 2005. During the year we added four retailers to our retail network, which accounted for 5% of our total revenue during the period and increased the total number of retailers offering our products to 19. During fiscal

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2005, we also reduced our consumer products return reserve accrual rate based on an analysis that indicated that our actual customer return rates had decreased significantly and, accordingly, during the third quarter we revised our returns reserve rate and reduced the returns reserve as of October 1, 2005. As a result of this decrease, during the third quarter of 2005, we recognized an additional \$2.7 million of consumer product revenue related to robots shipped both during the third quarter of 2005 and during prior periods.

The increase in revenue from our government and industrial business in fiscal 2005 as compared to fiscal 2004 was due primarily to increased revenue from sales of our military robots, including the shipment of 152 of our PackBot tactical military robots to the U.S. Navy, and a significant increase in contract revenues generated under funded research and development contracts, including under the Future Combat Systems program.

Our revenue in fiscal 2004 was positively impacted by our conversion in accounting for U.S. consumer product sales from a “sell-through” basis (when retail stores sell our Roomba robots to their customers) to a “sell-in” basis (when our robots are shipped by us to the retail stores). As a result of this conversion, in 2004 we recognized \$5.7 million of product revenue from products shipped by us prior to fiscal 2004.

### *Cost of Revenue*

Our cost of revenue increased to \$94.3 million in fiscal 2005, compared to \$67.7 million in fiscal 2004. The increase is primarily attributable to a 136.8% increase in the unit sales of our PackBot robots in fiscal 2005 as compared to fiscal 2004, and a \$4.1 million increase in costs associated with the \$5.0 million increase in contract revenue. Unit sales in our consumer business increased by approximately 12.0% in fiscal 2005 as compared to fiscal 2004. After giving effect to the impact of converting to “sell-in” accounting in the first quarter of fiscal 2004 as described above, the increase was 2.3%. In addition to the changes in sales volume, the unit costs of manufacturing our consumer robots increased by approximately 17.9% over the comparable period in fiscal 2004 related primarily to an increase in costs associated with the production of the second generation Roomba robots and a shift in the mix of the consumer robots that we sold. The unit costs of manufacturing our PackBot robots decreased by approximately 12.6% over the comparable period in fiscal 2004 primarily as a result of manufacturing economies of scale.

### *Gross Profit*

Gross profit increased 74.3% to \$47.7 million in fiscal 2005, from \$27.4 million in fiscal 2004. Gross profit as a percentage of revenue increased to 33.6% in fiscal 2005 from 28.8% of revenue in fiscal 2004. The 4.8% percentage point increase in gross profit as a percent of revenue in fiscal 2005 was primarily due to improved gross profit of 6.0% on our consumer and government and industrial robots, including a gross profit increase resulting from the reduction of our returns reserve. The favorable impact from improved product gross profit was offset by approximately 0.7% as the result of lower gross profit realized on funded research and development contracts and, to a lesser extent, a decrease in gross profit from royalty revenue for fiscal 2005. Gross profit in fiscal 2004 included \$2.5 million as a result of the change in accounting from a “sell-through” to “sell-in” basis.

### *Research and Development*

Research and development expenses increased approximately 109.0% to \$11.5 million (8.1% of revenue) in fiscal 2005 from \$5.5 million (5.8% of revenue) in fiscal 2004. The increase in research and development expenses was primarily due to increased headcount in our internal research and development function to 72 employees at December 31, 2005 from 48 employees at December 31, 2004. For fiscal years 2005 and 2004 we incurred the majority of our internal (non-funded) research and development expenses to support the development of enhancements to our Roomba product line as well as our Scooba floor washing robot development which began in early 2004. In fiscal 2006, we intend to accelerate our investment in research and development to respond to and anticipate customer needs. Accordingly, we anticipate that research and development expenses will continue to increase in absolute dollars for the foreseeable future.

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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 fiscal year 2005 these expenses amounted to \$12.5 million compared to \$8.4 million for the comparable period in 2004. The increase in these expenses was primarily due to increased headcount in our research and development function to 48 employees at December 31, 2005 from 18 employees at December 30, 2004. In accordance with generally accepted accounting principles, these expenses have been classified as cost of revenue rather than research and development expense.

### *Selling and Marketing*

Selling and marketing expenses increased 54.2% to \$21.8 million (15.3% of revenue) in fiscal 2005 from \$14.1 million (14.8% of revenue) in fiscal 2004. The increase in selling and marketing expense was primarily due to an increase in direct marketing and advertising programs and promotional expenses in support of the Roomba product line, including our Roomba Scheduler robot, which was launched in the third quarter of 2005, as well as increased salaries and related personnel costs associated with the expansion of our selling and marketing headcount to 24 employees from 13 employees. In fiscal 2006, we expect to accelerate our investment in national advertising, consumer and trade shows, direct marketing and public relations to further build brand awareness. Accordingly, we anticipate selling and marketing expenses will increase in absolute dollars and as a percentage of total revenue.

### *General and Administrative*

General and administrative expenses increased 62.9% to \$11.9 million (8.4% of revenue) in fiscal 2005 from \$7.3 million (7.7% of revenue) in fiscal 2004. The increase in general and administrative expenses was primarily due to increased salaries and related personnel costs associated with the growth in headcount in our general and administrative functions to 61 employees from 33 employees, primarily in the areas of accounting, information technology, human resources, and legal, and the related expenses associated with our preparations to become and operate as a public company during the fiscal year. In fiscal 2006, we anticipate that general and administrative expenses will increase in absolute dollars and as a percentage of total revenue due to the increased costs associated with being a public company, including costs associated with compliance with Section 404 of the Sarbanes-Oxley Act.

### *Other Income (Expense), Net*

Other income, net amounted to \$0.7 million for fiscal 2005 compared to other expense, net of approximately \$0.1 million for fiscal 2004. The other income (expense), net was directly related to \$0.8 million of interest income earned offset partially by increased franchise taxes associated with our increased capitalization after our initial public offering.

### *Income Tax Provision*

The provision for income taxes of \$0.2 million for fiscal 2005, compared with a provision of \$0.1 million for fiscal 2004, represents taxes due based on federal alternative minimum taxes.

## ***Comparison of Years Ended December 31, 2004 and 2003***

### *Revenue*

Our revenue increased 75.0% to \$95.0 million in fiscal 2004, from \$54.3 million in fiscal 2003. Revenue increased \$28.3 million, or 65.6%, in our consumer business and \$12.0 million, or 106.6%, in our government and industrial business. The increase in revenue from our consumer products was driven by continued strong demand for our Roomba floor vacuuming robot, originally introduced in late 2002, and in particular by the introduction of the second generation of our Roomba floor vacuuming robots in the third fiscal quarter of fiscal 2004. In addition, during fiscal 2004, we added three retailers to our network, which accounted for approximately 14% of our total revenue during the period and increased the total number of retailers offering our products to 15. The increase in revenue from our government and industrial business was due primarily to

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increased revenue from sales of our military robots and, to a lesser extent to increased contract revenue. The sales of our military robots in fiscal 2004 were driven by the continued strong demand for our PackBot robot, attributable primarily to the level of hostilities in Afghanistan and Iraq and the need for soldiers to deal with a large number of explosive devices.

Our revenue in fiscal 2004 was impacted by our conversion in accounting for U.S. consumer product sales from a “sell-through” basis to a “sell-in” basis. As a result of this conversion, we recognized \$5.7 million of product revenue in the first quarter of fiscal 2004 from products shipped by us prior to fiscal 2004.

### *Cost of Revenue*

Our cost of revenue increased to \$67.7 million in fiscal 2004 compared to \$37.3 million in fiscal 2003. The increase is primarily attributable to a 69.4% increase in the unit sales of consumer robots, a 98.1% increase in the unit sales of our PackBot robots, and a \$2.2 million increase in costs associated with the \$4.7 million increase in contract revenue. In addition to the changes in sales volume, the unit costs of manufacturing our consumer robots increased by approximately 6.9% over the comparable period in fiscal 2003 related primarily to an increase in costs associated with the production of the second generation Roomba robots. In addition, the unit costs of manufacturing our PackBot robots decreased by approximately 12.4% over the comparable period in fiscal 2003 as a result of manufacturing economies of scale.

### *Gross Profit*

Gross profit increased 61.1% to \$27.4 million in fiscal 2004, from \$17.0 million in fiscal 2003. Gross profit as a percentage of revenue decreased to 28.8% in fiscal 2004 from 31.3% of revenue in fiscal 2003. This decrease in gross profit, as a percentage of revenue, was due primarily to the factors described above, as well as a decrease in royalty revenue, and a reduction of the average sales price of our first-generation Roomba robot in anticipation of the introduction of the second-generation robots in mid-2004.

### *Research and Development*

Research and development expenses increased approximately 43.0% to \$5.5 million (5.8% of revenue) in fiscal 2004 from \$3.8 million (7.1% of revenue) in fiscal 2003. In fiscal 2004 and fiscal 2003, we incurred the majority of our internal (non-funded) research and development expenses to support the development of enhancements to our Roomba product line resulting in the launch of the second-generation of our Roomba floor vacuuming robots in fiscal 2004. In addition, at the beginning of fiscal 2004, we began product development work on our Scooba floor washing robot. Research and development expenses for our government and industrial business do not include the costs of research funded by various government and industrial third-parties. The direct costs of these funded programs increased by \$2.3 million from \$6.1 million in fiscal 2003 to \$8.4 million in fiscal 2004.

### *Selling and Marketing*

Selling and marketing expenses increased slightly to \$14.1 million (14.8% of revenue) in fiscal 2004 from \$12.8 million (23.5% of revenue) in fiscal 2003. The spending in fiscal 2004 and fiscal 2003 reflects the promotion of our Roomba robot which was available for its first full year in 2003, including a significant investment in advertising for market penetration and product and brand awareness. Additionally, our sales and marketing headcount increased during the fiscal year to 13 employees as compared to 10 in fiscal 2003.

### *General and Administrative*

General and administrative expenses declined slightly to \$7.3 million (7.7% of revenue) in fiscal 2004 from \$7.8 million (14.3% of revenue) in fiscal 2003. This decrease was primarily attributed to the reduced expenses for outside consultants.



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### *Other Income (Expense), Net*

Other income (expense), net principally consists of interest income on our investment portfolio, partially offset by interest expense as we have occasionally borrowed on a working capital line of credit. Other expense, net for fiscal 2004 amounted to \$0.1 million compared to other income, net of \$15,000 in fiscal 2003. In fiscal 2004, the other expense, net consisted primarily of interest expense incurred as a result of our borrowings under our working capital line of credit and cash discounts for accelerated payments \$0.1 million, partially offset by interest income of \$0.1 million earned on our cash portfolio.

### *Income Tax Provision*

Our income taxes represent primarily state taxes and the impact of applying the alternative minimum tax rules.

## **Liquidity and Capital Resources**

At December 31, 2005 our principal sources of liquidity were cash and cash equivalents totaling \$76.1 million and accounts receivable of \$23.0 million. Prior to our initial public offering in November 2005, we funded our growth primarily with proceeds from the issuance of convertible preferred stock for aggregate net cash proceeds of \$37.5 million, occasional borrowings under a working capital line of credit and cash generated from operations. In the initial public offering, we raised \$70.4 million net of underwriting and professional fees associated with this offering.

We manufacture and distribute our products through contract manufacturers and third-party logistics providers. We believe that this approach gives us the advantages of relatively low capital investment and significant flexibility in scheduling production and managing inventory levels. By leasing our office facilities, we also minimize the cash needed for expansion. Accordingly, our capital spending is generally limited to leasehold improvements, computers, office furniture and product-specific production tooling and test equipment. In fiscal 2005 and 2004, we spent \$5.5 million and \$3.2 million, respectively, on capital equipment.

The majority of our consumer products are delivered to our customers directly from our contract manufacturer in China. Accordingly, our consumer product inventory consists of goods shipped to our domestic third-party logistic providers for the fulfillment of domestic retail orders and direct-to-consumer sales. Our inventory of military products is minimal as they are generally built to order. Our contract manufacturers are responsible for purchasing and stocking the components required for the production of our products, and they invoice us when the finished goods are shipped. Based on this approach to production and distribution, we turned our inventory approximately 8 times during fiscal 2005.

Our consumer product sales are, and are expected to continue to be, highly seasonal. This seasonality typically results in a net use of cash in support of operating needs during the first half of the year with the low point generally occurring in the middle of the third quarter, and a favorable cash flow during the second half of the year. In the past, we have relied on our working capital line of credit to cover the short-term cash needs resulting from the seasonality of our consumer business.

### ***Discussion of Cash Flows***

Net cash used by our operating activities in fiscal 2005 was \$8.9 million compared to net cash generated by operating activities of \$8.9 million in fiscal 2004 and net cash used by operating activities of \$11.3 million in fiscal 2003. The cash used by our operating activities in fiscal 2005 was primarily due to an increase in accounts receivable of \$9.8 million, an increase in inventory of \$8.2 million, an increase in other current assets of \$1.1 million, and an increase in unbilled revenue of \$0.7 million, offset by net income of \$2.6 million, and an increase in liabilities of approximately \$5.5 million. In addition, in fiscal 2005, we had depreciation and amortization of approximately \$2.1 million and amortization of deferred compensation of \$0.6 million, both of which are non-cash expenses. The increase in accounts receivable, inventory and liabilities in fiscal 2005 are directly attributable to the 49.4% growth in revenue from the comparable period in fiscal 2004. The cash provided by our operating activities in fiscal 2004 was primarily due to net income of approximately

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\$0.2 million, an increase in total liabilities of \$7.6 million, a decrease in inventory of \$3.8 million, a decrease in unbilled revenue of approximately \$0.4 million and a decrease in other assets of approximately \$0.4 million, which were partially offset by an increase in accounts receivable of \$5.1 million. In addition, in fiscal 2004, we had \$1.3 million of depreciation expense and approximately \$0.3 million in deferred compensation, both of which represent non-cash expenses. The cash used by our operating activities in fiscal 2003 was primarily due to a net loss of \$7.4 million, an increase in accounts receivable and unbilled revenue of approximately \$8.0 million, an increase in inventory of \$8.8 million and an increase in other assets of approximately \$0.1 million, which were partially offset by an increase in total liabilities of \$12.3 million. In addition, in fiscal 2003, we had approximately \$0.7 million of depreciation expense, which is a non-cash expense. The increase in cash flows provided by operating activities in fiscal 2004 as compared to fiscal 2003 was due primarily to the 75.0% growth in revenue from fiscal 2003.

Net cash used in our investing activities was \$5.5 million in fiscal 2005, \$3.2 million in fiscal 2004, and \$1.3 million in fiscal 2003. Investment activities throughout the period represent the purchase of capital equipment in support of our growth, including computer equipment, internal use software, furniture and fixtures, engineering and test equipment, and production tooling. A significant portion of the increase in investing activities from fiscal 2003 to fiscal 2004 and from fiscal 2004 to fiscal 2005 reflects the purchase of production tooling in support of the ramp-up of Roomba production and in support of the introduction of the Scooba floor washing robot, respectively.

Net cash provided by our financing activities was approximately \$71.1 million in fiscal 2005, \$9.2 million in fiscal 2004 and \$14.3 million in fiscal 2003. Net cash provided by our financing activities in fiscal 2005 consisted primarily of \$70.4 million of proceeds from our initial public offering and \$0.7 million from the exercise of common stock options. Net cash provided by our financing activities in fiscal 2004 consisted primarily of proceeds of \$9.9 million from the issuance of a series of convertible preferred stock, approximately \$0.3 million from exercises of common stock options and approximately \$0.3 million from the issuance of restricted stock, offset by \$1.3 million for repayment of borrowings under our working capital line of credit. Net cash provided by our financing activities in fiscal 2003 consisted primarily of proceeds of \$12.9 million from the issuance of a series of convertible preferred stock and \$1.3 million of borrowings under our working capital line of credit.

The majority of our long-lived assets for the years ended December 31, 2005, 2004 and 2003 are located in the United States. However, we have invested a significant amount in production tooling for the manufacture of the Roomba and Scooba product lines in China.

Historically, we have incurred significant losses, largely attributable to our investment in internally funded research and development. Based on our historical product development efforts, we launched our first commercial products, our Roomba floor vacuuming robot and our PackBot tactical military robot, in fiscal 2002. Since fiscal 2002, our revenue has significantly increased, our investment in internally-funded research and development has declined as a percentage of revenue, and we achieved profitability in both fiscal 2004 and fiscal 2005. We have not invested significantly in property, plant and equipment, primarily as a result of our outsourced approach to manufacturing that provides significant flexibility in both managing inventory levels and financing our inventory. Our consumer revenue has been highly seasonal. This seasonality tends to result in the net use of cash during the first half of the year and significant generation of cash in the second half of the year. Given the recent success of our products and resulting growth in revenue, we believe that existing cash, cash equivalents, cash provided by operating activities and funds available through our bank line of credit will be sufficient to meet our working capital and capital expenditure needs for the foreseeable future.

### ***Working Capital Facility***

On May 26, 2005, we obtained a working capital line of credit with a bank under which we can borrow up to \$20.0 million, including a \$2.0 million sub-limit for equipment financing. Interest accrues at a variable rate based on prime or published LIBOR rates. The line expires on May 26, 2007 at which time all advances will be immediately due and payable. As of December 31, 2005, we had no amounts outstanding and \$20.0 million

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available under our working capital line of credit. Borrowings are secured by substantially all of our assets other than our intellectual property. The credit facility restricts 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; or
- consolidate or merge with other entities.

In addition, we are required to maintain quarterly tangible net worth thresholds based on our stockholders' equity under the credit facility that vary by quarter based on anticipated seasonality in our business. These operating and financial covenants may restrict our ability to finance our operations, engage in business activities or expand or pursue our business strategies. At December 31, 2005, we were in compliance with all covenants under the credit facility. To the extent we are unable to satisfy those covenants in the future, we will need to obtain waivers to avoid being in default of the terms of this credit facility. In addition to a covenant default, other events of default under our credit facility include the filing or entry of a tax lien, attachment of funds or material judgment against us, or other uninsured loss of our material assets. If a default occurs, the bank may require that we repay all amounts then outstanding.

### ***Working Capital and Capital Expenditure Needs***

We currently have no material cash commitments, except for normal recurring trade payables, expense accruals and operating leases, all of which we anticipate funding through our existing working capital line of credit, working capital and funds provided by operating activities. In addition, 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, cash equivalents, 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, cash equivalents, 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 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

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obligations for services. The following table describes our commitments to settle contractual obligations in cash as of December 31, 2005:

	Payments Due by Period				Total
	Less Than 1 Year	1 to 3 Years	3 to 5 Years (In thousands)	More Than 5 Years	
Operating leases	\$ 1,785	\$ 3,081	\$ 192	\$ —	\$ 5,058
Minimum contractual payments	—	1,750	1,750	875	4,375
Total	\$ 1,785	\$ 4,831	\$ 1,942	\$ 875	\$ 9,433

**Off-Balance Sheet Arrangements**

As of December 31, 2005, we had no off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

**Recently Issued Accounting Pronouncements**

In May 2005, the Financial Accounting Standards Board (“FASB”) issued SFAS 154, “Accounting Changes and Error Corrections”, which replaces APB 20, “Accounting Changes”, and SFAS 3, “Reporting Accounting Changes in Interim Financial Statements — An Amendment of APB Opinion No. 28”. SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, and is therefore required to be adopted by us in the first quarter of fiscal 2006. The adoption of SFAS 154 will not have a material effect on our consolidated results of operations and financial condition.

In December 2004, the FASB issued SFAS No. 123R, which requires the measurement of all share-based payments to employees, including grants of employee stock options, using a fair-value-based method and the recording of such expense in our consolidated statement of operations. The accounting provisions of SFAS No. 123R are effective for fiscal years beginning after June 15, 2005. We have adopted Statement No. 123R effective January 1, 2006 using the “modified-prospective method.” Under this method, awards that are granted, modified, or settled after the date of adoption are measured and accounted for in accordance with SFAS No. 123R. Unvested equity-classified awards that were granted prior to the effective date of SFAS 123R will continue to be accounted for in accordance with SFAS No. 123, except that amounts must be recognized in the financial statements. We expect to apply the Black-Scholes valuation model in determining the fair value of share-based payments to employees, which will then be amortized on a straight-line basis. Based on our preliminary determination we expect that the adoption of SFAS No. 123R will result in approximately \$3.0 million of additional stock compensation expense in fiscal 2006.

In November 2004, the FASB issued SFAS 151, “Inventory Costs”, an amendment of Accounting Research Bulletin (“ARB”) 43, Chapter 4, “Inventory Pricing”. SFAS 151 amends previous guidance regarding treatment of abnormal amounts of idle facility expense, freight, handling costs, and spoilage. This statement requires that those items be recognized as current period charges regardless of whether they meet the criterion of “so abnormal” which was the criterion specified in ARB 43. In addition, this Statement requires that allocation of fixed production overheads to the cost of the production be based on normal capacity of the production facilities. This pronouncement is effective for us for fiscal periods beginning January 1, 2006. The adoption of SFAS 151 will not have an effect on our consolidated results of operations and financial condition.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Foreign Currency Exchange Risk**

Nearly all of our revenue is derived from transactions denominated in U.S. dollars, even though we maintain sales and business operations in foreign countries. As such, we have exposure to adverse changes in exchange rates associated with operating expenses of our foreign operations, but we believe this exposure to be immaterial.

**Interest Rate Sensitivity**

We had unrestricted cash and cash equivalents at December 31, 2005 totaling \$76.1 million. The unrestricted cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. Some of the securities in which we invest, however, may be subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. To minimize this risk in the future, we intend to maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including commercial paper, money market funds, debt securities and certificates of deposit. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. As of December 31, 2005, all of our investments were held in money market accounts.

Our exposure to market risk also relates to the increase or decrease in the amount of interest expense we must pay on our outstanding debt instruments, primarily certain borrowings under our bank line of credit. The advances under this line of credit bear a variable rate of interest determined as a function of the prime rate or the published LIBOR rate at the time of the borrowing. At December 31, 2005, there were no amounts outstanding under our working capital line of credit.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of  
iRobot Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows present fairly, in all material respects, the financial position of iRobot Corporation and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts  
February 9, 2006

**iROBOT CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2005	2004
	(In thousands)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 76,064	\$ 19,441
Accounts receivable, net of allowance of \$117 and \$50 at December 31, 2005 and 2004, respectively	23,045	13,259
Unbilled revenue	1,424	774
Inventory, net	15,903	7,668
Other current assets	1,533	400
Total current assets	117,969	41,542
Property and equipment, net	6,966	3,513
Other assets	—	82
Total assets	\$ 124,935	\$ 45,137
<b>LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Accounts payable	\$ 23,721	\$ 19,581
Accrued expenses	3,484	2,643
Accrued compensation	4,002	3,151
Provision for contract settlements	5,154	5,191
Deferred revenue	1,018	1,288
Total current liabilities	37,379	31,854
Long-term liabilities	—	67
Commitments and contingencies (Note 13):		
Redeemable convertible preferred stock (Note 8)	—	37,506
Common stock, \$0.01 par value, 100,000 and 35,000 shares authorized and 23,406 and 10,129 issued and outstanding at December 31, 2005 and 2004, respectively	234	101
Additional paid-in capital	114,808	2,925
Note receivable from stockholder	—	(43)
Deferred compensation	(3,210)	(387)
Accumulated deficit	(24,276)	(26,886)
Total stockholders' equity (deficit)	87,556	(24,290)
Total liabilities, redeemable convertible preferred stock and stockholders' equity	\$ 124,935	\$ 45,137

See accompanying Notes to Consolidated Financial Statements



**iROBOT CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Fiscal Year Ended December 31,		
	2005	2004	2003
(In thousands, except per share amounts)			
<b>Revenue:</b>			
Product revenue	\$ 124,547	\$ 82,147	\$ 45,896
Contract revenue	17,352	12,365	7,661
Royalty revenue	69	531	759
Total revenue	141,968	95,043	54,316
<b>Cost of revenue:</b>			
Cost of product revenue	81,822	59,321	31,194
Cost of contract revenue	12,476	8,371	6,143
Total cost of revenue	94,298	67,692	37,337
Gross profit	47,670	27,351	16,979
<b>Operating expenses:</b>			
Research and development	11,506	5,504	3,848
Selling and marketing	21,765	14,106	12,757
General and administrative	11,891	7,298	7,764
Stock-based compensation(1)	398	—	—
Total operating expenses	45,560	26,908	24,369
Operating income (loss)	2,110	443	(7,390)
Other income (expense), net	676	(80)	15
Income (loss) before income taxes	2,786	363	(7,375)
Income tax expense	176	144	36
Net income (loss)	\$ 2,610	\$ 219	\$ (7,411)
Net income (loss) attributable to common stockholders	\$ 1,553	\$ 118	\$ (7,411)
<b>Net income (loss) per share</b>			
Basic	\$ 0.13	\$ 0.01	\$ (0.79)
Diluted	\$ 0.11	\$ 0.01	\$ (0.79)
<b>Number of shares used in per share calculations</b>			
Basic	12,007	9,660	9,352
Diluted	14,331	19,183	9,352

(1) Stock-based compensation recorded in 2005 breaks down by expense classification as follows:

	Year Ended December 31, 2005 (In thousands)
Cost of product revenue	\$ 58
Cost of contract revenue	33
Research and development	95
Selling and marketing	32
General and administrative	180
Total stock-based compensation	\$ 398

See accompanying Notes to Consolidated Financial Statements

**iROBOT CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)**

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Note Receivable from Stockholder</u>	<u>Deferred Compensation</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Value</u>					
<b>Balance at December 31, 2002</b>	9,291,760	\$ 93	\$ 1,662	\$ (43)	\$ —	\$ (19,694)	\$ (17,982)
Issuance of common stock warrants related to debt financing			22				22
Issuance of common stock for exercise of stock options	68,990		12				12
Net loss						(7,411)	(7,411)
<b>Balance at December 31, 2003</b>	9,360,750	93	1,696	(43)	—	(27,105)	(25,359)
Issuance of restricted stock	397,584	4	967		(670)		301
Amortization of deferred compensation relating to restricted stock					283		283
Issuance of common stock for exercise of stock options	371,123	4	262				266
Net income						219	219
<b>Balance at December 31, 2004</b>	10,129,457	101	2,925	(43)	(387)	(26,886)	(24,290)
Amortization of deferred compensation relating to restricted stock					200		200
Issuance of common stock for exercise of stock options	442,204	4	633				637
Repayment of note receivable from stockholder				43			43
Conversion of preferred to common stock	9,557,246	96	37,411				37,507
Proceeds of initial public offering, net of costs	3,260,870	33	70,374				70,407
Conversion of warrants to common stock	16,155						—
Deferred compensation relating to issuance of stock options			3,421		(3,421)		—
Tax benefit of disqualifying dispositions			44				44
Amortization of deferred compensation relating to stock options					398		398
Net income						2,610	2,610
<b>Balance at December 31, 2005</b>	<u>23,405,932</u>	<u>\$ 234</u>	<u>\$ 114,808</u>	<u>\$ —</u>	<u>\$ (3,210)</u>	<u>\$ (24,276)</u>	<u>\$ 87,556</u>

See accompanying Notes to Consolidated Financial Statements

**iROBOT CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Fiscal Year Ended December 31,		
	2005	2004	2003
	(In thousands)		
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 2,610	\$ 219	\$ (7,411)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	2,078	1,314	735
Loss on disposal of fixed assets	—	1	29
Interest expense relating to issuance of warrants	—	—	22
Amortization of deferred compensation	598	283	—
Tax benefit of disqualifying dispositions	44	—	—
Changes in working capital — (use) source			
Accounts receivable	(9,786)	(5,122)	(7,481)
Unbilled revenue	(650)	369	(527)
Inventory	(8,235)	3,751	(8,795)
Other assets	(1,051)	420	(146)
Accounts payable	4,140	12,800	1,908
Accrued expenses	842	(159)	2,583
Accrued compensation	851	1,118	295
Provision for contract settlement	(37)	(143)	1,378
Deferred revenue	(270)	(5,913)	5,953
Change in long-term liabilities	(67)	(67)	133
Net cash provided by (used in) operating activities	(8,933)	8,871	(11,324)
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment	(5,531)	(3,222)	(1,330)
<b>Cash flows from financing activities:</b>			
Principal payments on capital lease obligations	—	—	(14)
Borrowings under revolving line of credit, net	—	(1,339)	1,339
Repayment of note receivable from stockholder	43	—	—
Proceeds from stock option exercises	637	266	12
Proceeds from initial public offering, net offering costs	70,407	—	—
Proceeds from issuance of restricted stock	—	301	—
Net proceeds from sale of preferred stock	—	9,944	12,923
Net cash provided by financing activities	71,087	9,172	14,260
Net increase in cash and cash equivalents	56,623	14,821	1,606
Cash and cash equivalents, at beginning of period	19,441	4,620	3,014
Cash and cash equivalents, at end of period	\$ 76,064	\$ 19,441	\$ 4,620
<b>Supplemental disclosure of cash flow information</b>			
Cash paid for interest	\$ 13	\$ 142	\$ 29
Cash paid for income taxes	11	124	14

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

During 2005, 2004 and 2003, the Company transferred \$327, \$186 and \$17, respectively, of inventory to fixed assets.

On November 15, 2005, in connection with the Company's initial public offering of common stock, the Company converted 9,557 shares of outstanding preferred stock into an equivalent number of shares of common stock.

See accompanying Notes to Consolidated Financial Statements

**iROBOT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Nature of the Business**

iRobot Corporation, formerly IS Robotics, Inc., 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, uncertainty of market acceptance of products and the need to obtain financing, if necessary.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

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

***Use of Estimates***

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America 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, lease termination, inventory reserves, valuation of investments 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.

***Reclassification***

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

***Fiscal Year-End***

Beginning in fiscal 2005, 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 will end on the Saturday that falls closest to the last day of the third month of each quarter.

***Cash and Cash Equivalents***

The Company considers all highly liquid investments with an original or remaining maturity of three months or less at the time of purchase to be cash equivalents. The Company invests its excess cash primarily in money market funds of major financial institutions. Accordingly, its investments are subject to minimal credit and market risk. At December 31, 2005 and 2004, cash equivalents were comprised of money market

**iROBOT CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

funds totaling \$73.6 million and \$12.4 million, respectively. These cash equivalents are carried at cost, which approximates fair value.

***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 consumer 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 historically not taken product returns except for defective products. Accordingly, the Company reduces revenue for its estimates of liabilities for these rights at the time the related sale is recorded. The Company makes an estimate of sales returns for products sold by resellers directly or through its distributors based on historical returns experience. The Company has aggregated and analyzed historical returns from resellers and end users which form the basis of its estimate of future sales returns by resellers or end users. In accordance with Statement of Financial Accounting Standards No. 48, "*Revenue Recognition When Right of Return Exists*," the provision for these estimated returns is recorded as a reduction of revenue at the time that the related revenue is recorded. If actual returns differ significantly from its estimates, such differences could have a material impact on the Company's results of operations for the period in which the returns become known. The estimates for returns are adjusted periodically based upon historical rates of returns. The estimates and reserve for rebates and price protection are based on specific programs, expected usage and historical experience. Actual results could differ from these estimates. Through fiscal 2003, the Company recognized revenue on sales to certain distributors and retail customers upon their sale to the end-user when an allowance for future returns from the end-user could not be reasonably estimated. In fiscal 2004, the Company recognized revenue on all sales to distributors and retail customers upon delivery of product and established a related allowance for future returns based upon historical experience. As a result of this change, the Company recorded revenue of approximately \$5.7 million in fiscal 2004 for products shipped prior to January 1, 2004.

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 bear 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, 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.

***Allowance for Doubtful Accounts***

The Company maintains an allowance for doubtful accounts to provide for the estimated amount of accounts receivable that may not be collected. The allowance is based upon an assessment of customer creditworthiness, historical payment experience and the age of outstanding receivables.

**iROBOT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Activity related to the allowance for doubtful accounts was as follows:

	Fiscal Year Ended December 31,		
	2005	2004 (In thousands)	2003
Balance at beginning of period	\$ 50	\$ 248	\$ 30
Provision	83	(65)	237
Deduction(*)	(16)	(133)	(19)
Balance at end of period	<u>\$ 117</u>	<u>\$ 50</u>	<u>\$ 248</u>

(\*) Deductions related to allowance for doubtful accounts represent amounts written off against the allowance, less recoveries.

**Inventory**

Inventory is stated at the lower of cost or market with cost being determined using the first-in, first-out (FIFO) method. The Company maintains a reserve for inventory items to provide for an estimated amount of excess or obsolete inventory.

Activity related to the inventory reserve was as follows:

	Fiscal Year Ended December 31,		
	2005	2004 (In thousands)	2003
Balance at beginning of period	\$ 1,903	\$ 2,369	\$ 336
Provision	251	—	2,215
Deduction(*)	(1,669)	(466)	(182)
Balance at end of period	<u>\$ 485</u>	<u>\$ 1,903</u>	<u>\$ 2,369</u>

(\*) Deductions related to inventory reserve accounts represent amounts written off against the reserve.

**Property and Equipment**

Property and equipment are recorded at cost and consist primarily of computer equipment, business applications software and machinery. Depreciation is computed using the straight-line method over the estimated useful lives as follows:

	Estimated Useful Life
Computer and research equipment	3 years
Furniture	5
Machinery	2-5
Tooling	2
Business applications software	5
Capital leases and leasehold improvements	Term of lease

Expenditures for additions, renewals and betterments of plant and equipment are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred. As assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to operations.

**iROBOT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

***Impairment of Long-Lived Assets***

The Company periodically evaluates the recoverability of long-lived assets whenever events and changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. When indicators of impairment are present, the carrying values of the assets are evaluated in relation to the operating performance and future undiscounted cash flows of the underlying business. The net book value of the underlying asset is adjusted to fair value if the sum of the expected discounted cash flows is less than book value. Fair values are based on estimates of market prices and assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates, reflecting varying degrees of perceived risk. There were no impairment charges recorded during any of the periods presented.

***Research and Development***

Costs incurred in the research and development of the Company's products are expensed as incurred.

***Internal Use Software***

The Company capitalizes costs associated with the development and implementation of software obtained for internal use in accordance with American Institute of Certified Public Accountants Statement of Position 98-1, *Accounting for Costs of Computer Software Developed or Obtained for Internal Use* ("SOP 98-1"). At December 31, 2005 and 2004, the Company had \$1.3 million and \$0.9 million respectively, of internal costs related to enterprise-wide software included in fixed assets. Capitalized costs are being amortized over the assets' estimated useful lives. The Company has recorded \$0.2 million, \$0.2 million and \$0.1 million of amortization expense for the years ended December 31, 2005, 2004 and 2003, respectively.

***Concentration of Credit Risk and Significant Customers***

The Company maintains its cash in bank deposit accounts at high quality financial institutions. The individual balances, at times, may exceed federally insured limits. At December 31, 2005 and 2004, the Company exceeded the insured limit by \$74.3 million and \$19.2 million, respectively.

Financial instruments which potentially expose the Company to concentrations of credit risk consist of accounts receivable. Management believes its credit policies are prudent and reflect normal industry terms and business risk. At December 31, 2005 and 2004, 24% and 15%, respectively, of the Company's accounts receivable were due from the federal government. At December 31, 2005, two additional customers each accounted for 12% of the Company's account receivable balance. At December 31, 2004, two additional customers accounted for 21% and 14% of the Company's accounts receivable balance, respectively. For the years ended December 31, 2005, 2004, and 2003 revenue from one customer, the federal government, represented 28%, 20% and 12% of total revenue, respectively.

iROBOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Stock-Based Compensation**

We account for our stock based compensation plan under Accounting Principles Board No. 25, *Accounting for Stock Issued to Employees*, and related interpretations (“APB No. 25”) using the intrinsic value method. The Company follows the disclosure provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (“SFAS No. 123”), as amended by Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure, an amendment of FASB Statement No. 123* (“SFAS No. 148”). All stock-based awards to non-employees are accounted for at their fair value in accordance with SFAS No. 123 and related interpretations. The following table sets forth the pro forma amounts of net income (loss) and net income (loss) per share that would have resulted if we had accounted for our employee stock plans under the fair value recognition provision of SFAS 123.

	Fiscal Year Ended December 31,		
	2005	2004	2003
	(In thousands except per share data)		
Net income (loss)			
As reported	\$ 2,610	\$ 219	\$ (7,411)
Add back: Stock-based employee compensation expense reported in net income (loss)	598	283	—
Less: Stock-based employee compensation expense determined under fair-value method for all awards	(808)	(394)	(53)
Pro forma income (loss)	<u>\$ 2,400</u>	<u>\$ 108</u>	<u>\$ (7,464)</u>
Pro forma income (loss) attributable to common stockholders	<u>\$ 1,428</u>	<u>\$ 58</u>	<u>\$ (7,464)</u>
Net income (loss) per share, as reported			
Basic	\$ 0.13	\$ 0.01	\$ (0.79)
Diluted	\$ 0.11	\$ 0.01	\$ (0.79)
Pro forma net income (loss) per share			
Basic	\$ 0.12	\$ 0.01	\$ (0.80)
Diluted	\$ 0.10	\$ 0.00	\$ (0.80)
Number of shares used in per share calculations			
Basic	12,007	9,660	9,352
Diluted	14,331	19,183	9,352

Since options vest over several years and additional option grants are expected to be made in future years, the pro forma results are not representative of the pro forma results for future years.

The weighted average fair value of each stock option granted using the Black-Scholes option-pricing model with the following weighted average assumptions, in 2005, 2004 and 2003 was estimated as \$4.402, \$0.416 and \$0.314, respectively, on the date of grant.

	2005	2004	2003
Risk-free interest rate	4.1%	3.4%	3.0%
Expected dividend yield	—	—	—
Expected life	5 years	5 years	5 years
Expected volatility	65%	—	—



**iROBOT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The weighted average fair value of options granted during 2005 prior to and subsequent to the initial public offering date of November 9, 2005 was calculated using 0% and 65% volatility, respectively. Until the Company went public the use of the minimum value methodology was acceptable under SFAS No. 123.

**Earnings Per Share**

Basic and diluted net income per share available to common stockholders is presented in conformity with SFAS No. 128, "Earnings per Share" and related interpretation Emerging Issues Task Force 03-06, "Participating Securities and the Two — Class Method under FASB Statement No. 128." Basic net income per share available to common stockholders is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during the period, excluding the dilutive effects of common stock equivalents. Income available to common stockholders excludes earnings allocated to participating preferred stockholders. Common stock equivalents include stock options, restricted stock and, in certain circumstances, convertible securities such as the preferred stock. Diluted net income per share assumes the conversion of the preferred stock using the "if converted" method, if dilutive, and includes the dilutive effect of stock options under the treasury stock method. For the years ended December 31, 2005 and 2004 net income allocated to preferred stockholders was approximately \$1.1 million and \$0.1 million, respectively.

	Year Ended December 31,		
	2005	2004	2003
	(In thousands except per share amounts)		
Net Income (loss) attributable to common shareholders	\$ 1,553	\$ 118	\$ (7,411)
Weighted average shares outstanding	12,007	9,660	9,352
Dilutive effect of employee stock options, restricted shares and warrants	2,324	1,181	—
Dilutive effect of assumed conversion of preferred stock	—	8,342	—
Diluted weighted average shares outstanding	14,331	19,183	9,352
Basic earnings (loss) per share	\$ 0.13	\$ 0.01	\$ (0.79)
Diluted earnings (loss) per share	\$ 0.11	\$ 0.01	\$ (0.79)

For the fiscal year ended December 31, 2005, the assumed conversion of 8,169 preferred shares were not included in the calculation of earnings per share allocable to common shareholders, because the effect would have been antidilutive. For the fiscal year ended December 31, 2003, the weighted effect of options to purchase common stock, the assumed conversion of preferred stock and warrants totaling 8,536 were not included in the calculation because the effect would have been antidilutive.

**Advertising Expense**

The Company expenses advertising costs as they are incurred. During the years ended December 31, 2005, 2004 and 2003, advertising expense totaled \$10.5 million, \$7.8 million and \$10.1 million, respectively.

**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.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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

***Lease Termination Costs***

In accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, the Company recorded a charge in 2003 related to the termination of an operating lease for one of its manufacturing facilities. This charge includes approximately \$0.2 million of remaining lease payments in addition to costs associated with vacating the facility as required by the lease. As of December 31, 2005 and December 31, 2004, \$0.00 million and \$0.04 million were included within accrued expenses, respectively (Note 5) in the accompanying balance sheet.

***Comprehensive Income (Loss)***

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

***Recent Accounting Pronouncements***

In May 2005, the FASB issued SFAS 154, "Accounting Changes and Error Corrections", which replaces APB 20, "Accounting Changes", and SFAS 3, "Reporting Accounting Changes in Interim Financial Statements — An Amendment of APB Opinion No. 28". SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and is therefore required to be adopted by the Company in the first quarter of fiscal 2006. The adoption of SFAS 154 will not have a material effect on its consolidated results of operations and financial condition.

In December 2004, the FASB issued SFAS No. 123R, which requires the measurement of all share-based payments to employees, including grants of employee stock options, using a fair-value-based method and the recording of such expense in the Company's consolidated statement of operations. The accounting provisions of SFAS No. 123R are effective for fiscal years beginning after June 15, 2005. The pro forma disclosures previously permitted under SFAS No. 123 no longer will be an alternative to financial statement recognition. The Company has adopted Statement No. 123R effective January 1, 2006 using the "modified-prospective method." Under this method, awards that are granted, modified, or settled after the date of adoption are measured and accounted for in accordance with SFAS No. 123R. Unvested equity-classified awards that were granted prior to the effective date of SFAS 123R will continue to be accounted for in accordance with SFAS No. 123, except that amounts must be recognized in the financial statements. The Company expects to apply the Black-Scholes valuation model in determining the fair value of share-based payments to employees, which will then be amortized on a straight-line basis.

In November 2004, the FASB issued SFAS 151, "Inventory Costs", an amendment of Accounting Research Bulletin ("ARB") 43, Chapter 4, "Inventory Pricing". SFAS 151 amends previous guidance regarding treatment of abnormal amounts of idle facility expense, freight, handling costs, and spoilage. This

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

statement requires that those items be recognized as current period charges regardless of whether they meet the criterion of “so abnormal” which was the criterion specified in ARB 43. In addition, this Statement requires that allocation of fixed production overheads to the cost of the production be based on normal capacity of the production facilities. This pronouncement is effective for the Company for fiscal periods beginning January 1, 2006. The adoption of SFAS 151 will not have an effect on the consolidated results of operations and financial condition.

**3. Inventory**

Inventory consists of the following at:

	December 31,	
	2005	2004
	(In thousands)	
Raw materials	\$ 990	\$ 427
Work in process	15	—
Finished goods	14,898	7,241
	<u>\$ 15,903</u>	<u>\$ 7,668</u>

**4. Property and Equipment**

Property and equipment consists of the following at:

	December 31,	
	2005	2004
	(In thousands)	
Computer and equipment	\$ 5,333	\$ 2,827
Furniture	442	161
Machinery	892	454
Tooling	3,485	2,090
Leasehold improvements	777	272
Software purchased for internal use	1,326	920
Leased equipment	145	145
	<u>12,400</u>	<u>6,869</u>
Less: accumulated depreciation and amortization	5,434	3,356
	<u>\$ 6,966</u>	<u>\$ 3,513</u>

Depreciation and amortization expense for the years ended December 31, 2005, 2004 and 2003 was \$2.1 million, \$1.3 million, and \$0.7 million, respectively. Accumulated amortization on leased equipment was \$0.1 million at both December 31, 2005 and 2004.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**5. Accrued Expenses**

Accrued expenses consist of the following at:

	December 31,	
	2005	2004
	(In thousands)	
Accrued warranty	\$ 2,031	\$ 1,398
Accrued lease termination costs	—	38
Accrued rent	323	339
Accrued sales commissions	468	555
Accrued accounting fees	255	161
Accrued income taxes	174	56
Accrued other	233	96
	<u>\$ 3,484</u>	<u>\$ 2,643</u>

**6. Revolving Line of Credit**

In January 2003, the Company entered into a \$2.0 million secured revolving credit agreement (the "Credit Agreement") with a bank. Borrowings under the Credit Agreement are collateralized by the Company's assets with the exception of intellectual property, as defined, and bears interest at the bank's prime rate plus 1.25%. The Credit Agreement was originally scheduled to mature in January 2004. Under the Credit Agreement, as amended, the Company is subject to several financial covenants including maintaining a minimum tangible net worth. In February 2003, the Company entered into an amendment to the Credit Agreement which reduced the tangible net worth (deficit) requirement to \$(1.7 million).

In April 2004, the Company entered into an amendment to the Credit Agreement which further reduced the tangible net worth (deficit) requirement to (\$2.0 million), increased the amount of the facility to \$6.3 million, decreased the applicable interest rate to the bank's prime rate plus 1.00% and extended the maturity date to March 2006. On May 24, 2005, in connection with the Company obtaining a new line of credit, the Credit Agreement was terminated.

On May 26, 2005, the Company obtained a working capital line of credit with a bank under which the Company can borrow up to \$20.0 million, including a \$2.0 million sub-limit for equipment financing. Interest accrues at a variable rate based on prime or published LIBOR rates. The line expires on May 26, 2007 at which time all advances will be immediately due and payable. Borrowings are secured by substantially all of the Company's assets other than its intellectual property. The Company is required to maintain quarterly tangible net worth thresholds based on its stockholders' equity under the credit facility that vary by quarter based on anticipated seasonality in the business. These operating and financial covenants may restrict the Company's ability to finance its operations, engage in business activities or expand or pursue its business strategies. At December 31, 2005, the Company was in compliance with all covenants under the credit facility. To the extent the Company is unable to satisfy these covenants in the future, the Company will need to obtain waivers to avoid being in default of the terms of this credit facility. In addition to a covenant default, other events of default under our credit facility include the filing or entry of a tax lien, attachment of funds or material judgment against the Company, or other uninsured loss of its material assets. If a default occurs, the bank may require the Company to repay all amounts then outstanding. As of December 31, 2005, the Company had no amounts outstanding and \$20.0 million was available under the working capital line of credit.

**7. Common Stock**

Common stockholders are entitled to one vote for each share held and to receive dividends if and when declared by the Board of Directors and subject to and qualified by the rights of holders of the preferred stock.

**iROBOT CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Upon dissolution or liquidation of the Company, holders of common stock will be entitled to receive all available assets subject to any preferential rights of any then outstanding preferred stock.

**8. Redeemable Convertible Preferred Stock**

The Company's redeemable convertible preferred stock, \$0.01 par value, is comprised of the following:

	December 31,	
	2005	2004
	(In thousands)	
Series F; 1,412 shares authorized, issued and outstanding at December 31, 2004, net of issuance costs (liquidation preference \$10,000)	\$ —	\$ 9,945
Series E; 2,799 shares authorized, issued and outstanding at December 31, 2004, net of issuance costs (liquidation preference \$13,045)	—	12,922
Series D; 1,871 shares authorized, issued and outstanding at December 31, 2004, net of issuance costs (liquidation preference \$7,000)	—	6,766
Series C; 1,470 shares authorized, issued and outstanding at December 31, 2004, net of issuance costs (liquidation preference \$5,500)	—	5,478
Series B; 668 shares authorized, issued and outstanding at December 31, 2004, net of issuance costs (liquidation preference \$1,000)	—	967
Series A; 1,336 shares authorized, issued and outstanding at December 31, 2004, net of issuance costs (liquidation preference \$1,550)	—	1,428
	<u>\$ —</u>	<u>\$ 37,506</u>

In conjunction with the Company's initial public offering on November 15, 2005, all series A, B, C, D, E and F redeemable convertible preferred stock converted to common stock of the Company on a 1-for-1 basis. At December 31, 2005, there was no preferred stock outstanding.

**9. Note Receivable from Stockholder**

In May 1999, the Company issued a note receivable to a consultant for the purchase of 200,000 common shares at \$0.24 per share. The note accrued interest on June 30 and December 31 at 8% per annum. Interest was payable semiannually in arrears on June 30 and December 31 of each year, and the principal was payable in full on the earlier of May 15, 2005, or immediately prior to an initial public offering. At December 31, 2004 the remaining note receivable balance was \$43,000 and was included as a reduction of stockholders' equity. This remaining balance was paid in full in 2005.

**10. Stock Option Plan**

Under the Company's 1994 Stock Option Plan (the "1994 Plan"), as amended, 8,785,465 shares of the Company's common stock were reserved for issuance to directors, officers, employees and consultants of the Company. Options may be designated and granted as either "Incentive Stock Options" or "Nonstatutory" Stock Options. Eligibility for Incentive Stock Options ("ISOs") is limited to those individuals whose employment status would qualify them for the tax treatment associated with ISOs in accordance with the Internal Revenue Code. The 1994 Plan expired November 16, 2004.

In October 2001, the Company adopted the 2001 Special Stock Option Plan (the "2001 Plan"). Under the 2001 Plan, the Board authorized the issuance of options to purchase 642,310 shares of previously authorized common stock under modified vesting requirements. The 2001 Plan is administered by a Committee of the Board of Directors. Options granted to employees under the 2001 Plan may be designated as

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

ISOs or Nonstatutory Stock Options. In 2004 and 2003, there were 571,405 and 40,000 options granted, respectively, under the 2001 Plan.

During 2004, the Company issued 25,899 and 371,685 restricted shares of common stock under the 1994 Plan and 2001 Plan, respectively, all of which were outstanding at December 31, 2004. Deferred compensation of \$0.7 million was recorded in association with the issuance of these restricted shares, of which \$0.2 million and \$0.3 million was expensed in 2005 and 2004, respectively. The remaining balance of \$0.2 million will be expensed in 2006 through 2007. Upon termination of the stockholder's business relationship with the Company, per the terms of the restricted stock agreements, the Company 1) shall purchase all unvested shares from the stockholder at the price paid for them and 2) may purchase all but not less than all of the stockholder's vested shares at the greater of i) the price paid for them and ii) the product of the Fair Market Value (as defined in the 2001 Plan) at the time of repurchase and the number of vested shares to be repurchased.

Immediately upon expiration of the 1994 Plan, the Company adopted the 2004 Stock Option and Incentive Plan (the "2004 Plan"). Under the 2004 Plan, 1,189,423 shares of the Company's common stock were reserved for issuance to directors, officers, employees and consultants of the Company. In addition, stock options returned to the 1994 Plan, in accordance therewith, after November 16, 2004, as a result of the expiration, cancellation or termination, are automatically made available for issuance under the 2004 Plan. The aggregate number of shares that may be issued pursuant to the 2004 Plan shall not exceed 3,695,223 shares. Options may be designated and granted as either "Incentive Stock Options" or "Nonstatutory" Stock Options. Eligibility for ISOs is limited to those individuals whose employment status would qualify them for the tax treatment associated with ISOs in accordance with the Internal Revenue Code.

Effective October 10, 2005, the Company terminated the 2004 Plan and adopted the 2005 Stock Option and Incentive Plan (the "2005 Plan"). Under the 2005 Plan, 1,583,682 shares were 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 1994 Plan, 2001 Plan, 2004 Plan and 2005 Plan, 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 December 31, 2005, there were 1,303,682 shares available for future grant under the 2005 Plan.

Options granted under the 1994 Stock Option Plan, the 2001 Plan, the 2004 Plan and the 2005 Plan (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 upon the earlier of 10 years from the date of grant or 60 or 90 days from employee termination. The exercise price for each ISO grant is determined by the Board of Directors of the Company to be equal to the fair value of the common stock on the date of grant. In reaching this determination at the time of each such grant, the Board considers a broad range of factors, including the illiquid nature of an investment in the Company's common stock, the Company's historical financial performance, the Company's future prospects and the value of preferred stock based on recent financing activities. Subsequent to the Company's initial public offering, the exercise price of stock options granted is equal to the closing price on the NASDAQ National 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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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The Company applies APB 25 and related interpretations in accounting for stock-based compensation.

Stock option plan activity is as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2003	1,983,458	\$ 1.019
Granted	1,544,959	2.170
Exercised	(768,707)	0.737
Canceled	(154,710)	1.790
Outstanding at December 31, 2004	2,605,000	1.770
Granted	1,172,475	10.811
Exercised	(442,204)	1.430
Canceled	(63,787)	4.540
Outstanding at December 31, 2005	3,271,484	1.278
Weighted average fair value of options granted during 2005		\$ 4.402
Options available for future grant at December 31, 2005	1,303,682	

The following table summarizes information about stock options outstanding at December 31, 2005

Exercise Price	Number Outstanding	Options Outstanding Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	
				Number Exercisable	Weighted Average Exercise Price
\$0.0002	377,710	1.51years	\$ 0.0002	377,710	\$ 0.0002
0.24	78,294	3.21	0.24	78,294	0.24
0.55	166,524	6.97	0.55	43,667	0.55
1.87	154,705	5.00	1.87	138,400	1.87
2.33	730,934	7.96	2.33	243,429	2.33
2.78	579,637	8.57	2.78	109,664	2.78
4.60	150,900	9.05	4.60	4,915	4.60
4.96	449,705	9.16	4.96	4,500	4.96
5.66	137,375	9.54	5.66	—	—
14.54	111,500	9.64	14.54	—	—
16.32	42,000	9.74	16.32	1,000	16.32
17.77	85,000	10.98	17.77	1,000	17.77
21.60	23,200	9.84	21.60	—	—
24.00	160,000	9.85	24.00	—	—
29.74	6,000	9.90	29.74	1,000	29.74
33.94	18,000	10.00	33.94	—	—
\$0.0002-\$33.94	3,271,484	7.58	\$ 5.002	1,003,579	\$ 1.278

The Company has historically granted stock options at exercise prices that equaled the fair value of its common stock as estimated by its board of directors, with input from management, as of the date of grant. Because there was no public market for the Company's common stock prior to its initial public offering on November 9, 2005, its board of directors determined the fair value of its common stock by considering a number of objective and subjective factors, including the Company's operating and financial performance and

**iROBOT CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

corporate milestones, the prices at which it sold shares of convertible preferred stock, the superior rights and preferences of securities senior to its common stock at the time of each grant, and the risk and non-liquid nature of its common stock. The Company has not historically obtained contemporaneous valuations by an unrelated valuation specialist because, at the time of the issuances of stock options, the Company believed its estimates of the fair value of its common stock to be reasonable based on the foregoing factors.

In connection with the initial public offering, the Company retrospectively assessed the fair value of its common stock for options granted during the period from July 1, 2004 to November 8, 2005. As a result of this reassessment, the Company determined that the estimated fair market value of its common stock increased from \$4.60 to \$21.60 due to a number of factors such as, among other things, the likelihood of an initial public offering, its improving operating results and the achievement of other corporate milestones in 2005. Based upon this determination, the Company recorded deferred compensation expense of approximately \$3.4 million in the twelve months ended December 31, 2005. The Company recorded \$0.4 million of aggregate amortization of stock-based compensation expense in the fiscal year ended December 31, 2005 and expects to record aggregate amortization of stock-based compensation expense of \$0.7 million, \$0.7 million, \$0.7 million, \$0.7 million and \$0.2 million for 2006, 2007, 2008, 2009 and 2010, respectively.

**11. Warrants**

Under the terms of the January 30, 2003 Credit Agreement with a bank (Note 6), the Company issued warrants to the bank to purchase 18,000 shares of common stock at an approximate exercise price of \$3.74 per share. The warrants were subject to certain adjustments and could be exercised at any time until January 29, 2010. The estimated fair value of the warrants of \$22,312 was determined using the Black-Scholes option-pricing model. For this purpose, the Company assumed a risk-free rate of return of 3.12%; an expected life of 2 years; 100% volatility and no dividends. The Company recorded the estimated fair value of the warrants as additional paid-in-capital and other assets and amortized the fair value to interest expense over the eleven months outstanding under the Credit Agreement in 2003.

On November 14, 2005 the bank exercised its warrants and consistent with the conversion rights contained in the warrant agreement, the Company issued 16,155 shares of common stock.

**12. Income Taxes**

The components of income tax expense were as follows:

	<u>2005</u>	<u>2004</u> (In thousands)	<u>2003</u>
Current			
Federal	\$ 129	\$ 90	\$ 33
State	47	54	3
	<u>\$ 176</u>	<u>\$ 144</u>	<u>\$ 36</u>



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The components of net deferred tax assets are as follows at December 31, 2005 and 2004

	2005	2004
	(In thousands)	
Deferred tax asset		
Net operating loss carryforwards	\$ 4,264	\$ 5,184
Tax credits	1,336	1,020
Reserves and accruals	6,095	5,228
Total deferred tax asset	11,695	11,432
Valuation allowance	(11,695)	(11,432)
Net deferred tax asset	<u>\$ —</u>	<u>\$ —</u>

The Company has provided a full valuation allowance for the deferred tax assets since it is more likely than not that these future benefits will not be realized. If the Company achieves future profitability, a significant portion of these deferred tax assets could be available to offset future income taxes. Of the \$11.7 million valuation allowance at December 31, 2005, \$2.7 million relate to deductions for stock option compensation which will be credited to additional paid-in capital upon realization.

At December 31, 2005, the Company had available net operating loss carryforwards for federal and state purposes of \$10.8 million and \$9.3 million, respectively. The federal net operating loss carryforwards expire at various dates from 2020 through 2024. The state net operating loss carryforwards will begin to expire in 2007. The Company also had available research and development credit carryforwards to offset future federal and state taxes of \$0.8 million and \$0.6 million, respectively, which expire at various dates from 2012 through 2024. Under the Internal Revenue Code, certain substantial changes in the Company's ownership could result in an annual limitation of the amount of net operating loss and tax credit carryforwards which can be utilized in future years.

The reconciliation of the expected tax (benefit) expense (computed by applying the federal statutory rate to income before income taxes) to actual tax expense was as follows:

	2005	2004	2003
	(In thousands)		
Expected federal income tax	\$ 947	\$ 124	\$ (2,522)
Permanent items	26	45	22
State taxes	133	(302)	(412)
Credits	(166)	(166)	(165)
Other	36	57	—
Increase (decrease) in valuation allowance	(800)	386	3,113
	<u>\$ 176</u>	<u>\$ 144</u>	<u>\$ 36</u>

### 13. Commitments and Contingencies

#### Legal

The Company has received a letter from a UK Government agency (the "Customer") dated February 9, 2004, attempting to terminate a contract for the design, development, production and support of a number of man-portable remote control vehicles for use in explosive ordnance disposal operations. The Company entered into the contract on May 23, 2001, and has substantially completed the product design and development phase of the work. The Company received payments based upon achieving a number of contract milestones and has

**iROBOT CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

recognized revenue based on progress under the percentage-of-completion method of accounting. In addition to the milestone payments, the Customer has advanced the Company funds to purchase long-lead inventory components in advance of the production contemplated in the contract. The Company has been paid 3.7 million Great Britain Pounds (approximately \$6.4 million at the December 31, 2005 exchange rate), which includes 0.7 million Great Britain Pounds (approximately \$1.2 million) for long-lead inventory items. In its termination letter, the Customer has demanded a refund of all monies paid under the contract. The Company has engaged legal counsel in anticipation of a negotiated settlement with the Customer. Management believes that it has adequately provided for the possibility of refunding some portion of the payments made to date under the contract.

***Lease Obligations***

The Company leases its facilities. Rental expense under operating leases for 2005, 2004 and 2003 amounted to \$1.3 million, \$0.9 million, and \$1.1 million, respectively. Future minimum rental payments under operating leases were as follows as of December 31, 2005:

	<b>Operating Leases</b>
2006	\$ 1,785
2007	1,663
2008	1,418
2009	118
2010	74
Thereafter	—
Total minimum lease payments	<u>\$ 5,058</u>

***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 software. The term of these indemnification agreements is generally perpetual any time after execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of December 31, 2005 and 2004, 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.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Activity related to the warranty accrual was as follows:

	Fiscal Year Ended December 31,		
	2005	2004 (In thousands)	2003
Balance at beginning of period	\$ 1,398	\$ 1,522	\$ 8
Provision	4,133	1,278	1,514
Warranty usage(*)	(3,500)	(1,402)	—
Balance at end of period	<u>\$ 2,031</u>	<u>\$ 1,398</u>	<u>\$ 1,522</u>

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

**Restricted Cash**

At December 31, 2004, cash totaling \$0.1 million was pledged as security for outstanding letters of credit or certain operating leases and was included as a component of other assets in the accompanying balance sheets. There was no restricted cash at December 31, 2005.

**14. Employee Benefits**

The Company sponsors a retirement plan under Section 401(k) of the Internal Revenue Code (the "Retirement Plan"). All Company employees, with the exception of temporary and contract employees are eligible to participate in the Retirement Plan after satisfying age and length of service requirements prescribed by the plan. Under the Retirement Plan, employees may make tax-deferred contributions, and the Company, at its sole discretion, and subject to the limits prescribed by the IRS, may make either a nonelective contribution on behalf of all eligible employees or a matching contribution on behalf of all plan participants.

The Company elected to make a matching contribution of approximately \$0.5 million, \$0.3 million and \$0.2 million for the plan years ended December 31, 2005, 2004 and 2003 ("Plan-Year 2005," "Plan-Year 2004" and "Plan-Year 2003"), respectively. The employer contribution represents a matching contribution at a rate of 50% of each employee's first six percent contribution. Accordingly, each employee participating during Plan-Year 2005, Plan-Year 2004 and Plan-Year 2003 is entitled up to a maximum of three percent of his or her eligible annual payroll. The employer matching contribution for Plan-Year 2005 is included in accrued compensation.

**15. Industry Segment, Geographic Information and Significant Customers**

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

**Consumer**

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

**Government and Industrial**

The Company's government and industrial division offers products through a small U.S. government-focused sales force, while products are sold to a limited number of countries other than the United States

## iROBOT CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

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

	Fiscal Year Ended December 31,		
	2005	2004 (In thousands)	2003
<b>Revenue:</b>			
Consumer	\$ 93,955	\$ 71,333	\$ 43,073
Government & Industrial	47,945	23,231	11,243
Other	68	479	—
Total revenue	<u>141,968</u>	<u>95,043</u>	<u>54,316</u>
<b>Cost of revenue:</b>			
Consumer	58,010	48,282	27,387
Government & Industrial	36,203	19,308	9,950
Other	85	102	—
Total cost of revenue	<u>94,298</u>	<u>67,692</u>	<u>37,337</u>
<b>Gross profit (loss):</b>			
Consumer	35,945	23,051	15,686
Government & Industrial	11,742	3,923	1,293
Other	(17)	377	—
Total gross profit	<u>47,670</u>	<u>27,351</u>	<u>16,979</u>
<b>Research and development</b>			
Other	11,506	5,504	3,848
<b>Selling and marketing</b>			
Other	21,765	14,106	12,757
<b>General and administrative</b>			
Other	11,891	7,298	7,764
<b>Stock-based compensation</b>			
Other	398	—	—
<b>Other (expense) income, net</b>			
Other	676	(80)	15
<b>Income (loss) before income taxes</b>			
Other	<u>\$ 2,786</u>	<u>\$ 363</u>	<u>\$ (7,375)</u>

*Geographic Information*

For the fiscal years ended December 31, 2005 and 2004, sales to non-U.S. customers accounted for 9.9% and 7.4% of total revenue, respectively.

**iROBOT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

*Significant Customers*

For the fiscal years ended December 31, 2005 and 2004, U.S. federal government orders, contracts and subcontracts accounted for 28.3% and 20.1% of total revenue, respectively.

**16. Quarterly Information (Unaudited)**

	Fiscal Quarter Ended							
	March 31, 2004	June 30, 2004	September 30, 2004	December 31, 2004	March 31, 2005	July 2, 2005	October 1, 2005	December 31, 2005
	(In thousands, except per share amounts)							
Revenue	\$ 18,499	\$ 10,111	\$ 28,948	\$ 37,485	\$ 17,132	\$ 25,886	\$ 52,458	\$ 46,492
Gross profit	6,729	2,064	8,287	10,271	4,174	6,324	20,734	16,438
Net income (loss)	481	(3,481)	2,811	408	(4,101)	(3,056)	9,752	15
Diluted earnings (loss) per share	\$ 0.02	\$ (0.36)	\$ 0.14	\$ 0.02	\$ (0.42)	\$ (0.30)	\$ 0.40	\$ 0.00

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

There have been no disagreements with accountants on accounting or financial disclosure matters during our two most recent fiscal years.

**ITEM 9A. CONTROLS AND PROCEDURES**

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

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

**ITEM 9B. OTHER INFORMATION**

Our policy governing transactions in our securities by directors, officers and employees permits our officers, directors and certain other persons to enter into trading plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. Generally, under these trading plans, the individual relinquishes control over the transactions once the trading plan is put into place. Accordingly, sales under these plans may occur at any time, including possibly before, simultaneously with, or immediately after significant events involving our company. We anticipate that, as permitted by Rule 10b5-1 and our policy governing transactions in our securities, some or all of our officers, directors and employees may establish trading plans in the future. We intend to disclose the names of executive officers and directors who establish a trading plan in compliance with Rule 10b5-1 and the requirements of our policy governing transactions in our securities in our future quarterly and annual reports on Form 10-Q and 10-K filed with the Securities and Exchange Commission. However, we undertake no obligation to update or revise the information provided herein, including for revision or termination of an established trading plan, other than in such quarterly and annual reports.

On March 15, 2006 and on March 16, 2006, we entered into Executive Agreements with each of the following executive officers: Helen Greiner, Chairman of the Board; Colin Angle, Chief Executive Officer and Director; Geoffrey P. Clear, Senior Vice President, Chief Financial Officer and Treasurer; Joseph W. Dyer, Executive Vice President and General Manager; Gregory F. White, Executive Vice President and General Manager; Glen D. Weinstein, Senior Vice President, General Counsel and Secretary; Gerald C. Kent, Jr., Vice President and Controller. The Executive Agreements provide for severance payments equal to 50% of such officer's annual base salary, as well as certain continued health benefits, in the event that we terminate his or her employment other than for cause. In addition, these executive agreements provide that if we experience a change in control and the employment of such officer is terminated without cause, or if such officer terminates his or her employment for certain reasons including a substantial reduction in salary or bonus or geographic movement during the one-year period following the change in control, then all unvested stock options held by such officer become fully-vested and immediately exercisable and such officer is entitled to severance payments equal to 100% of his or her annual base salary and 50% of such officer's annual bonus, as well as certain continued health benefits. The agreements also provide that all options granted to each officer under our Amended and Restated 1994 Stock Plan, our Amended and Restated 2001 Special Stock Option Plan, our Amended and Restated 2004 Stock Option and Incentive Plan and our 2005 Stock Option

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and Incentive Plan, as applicable, will have their vesting accelerated by 25% upon a change in control. In January 1997, we entered into employment agreements with each of Mr. Angle and Ms. Greiner that provide for certain salary, bonus and severance compensation. In February 2004, we entered into an employment agreement with Mr. Dyer that provides for certain salary, bonus and severance compensation. Each of these employment agreements were terminated upon the execution of Executive Agreements by Ms. Greiner and Messrs. Angle and Dyer.

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The information required by this item regarding directors and executive officers of the registrant is incorporated by reference to the information set forth in the sections titled "Directors and Executive Officers of the Registrant" in our Proxy Statement.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item regarding executive compensation is incorporated by reference to the information set forth in the sections titled "Executive Compensation, Management and Other Information" in our Proxy Statement.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this item regarding security ownership of certain beneficial owners and management and related stockholder matters is incorporated by reference to the information set forth in the sections titled "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" in our Proxy Statement.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The information required by this item regarding certain relationships and related transactions is incorporated by reference to the information set forth in the sections titled "Certain Relationships and Related Transactions" in our Proxy Statement.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this item regarding principle accountant fees and services is incorporated by reference to the information set forth in the sections titled "Ratification of Appointment of Independent Auditors" in our Proxy Statement.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) The following are filed as part of this Annual Report on Form 10-K:

**1. Financial Statements**

The following consolidated financial statements are included in Item 8:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at December 31, 2005 and 2004

Consolidated Statements of Operations for the Years ended December 31, 2005, 2004 and 2003

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Consolidated Statements of Stockholders' Equity (Deficit) for the Years ended December 31, 2005, 2004 and 2003

Consolidated Statements of Cash Flows for the Years ended December 31, 2005, 2004 and 2003

Notes to Consolidated Financial Statements

### 2. Financial Statement Schedules

All other schedules have been omitted since the required information is not present, or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the Notes thereto.

### 3. Exhibits — See item 15(b) of this report below

#### (b) Exhibits

The following exhibits are filed as part of and incorporated by reference into this Annual Report:

<u>Exhibit Number</u>	<u>Description</u>
3.1(1)	Form of Second Amended and Restated Certificate of Incorporation of the Registrant dated November 15, 2005
3.2(1)	Amended and Restated By-laws of the Registrant
4.1(1)	Specimen Stock Certificate for shares of the Registrant's Common Stock
4.2(1)	Shareholder Rights Agreement between the Registrant and Computershare Trust Company, Inc., as the Rights Agent dated November 15, 2005
10.1(1)	Fifth Amended and Restated Registration Rights Agreement by and among the Registrant, the Investors and the Stockholders named therein, dated as of November 10, 2004
10.2†(1)	Form of Indemnification Agreement between the Registrant and its Directors and Executive Officers
10.3†(1)	Registrant's 2005 Incentive Compensation Plan
10.4†*	Registrant's 2006 Incentive Compensation Plan
10.5†(1)	Amended and Restated 1994 Stock Plan and forms of agreements thereunder
10.6†*	Amended and Restated 2001 Special Stock Option Plan and forms of agreements thereunder
10.7†(1)	Amended and Restated 2004 Stock Option and Incentive Plan and forms of agreements thereunder
10.8(1)	Lease Agreement between the Registrant and Burlington Crossing Office LLC for premises located at 63 South Avenue, Burlington, Massachusetts, dated as of October 29, 2002, as amended
10.9*	Sublease between the Registrant and Lahey Clinic Hospital, Inc. for premises located at 63 South Avenue, Burlington, Massachusetts, dated as of September 20, 2005
10.10(1)	Loan and Security Agreement between the Registrant and Fleet National Bank, dated as of May 26, 2005
10.11†*	Form of Executive Agreement between the Registrant and certain executive officers of the Registrant, dated as of March 16, 2006
10.12†(1)	Employment Agreement between the Registrant and Helen Greiner, dated as of January 1, 1997
10.13†(1)	Employment Agreement between the Registrant and Colin Angle, dated as of January 1, 1997
10.14†(1)	Employment Agreement between the Registrant and Joseph W. Dyer, dated as of February 18, 2004
10.15†(1)	Independent Contractor Agreement between the Registrant and Rodney Brooks, dated as of December 30, 2002
10.16(1)	Government Contract DAAE07-03-9-F001 (Small Unmanned Ground Vehicle)



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<b>Exhibit Number</b>	<b>Description</b>
10.17(1)	Government Contract N00174-03-D-0003 (Man Transportable Robotic System)
10.18†(1)	2005 Stock Option and Incentive Plan and forms of agreements thereunder
10.19#(1)	Manufacturing and Services Agreement between the Registrant and Gem City Engineering Corporation, dated as of July 27, 2004
10.20†(1)	Non-Employee Directors' Deferred Compensation Program
21.1*	Subsidiaries of the Registrant
23.1*	Consent of PricewaterhouseCoopers LLP
24.1	Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K)
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.  
# Confidential treatment requested for portions of this document.  
(1) Incorporated by reference herein to the exhibits to the Company's Registration Statement on Form S-1 (File No. 333-126907)  
\* Filed herewith

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

iROBOT CORPORATION

By: /s/ Colin M. Angle

Colin M. Angle  
Chief Executive Officer and Director

Date: March 16, 2006

**POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Colin M. Angle and Geoffrey P. Clear, jointly and severally, his or her attorney-in-fact, with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his or her substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Annual Report on Form 10-K has been signed by the following persons in the capacities indicated on March 16, 2006.

<u>Signature</u>	<u>Title(s)</u>
<u>/s/ HELEN GREINER</u> Helen Greiner	Chairman of the Board
<u>/s/ COLIN M. ANGLE</u> Colin M. Angle	Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ GEOFFREY P. CLEAR</u> Geoffrey P. Clear	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
<u>/s/ GERALD C. KENT, JR.</u> Gerald C. Kent, Jr.	Vice President and Controller (Principal Accounting Officer)
<u>/s/ RONALD CHWANG</u> Ronald Chwang	Director
<u>/s/ JACQUES S. GANSLER</u> Jacques S. Gansler	Director
<u>/s/ RODNEY A. BROOKS</u> Rodney A. Brooks	Director

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<u>Signature</u>	<u>Title(s)</u>
<hr/> <u>/s/ ANDREA GEISSER</u> Andrea Geisser	Director
<hr/> <u>/s/ GEORGE C. McNAMEE</u> George C. McNamee	Director
<hr/> <u>/s/ PETER MEEKIN</u> Peter Meekin	Director

**EXHIBIT INDEX**

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

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\* Filed herewith

2006 IROBOT INCENTIVE COMPENSATION PLAN

METRICS AND HOW THE PLAN WORKS

The 2006 iRobot Incentive Compensation Plan (the "Plan" or "ICP") is funded when iRobot meets key metrics that demonstrate we have achieved our objectives. The summary below describes the metrics, the weightings for each metric and the funding formula.

The Company-wide metrics apply to incentives for all employees. The Home Robots and G&I metrics are used to determine employee incentives in those divisions, and Corporate metrics are used to determine employee incentives in the Corporate group.

COMPANY-WIDE  
40%

Weighting	Metric	Funding Threshold & Funding Formula below Objective	100% Funding At Objective	Funding Formula above Objective
[REDACTED]%	Revenue	\$(REDACTED) is the funding threshold. Funding increases ratably between \$(REDACTED) and \$(REDACTED)	\$(REDACTED)	For every [REDACTED]% pt increase in revenue over threshold there is a [REDACTED]% pt increase in funding until \$(REDACTED) is attained (funding is [REDACTED]%). At \$(REDACTED) for every [REDACTED]% pt increase in revenue, there is a [REDACTED]% pt increase in funding.
[REDACTED]%	Sarbanes-Oxley - 404 Certification	Discretionary based on Board	404 Certification	N/A

HOME ROBOTS DIVISION  
60%

Weighting	Metric	Funding Threshold & Funding Formula below Objective	100% Funding At Objective	Funding Formula above Objective
[REDACTED]%	Gross profit % (1)	At [REDACTED]% gross profit, [REDACTED]% of the Funding for this metric will be paid. Funding increases ratably between [REDACTED]% and [REDACTED]%	[REDACTED]%	Funding will increase ratably above [REDACTED]% up to [REDACTED]% or [REDACTED]% funding.
[REDACTED]%	Contribution \$ (2)	At \$[REDACTED] contribution, [REDACTED]% of the Funding for this metric will be paid. Funding increases ratably between \$[REDACTED] and \$[REDACTED].	\$[REDACTED]	Funding will increase ratably above \$[REDACTED] to \$[REDACTED] or [REDACTED]% payout.
[REDACTED]%	Product Quality	In 2006, [REDACTED]		NA
[REDACTED]%	Product Development	In 2006, [REDACTED]		NA
[REDACTED]%	Invention	In 2006, [REDACTED]		NA

G&I DIVISION  
60%

Weighting	Metric	Funding Threshold & Funding Formula below Objective	100% Funding At Objective	Funding Formula above Objective
[REDACTED]%	Total gross profit (1)	At [REDACTED]% gross profit, [REDACTED]% of the Funding for this metric will be paid. Funding increases ratably between [REDACTED]% and [REDACTED]%.	[REDACTED]%	Funding will increase ratably above [REDACTED]% up to [REDACTED]% or [REDACTED]% payout.
[REDACTED]%	Contribution (2)	At \$[REDACTED], [REDACTED]% of the funding for this metric will be paid. Funding increases ratably between \$[REDACTED] and \$[REDACTED].	[\$REDACTED]	Funding will increase ratably above \$[REDACTED] to \$[REDACTED] or [REDACTED]% payout.
[REDACTED]%	Product Quality	In 2006, [REDACTED]		NA
[REDACTED]%	Product Development	In 2006, [REDACTED]		NA
[REDACTED]%	Invention	In 2006, [REDACTED]		NA

CORPORATE GROUP  
60%

Weighting	Metric	Funding Threshold & Funding Formula below Objective	100% Funding At Objective	Funding Formula above Objective
[REDACTED]%	Gross profit % (1)	Divisional funding is based on the average funding of the Home Robots and G&I divisions.	Divisional funding is based on the average funding of the Home Robots and G&I divisions.	Divisional funding is based on the average funding of the Home Robots and G&I divisions.
[REDACTED]%	Operating Margin \$ (3)	At \$[REDACTED] contribution, [REDACTED]% of the funding for this metric will be paid. Funding increases ratably between \$[REDACTED] and \$[REDACTED].	[\$REDACTED]	Funding will increase ratably above \$[REDACTED] to \$[REDACTED] or [REDACTED]% payout.
[REDACTED]%	Expense Control	At \$[REDACTED], [REDACTED]% of the funding for this metric will be paid; between \$[REDACTED] and \$[REDACTED] funding will increase ratably	[\$REDACTED]	NA

- (1) Gross profit % is defined as total revenue less total cost of revenues including product cost, contract cost and overhead as a percent of revenue.
- (2) Contribution is defined as division gross profit dollars less total division operating expenses.
- (3) Operating margin dollars is defined as gross profit less operating expenses, before interest income, stock based compensation expense and income taxes.

#### PLAN ADMINISTRATION

Eligibility - Regular, full-time iRobot employees hired before September 30, 2006, are eligible to participate in the 2006 Incentive Compensation Plan.

Regular Pay - Awards are calculated using regular pay (base salary for exempt employees or hourly rate x forty hours for nonexempt employees) earned during the year.

Hires in 2006 - Employees hired during 2006 fiscal year (on or before September 30, 2006) will receive awards calculated using their regular pay earned during the year. Employees hired on or after October 1, 2006, are not eligible for a 2006 award.

Leaves of Absence - Employees who have taken a leave of absence during the year will receive awards calculated using their regular pay earned during the year.

Transfers between Divisions - All employees have been assigned to a division and the divisional portion of the award is calculated based on that assignment. If an employee transfers between divisions during the year, their bonus will be handled on a case-by-case basis.

Award Payout - Awards are paid in March 2007, and you must be an active iRobot employee in good standing on the date of the incentive payout to receive an award.

The Incentive Compensation Plan and its funding are subject to approval by the Board of Directors. All decisions regarding administration of the Plan, with the exception of those applying to Top Management, are at the sole discretion of the Company's Top Management.

iRobot reserves the right in its absolute discretion to abolish the Plan at any time or to alter the terms and conditions under which incentive compensation will be paid. Such discretion may be exercised any time during 2006 or in 2007 prior to payment of incentive compensation. No participant shall have any vested right to receive any compensation hereunder until actual delivery of such compensation.

#### SPECIAL PROVISION APPLYING TO TOP MANAGEMENT

ICP bonuses to the Top Management employees (CEO, Chairman, CFO, EVP Home Robots, EVP G&I Robots, General Counsel, and VP HR) and the CTO are contingent on the Company achieving a FY06 EPS of \$[REDACTED]; to the extent that ICP bonuses to the top management employees and the CTO would reduce the Company's FY06 EPS below \$[REDACTED], those ICP bonuses shall be reduced accordingly.

2006 Incentive Compensation Plan

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AMENDED AND RESTATED  
2001 SPECIAL STOCK OPTION PLAN  
OF IROBOT CORPORATION

SECTION 1 ESTABLISHMENT AND PURPOSE

The purpose of this Plan is to amend and restate in its entirety the 2001 Special Stock Option Plan of the Company. The Plan is designed to offer selected employees, directors and consultants an opportunity to acquire a proprietary interest in the success of the Company, or to increase such interest, by purchasing Shares of the Company's Common Stock. The Plan provides both for the direct award or sale of Shares and for the grant of Options to purchase Shares. Options granted under the Plan may include Nonstatutory options as well as ISOs intended to qualify under section 422 of the Code.

SECTION 2 DEFINITIONS

- (a) "Board of Directors" shall mean the Board of Directors of the Company, as constituted from time to time.
- (b) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.
- (c) "Committee" shall mean a committee of the Board of Directors, as described in Section 3(a).
- (d) "Company" shall mean iRobot Corporation, a Delaware corporation.
- (e) "Employee" shall mean (i) any employee of the Company or of a Subsidiary as determined in accordance with the provisions of Treasury Regulation Section 1.421-7(h) under the Code or any successor regulations thereto, (ii) a member of the Board of Directors, (iii) an independent contractor who performs services for the Company or a Subsidiary, and (iv) any individual who is employed by any partnership in which the Company has a substantial partnership interest.



Service as a member of the Board of Directors or as an independent contractor shall be considered employment for all purposes of the Plan except the second sentence of Section 4(a)

(f) "Exercise Price" shall mean the amount for which one Share may be purchased upon exercise of an Option, as specified by the Committee in the applicable Stock Option Agreement

(g) "Fair Market Value" shall mean the fair market value of a Share, as determined by the Committee in good faith Such determination shall be conclusive and binding on all persons

(h) "ISO" shall mean an employee incentive stock option described in section 422(b) of the Code

(i) "Nonstatutory Option" shall mean an employee stock option not described in section 422(b) or section 423(b) of the Code

(j) "Offeree" shall mean an individual to whom the Committee has offered the right to acquire Shares under the Plan (other than upon exercise of an Option)

(k) "Option" shall mean an ISO or Nonstatutory Option granted under the Plan and entitling the holder to purchase Shares

(l) "Optionee" shall mean an individual who holds an Option

(m) "Plan" shall mean this Amended and Restated 2001 Special Stock Option Plan of iRobot Corporation

(n) "Purchase Price" shall mean the consideration for which one Share may be acquired under the Plan (other than upon exercise of an Option), as specified by the Committee

(o) "Service" shall mean service as an Employee

(p) "Share" shall mean one share of Stock, as adjusted in accordance with Section 9 (if applicable)

(q) "Stock" shall mean the Common Stock of the Company

(r) "Stock Option Agreement" shall mean the agreement between the Company and an Optionee

which contains the terms, conditions and restrictions pertaining to his Option

(s) "Stock Purchase Agreement" shall mean the agreement between the Company and an Offeree who acquires Shares under the Plan which contains the terms, conditions and restrictions pertaining to the acquisition of such Shares

(t) "Subsidiary" shall mean any corporation, if the Company and/or one or more other Subsidiaries own not less than 50 percent of the total combined voting power of all classes of outstanding stock of such corporation A corporation that attains the status of a Subsidiary on a date after the adoption of the Plan shall be considered a Subsidiary commencing as of such date

(u) "Total and Permanent Disability" shall mean that the Optionee is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted, or can be expected to last, for a continuous period of not less than six months

### SECTION 3 ADMINISTRATION

(a) Committee Membership The Plan shall be administered by the Committee, which shall consist of three members of the Board of Directors The members of the Committee shall be appointed by the Board of Directors If no Committee has been appointed, the entire Board of Directors shall constitute the Committee

(b) Committee Procedures The Board of Directors shall designate one of the members of the Committee as chairman The Committee may hold meetings at such times and places as it shall determine The acts of a majority of the Committee members present at meetings at which a quorum exists, or acts reduced to or approved in writing by all Committee members, shall be valid acts of the Committee

(c) Committee Responsibilities Subject to the provisions of the Plan, the Committee shall have full authority and discretion to take the following actions

(i) To interpret the Plan and to apply its provisions,

(ii) To adopt, amend or rescind rules, procedures and forms relating to the Plan,

(iii) To authorize any person to execute, on behalf of the Company, any instrument required to carry out the purposes of the Plan,

(iv) To determine when Shares are to be awarded or offered for sale and when Options are to be granted under the Plan,

(v) To select the Offerees and Optionees,

(vi) To determine the number of Shares to be offered to each Offeree or to be made subject to each Option,

(vii) To prescribe the terms and conditions of each award or sale of Shares, including (without limitation) the Purchase Price, and to specify the provisions of the Stock Purchase Agreement relating to such award or sale,

(viii) To prescribe the terms and conditions of each Option, including (without limitation) the Exercise Price, to determine whether such Option is to be classified as an ISO or as a Nonstatutory Option, and to specify the provisions of the Stock Option Agreement relating to such Option,

(ix) To amend any outstanding Stock Purchase Agreement or Stock Option Agreement, subject to applicable legal restrictions and to the consent of the Offeree or Optionee who entered into such agreement, and

(x) To take any other actions deemed necessary or advisable for the administration of the Plan

All decisions, interpretations and other actions of the Committee shall be final and binding on all Offerees, all Optionees, and all persons deriving their rights from an Offeree or Optionee. No member of the Committee shall be liable for any action that he has taken or has failed to take in good faith with respect to the Plan, any Option, or any right to acquire Shares under the Plan

(d) Financial Reports Not less often than annually, the Company shall furnish to Optionees and Offerees reports of its financial condition, unless such Optionees and Offerees have access to equivalent information through their employment Such reports need not be audited

#### SECTION 4 ELIGIBILITY

(a) General Rule Only Employees shall be eligible for designation as Optionees or Offerees by the Committee In addition, only individuals who are employees of the Company or of a Subsidiary as determined in accordance with the provisions of Treasury Regulation Section 1 421-7(h) under the Code or any successor regulations thereto shall be eligible for the grant of ISOs

(b) Ten-Percent Shareholders An Employee who owns more than 10 percent of the total combined voting power of all classes of outstanding stock of the Company or any of its Subsidiaries shall not be eligible for designation as an Optionee of an ISO unless (i) the Exercise Price is at least 110 percent of the Fair Market Value of a Share on the date of grant, and (ii) such ISO by its terms is not exercisable after the expiration of five years from the date of grant

(c) Attribution Rules For purposes of Subsection (b) above, in determining stock ownership, an Employee shall be deemed to own the stock owned, directly or indirectly, by or for his brothers and sisters (whether by the whole or half blood), spouse, ancestors and lineal descendants Stock owned, directly or indirectly, by or for a corporation, partnership, estate or trust shall be deemed to be owned proportionately by or for its shareholders, partners or beneficiaries Stock with respect to which such Employee holds an option shall not be counted

(d) Outstanding Stock For purposes of Subsection (b) above, "outstanding stock" shall include all stock actually issued and outstanding immediately after the grant "Outstanding stock" shall not include shares authorized for issuance under outstanding options held by the Employee or by any other person

#### SECTION 5 STOCK SUBJECT TO PLAN

(a) Basic Limitation Shares offered under the Plan shall be authorized but unissued Shares or shares of Stock reacquired in any manner. The aggregate number of Shares which may be issued under the Plan (upon exercise of Options or other rights to acquire Shares) shall not exceed 642,310 Shares, subject to adjustment pursuant to Section 9. The number of Shares which are subject to Options or other rights outstanding at any time under the Plan shall not exceed the number of Shares which then remain available for issuance under the Plan. The Company, during the term of the Plan, shall at all times reserve and keep available sufficient Shares to satisfy the requirements of the Plan.

(b) Additional Shares. In the event that any outstanding Option or other right for any reason expires or is cancelled or otherwise terminated, the Shares allocable to the unexercised portion of such Option or other right shall again be available for issuance under the Plan. In the event that Shares are reacquired by the Company pursuant to a forfeiture provision, a right of repurchase, a right of first refusal or a transaction under Section 8(b), such Shares shall again be available for the issuance under the Plan, provided that Shares that were acquired pursuant to the exercise of an Option which are subsequently reacquired by the Company shall not be available for issuance pursuant to the exercise of another Option (except as specifically provided in Section 5(a)) and provided further that, the cumulative number of such Shares that are available for reissuance under the Plan will not exceed 642,310 Shares.

(c) Per-Participant Limit. Subject to adjustment under Section 9, no Employee may receive rights to acquire Shares under the Plan (whether by way of Option or otherwise) during any one fiscal year that exceeds 500,000 Shares.

#### SECTION 6 TERMS AND CONDITIONS OF AWARDS OR SALES

(a) Stock Purchase Agreement. Each award or sale of Shares under the Plan (other than upon exercise of an Option) shall be evidenced by a Stock Purchase Agreement between the Offeree and the Company. Such award or sale shall be subject to all applicable terms and conditions of the Plan and may be

subject to any other terms and conditions which are not inconsistent with the Plan and which the Committee seems appropriate for inclusion in a Stock Purchase Agreement. The provisions of the various Stock Purchase Agreements entered into under the Plan need not be identical.

(b) Duration of Offers and Nontransferability of Rights Any right to acquire Shares under the Plan (other than an Option) shall automatically expire if not exercised by the Offeree within 30 days after the grant of such right was communicated to him by the Committee. Such right shall not be transferable and shall be exercisable only by the Offeree to whom such right was granted.

(c) Purchase Price The Purchase Price of Shares to be offered under the Plan shall be determined by the Committee, in its sole and absolute discretion, and may be less than, equal to, or greater than the Fair Market Value of such Shares but in no event shall be less than the par value of such Shares. The Purchase Price shall be payable in a form described in Section 8.

(d) Withholding Taxes As a condition to the award or purchase of Shares, the Offeree shall make such arrangements as the Committee may require for the satisfaction of any federal, state or local withholding tax obligations that may arise in connection with such award or purchase.

(e) Restrictions on Transfer of Shares Any Shares awarded or sold under the Plan shall be subject to such special forfeiture, conditions, rights of repurchase, rights of first refusal and other transfer restrictions as the Committee may determine. Such restrictions shall be set forth in the applicable Stock Purchase Agreement and shall apply in addition to any general restrictions that may apply to all holders of Shares.

#### SECTION 7 TERMS AND CONDITIONS OF OPTIONS

(a) Stock Option Agreement Each grant of an Option under the Plan shall be evidenced by a Stock Option Agreement between the Optionee and the Company. Such Option shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions which are not inconsistent with

the Plan and which the Committee deems appropriate for inclusion in a Stock Option Agreement. The Provisions of the various Stock Option Agreements entered into under the Plan need not be identical.

(b) Number of Shares Each Stock Option Agreement shall specify the number of Shares that are subject to the Option and shall provide for the adjustment of such number in accordance with Section 9. The Stock Option Agreement shall also specify whether the Option is an ISO or a Nonstatutory Option. In no event shall the aggregate Fair Market Value of Stock (determined at the time an ISO is granted) for which ISOs granted to any Employee are exercisable for the first time by such Employee during any calendar year (under all stock option plans of the Company and any Subsidiary) exceed One Hundred Thousand Dollars (\$100,000), provided, however, that this limitation shall have no force or effect if its inclusion in the Plan is not necessary for Options issued as ISOs to qualify as incentive stock options within the meaning of Section 422 of the Code. Any Option which would, but for its failure to satisfy the foregoing restriction, qualify as an ISO shall nevertheless be a valid Option, but to the extent of such failure it shall be deemed to be a Nonstatutory Option.

(c) Exercise Price Each Stock Option Agreement shall specify the Exercise Price. The Exercise Price of an ISO shall not be less than 100 percent of the Fair Market Value of a Share on the date of grant, except as otherwise provided in Section 4(b). The Exercise Price of a Nonstatutory option shall be determined by the Committee, in its sole and absolute discretion, and may be less than, equal to, or greater than the Fair Market Value of a Share on the date of grant. The Exercise Price shall be payable in a form described in Section 8.

(d) Withholding Taxes As a condition to the exercise of an Option, the Optionee shall make such arrangements as the Committee may require for the satisfaction of any federal, state or local withholding tax obligations that may arise in connection with such exercise. The Optionee shall also make such arrangements as the Committee may require for the satisfaction of any federal, state or local withholding tax obligations that may arise in connection with the disposition of Shares acquired by exercising an Option.

(e) Exercisability and Term Each Stock Option Agreement shall specify the date(s) or event(s) when all or any installment of the Option is to become exercisable The vesting of any Option shall be determined by the Committee at its sole discretion The Stock Option Agreement shall also specify the term of the Option The term shall not exceed 10 years from the date of grant, except as otherwise provided in Section 4(b) Subject to the preceding sentence, the Committee at its sole discretion shall determine when an Option is to expire

(f) Nontransferability During an Optionee's lifetime, his Option(s) shall be exercisable only by him and shall not be transferable In the event of an Optionee's death, his Option(s) shall not be transferable other than by will or by the laws of descent and distribution

(g) Termination of Service (Except by Death) If an Optionee's Service terminates for any reason other than his death, then his Option(s) shall expire on the earliest of the following occasions

(i) The expiration date determined pursuant to Subsection (e) above,

(ii) The date 60 days after the termination of his Service for any reason other than Total and Permanent Disability, or

(iii) The date six months after the termination of his Service by reason of Total and Permanent Disability

The Optionee may exercise all or part of his Option(s) at any time before the expiration of such Option(s) under the preceding sentence, but only to the extent that such Option(s) had become exercisable before his Service terminated or became exercisable as a result of the termination The balance of such Option(s) shall lapse when the Optionee's Service terminates In the event that the Optionee dies after the termination of his Service but before the expiration of his Option(s), all or part of such Option(s) may be exercised (prior to expiration) by the executors or administrators of the Optionee's estate or by any person who has acquired such Option(s) directly from him by bequest or inheritance, but only to the extent that such Option(s) had become exercisable before his Service terminated or became exercisable as a result of the termination



(h) Leaves of Absence For purposes of Subsection (g) above, Service shall be deemed to continue While the Optionee is on military leave, sick leave or other bona fide leave of absence (as determined by the Committee) The foregoing notwithstanding, in the case of an ISO granted under the Plan, Service shall not be deemed to continue beyond the first 90 days of such leave, unless the Optionee's reemployment rights are guaranteed by statute or by contract

(i) Death of Optionee If an Optionee dies while he is in Service, then his Option(s) shall expire on the earlier of the following dates

(i) The expiration date determined pursuant to Subsection (e) above,  
or

(ii) The date six months after his death

All or part of the Optionee's Option(s) may be exercised at any time before the expiration of such Option(s) under the preceding sentence by the executors or administrators of his estate or by any person who has acquired such Option(s) directly from him by bequest or inheritance, but only to the extent that such Option(s) had become exercisable before his death or became exercisable as a result of his death The balance of such Option(s) shall lapse when the Optionee dies

(j) No Rights as a Shareholder An Optionee, or a transferee of an Optionee, shall have no rights as a shareholder with respect to any Shares covered by his Option until the date of the issuance of a stock certificate for such Shares No adjustments shall be made, except as provided in Section 9

(k) Modification. Extension and Renewal of Options Within the limitations of the Plan, the Committee may modify, extend or renew outstanding Options or may accept the cancellation of outstanding Options (to the extent not previously exercised) in return for the grant of new Options at the same or a different price The foregoing notwithstanding, no modification of an Option shall, without the consent of the Optionee, impair his rights or increase his obligations under such Option

(1) Restrictions on Transfer of Shares Any Shares issued upon exercise of an Option shall be subject to such special forfeiture conditions, rights of repurchase, rights of first refusal and other transfer restrictions as the Committee may determine Such restrictions shall be set forth in the applicable Stock Option Agreement and shall apply in addition to any general restrictions that may apply to all holders of Shares

#### SECTION 8 PAYMENT FOR SHARES

(a) General Rule The entire Purchase Price or Exercise Price of Shares issued under the Plan shall be payable in cash or check payable to the order of the Company at the time when such Shares are purchased, except as provided in Subsections (b), (c), (d) and (e) below

(b) Surrender of Stock To the extent that a Stock Option Agreement so provides, payment may be made all or in part with Shares which have already been owned by the Optionee or his representative for more than 12 months and which are surrendered to the Company in good form for transfer Such Shares shall be valued at their Fair Market Value on the date when the new Shares are purchased under the Plan

(c) Services Rendered At the discretion of the Committee, Shares may be awarded under the Plan in consideration of services rendered to the Company or a Subsidiary prior to the award If Shares are awarded without the payment of a Purchase Price in cash, the Committee shall make a determination (at the time of the award) of the value of the services rendered by the Offeree and the sufficiency of the consideration to meet the requirements of Section 6(c) and applicable law

(d) Full Recourse Note At the discretion of the Committee, a portion of the Purchase Price or Exercise Price of Shares issued under the Plan may be payable by the issuance and delivery to the Company or a Subsidiary by the Optionee or Offeree of a personal full recourse note of the Optionee or Offeree bearing interest payable not less than annually at no less than 100% of the lowest applicable Federal rate as determined in accordance with Section 1274(d) of the Code, provided such note is secured by the Shares so purchased,

provided further that the Optionee or Offeree deliver to the Company cash or a check payable to the order of the Company in an amount equal to the aggregate par value of the Shares to be issued

(e) Cashless Exercise Only if the Stock is then publicly traded and only in the case of the exercise of an Option, delivery of an irrevocable and unconditional undertaking by a creditworthy broker to deliver promptly to the Company sufficient funds to pay the Exercise Price of an Option, or delivery by the Optionee to the Company of a copy of irrevocable and unconditional instructions to a creditworthy broker to deliver promptly to the Company cash or a check payable to the order of the Company sufficient to pay the Exercise Price of an Option

#### SECTION 9 ADJUSTMENT OF SHARES

(a) General In the event of a subdivision of the outstanding Stock, a declaration of a dividend payable in Shares, a declaration of a dividend payable in a form other than Shares in an amount that has a material effect on the value of Shares, a combination or consolidation of the outstanding Stock (by reclassification or otherwise) into a lesser number of Shares, a recapitalization or a similar occurrence, the Committee shall make appropriate adjustments in one or more of (i) the number of Shares available for future grants under Section 5, (ii) the number of Shares covered by each outstanding Option, or (iii) the Exercise Price under each outstanding Option

(b) Mergers and Other Reorganizations In the event that the Company is to be consolidated with or acquired by another entity in a merger, sale of all or substantially all of the Company's assets or otherwise, all outstanding Options shall be subject to the agreement governing such transaction Such agreement shall provide (i) for the assumption of outstanding Options by the surviving corporation or its parent or for its continuation by the Company (if the Company is a surviving corporation), without the Optionees' consent, (ii) for the acceleration of the exercisability of outstanding Options followed by their cancellation if not exercised, without the Optionees' consent (and any such cancellation shall not occur earlier than 30 days after such acceleration is

effective and the Optionees have been notified of such acceleration), (iii) for a limited period of exercise of outstanding Options to the extent then exercisable, without the Optionees' consent, upon notice to the Optionees, followed by its cancellation if not exercised (and any such cancellation shall not occur earlier than 30 days after such limited period of exercise is effective and the Optionees have been notified of such), or (iv) for the termination of outstanding Options in exchange for a cash payment equal to the difference between the Fair Market Value of one Share (if greater than the Exercise Price) and the Exercise Price multiplied by the number of Shares issuable upon exercise of such outstanding Options, but only with the Optionees' consent

(c) Dissolution or Liquidation In the event of the proposed dissolution or liquidation of the Company, all outstanding Options granted hereunder shall terminate immediately prior to the consummation of such action or at such other time and subject to such other conditions as shall be determined by the Committee

(d) Reservation of Rights Except as provided in this Section 9, an Optionee or Offeree shall have no rights by reason of any subdivision or consolidation of shares of stock of any class, the payment of any dividend or any other increase or decrease in the number of shares of stock of any class Any issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or Exercise Price of the Shares subject to an Option The grant of an Option pursuant to the Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, to merge or consolidate or to dissolve, liquidate, sell or transfer all or any part of its business or assets Any shares of the capital stock of the Company issued or issuable pursuant to the foregoing adjustments shall be subject to the same restrictions imposed on the Options granted under the Plan and the Shares issued or issuable upon exercise of such Options

(e) Fractional Shares No fractional shares shall be issued under the Plan and the Optionees shall receive from the Company cash in lieu of such fractional shares

## SECTION 10 LEGAL REQUIREMENTS

(a) Securities Laws Shares shall not be issued under the Plan unless the issuance and delivery of such Shares comply with (or are exempt from) all applicable requirements of law, including (without limitation) the Securities Act of 1933, as amended, the rules and regulations promulgated thereunder, state securities laws and regulations, and the regulations of any stock exchange on which the Company's securities may then be, listed

(b) S Corporation Status In the event that the Company is an S corporation," as defined in section 1361 (a) of the Code, Shares shall not be issued under the Plan if the issuance or delivery of such Shares would cause the Company to lose its status as an "S corporation"

## SECTION 11 NO EMPLOYMENT RIGHTS

No provision of the Plan, nor any right or Option granted under the Plan, shall be construed to give any person any right to become, to be treated as, or to remain an Employee The Company and its Subsidiaries reserve the right to terminate any person's Service at any time and for any reason

## SECTION 12 DURATION AND AMENDMENTS, GOVERNING LAW, CONFIDENTIALITY

(a) Term of the Plan The Plan, as set forth herein, shall become effective on October 30, 2001, subject to the approval of the Company's shareholders In the event that the shareholders fail to approve the Plan within 12 months after its adoption by the Board of Directors, any Option grants or Stock awards already made shall be null and void, and no additional Option grants or Stock awards shall be made after such date The Plan shall terminate automatically on October 30, 2011 and may be terminated on any earlier date pursuant to Subsection (b) below

(b) Right to Amend or Terminate the Plan The Board of Directors may amend, suspend or terminate the Plan at any time and for any reason, provided, however, that any amendment of the Plan which increases the number of Shares available for issuance under the Plan (except as provided in Section 9), or which materially

changes the class of persons who are eligible for the grant of ISOs, shall be subject to the approval of the Company's shareholders Shareholder approval shall not be required for any other amendment of the Plan

(c) Effect of Amendment or Termination No Shares shall be issued or sold under the Plan after the termination thereof, except upon exercise of an Option granted prior to such termination The termination of the Plan, or any amendment thereof, shall not affect any Share previously issued or any Option previously granted under the Plan

(d) Governing Law The Plan and all awards or sales of Shares or grants of Options hereunder shall be governed and interpreted in accordance with the laws of the State of Delaware, without regard to any applicable conflicts of law

(e) Confidentiality Notwithstanding anything to the contrary in this Plan or any Stock Purchase Agreement or Stock Option Agreement entered into under this Plan, nothing shall in any way limit the ability of the Company or any Offeree or Optionee to disclose to any person the tax treatment and tax structure of any right to purchase Shares granted hereunder

SECTION 13 EXECUTION

To record the adoption of the Plan, the Company has caused its authorized officer to execute the same

iRobot Corporation

By /s/ Colin Angle

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Title Chief Executive Officer

iROBOT CORPORATION  
RESTRICTED STOCK PURCHASE AGREEMENT

THE SHARES OF COMMON STOCK ISSUABLE PURSUANT TO THIS RESTRICTED STOCK PURCHASE AGREEMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE PLEDGED, HYPOTHECATED, SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE OPTION OR THE SHARES UNDER THE SECURITIES ACT, OR AN OPINION OF COUNSEL, WHICH IS SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED.

iRobot Corporation (the "Company") hereby issues and sells the shares of its common stock specified below (the "Shares") pursuant to its Amended and Restated 2001 Special Stock Option Plan. The terms and conditions attached hereto are also a part hereof.

Name of purchaser (the "Stockholder"):

Date:

Number of shares sold hereunder:

Purchase price per share:

Form of payment:

Number of Shares that are Vested Shares on  
the Vesting Start Date:

Number of Shares that are Unvested Shares on  
the Vesting Start Date:

Vesting Start Date:

Vesting Schedule:

This stock purchase satisfies in full all commitments that the Company has to the Stockholder with respect to the issuance of restricted stock.

iRobot Corporation

\_\_\_\_\_  
Signature of Stockholder

By: \_\_\_\_\_

Name of Officer:

Title:

Street Address:

iROBOT CORPORATION

RESTRICTED STOCK PURCHASE AGREEMENT -- INCORPORATED TERMS AND CONDITIONS

iRobot Corporation (the "Company") agrees to sell to the Stockholder, and the Stockholder agrees to purchase from the Company, shares of the Company's common stock ("Common Stock") on the following terms and conditions:

1. Grant Under Plan. This stock purchase is made pursuant to and is governed by the Company's Amended and Restated 2001 Special Stock Option Plan (the "Plan") and, unless the context otherwise requires, terms used herein shall have the same meanings as in the Plan. The Stockholder acknowledges receipt of a copy of the Plan.

2. Purchase and Sale of Stock; Payment of Purchase Price. The Company hereby sells and the Stockholder hereby purchases the Shares specified on the cover page at the price specified thereon. The purchase price is being paid by the Stockholder upon execution and delivery of this agreement as set forth on the cover page hereof. The Company will promptly issue a certificate or certificates registered in the Stockholder's name representing the Shares, with such certificates to be held in escrow in accordance with the terms hereof.

3. Vesting if Business Relationship Continues.

(a) Vesting Schedule. If the Stockholder has continuously maintained a Business Relationship with the Company through the vesting dates specified on the cover page hereof, Unvested Shares shall become Vested Shares (or shall "vest") on such dates in an amount equal to the number of shares set opposite the applicable date on the cover page. The Stockholder agrees not to sell, assign, transfer, pledge, hypothecate, gift, mortgage or otherwise encumber or dispose of (except to the Company or any successor to the Company) all or any Unvested Shares or any interest therein, and any Unvested Shares shall be held in escrow by the Company in accordance with the terms of Section 6 below unless and until they become Vested Shares or are repurchased by the Company pursuant to Section 4 below. If the Stockholder's Business Relationship with the Company ceases, voluntarily or involuntarily, with or without cause, no Unvested Shares shall become Vested Shares thereafter under any circumstances with respect to the Stockholder. Any determination under this agreement as to the status of a Business Relationship or other matters referred to above shall be made in good faith by the Board of Directors of the Company. The Board of Directors, in its discretion, may accelerate any vesting dates.

(b)(i) Accelerated Vesting Based on Earning of Incentive Compensation. Notwithstanding the provisions of Section 3(a) above, if the Stockholder has continuously maintained a Business Relationship with the Company through the dates specified below, the Unvested Shares shall become Vested Shares (or shall "vest") on the following schedule:

One Year from the Vesting Start Date:	(A/4) Shares
Two Years from Vesting Start Date:	(A/4) Shares
Three Years from Vesting Start Date:	(A/4) Shares
Four Years from Vesting Start Date:	(A/4) Shares



Where:

B = the lesser of: (i) the total Incentive Compensation Bonus earned by the Stockholder for Fiscal Year as determined by the Compensation Committee of the Company's Board of Directors and (ii);

P = ; and

A = B/P.

(c) Accelerated Vesting Due to Mergers and Other Reorganizations. In the event that the Company is to be consolidated with or acquired by another entity in a merger, sale of substantially all of the Company's assets or otherwise, during the Stockholders Business Relationship and there are then any Unvested Shares, such agreement shall provide for substantially similar terms as are provided for under Section 9(b) of the Plan (to the extent applicable).

(d) Termination of Employment. For purposes hereof, employment shall not be considered as having terminated during any military leave, sick leave or other bona fide leave if such leave has been approved in writing by the Company and if such written approval contractually obligates the Company to continue the employment of the Stockholder after the approved period of absence; in the event of such an approved leave of absence, vesting of Unvested Shares shall be suspended (and the period of the leave of absence shall be added to all vesting dates) unless otherwise provided in the Company's written approval of the leave of absence. For purposes hereof, a termination of employment followed by another Business Relationship shall be deemed a termination of the Business Relationship with all vesting to cease unless the Company enters into a written agreement related to such other Business Relationship in which it is specifically stated that there is no termination of the Business Relationship under this agreement. This agreement shall not be affected by any change of employment within or among the Company and its Subsidiaries so long as the Stockholder continuously remains an employee of the Company or any Subsidiary.

(e) Business Relationship. For purposes hereof, Business Relationship shall include service to the Company or its successor in the capacity of an employee, officer, director or consultant.

4. Restrictions on Transfer; Purchase by the Company. The Stockholder may not sell, assign, transfer, pledge, encumber or dispose of ("Transfer") all or any of his or her Unvested Shares except to the Company pursuant to this Section 4, and may Transfer Vested Shares only in accordance with the transfer restrictions provided in this Section 4 or elsewhere in this agreement. The Stockholder may not at any time transfer any Shares to any individual, corporation, partnership or other entity that engages in any business activity that is in competition, directly or indirectly, with the products or services being developed, manufactured or sold by the Company. The determination of whether any proposed transferee engages in any business activity that is in competition with those of the Company shall be made by the Board of Directors of the Company in good faith. This prohibition shall be applicable in addition to and separately from the other provisions hereof.

Upon the termination of the Stockholder's Business Relationship, the Stockholder shall sell to the Company (or the Company's assignee) and the Company shall purchase all Unvested Shares in

Restricted Stock Purchase Agreement

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accordance with the procedures set forth below. In addition, the Company (or the Company's assignee) may (but shall not be obligated to) purchase from Stockholder all but not less than all Vested Shares in accordance with the procedures set forth below. The purchase price (the "Repurchase Price") of such Shares (the "Repurchased Shares") shall be in the case of Unvested Shares, the price paid for them (subject to adjustment as herein provided) and in the case of Vested Shares, shall be the greater of (i) the price paid for them (subject to adjustment as herein provided) and (ii) the product of the Fair Market Value (as defined in the Plan) at the time of repurchase and the number of Vested Shares to be repurchased. The sale of the Unvested Shares shall take place automatically upon termination of the Stockholder's Business Relationship. Such sale shall be effected by the Escrow Holder's (as defined below) delivery to the Company of a certificate or certificates evidencing the Unvested Shares, duly endorsed for transfer to the Company. Upon receipt thereof, the Company shall mail a check for the applicable Repurchase Price to the Stockholder or shall cancel indebtedness owed to the Company by the Stockholder by written notice mailed to the Stockholder, or both. The Company's right of repurchase with respect to Vested Shares shall be exercisable by written notice delivered to the Stockholder within 60 days following the termination of the Stockholders Business Relationship. Such notice shall set forth the date on which the repurchase is to be effected and shall not be more than 30 days after the date of the notice. In order to effect such sale, the Company shall mail a check for the applicable Repurchase Price to the Stockholder or shall cancel indebtedness owed to the Company by the Stockholder by written notice mailed to the Stockholder, or both. Upon the mailing of a check in payment of the purchase price in accordance with the terms hereof or cancellation of indebtedness as aforesaid, the Company shall become the legal and beneficial owner of the Shares being repurchased and all rights and interests therein or relating thereto, and the Company shall have the right to retain and transfer to its own name or cancel the number of Shares being repurchased by the Company. As part of the sale (but not as a condition to its effectiveness), the Stockholder (or, if applicable, the Escrow Holder) shall deliver to the Company a certificate or certificates evidencing the Vested Shares, duly endorsed for transfer to the Company.

Notwithstanding the foregoing and the provisions of Section 9, a Stockholder may transfer: (i) all or any Vested Shares as a gift to any family member or to any trust or similar estate planning entity for the benefit of any such family member or the Stockholder provided that any such transferee shall agree in writing with the Company, as a condition precedent to such transfer, to be bound by all of the provisions of this agreement to the same extent as if such transferee were the Stockholder, or (ii) any or all Vested Shares by will or the laws of descent and distribution, in which event each such transferee shall be bound by all of the provisions of this agreement to the same extent as if such transferee were the Stockholder or (iii) any or all Vested or Unvested Shares by court order, in which event each such transferee shall be bound by all of the provisions of this agreement to the same extent as if such transferee were the Stockholder. As used herein, the word "family" shall include any spouse, lineal ancestor or descendant (whether natural or adoptive), brother or sister of the Stockholder.

5. Investment Representation. The Stockholder represents, warrants and acknowledges that the Stockholder: (i) has had an opportunity to ask questions of and receive answers from a Company representative concerning the terms and conditions of this investment; (ii) is acquiring the Shares with the Stockholder's own funds, for the Stockholder's own account for the purpose of investment, and not with a view to any resale or other distribution thereof in violation of the Securities Act of 1933, as amended (the "Securities Act"); (iii) is a sophisticated investor with such knowledge and experience in financial and business matters as to be able to evaluate the merits and risks of an investment in the Shares and that the Stockholder is able to and must bear the economic risk of the investment in the Shares for an indefinite period of time because the Shares have not been registered under the Securities Act, and therefore, cannot be offered or sold unless they are subsequently registered under the Securities Act or an exemption from such registration is available. Furthermore, the Company may place legends on any stock certificate

Restricted Stock Purchase Agreement

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representing the Shares with the securities laws and contractual restrictions thereon and issue related stop transfer instructions.

The Stockholder acknowledges and understands that the Shares have not been registered under the Securities Act, nor registered pursuant to the provisions of the securities laws or other laws of any other applicable jurisdictions, in reliance on exemptions for private offerings contained in Section 4(2) of the Securities Act and in the laws of such jurisdictions. The Stockholder further understands that the Company has no intention and is under no obligation to register the Shares under the Securities Act or to comply with the requirements for any exemption that might otherwise be available, or to supply the Stockholder with any information necessary to enable the Stockholder to make routine sales of the Shares under Rule 144 or any other rule of the Securities and Exchange Commission.

6. Escrow of Shares. All Unvested Shares shall be held in escrow by the Company, as escrow holder ("Escrow Holder").

The Escrow Holder is hereby directed to transfer the Unvested Shares in accordance with this agreement or instructions signed by both the Stockholder and the Company. If the Company or any assignee exercises its repurchase rights hereunder, the Escrow Holder, upon receipt of written notice of such exercise from the Company or such assignee, shall take all steps necessary to accomplish such transfer. The Stockholder hereby grants the Escrow Holder an irrevocable power of attorney coupled with an interest to take any and all actions required to effect such transfer.

The Escrow Holder may act in reliance upon advice of counsel in reference to any matter(s) connected with this agreement, and shall not be liable for any mistake of fact or error of judgment, or for any acts or omissions of any kind, unless caused by its willful misconduct or gross negligence.

With respect to any Unvested Shares that become Vested Shares, the Company, upon the written request of the Stockholder, shall promptly issue a new certificate for the number of shares which have become Vested Shares and shall deliver such certificate to the Stockholder and shall deliver to the Escrow Holder a new certificate for the remaining Unvested Shares in exchange for the certificate then being held by the Escrow Holder.

Subject to the terms hereof, the Stockholder shall have all the rights of a stockholder with respect to the Unvested Shares while they are held in escrow, including without limitation, the right to vote the Unvested Shares and receive any cash dividends declared thereon. If, from time to time while the Escrow Holder is holding Unvested Shares, there is any stock dividend, stock split or other change in or respecting such shares, any and all new, substituted or additional securities to which the Stockholder is entitled by reason of his or her ownership of the Unvested Shares shall be immediately subject to this escrow, deposited with the Escrow Holder and included thereafter as "Unvested Shares" for purposes of this agreement and the repurchase rights of the Company.

7. Certain Tax Matters. If the Company in its discretion determines that it is obligated to withhold any tax in connection with the transfer of, or the lapse of restrictions on, the Shares, the Stockholder hereby agrees that the Company may withhold from the Stockholder's wages or other remuneration the appropriate amount of tax. At the discretion of the Company, the amount required to be withheld may be withheld in cash from such wages or other remuneration. The Stockholder further agrees that, if the Company does not withhold an amount from the Stockholder's wages or other remuneration sufficient to satisfy the withholding obligation of the Company, the Stockholder will make reimbursement on demand, in cash, for the amount underwithheld.

The Stockholder represents that he or she has received tax advice from his or her own personal tax advisor on the tax consequences of a purchase of the Shares. The Stockholder understands the tax consequences of filing (and not filing) a Section 83(b) election under the Internal Revenue Code of 1986, as amended (the "Code"). The filing of a Section 83(b) election is the Stockholder's responsibility.

8. Legends. All certificates representing Shares purchased under this Agreement shall be endorsed with the following legends:

"THE SHARES REPRESENTED HEREBY MAY NOT BE SOLD, ASSIGNED, TRANSFERRED, ENCUMBERED OR IN ANY MANNER DISPOSED OF, EXCEPT IN COMPLIANCE WITH THE TERMS OF A WRITTEN AGREEMENT BETWEEN THE COMPANY AND THE REGISTERED HOLDER OF THE SHARES (OR THE PREDECESSOR IN INTEREST TO THE SHARES). SUCH AGREEMENT GRANTS CERTAIN REPURCHASE RIGHTS TO THE COMPANY UPON TERMINATION OF SERVICE WITH THE COMPANY AND CERTAIN RIGHTS OF FIRST REFUSAL UPON AN ATTEMPTED TRANSFER OF THE SHARES. THE SECRETARY OF THE COMPANY WILL UPON WRITTEN REQUEST FURNISH A COPY OF SUCH AGREEMENT TO THE HOLDER HEREOF WITHOUT CHARGE."

"THE SHARES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, PLEDGED, OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED."

9. Restrictions on Transfer of Vested Shares; Company's Right of First Refusal.

(a) Exercise of Right. Vested Shares may not be transferred without the Company's written consent except in accordance with Section 4 or in accordance with the further provisions of this Section 9. If the Stockholder desires to transfer all or any part of the Vested Shares to any person other than the Company (an "Offeror"), the Stockholder shall: (i) obtain in writing an irrevocable and unconditional bona fide offer (the "Offer") for the purchase thereof from the Offeror; and (ii) give written notice (the "Option Notice") to the Company setting forth the Stockholder's desire to transfer such shares, which Option Notice shall be accompanied by a photocopy of the Offer and shall set forth at least the name and address of the Offeror and the price, number of Vested Shares proposed to be sold and terms of the Offer. Upon receipt of the Option Notice, the Company shall have an assignable option to purchase such Vested Shares (the "Offered Shares") specified in the Option Notice (subject, however, to any change in such terms permitted under Subsection (b) below), such option to be exercisable by giving, within 30 days after receipt of the Option Notice, a written counter-notice to the Stockholder. If the Company elects to purchase such Offered Shares, it shall be obligated to purchase, and the Stockholder shall be obligated to sell to the Company or its assignee, such Offered Shares at the price and terms indicated in the Offer within 30 days from the date of delivery by the Company of such counter-notice. To the extent that the consideration proposed to be paid by the Offeror for the shares consists of property other than cash or a promissory note, the consideration required to be paid by the Company may consist of cash equal to the fair market value of such property, as determined in good faith by the Board of Directors of the Company.

(b) Sale of Vested Shares to Offeror. The Stockholder may, for 60 days after the expiration of the option period as set forth in Section 9(a), sell to the Offeror, pursuant to the

terms of the Offer, all of the Offered Shares not purchased or agreed to be purchased by the Company or its assignee. Any proposed sale on terms and conditions different than those described in the Option Notice, as well as any subsequent proposed sale by the Shareholder, shall again be subject to the procedure described in Subsection (a) above; provided, however, that the Stockholder shall not sell such Shares to such Offeror if such Offeror is a competitor of the Company and the Company gives written notice to the Stockholder, within 30 days of its receipt of the Option Notice, stating that the Stockholder shall not sell his or her Vested Shares to such Offeror; and provided, further, that prior to the sale of such Vested Shares to an Offeror, such Offeror shall execute an agreement with the Company pursuant to which such Offeror agrees to be subject to the restrictions set forth in this Section 9. If any or all of such Vested Shares are not sold pursuant to an Offer within the time permitted above, the unsold Vested Shares shall remain subject to the terms of this Section 9.

(c) Binding Effect. The Company's Right of First Refusal shall inure to the benefit of its successors and assigns and shall be binding upon any purchaser of the Shares.

(d) Expiration of Company's Right of First Refusal and Transfer Restrictions. The first refusal rights of the Company and the transfer restrictions set forth in this Section 9 shall expire as to Vested Shares immediately prior to the closing of a public offering of Common Stock by the Company pursuant to an effective registration statement filed under the Securities Act. In addition, if the Company and the Stockholder are parties to an agreement containing first refusal provisions similar to the foregoing, such other agreement shall control.

10. Failure to Deliver Shares. If the Stockholder (or his or her legal representative) who has become obligated to sell Shares hereunder shall fail to deliver such Shares to the Company in accordance with the terms of this agreement, the Company may, at its option, in addition to all other remedies it may have, mail to the Stockholder the purchase price for such Shares as is herein specified. Thereupon, the Company: (i) shall cancel on its books the certificate or certificates representing such Shares to be sold; and (ii) shall issue, in lieu thereof, a new certificate or certificates in the name of the Company representing such Shares (or cancel such Shares), and thereupon all of such Stockholder's rights in and to such Shares shall terminate.

11. Lock-up Agreement. The Stockholder agrees that in the event that the Company effects an initial underwritten public offering of Common Stock registered under the Securities Act, the Shares may not be sold, offered for sale or otherwise disposed of, directly or indirectly, without the prior written consent of the managing underwriter(s) of the offering, for such period of time after the execution of an underwriting agreement in connection with such offering that all of the Company's then directors and executive officers agree to be similarly bound.

12. Arbitration. Any dispute, controversy, or claim arising out of, in connection with, or relating to the performance of this agreement or its termination shall be settled by arbitration in the Commonwealth of Massachusetts, pursuant to the rules then obtaining of the American Arbitration Association. Any award shall be final, binding and conclusive upon the parties and a judgment rendered thereon may be entered in any court having jurisdiction thereof.

13. Provision of Documentation to Stockholder. By signing this agreement the Stockholder acknowledges receipt of a copy of this agreement and a copy of the Plan.

14. Miscellaneous.

(a) Notices. All notices hereunder shall be in writing and shall be deemed given when sent by mail, if to the Stockholder, to the address set forth below or at the address shown on the records of the Company, and if to the Company, to the Company's principal executive offices, attention of the Corporate Secretary.

(b) Entire Agreement; Modification. This agreement constitutes the entire agreement between the parties relative to the subject matter hereof, and supersedes all proposals, written or oral, and all other communications between the parties relating to the subject matter of this agreement. This agreement may be modified, amended or rescinded only by a written agreement executed by both parties.

(c) Fractional Shares. All fractional Shares resulting from the adjustment provisions contained in the Plan shall be rounded down.

(d) Changes in Capital Structure. In the event of any stock split, stock dividend, recapitalization, reorganization, merger, consolidation, combination, exchange of shares, liquidation, spin-off, split-up, or other similar change in capitalization or event, the securities received in respect of such event shall be "Shares" hereunder subject to this agreement and shall retain the same status as "Vested Shares" or "Unvested Shares" as the Shares in respect of which they were received, and the repurchase price per security subject to repurchase shall be appropriately adjusted by the Company.

(e) Severability. The invalidity, illegality or unenforceability of any provision of this agreement shall in no way affect the validity, legality or enforceability of any other provision.

(f) Successors and Assigns. This agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, subject to the limitations set forth herein.

(g) Governing Law. This agreement shall be governed by and interpreted in accordance with the internal laws of the State of Delaware without giving effect to the principles of the conflicts of laws thereof.

(h) No Obligation to Continue Employment. Neither the Plan, this agreement nor any provision hereof imposes any obligation on the Company to continue the Stockholder in employment or any other Business Relationship with the Company.

IROBOT CORPORATION

STOCK OPTION GRANT AGREEMENT

THE OPTION GRANTED PURSUANT TO THIS INCENTIVE STOCK OPTION AGREEMENT (THE "OPTION") AND THE SHARES OF COMMON STOCK ISSUABLE UPON THE EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE PLEDGED, HYPOTHECATED, SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE OPTION OR THE SHARES UNDER THE SECURITIES ACT, OR AN OPINION OF COUNSEL, WHICH IS SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED.

AMENDED AND RESTATED 2001 SPECIAL STOCK OPTION PLAN  
OF IROBOT CORPORATION

INCENTIVE STOCK OPTION AGREEMENT

THIS AGREEMENT, entered into as of \_\_\_\_\_, is between IROBOT CORPORATION, a Delaware corporation (the "Company"), and \_\_\_\_\_ (the "Optionee").

WITNESSETH:

WHEREAS, the Company's Board of Directors has established the Amended and Restated 2001 Special Stock Option Plan of iRobot Corporation in order to provide selected directors, officers, employees and consultants of the Company and its Subsidiaries with an opportunity to acquire Common Stock of the Company; and

WHEREAS, the Committee has determined that it would be in the best interests of the Company and its shareholders to grant the Incentive Stock Option described in this Agreement to the Optionee as an inducement to enter into or remain in the service of the Company and as an incentive for extraordinary efforts during such service;

NOW, THEREFORE, for valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties, intending to be legally bound hereby, agree as follows:

SECTION 1. GRANT OF OPTION.

(a) Option. On the terms and conditions stated below, the Company hereby grants to the Optionee the option to purchase \_\_\_\_\_ (\_\_\_\_\_) Shares for the sum of \_\_\_\_\_ (\$\_\_\_\_) per share. It is understood and intended that this option shall qualify as an Incentive Stock Option to the extent permitted by applicable law. Accordingly, the Optionee understands that in order to obtain the beneficial tax treatment accorded an Incentive Stock Option, no sale or other disposition may be made of any Shares acquired upon exercise of the option within one (1) year after the day of the transfer of such Shares to the Optionee, nor within two (2) years after the Date of Grant. If the Optionee intends to dispose, or does dispose (whether by sale, exchange, gift, transfer or otherwise), of any such Shares

within either of said periods, he or she will notify the Company in writing within ten (10) days after such disposition.

(b) Stock Plan. This option is granted pursuant to the Plan, a copy of which the Optionee acknowledges having received and read. The provisions of the Plan are incorporated into this Agreement by this reference. Capitalized terms used herein and not otherwise defined shall have the meaning given to such terms in the Plan.

(c) Grant Condition. The granting of this option shall be subject to receipt by the Company of the Company's current form of Invention and Confidentiality Agreement, executed and delivered by the Optionee.

SECTION 2. NO TRANSFER OR ASSIGNMENT OF OPTION.

Except as otherwise provided in this Agreement, this option and the rights and privileges conferred hereby shall not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this option, or of any right or privilege conferred hereby, contrary to the provisions hereof, or upon any attempted sale under any execution, attachment or similar process upon the rights and privileges conferred hereby, this option and the rights and privileges conferred hereby shall immediately become null and void.

SECTION 3. RIGHT TO EXERCISE.

(a) Vesting. Subject to the conditions stated herein, the right to exercise this option shall accrue in installments as follows provided the Optionee has continued to be an Employee through any such applicable date:

Date	Percentage of Shares that vest on such date
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(b) Periods of Nonexercisability. Any other provision of this Agreement notwithstanding, the Company shall have the right to designate one or more periods of time, each of which shall not exceed 18 consecutive months in length, during which this option shall not be exercisable if the Company determines (in its sole discretion) that such limitation on exercise could in any way facilitate a lessening of any restriction on transfer pursuant to the Securities Act or any state securities laws with respect to any issuance of securities by the Company, facilitate the registration or qualification of any securities by the Company under the Securities Act or any state securities laws, or facilitate the perfection of any exemption from the registration or qualification requirements of the Securities Act or any applicable state securities laws for the issuance or transfer of any securities. Such limitation on exercise shall not alter the vesting of this option as set forth in Section 3(a) other than to limit the periods during which this option shall be exercisable. The Optionee shall be notified in writing of any such designation by the Company.



(c) Shareholder Approval. Any other provision of this Agreement notwithstanding, this option shall not be exercisable at any time prior to the approval of the Plan by the holders of a majority of the outstanding stock of the Company.

(d) Termination Upon Breach of Certain Agreements. Notwithstanding the foregoing, if, in the judgment of the Company, the Optionee, prior to the expiration date of this option, materially violates the non-competition, non-solicitation, assignment of inventions or confidentiality provisions of any employment contract, confidentiality and nondisclosure agreement or other agreement between the Optionee and the Company, the right to exercise this option shall terminate immediately upon written notice to the Optionee from the Company describing such violation.

#### SECTION 4. EXERCISE PROCEDURES.

(a) Notice of Exercise. The Optionee or the Optionee's representative may exercise this option by giving written notice to the Secretary of the Company pursuant to Section 12(d). The notice shall specify the election to exercise this option, the number of Shares for which it is being exercised, and the form of payment. The notice shall be signed by the person or persons exercising this option. In the event that this option is being exercised by the representative of the Optionee, the notice shall be accompanied by proof (satisfactory to the Company) of the representative's right to exercise this option. The Optionee or the Optionee's representative shall deliver to the Secretary of the Company, at the time of giving the notice, payment in a form permissible under Section 5 for the full amount of the Purchase Price.

(b) Issuance of Shares. After receiving a proper notice of exercise, the Company shall cause to be issued a certificate or certificates for the Shares as to which this option has been exercised, registered in the name of the person exercising this option (or in the names of such person and his or her spouse as community property or as joint tenants with right of survivorship). The Company shall cause such certificate or certificates to be delivered to or upon the order of the person exercising this option.

#### SECTION 5. PAYMENT FOR STOCK

The entire Purchase Price may be payable in cash or check payable to the order of the Company. Alternatively, all or part of the Purchase Price may be paid by the surrender of Shares in good form for transfer. Such Shares must have been owned for more than 12 months by the Optionee or the Optionee's representative and must have a fair market value (as determined by the Committee) on the date of exercise of this option which, together with any amount paid in cash, is equal to the Purchase Price.

#### SECTION 6. TERM AND EXPIRATION.

(a) Basic Term. This option shall in any event expire on the date 10 years after the Date of Grant.

(b) Termination of Service (Except by Death). If the Optionee's service as an Employee terminates for any reason other than death, then this option shall expire on the earliest of the following occasions:

(i) The expiration date determined pursuant to Subsection (a) above;

(ii) The date 60 days after the termination of the Optionee's service as an Employee for any reason other than Total and Permanent Disability; or

(iii) The date six months after the termination of the Optionee's service as an Employee by reason of Total and Permanent Disability.

The Optionee may exercise all or part of this option at any time before its expiration under the preceding sentence, but only to the extent that this option had become exercisable before the Optionee's Service terminated. The balance of this option shall lapse when the Optionee's Service terminates. In the event that the Optionee dies after the termination of Service but before the expiration of this option, all or part of this option may be exercised (prior to expiration) by the executors or administrators of the Optionee's estate or by any person who has acquired this option directly from the Optionee by bequest or inheritance, but only to the extent that this option had become exercisable before the Optionee's service terminated.

(c) Death of Optionee. If the Optionee dies as an Employee, then this option shall expire on the earlier of the following dates:

(i) The expiration date determined pursuant to Subsection (a) above;  
or

(ii) The date six months after the Optionee's death.

All or part of this option may be exercised at any time before its expiration under the preceding sentence by the executors or administrators of the Optionee's estate or by any person who has acquired this option directly from the Optionee by bequest or inheritance, but only to the extent that this option had become exercisable before the Optionee's death. The balance of this option shall lapse when the Optionee dies.

(d) Leaves of Absence. For purposes of this Section 6, the Employee relationship shall be deemed to continue during any period when the Optionee is on military leave, sick leave or other bona fide leave of absence (to be determined in the sole discretion of the Committee). However, if the Optionee's reemployment rights are not guaranteed by statute or by contract, then the Employee relationship shall not be deemed to continue beyond the 90th day of such period.

#### SECTION 7. THE COMPANY'S RIGHT OF FIRST REFUSAL

(a) Right of First Refusal. In the event that the Optionee or a Transferee proposes to sell, pledge or otherwise transfer to any person any Shares acquired under this Agreement, or any interest in such Shares, the Company shall have the Right of First Refusal with respect to such Shares. If the Optionee or Transferee desires to transfer Shares acquired under this Agreement, the Optionee or Transferee shall give a written Transfer Notice to the Company describing fully the proposed transfer,

including the number of Shares proposed to be transferred, the proposed transfer price and the name and address of the proposed Transferee. The Transfer Notice shall be signed both by the Optionee or Transferee and by the proposed new Transferee and must constitute a binding commitment of both parties to the transfer of the Shares. The Company shall have the right to purchase the Shares on the terms of the proposal described in the Transfer Notice (subject, however, to any change in such terms permitted under Subsection (b) below) by delivery of a notice of exercise of the Right of First Refusal within 30 days after the date when the Transfer Notice was received by the Company. The Company's rights under this Subsection (a) shall be freely assignable, in whole or in part.

(b) Transfer of Shares. If the Company fails to exercise its Right of First Refusal within 30 days after the date when it received the Transfer Notice, the Optionee or Transferee may, not later than 90 days following receipt of the Transfer Notice by the Company, conclude a transfer of the Shares subject to the Transfer Notice on the terms and conditions described in the Transfer Notice. Any proposed transfer on terms and conditions different from those described in the Transfer Notice, as well as any subsequent proposed transfer by the Optionee or Transferee, shall again be subject to the Right of First Refusal and shall require compliance with the procedure described in Subsection (a) above. If the Company exercises its Right of First Refusal, the parties shall consummate the sale of the Shares on the terms set forth in the Transfer Notice; provided, however, that in the event the Transfer Notice provides that payment for the Shares is to be made in a form other than lawful money paid at the time of transfer, the Company shall have the option of paying for the Shares with lawful money equal to the present value of the consideration described in the Transfer Notice.

(c) Binding Effect. The Company's Right of First Refusal shall inure to the benefit of its successors and assigns and shall be binding upon any Transferee of the Shares.

(d) Termination of Right of First Refusal. Any other provision of this Section 7 notwithstanding, in the event that Stock is listed on an established stock exchange or is quoted regularly on the NASDAQ System at the time when the Optionee or Transferee desires to transfer Shares, the Company shall have no Right of First Refusal, and the Optionee or Transferee shall have no obligation to comply with the procedures prescribed by Subsections (a), (b) and (c) above.

#### SECTION 8. RIGHT OF REPURCHASE.

(a) Basic Repurchase Right. The Shares acquired under this Agreement shall be Restricted Shares and shall be subject to the right (but not an obligation) of repurchase by the Company. The Company's rights under this Subsection (a) shall be freely assignable, in whole or in part.

(b) Condition Precedent to Exercise. The Company's right of repurchase shall be exercisable only during the 60-day period next following the later of (i) the date when the Optionee ceases to be an Employee for any reason, with or without cause, including (without limitation) death or disability, or (ii) the date when the option was exercised by the Optionee, the executors or administrators of the Optionee's estate or any person who has acquired the option directly from the Optionee by bequest or inheritance.

(c) Repurchase Cost. If the Company exercises its right to repurchase, it shall pay the Optionee an amount equal to (1) the greater of (i) the price per Share paid by the Optionee under Section 1(a) hereof, or (ii) Fair Market Value at the time of repurchase multiplied by (2) the number of

Restricted Shares to be repurchased. The Company's right of repurchase shall terminate with respect to Restricted Shares if the Stock is listed on an established stock exchange or quoted regularly on the NASDAQ System.

(d) Exercise of Repurchase Right. If the Company elects to exercise its right of repurchase with respect to any Restricted Shares, it must exercise its right of repurchase with respect to all Restricted Shares. The Company's right of repurchase shall be exercisable only by written notice delivered to the Optionee prior to the expiration of the 60-day period specified in Subsection (b) above. The notice shall set forth the date on which the repurchase is to be effected. Such date shall not be more than 30 days after the date of the notice. The certificate(s) representing the Restricted Shares to be repurchased shall, prior to the close of business on the date specified for the repurchase, be delivered to the Secretary of the Company. Each certificate shall be properly endorsed for transfer. The Company shall, concurrently with the receipt of such certificate(s), pay to the Optionee the purchase price determined according to Subsection (c) above. Payment shall be made in lawful money of the United States of America. The Company's right of repurchase shall terminate with respect to any Restricted Shares for which it has not been timely exercised pursuant to this Subsection (d).

(e) Cancellation of Shares. If the Company makes available, at the time and place and in the amount and form provided in this Agreement, the consideration for the Restricted Shares to be repurchased in accordance with the provisions of this Agreement, then after such time the person from whom such Restricted Shares are to be repurchased shall no longer have any rights as a holder of such Restricted Shares (other than the right to receive payment of consideration in accordance with this Agreement). Such Restricted Shares shall be deemed to have been repurchased in accordance with the applicable provisions hereof, whether or not the certificate (s) therefor have been delivered as required by this Agreement.

(f) Additional Shares or Substituted Securities. In the event of the declaration of a stock dividend, the declaration of any extraordinary dividend payable in a form other than stock, a stock split, an adjustment in conversion ratio, a recapitalization or a similar transaction affecting the Company's outstanding securities without receipt of consideration, any new, substituted or additional securities or other property (including money paid other than as an ordinary cash dividend) that are by reason of such transaction distributed with respect to any Restricted Shares or into which such Restricted Shares thereby become convertible, shall immediately be subject to the Company's right of repurchase. Appropriate adjustments to reflect the distribution of such securities or property shall be made to the number and/or class of the Restricted Shares. Appropriate adjustments shall also, after each such transaction, be made to the price per share to be paid upon the exercise of the right of repurchase in order to reflect any change in the Company's outstanding securities effected without receipt of consideration therefor; provided, however, that the aggregate purchase price payable for the Restricted Shares shall remain the same.

(g) Legends. In addition to the legends required by Section 10 (c), all certificates representing Shares purchased under this Agreement shall be endorsed with the following legend:

"THE SHARES REPRESENTED HEREBY MAY NOT BE SOLD, ASSIGNED, TRANSFERRED, ENCUMBERED OR IN ANY MANNER DISPOSED OF, EXCEPT IN COMPLIANCE WITH THE TERMS OF A WRITTEN AGREEMENT BETWEEN THE COMPANY AND THE REGISTERED HOLDER OF THE SHARES (OR THE PREDECESSOR IN

INTEREST TO THE SHARES). SUCH AGREEMENT GRANTS CERTAIN REPURCHASE RIGHTS TO THE COMPANY UPON TERMINATION OF SERVICE WITH THE COMPANY AND CERTAIN RIGHTS OF FIRST REFUSAL UPON AN ATTEMPTED TRANSFER OF THE SHARES. THE SECRETARY OF THE COMPANY WILL UPON WRITTEN REQUEST FURNISH A COPY OF SUCH AGREEMENT TO THE HOLDER HEREOF WITHOUT CHARGE."

SECTION 9. LEGALITY OF INITIAL ISSUANCE.

No Shares shall be issued upon the exercise of this option unless and until the Company has determined that:

(a) It and the Optionee have taken any actions required to register the Shares under the Securities Act or to perfect an exemption from the registration requirements thereof;

(b) Any applicable listing requirement of any stock exchange on which Stock is listed has been satisfied; and

(c) Any other applicable provision of state or federal law has been satisfied.

SECTION 10. RESTRICTIONS ON TRANSFER OF SHARES.

(a) Restrictions. The option granted hereunder is subject to the transfer restrictions set forth in the Plan. The Optionee shall not sell, transfer, assign, encumber, hypothecate or otherwise dispose of any Shares except in accordance with Section 7 and Section 8; provided, however, the Company may impose additional restrictions upon the sale, pledge or other transfer of such Shares (including the placement of appropriate legends on stock certificates) if, in the judgment of the Company and its counsel, such restrictions are necessary or desirable in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state or any other law, regardless of whether the offering and sale of Shares under the Plan have been registered under the Securities Act or have been registered or qualified under the securities laws of any state.

(b) Investment Representations. The Optionee represents, warrants and covenants that:

(i) Any Shares purchased upon exercise of this option shall be acquired for the Optionee's account for investment only and not with a view to, or for sale in connection with, any distribution of the Shares in violation of the Securities Act or any rule or regulation under the Securities Act;

(ii) The Optionee has had such opportunity as the Optionee has deemed adequate to obtain from representatives of the Company such information as is necessary to permit the Optionee to evaluate the merits and risks of the Optionee's investment in the Company;

(iii) The Optionee is able to bear the economic risk of holding Shares acquired pursuant to the exercise of this option for an indefinite period;

(iv) The Optionee understands that (A) the Shares acquired pursuant to the exercise of this option will not be registered under the Securities Act and are "restricted securities" within the meaning of Rule 144 under the Securities Act; (B) such Shares cannot be sold, transferred or otherwise disposed of unless they are subsequently registered under the Securities Act or an exemption from registration is then available; (C) in any event, an exemption from registration under Rule 144 or otherwise under the Securities Act may not be available for at least one year and even then will not be available unless a public market then exists for the Stock, adequate information concerning the Company is then available to the public and other terms and conditions of Rule 144 are complied with; and (D) there is now no registration statement on file with the Securities and Exchange Commission with respect to any Stock of the Company and the Company has no obligation or current intention to register any Shares acquired pursuant to the exercise of this option under the Securities Act;

(v) The Optionee agrees that, if the Company offers for the first time any of its Stock for sale pursuant to a registration statement under the Securities Act, the Optionee will not, without the prior written consent of the Company, publicly offer, sell, contract to sell or otherwise dispose of, directly or indirectly, any Shares purchased upon exercise of this option for a period of ninety (90) days, or such longer period as the Company may reasonably require, after the effective date of such registration statement; and

(vi) The Optionee's principal residence is at the address set forth below on the signature page and the Optionee shall promptly notify the Company of any change in the Optionee's principal address.

By making payment upon any exercise of this option, in whole or in part, the Optionee shall be deemed to have reaffirmed, as of the date of such payment, the representations made in this Section 10(b).

(c) Legend. All certificates evidencing Shares acquired under this Agreement in an unregistered transaction shall bear the following restrictive legend (and such other restrictive legends as are required or deemed advisable under the provisions of any applicable law):

"THE SHARES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, PLEDGED, OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED."

(d) Removal of Legends. If, in the opinion of the Company and its counsel, any legend placed on a stock certificate representing Shares sold under this Agreement is no longer required, the holder of such certificate shall be entitled to exchange such certificate for a certificate representing the same number of Shares but lacking such legend.

(e) Administration. Any determination by the Company and its counsel in connection with any of the matters set forth in this Section 10 shall be conclusive and binding on the Optionee and all other persons.

SECTION 11. SHARES AND ADJUSTMENTS.

(a) General. In the event of a subdivision of the outstanding Shares, a declaration of a dividend payable in shares, a declaration of a dividend payable in a form other than Shares in an amount that has a material effect on the value of Shares, a combination or consolidation of the outstanding Shares (by reclassification or otherwise) into a lesser number of Shares, a recapitalization or a similar occurrence, the Committee shall make appropriate adjustments in one or both of (i) the number of shares covered by this option or (ii) the Exercise Price.

(b) Mergers and Other Reorganizations. In the event that the Company is to be consolidated with or acquired by another entity in a merger, sale of all or substantially all of the Company's assets or otherwise, this option shall be subject to the agreement governing such transaction. Such agreement shall provide (i) for the assumption of this option by the surviving corporation or its parent or for its continuation by the Company (if the Company is a surviving corporation), without the Optionee's consent, (ii) for the acceleration of the exercisability of this option followed by its cancellation if not exercised, without the Optionee's consent (and any such cancellation shall not occur earlier than 30 days after such acceleration is effective and the Optionee has been notified of such acceleration), (iii) for a limited period of exercise of this option to the extent then exercisable, without the Optionee's consent, upon notice to the Optionee, followed by its cancellation if not exercised (and any such cancellation shall not occur earlier than 30 days after such limited period of exercise is effective and the Optionee has been notified of such), or (iv) for the termination of this option in exchange for a cash payment equal to the difference between the Fair Market Value of one Share (if greater than the Exercise Price) and the Exercise Price multiplied by the number of Shares issuable upon exercise of this option, but only with the Optionee's consent.

(c) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the option granted hereunder shall terminate immediately prior to the consummation of such action or at such other time and subject to such other conditions as shall be determined by the Committee.

(d) Reservation of Rights. Except as provided in this Section 11, the Optionee shall have no rights by reason of any subdivision or consolidation of shares of stock of any class, the payment of any dividend or any other increase or decrease in the number of shares of stock of any class. Any issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or Exercise Price of the Shares subject to this option. The grant of this option shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, to merge or consolidate or to dissolve, liquidate, sell or transfer all or any part of its business or assets. Any shares of the capital stock of the Company issued or issuable to the Optionee pursuant to the foregoing adjustments shall be subject to the same restrictions imposed on the option granted hereunder and the Shares issued or issuable upon exercise of such option.

(e) Fractional Shares. No fractional shares shall be issued under the Plan and the optionee shall receive from the Company cash in lieu of such fractional shares.

#### SECTION 12. MISCELLANEOUS PROVISIONS.

(a) Withholding Taxes. In the event that the Company determines that it is required to withhold foreign, federal, state or local tax as a result of the exercise of this option, the Optionee, as a

condition to the exercise of this option, shall make arrangements satisfactory to the Company to enable it to satisfy all withholding requirements. The Optionee shall also make arrangements satisfactory to the Company to enable it to satisfy any withholding requirements that may arise in connection with the disposition of Shares purchased by exercising this option.

(b) Rights as a Shareholder. Neither the Optionee nor the Optionee's representative shall have any rights as a shareholder with respect to any Shares subject to this Option until such Shares have been issued in the name of the Optionee or the Optionee's representative.

(c) No Employment Rights. Nothing in this Agreement shall be construed as giving the Optionee the right to be treated as or to remain as an Employee. The Company reserves the right to terminate the Optionee's Service at any time, with or without cause and for any reason.

(d) Notice. Any notice required by the terms of this Agreement shall be given in writing and shall be deemed effective upon personal delivery or upon deposit with the United States Postal Service, by registered or certified mail with postage and fees prepaid and addressed to the party entitled to such notice at the address shown below such party's signature on this Agreement, or at such other address as such party may designate by 10 days, advance written notice to the other party to this Agreement.

(e) Entire Agreement; Severability. This Agreement and the Plan constitute the entire contract between the parties hereto with regard to the subject matter hereof. Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be deemed prohibited or invalid under such applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, and such prohibition or invalidity shall not invalidate the remainder of such provision or the other provisions of this Agreement.

(f) Choice of Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, as such laws are applied to contracts entered into and performed in such state.

(g) Specific Performance. It is specifically understood and agreed that any breach of the provisions of this Agreement by the Optionee will result in irreparable injury to the Company, that the remedy at law alone will be an inadequate remedy for such breach, and that, in addition to any other remedies which the Company may have, the Company may enforce its rights by actions for specific performance (to the extent permitted by law). The Company may refuse to recognize any unauthorized transferee as one of its stockholders for any purpose, including, without limitation, for purposes of dividend and voting rights, until the relevant party or parties have complied with all applicable provisions of this Agreement.

#### SECTION 13. DEFINITIONS.

(a) "Agreement" shall mean this Incentive Stock Option Agreement.

(b) "Board" shall mean the Board of Directors of the Company, as constituted from time to time.

(c) "Code" shall mean the Internal Revenue Code or 1986, as amended.



(d) "Committee" shall mean the committee of the Board described in Section 3 of the Plan or, if none has been appointed, the full Board.

(e) "Date of Grant" shall mean the date on which the Committee resolved to grant this option, which is also the date as of which this Agreement is entered into.

(f) "Employee" shall mean any employee of the Company or of a Subsidiary as determined in accordance with the provisions of Treasury Regulation Section 1.421-7(h) under the Code or any successor regulations thereto.

(g) "Exercise Price" shall mean the amount for which one Share may be purchased upon exercise of this option, as specified in Section 1(a).

(h) "Fair Market Value" shall mean the fair market value of a Share, as determined by the Committee in good faith. Such determination shall be conclusive and binding on all persons.

(i) "Incentive Stock Option" shall mean an employee incentive stock option described in section 422(b) of the Code.

(j) "Nonstatutory Stock Option" shall mean a stock option not described in section 422(b) or section 423(b) of the Code.

(k) "Plan" shall mean the Amended and Restated 2001 Special Stock Option Plan of iRobot Corporation as in effect on the Date of Grant.

(l) "Purchase Price" shall mean the Exercise Price multiplied by the number of Shares with respect to which this option is being exercised.

(m) "Restricted Share" shall mean a Share which is subject to the Company's right of repurchase under Section 8.

(n) "Right of First Refusal" shall mean the Company's right of first refusal described in Section 7.

(o) "Securities Act" shall mean the Securities Act of 1933, as amended.

(p) "Share" shall mean one share of Stock, as adjusted in accordance with Section 11 (if applicable).

(q) "Stock" shall mean the Common Stock of Company.

(r) "Subsidiary" shall mean any corporation, if the Company and/or one or more other Subsidiaries own not less than 50% of the total combined voting power of all classes of outstanding stock of such corporation.

(s) "Total and Permanent Disability" shall mean that the Optionee is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment

which can be expected to result in death or which has lasted, or can be expected to last, for a continuous period of not less than six months.

(t) "Transferee" shall mean any person to whom the Optionee has directly or indirectly transferred any Share acquired under this Agreement.

(u) "Transfer Notice" shall mean the notice of a proposed transfer of Shares described in Section 7.

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IN WITNESS WHEREOF, the Company has caused this Agreement to be executed on its behalf by its officer duly authorized to act on behalf of the Committee, and the Optionee has personally executed this Agreement.

OPTIONEE

IROBOT CORPORATION

\_\_\_\_\_  
Name:

Optionee's Address:

By: \_\_\_\_\_

Company's Address:  
63 South Avenue  
Burlington, MA 01803

SUBLEASE

Execution Date: As of September 30, 2005

Reference is made to that certain Lease ("Lease") dated April 11, 1997 by and between Burlington Crossing, LLC, as Landlord ("Prime Landlord") and Lahey Clinic Hospital, Inc., as Tenant ("Landlord") as amended by that certain First Amendment to Lease dated as of May 24, 2005, with respect to the building ("Building") known as 63 South Avenue, Burlington, Massachusetts. The "Premises" under the Lease consist of certain space located on the second floor of the Building and other appurtenant rights, as more particularly defined in the Lease.

WHEREAS, Landlord desires to sublease the Premises to iRobot Corporation ("Tenant"); and

WHEREAS, the Premises contain 24,019 square feet, more or less, of rentable area on the second floor of the Building and are substantially as shown on Exhibit A; and

WHEREAS, Tenant desires to sublease the Premises on the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the rents to be paid by Tenant to Landlord and the full and complete performance of all terms, covenants, and conditions herein contained to be performed by Landlord and Tenant, the parties hereto hereby agree as follows:

I. SUBLEASE OF PREMISES

A. Landlord hereby subleases the Premises to Tenant, and Tenant hereby hires and takes the Premises from Landlord, in accordance with the terms and conditions set forth herein. This Sublease shall be upon all of the same terms and conditions of the Lease applicable to the Premises, except to the extent inconsistent with the provisions of this Sublease (in which event the provisions of this Sublease shall control).

B. As appurtenant to Tenant's demise of the Premises, Tenant shall have the right to use, in common with Landlord and others entitled thereto, the common facilities, building service fixtures and equipment set forth in the second paragraph of Section 2.1 of the Lease, all as subject to Prime Landlord's Rules and Regulations and such other reasonable rules and regulations as may be made by Prime Landlord or Landlord from time to time of which Tenant is given notice.

C. Each party shall have the right, at its own cost, to remeasure the Premises within thirty (30) days after the Execution Date. Such remeasurement shall be effected in accordance with the most recent standards published by the Building Owners and Managers Association. If either party exercises such right, such remeasurement shall be

effected by an architect or engineer who is reasonably acceptable to the other party. If such remeasurement is not completed and the written results delivered to both parties on or before the date thirty (30) days after the Execution Date, then the parties shall be conclusively deemed to have agreed that the Total Rentable Area of the Premises is as set forth in Article II of this Sublease, and neither party shall have any further right to remeasure the Premises.

## II. DEFINITIONS

All of the terms used in this Sublease shall have the same definitions as set forth in the Lease, except as herein set forth:

LANDLORD: Lahey Clinic Hospital, Inc.

TENANT: iRobot Corporation

PRIME LANDLORD: Burlington Crossing, LLC

TERM COMMENCEMENT DATE: As to Phase 1, November 1, 2005; as to Phase 2, January 1, 2006.

TERMINATION DATE: 11:59 p.m. on September 30, 2007.

TOTAL RENTABLE AREA OF THE SUBLET PREMISES: As of the Phase 1 Term Commencement Date, 5,000 square feet, more or less; as of the Phase 2 Term Commencement Date, 19,019 square feet, more or less.

BASE RENT: \$18.50 per square foot, or a total of \$92,500 for the Phase 1 space based on a rentable area of 5,000 square feet and an occupancy date of November 1, 2005; \$351,851.50 for the additional space to be occupied upon the Phase 2 Term Commencement Date, based on a rentable area of 19,019 square feet and an occupancy date of January 1, 2006, all as more particularly set forth on Exhibit B hereto. The rent payable hereunder shall be adjusted as necessary to reflect actual square footage and to conform with Article III B.

TENANT'S ELECTRICITY COSTS: Landlord's electricity costs.

PERMITTED USE: General office, research and development and uses ancillary thereto, so long as such ancillary uses are permitted under applicable laws. Tenant shall obtain all governmental permits and approvals required for the Permitted Use, if any.

### III. TERM

A. The term of this Sublease in respect of each Phase of the Sublet Premises shall commence as of the Term Commencement Date in respect of such Phase and shall, subject to the provisions of this Sublease, terminate on the Termination Date.

B. Landlord shall use good faith efforts to deliver the space pertaining to each Phase on the date so specified herein or as soon thereafter as possible. However, except as set forth immediately hereinafter, if Landlord fails to deliver the space pertaining to a given Phase to Tenant on a timely basis, then Landlord shall have no obligation or liability to Tenant other than to continue to use good faith efforts to deliver said space to Tenant as soon as possible thereafter. In the event that Landlord does not deliver the Phase 2 space by January 15, 2006, then the rent otherwise payable hereunder shall be reduced by the sum of \$1,500 for each full week thereafter that the space has still not been delivered, provided that if Landlord has not delivered the Phase 2 space by February 15, 2006, then the rent otherwise payable hereunder shall be reduced by the sum of \$2,500 for each full week thereafter that the space has still not been delivered. As to each Phase rent shall begin to accrue on the later of the Term Commencement Date or the date that the space has been delivered to Tenant.

C. Tenant shall have no right to extend the term of the Sublease.

### IV. CONDITION OF THE PREMISES

A. Except as set forth in Section B of this Article IV, Tenant shall take the Premises "as-is", in the condition in which the Premises are in as of the Term Commencement Date, without any obligation on the part of Landlord to prepare or construct the Premises for Tenant's occupancy, Tenant hereby acknowledging that, except as expressly set forth in this Sublease, Landlord has made no representation or warranty to Tenant as to the condition of the Premises or the Building.

B. Notwithstanding the foregoing, Landlord shall deliver the Premises in broom clean condition.

### V. PAYMENT OF RENT AND TENANT'S ELECTRICITY COSTS

A. All rent and Tenant's Electricity Costs payable under this Sublease shall be paid by Tenant at the following address, or such other place as Landlord may designate in writing to Tenant:

Lahey Clinic  
Finance Department  
25 Mall Road  
Burlington, MA 01945  
Attention: Peter Lloyd

B. Subject to Article III B, the November, 2005 rent for Phase 1 of the Premises shall be due and payable within three (3) business days of the Phase 1 Term Commencement Date, and the January, 2006 rent for Phase 2 of the Sublet Premises shall be due and payable on the Phase 2 Term Commencement Date; otherwise, throughout the term of this Sublease rent shall be payable in equal monthly installments on the first day of each month in advance. Tenant's Electricity Costs shall be paid within fifteen (15) days of receipt of proof of Landlord's electricity bill in respect of the Premises for the immediately prior service period.

#### VI. OPERATING COST ESCALATION PAYMENTS

A. Commencing as of the Term Commencement Date and continuing thereafter throughout the remainder of the term of this Sublease, Tenant shall pay to Landlord, as additional rent, all Operating Cost Escalation payments which are payable by Landlord as tenant under the Lease to Prime Landlord in respect of the term of this Sublease. Tenant's obligations under this Section A shall be pro-rated with respect to any calendar year that does not fall entirely within the term of this Sublease. Tenant shall pay to Landlord the estimated monthly payments on account of Operating Cost Escalation payments at the same times and in the same manner as Landlord is required to make the corresponding estimated monthly payments to Prime Landlord. Tenant shall pay any other proportional amounts required on account of Operating Cost Escalation payments within fifteen (15) days of billing therefor by Prime Landlord.

B. Tenant shall be entitled to any net rebate or abatement of taxes assessed against the Premises in respect of the term of this Sublease.

C. Tenant acknowledges and agrees that Landlord shall have no responsibility or control with respect to the amount of Operating Cost Escalation payments payable by Tenant.

D. If Landlord has not exercised its rights, pursuant to Section 4.2 of the Lease, to audit Prime Landlord's records relating to Landlord's Statements with respect to any calendar year during the term of this Sublease, Landlord shall, upon written request of Tenant, and at Tenant's expense, exercise such right and provide the results of such audit to Tenant.

## VII. MAINTENANCE, REPAIR AND REPLACEMENT

Tenant and not Landlord shall be responsible for performing all maintenance, repair and replacement within the Premises that is required under the Lease. Notwithstanding the foregoing, if Landlord is required to perform any maintenance, repair or replacement as the result of the negligence or willful misconduct of Tenant or Tenant's agents, employees or contractors, Tenant shall, within thirty (30) days of billing therefor, reimburse Landlord for the full amount of such cost, except in the event that such work is caused by an event, act or condition which is covered by any casualty or property insurance maintained by Landlord, in which event Tenant shall only be responsible for the costs of such maintenance, repair or replacement to the extent that such costs are within the deductible carried by Landlord under such policy.

## VIII. TENANT ALTERATIONS

A. Tenant shall not make any alteration, installation, removal, addition or improvement ("Installations") to the Premises without obtaining the prior written consent of Prime Landlord and Landlord. Landlord agrees that its consent shall not be unreasonably withheld or delayed. Landlord's review of any such Installations may, at Landlord's election, include the prior review of Tenant's plans by a structural or mechanical engineer. Landlord shall provide Tenant reasonable access to the Premises following the Execution Date in order to take measurements and make other preparations for such Installations.

B. Without limiting the foregoing, Tenant's right to make any such Installations shall be subject to all of the restrictions and conditions set forth in the Lease.

C. Any Installations or other work performed by Tenant shall be performed in accordance with Prime Landlord's construction rules and regulations, if any.

D. Tenant hereby agrees that, at Landlord's election (which election Landlord shall make at the time that Landlord approves Tenant's plans for such Installations if Tenant so requests of Landlord in writing at the time that Tenant requests Landlord's approval for such Installations), Tenant shall, at its sole cost and expense, remove any Installations made by Tenant in the Premises and shall repair any damage to the Premises or the Building caused by the installation or removal of such Installations.

## IX. INDEMNITY, SUBROGATION, AND LIABILITY INSURANCE

A. Tenant shall indemnify Landlord and Prime Landlord from and against any liability for injury, loss, accident or damage on the Premises to any person or property not



caused by the indemnified party, or its employees or agents, and from any claims, actions, proceedings and costs in connection therewith, arising from omission, fault, negligence or other misconduct of Tenant or arising from any use made or thing done or occurring in the Premises caused by Tenant's negligence or willful and wanton act. Further, Tenant agrees to keep Tenant's employees working in the Premises covered by workers' compensation insurance and to furnish Landlord with a certificate thereof. In no event, however, shall Tenant be liable for consequential, indirect or incidental damages.

B. Tenant shall procure, and keep in force and pay for commercial general liability insurance insuring Tenant on a claims made basis against all claims and demands for personal injury liability (including, without limitation, bodily injury, sickness, disease, and death) or damage to property which may be claimed to have occurred from and after the time Tenant and/or its contractors enter the Premises of not less than One Million (\$1,000,000.00) Dollars for injury to or death of a single person, not less than Two Million (\$2,000,000.00) Dollars per occurrence and Five Hundred Thousand (\$500,000.00) Dollars for property damage or in such higher amounts then customary and maintained by comparable companies using similar buildings in Tenant's business in the greater Boston area. Such insurance shall be effected with an insurer reasonably approved by Landlord, authorized to do business in the Commonwealth of Massachusetts under a valid and enforceable policy wherein Tenant names Landlord and Prime Landlord as additional insureds. Such insurance shall provide that it shall not be canceled or modified without at least thirty (30) days' prior written notice to each insured named therein. On or before the time Tenant and/or its contractors enter the Premises and thereafter not less than fifteen (15) days prior to the expiration date of each expiring policy, original copies of the policy provided for herein issued by the insurer, or a certificate of such policy setting forth in full the provisions thereof and issued by such insurer shall be delivered by Tenant to Landlord.

#### X. SUBLETTING AND ASSIGNMENT

Tenant shall not assign this Sublease or make any sublease of any portion of the Premises without obtaining the prior written consent of Prime Landlord and Landlord. Landlord agrees that its consent shall not be unreasonably withheld or delayed.

#### XI. SUBLEASE SUBJECT TO LEASE

Tenant acknowledges that this Sublease is subject and subordinate in all respects to the Lease (including, without limitation, Prime Landlord's rights of access to the Premises and its right to terminate the Lease in the event of certain takings and casualties). Therefore:

A. Tenant agrees that it will not take any action which would constitute an Event of Default under the Lease, as applicable to this Sublease, and Tenant agrees to indemnify, defend, and hold Landlord harmless from and against any and all liability, loss, cost, damage or expense, including reasonable attorneys fees, arising out of or in

connection with any act or failure on the part of Tenant which constitutes an Event of Default under this Sublease or under the Lease. In no event, however, shall Tenant be liable for consequential, indirect or incidental damages.

B. Wherever Landlord's consent is required under this Sublease, the consent of Prime Landlord shall also be required. It is understood and agreed that Landlord shall not be deemed to be unreasonable in withholding its consent if Prime Landlord has not granted its consent.

C. Tenant acknowledges and agrees that Landlord shall have no obligation to perform any maintenance, repair, service or other obligation which is required to be performed by Prime Landlord under the Lease. In the event that Prime Landlord fails to perform any such obligation, Landlord shall use its good faith efforts to require Prime Landlord to comply with its obligations under the Lease.

D. Tenant acknowledges and agrees that Landlord shall have no liability or obligation to Tenant based upon any act or omission of Prime Landlord or the agents, employees, or contractors of Prime Landlord. Without limiting the foregoing, Landlord shall have no liability to Tenant, and Tenant's obligation to pay rent due under this Sublease shall not be reduced or abated, in the event that Prime Landlord fails to provide any service, to perform any maintenance or repairs, or to perform any other obligation which Prime Landlord is required to provide or to perform pursuant to the Lease, except that if Landlord's obligation to pay base rent and other charges under the Lease is abated with respect to the Premises, then Tenant's obligation to pay base rent and other charges under this Sublease shall be abated in the same proportion that Landlord's obligation to pay base rent and other charges under the Lease is abated.

E. Landlord shall, in its capacity as tenant under the Lease, perform and fulfill all of its covenants, obligations and agreements under the Lease in accordance with the provisions thereof, and shall not do anything which would cause the Lease to be terminated or forfeited. Landlord shall indemnify and hold Tenant harmless from and against any and all claims, liabilities, losses, damage, demands expenses (including, without limitation, reasonable attorney's fees), actions and causes of action (collectively "Losses") by reason of any breach or default on the part of Landlord, in its capacity as tenant under the Lease by reason of which the Lease is terminated or forfeited. Notwithstanding anything to the contrary herein contained: (i) in no event shall Landlord be responsible to Tenant for any Losses arising from any act or omission of Tenant, or anyone claiming by, through, or under Tenant, and (ii) in no event shall Landlord be liable for consequential, indirect or incidental damages.

## XII. NOTICES

Any notices required or permitted to be sent under this Sublease shall be sent to the following addresses, or such other addresses as either party may advise the other:

To Landlord: Lahey Clinic  
41 Mall Road  
Burlington, MA 01805  
Attention: Chief Executive Officer

Copy to: Lahey Clinic  
41 Mall Road  
Burlington, MA 01805  
Attention: Senior Vice President, Legal Services

To Tenant: iRobot Corporation  
63 South Avenue  
Burlington, MA 01803-4903  
Attention: Glen Weinstein

Copy To: Goodwin Procter LLP  
Exchange Place  
Boston, MA 02109  
Attention: Mark T. Bettencourt, Esq.

#### XIII. BROKER

Landlord and Tenant warrant and represent to each other that each has dealt with no broker or agent in connection with this Sublease other than CB Richard Ellis/Whittier Partners and Richards Barry Joyce & Partners. Tenant agrees to indemnify, defend, and hold Landlord harmless of and from all claims (including reasonable attorneys fees and expenses) that may be made by any person against Landlord for breach of Tenant's warranty. Landlord agrees to indemnify, defend and hold harmless Tenant from all claims (including reasonable attorneys fees and expenses) which may be made by any person against Tenant for breach of Landlord's warranty. Landlord shall pay the commission due to CB Richard Ellis/Whittier Partners and Richards Barry Joyce & Partners.

#### XIV. PERMITTED USE

Tenant shall have the right to use the Premises for the Permitted Use, as defined in Article II of this Sublease, and for no other purpose whatsoever, unless such purpose has first been approved in writing by Prime Landlord and Landlord.

#### XV. APPLICABLE LEASE PROVISIONS

The following provisions of the Lease shall have no applicability to this Sublease:

- Article 3
- Exhibits B, H, I, J, K

XVI. LIMITATIONS ON LIABILITY

In no event shall either party or the agents or employees (or any of the officers, trustees, directors, partners, beneficiaries, joint venturers, members, stockholders or other principals or representatives and the like, disclosed or undisclosed, thereof) of either party ever be liable for consequential, indirect, or incidental damages. Without limiting the foregoing, in no event shall either party or the agents or employees (or any of the officers, trustees, directors, partners, beneficiaries, joint venturers, members, stockholders or other principals or representatives and the like, disclosed or undisclosed, thereof) of either party ever be liable for lost profits of the other party.

XVII. TENANT'S ACCESS TO PREMISES

Subject to causes beyond Landlord's reasonable control, Tenant shall have access to the Sublet Premises throughout the term of this Sublease, 24 hours per day, 365 days per year.

XVIII. CONSENT OF PRIME LANDLORD

The parties hereby acknowledge and agree that this Sublease shall not be effective unless and until the parties have obtained the consent of Prime Landlord. Therefore, if Prime Landlord has not given its written consent to this Sublease on or before 7 days after the Execution Date of this Sublease, either party shall have the right, exercisable by giving written notice to the other party prior to the date that Prime Landlord gives its written consent to this Sublease, to cancel this Sublease and to render it void and without force or effect.

EXECUTED UNDER SEAL as of the date first above-written.

LANDLORD:  
LAHEY CLINIC HOSPITAL, INC.

By: /s/ Tim O'Connor EVP, CFO & Treasurer  
-----  
(Name) (Title)  
Hereunto Duly Authorized

TENANT:  
iROBOT CORPORATION

By /s/ Geoffrey P. Clear  
-----  
Geoffrey P. Clear, SVP & CFO  
Hereunto Duly Authorized



IROBOT CORPORATION

63 SOUTH AVENUE

BURLINGTON, MA 01803-4903]

This Executive Agreement (the "Agreement"), by and among iRobot Corporation, a Delaware corporation (the "Company"), and the executive named below ("Executive"), sets forth the terms and conditions by which the Company will provide certain benefits for Executive under certain circumstances in the event of a termination of Executive's employment with the Company. The effective date of this Agreement shall be the date of last execution as set forth below (the "Execution Date").

IROBOT CORPORATION

EXECUTIVE

By: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Address: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

WHEREAS, Executive currently is an employee of the Company and an Officer (as hereinafter defined), and has made and is expected to continue to make significant contributions to the business, growth and financial strength of the Company;

WHEREAS, the Company recognizes that the uncertainty regarding the consequences of a termination in Executive's employment as an Officer of the Company adversely affects the Company's ability to retain Executive;

WHEREAS, the Company further recognizes that, as is the case for most publicly held companies, the possibility of a Change in Control (as hereinafter defined) exists, which may alter the nature and structure of the Company, and recognizes that the uncertainty regarding the consequences of such an event adversely affects the Company's ability to retain Executive as an Officer;

WHEREAS, the Company desires to more closely align Executive's interests with those of the shareholders of the Company with respect to any Change in Control that may benefit the shareholders;

WHEREAS, the Company desires to assure itself of both present and future continuity of management in the event of a Change in Control, and desires to induce Executive to remain employed with the Company by establishing certain benefits for Executive applicable under certain circumstances in the event of a Change in Control, and Executive desires to be so induced; and

WHEREAS, the parties desire to set forth in writing the terms and conditions of their agreement with respect to the provision of benefits for Executive applicable under certain circumstances in the event of a Change in Control;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and obligations herein contained, it is agreed among the parties hereto as follows:

1. Term. This Agreement shall continue for a term commencing on the Execution Date and ending on the date two years thereafter ("Initial Term"), and shall be automatically renewed from year to year thereafter for successive one-year terms (each a "Renewal Term") unless ninety (90) days prior to the expiration of the initial term or any renewal term, a party gives written notice of non-renewal to the other party; provided that any such notice provided by the Company any time during the period beginning on the date that is forty-five (45) days prior to the date upon which a definitive agreement for a Change in Control is publicly announced as having been executed by the Company (the "Announcement Date") and ending on the first anniversary of the effective date of a Change in Control, shall have no effect whatsoever, and the Agreement shall continue in force until such time as otherwise terminated in accordance with the terms hereof. If an effective notice of non-renewal is given as permitted hereunder, this Agreement will expire at the conclusion of either the initial term or the renewal term, whichever is applicable, unless terminated earlier in accordance with Section 2 hereof. The "Term" of this Agreement shall include the Initial Term, as well as any Renewal Term, if applicable, subject to termination at any time prior to the expiration of the Term as provided in Section 2 hereof; provided, however, that in the event of the first Change in Control to occur during the Term (including after any notice of non-renewal is given), the Term shall automatically continue through the first anniversary of the effective date of such Change in Control.

2. At-Will Status. Notwithstanding any provision of this Agreement, Executive will remain employed at-will, so that Executive or the Company may terminate Executive's employment at any time, with or without notice, for any or no reason, and this Agreement shall not create or imply any right or duty of Executive or the Company to have Executive remain in the employ thereof for any period of time. This Agreement shall automatically terminate on the earliest date of (a) Executive's Termination Date (as hereinafter defined) if Executive's employment ceases for any reason other than due to an Involuntary Termination Upon a Change in Control or a Resignation for Good Reason Upon a Change in Control (as such terms are hereinafter defined); or (b) the date immediately following the one-year anniversary of the effective date of the first Change in Control to occur during the Term; provided, that, notwithstanding any provision in this Agreement to the contrary, if Executive's employment is terminated by the Company prior to a Change in Control for any reason other than for Cause, or ceases due to an Involuntary Termination Upon a Change in Control or a Resignation for Good Reason Upon a Change in Control, this Agreement shall remain in effect until all obligations of the parties hereunder have been fully satisfied.

3. Definitions. As used in this Agreement, the following terms shall have the meanings set forth herein:

a. "Cause" shall mean any one or more of the following: (i) Executive's willful failure or refusal (except due to Disability (as hereinafter defined) 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, developments 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. "Change in Control" shall mean the occurrence of any of the following events:

(i) The Company is merged or consolidated or reorganized into or with another corporation or other legal person, and as a result of such merger, consolidation or reorganization less than fifty percent (50%) of the combined voting power of the then-outstanding securities of such surviving, resulting or reorganized corporation or person immediately after such transaction is held in the aggregate by the holders of the then-outstanding securities entitled to vote generally in the election of directors of the Company ("Voting Stock") immediately prior to such transaction;

(ii) The Company sells or otherwise transfers all or substantially all of its assets to any other corporation or other legal person, and as a result of such sale or transfer less than fifty percent (50%) of the combined voting power of the then-outstanding securities of such corporation or person immediately after such sale or transfer is held in the aggregate by the holders of Voting Stock of the Company immediately prior to such sale or transfer;

(iii) Any corporation or other legal person, pursuant to a tender offer, exchange offer, purchase of stock (whether in a market transaction or otherwise) or other transaction or event acquires securities representing 30% or more of the Voting Stock of the Company, or there is a report filed on Schedule 13D or Schedule 14D-1 (or any successor schedule, form or report), each as promulgated pursuant to the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), disclosing that any "person" (as such term is used in Section 13(d)(3) or Section 14(d)(2) of the Exchange Act) has become the "beneficial owner" (as such term is used in Rule 13d-3 under the Exchange Act) of securities representing 30% or more of the Voting Stock of the Company;

(iv) The Company files a report or proxy statement with the Securities and Exchange Commission pursuant to the Exchange Act disclosing under or in response to Form 8-K or Schedule 14A (or any successor schedule, form or report or item therein) that a change in control of the Company has occurred; or

(v) If during any period of two consecutive years, individuals who at the beginning of any such period constitute the Board cease for any reason to constitute at least a majority thereof, unless the election, or the nomination for election by the Company's stockholders, of each director of the Company first elected during such period was approved by a vote of at least a majority of the directors then still in office who were directors of the Company at the beginning of any such period;

provided, however, that a "Change in Control" shall not be deemed to have occurred for purposes of this Agreement solely because (i) the Company, (ii) an entity in which the Company directly or indirectly beneficially owns 50% or more of the Voting Stock, or (iii) any Company-sponsored employee stock ownership plan or any other employee benefit plan of the Company, either files or becomes obligated to file a report or a proxy statement under or in response to Schedule 13D, Schedule 14D-1, Form 8-K or Schedule 14A (or any successor schedule, form or report) under the Exchange Act, disclosing beneficial ownership by it of shares of Voting Stock or because the Company reports that a change in control of the Company has occurred by reason of such beneficial ownership.

c. "Company" shall mean iRobot Corporation, its assigns, and its Successors.

d. "Disability" shall mean any physical or mental disability that renders Executive unable to perform his/her essential job responsibilities for a cumulative period of 180 days in any twelve-month period, where such disability cannot be reasonably accommodated absent undue hardship.



e. "Executive Office" shall mean those offices of the Company domiciled in the United States that the Board in its reasonable discretion may designate from time to time as constituting an officer position pursuant to Section 16 of the Exchange Act and/or such other officers of the Company as the Board shall designate from time to time. Any person holding an Executive Office shall be an "Officer."

f. "Incentive Pay Eligibility" shall mean the aggregate amount of any cash compensation derived from any bonus, incentive, performance, profit-sharing or similar agreement, policy, plan or arrangement of the Company that Executive is eligible to receive based upon the attainment of 100% target or quota with respect to any one year.

g. "Involuntary Termination Upon a Change in Control" shall mean the termination of the employment of Executive by the Company without Cause at any time within the period beginning on the date that is forty-five (45) days prior to the Announcement Date and ending on the first anniversary of the effective date of a Change in Control. "Involuntary Termination Upon Change in Control" shall not include any termination of Executive's employment (a) for Cause; (b) as a result of Executive's Disability; (c) as a result of Executive's death; or (d) by Executive for any reason.

h. "Resignation for Good Reason Upon a Change in Control" shall occur upon the receipt by the Company of Executive's notice specified below, if any of the following "Events" occur without Executive's prior written consent during the one-year period beginning on the effective date of a Change in Control:

(i) The substantial reduction of (1) Executive's aggregate base salary, (2) Executive's Incentive Pay Eligibility, or (3) the benefits for which Executive was eligible, in each case, in effect immediately prior to a Change in Control; unless, however, in the case of subclause (3) only, such reduction is due to an across-the-board reduction applicable to all senior executives of the Company and any Successor, and the benefits available to Executive after such across-the-board reduction are no less favorable than those available to similarly-situated executives of the Company and such Successor;

(ii) The permanent relocation of Executive's primary workplace to a location more than thirty (30) miles away from Executive's workplace in effect immediately prior to a Change in Control; or

(iii) Failure of any Successor to, or assignee of, the Company to assume the duties and obligations of the Company under this Agreement pursuant to Section 14 hereof; and

Within sixty (60) days after any such Event, Executive provides written notice to the Company describing with reasonable specificity the Event and stating his/her intention to resign from employment due to such Event.

j. "Severance Benefits" shall mean:

(i) payment of an amount equal to 50% (i.e., six (6) months) of the Executive's base salary, at the highest annualized rate in effect during the one year period immediately prior to the Termination Date payable, at Executive's election, either (x) in a lump sum payment on the Termination Date (subject to the expiration of any applicable revocation period required by law) or on any other later date designated by Executive; or (y) in equal monthly installments over the six (6) month period following the Termination Date; and

(ii) In the event Executive elects after the Termination Date to continue health, vision and/or dental coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of

1985 ("COBRA"), the Company will pay, on a monthly basis, Executive's monthly premium payments for each such coverage elected by Executive for Executive and his or her eligible dependents, if applicable, until the earliest of the following dates to occur with respect to each such elected coverage: (A) the six month anniversary of the Termination Date; (B) the date upon which Executive becomes covered under a comparable group plan for such applicable coverage; or (C) the date upon which Executive ceases to be eligible for COBRA continuation for such applicable coverage.

k. "Stock Plans" shall mean the Amended and Restated 1994 Stock Plan; Amended and Restated 2001 Special Stock Option Plan; Amended and Restated 2004 Stock Option and Incentive Plan; and 2005 Stock Option and Incentive Plan; and any other stock plans or stock option plans established and maintained by the Company at any time during the Term and pursuant to which Executive holds any options, stock, awards and/or purchase rights, each as may be or may have been amended.

l. "Successor" shall mean any successor to the Company (whether direct or indirect, by Change in Control, operation of law or otherwise), including but not limited to any successor (whether direct or indirect, by Change in Control, operation of law or otherwise) to, or ultimate parent entity of any successor to, the Company.

m. "Termination Date" shall mean Executive's last date of employment with the Company.

n. "Vesting Date" shall have the meaning specified in Section 5.a.(iv) hereof.

4. Effect of a Termination without Cause. If Executive's employment is terminated at any time prior to a Change in Control for any reason that does not constitute Cause, Executive shall be entitled to receive the following, subject to Section 8 hereof; provided, however that if such termination constitutes an Involuntary Termination Upon a Change in Control or a Resignation for Good Reason Upon a Change in Control, Executive shall instead be entitled to the Change in Control Benefits described in Section 5.a of this Agreement.

a. The Severance Benefits.

b. Executive shall also be entitled to any unpaid compensation and benefits, and unused vacation accrued, through the Termination Date. Executive shall also be entitled to receive reimbursement for expenses that Executive reasonably and necessarily incurred on behalf of the Company prior to the Termination Date, provided that Executive submits expense reports and supporting documentation of such expenses as required by the practice or policy in effect at that time. Executive shall not be eligible for or entitled to any severance payments or benefits pursuant to a severance plan, program, arrangement, practice or policy of the Company, if any, that may be in effect as of the Termination Date, including without limitation any other agreement, entered into prior to the date hereof, that Executive may have with the Company regarding the subject matter hereof.

5. Effect of Involuntary Termination Upon a Change in Control or Resignation for Good Reason Upon a Change in Control. In the event of an Involuntary Termination Upon a Change in Control or a Resignation for Good Reason Upon a Change in Control during the Term, Executive shall be entitled to the following:

a. "Change in Control Benefits" as follows, subject to Section 8 hereof:

(i) Payment of an amount equal to 100% (i.e., 12 months) of the Executive's base salary, at the highest annualized rate in effect during the period between the date immediately prior

to the effective date of a Change in Control and the Termination Date, payable in accordance with Section 5.a(v) below;

(ii) Payment of an amount equal to 50% of the highest amount of Executive's Incentive Pay Eligibility with respect to the period beginning in the year prior to that in which the Change in Control occurs and ending in the year in which Executive's employment is terminated, payable in accordance with Section 5.a(v) below; and

(iii) In the event Executive elects after the Termination Date to continue health, vision and/or dental coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"), the Company will pay Executive's monthly premium payments for each such coverage elected by Executive for Executive and his or her eligible dependents, if applicable, until the earliest of the following dates to occur with respect to each such elected coverage: (A) the first anniversary of the Termination Date; (B) the date upon which Executive becomes covered under a comparable group plan for such applicable coverage; or (C) the date upon which Executive ceases to be eligible for COBRA continuation for such applicable coverage.

(iv) Any and all unvested stock, stock options, awards and rights that were granted to Executive under any of the Stock Plans prior to the Termination Date shall immediately become fully vested and exercisable as of the Termination Date or, if Executive's employment was terminated within the three-month period prior to the Announcement Date, as of the Announcement Date (whichever may apply, the "Vesting Date"). Notwithstanding any contrary provision of any agreement relating to then outstanding stock, stock options, awards and rights granted to Executive under any of the Stock Plans after the Execution Date, all such stock, stock options, awards and rights granted after the Execution Date may be exercised by Executive (or Executive's heirs, estate, legatees, executors, administrators, and legal representatives) at any time during the period ending on the earlier of (A) the later of (i) three (3) months after the Vesting Date and (ii) if Executive dies within the three-month period after the Vesting Date, the first anniversary of the date of Executive's death, and (B) the scheduled expiration of such stock, stock option, award or right, as the case may be. Executive hereby acknowledges and agrees that, as a result of the operation of Section 4 and this subsection 5.a(ii), some or all of the "incentive stock options" (as defined in the U.S. Internal Revenue Code of 1986, as amended (the "Code")) granted to Executive under the Stock Plans may no longer qualify as "incentive stock options" for U.S. federal income tax purposes, and Executive hereby consents to any such disqualification.

(v) Each of the payments set forth in subsections 5.a(i)-(iii) above (the "Cash Severance Benefits") shall be payable, at Executive's election, either (x) in a lump sum payment on the Vesting Date (subject to the expiration of any applicable revocation period required by law) or on any other later date designated by Executive; or (y) in equal monthly installments over the twelve (12) month period following the Vesting Date; provided that the payments described in Section 5.a(iii) hereof shall be paid on a monthly basis.

b. Executive shall also be entitled to any unpaid compensation and benefits, and unused vacation accrued, through the Termination Date. Executive shall also be entitled to receive reimbursement for final expenses that Executive reasonably and necessarily incurred on behalf of the Company prior to the Termination Date, provided that Executive submits expense reports and supporting documentation of such expenses as required by the practice or policy in effect at that time. Executive shall not be eligible for or entitled to any severance payments or benefits pursuant to a severance plan, program, arrangement, practice or policy of the Company, if any, that may be in effect as of the Termination Date, including without limitation any other agreement, entered into prior to the date hereof, that Executive may have with the Company regarding the subject matter hereof.

6. Effect of a Change in Control. If a Change in Control occurs during the Term, then 25% of all stock, options, awards and purchase rights granted to Executive under any Stock Plan prior to such Change in Control shall immediately become fully vested and exercisable as of the effective date of a Change in Control. The 25% specified in the previous sentence is in addition to any stock, options, awards and purchase rights granted to Executive under any plan that were already vested and exercisable (or were otherwise scheduled to become vested and exercisable) as of the effective date of the Change in Control.

7. Liquidated Damages. The parties hereto expressly agree that provision of the Severance Benefits or Change in Control Benefits to Executive in accordance with the terms of this Agreement will be liquidated damages, and that Executive shall not be required to mitigate the amount of any payments provided for in this Agreement by seeking other employment or otherwise, nor shall any profits, income, earnings or other benefits from any source whatsoever create any mitigation, offset, reduction or any other obligation on the part of Executive hereunder or otherwise.

8. Conditions of Severance Benefits and Change in Control Benefits. Executive shall receive Severance Benefits and/or Change in Control Benefits only if Executive: (a) executes a separation agreement, which includes a general mutual release, in a form and of a scope reasonably acceptable to the parties hereto; (b) returns all property, equipment, confidential information and documentation of the Company; (c) has complied and continues to comply in all material respects with any noncompetition, inventions and/or nondisclosure obligations that Executive may owe to the Company, whether pursuant to an agreement or applicable law; and (d) provides a signed, written resignation of Executive's status as an officer, including, without limitation, an Executive Officer, and director (if applicable) of the Company and, if applicable, its subsidiaries. In the event that Executive has breached any obligations described in Section 8(c), then (x) the Cash Severance Benefits shall terminate and Executive shall no longer be entitled to them; (y) Executive shall promptly repay to the Company any Cash Severance Benefits previously received by Executive; and (z) all options, awards and purchase rights held by Executive shall no longer be exercisable as of the date of Executive's breach. Such termination and repayment of Cash Severance Benefits and cessation of the right to exercise shall be in addition to, and not in lieu of, any and all available legal and equitable remedies, including injunctive relief. Notwithstanding anything in this Agreement to the contrary, any payment dates will be delayed until after the separation agreement referred to in clause (a) above is executed by Executive, and any applicable revocation periods required by law have expired.

9. Taxes. All payments and benefits described in this Agreement shall be subject to any and all applicable federal, state, local and foreign withholding, payroll, income and other taxes.

10. Certain Reduction of Payments. If (a)(i) the Severance Benefits, (ii) the Change in Control Benefits, (iii) the benefits received under Section 6 hereof and/or (iv) any payment or benefit received or to be received by Executive pursuant to any other plan, arrangement or agreement (collectively, the "Total Payments") would constitute (in whole or in part) an "excess parachute payment" within the meaning of Section 280G(b) of the Code, and (b) Executive would retain more of the Total Payments (after the payment of applicable tax liabilities imposed on the Total Payments) in the event that the Cap (defined below) is imposed, then the amount of the Total Payments shall be reduced until the aggregate "present value" (as that term is defined in Section 280G(d)(4) of the Code using the applicable federal rate in effect on the date of this Agreement) of the Total Payments is such that no part of the Total Payments constitutes an "excess parachute payment" within the meaning of Section 280G(b) of the Code (the "Cap").

11. Exclusive Remedy. Except as expressly set forth herein or otherwise required by law, Executive shall not be entitled to any compensation, benefits, or other payments as a result of or in connection with the termination or resignation of Executive's employment at any time, for any reason.

The payments and benefits set forth in Section 4, 5 and 6 hereof shall constitute liquidated damages and shall be Executive's sole and exclusive remedy for any claims, causes of action or demands arising under or in connection with this Agreement or its alleged breach, the termination or resignation of Executive's employment relationship, or the cessation of holding an Executive Office.

12. Governing Law/Forum. The parties agree that any claims arising out of or in connection with this Agreement shall be governed by and construed in accordance with the laws of The Commonwealth of Massachusetts, and this Agreement shall in all respects be interpreted, enforced and governed under the internal and domestic laws of such State, without giving effect to the principles of conflicts of laws thereof. In addition, each of the parties, by its or his execution hereof, hereby irrevocably submits to the exclusive jurisdiction of the state or federal courts of Massachusetts with respect to any claims arising out of or in connection with this Agreement and agrees not to commence any such claims or actions other than in such courts. The prevailing party in any action arising out of or in connection with this Agreement shall be entitled to payment, by the other party, of the prevailing party's reasonable expenses and attorneys' fees incurred in connection with such action.

13. Entire Agreement. This Agreement shall constitute the sole and entire agreement among the parties with respect to the subject matter hereof, and supersedes and cancels all prior, concurrent and/or contemporaneous arrangements, understandings, promises, programs, policies, plans, practices, offers, agreements and/or discussions, whether written or oral, by or among the parties regarding the subject matter hereof, including, but not limited to, those constituting or concerning employment agreements, change in control benefits and/or severance benefits; provided, however, that this Agreement is not intended to, and shall not, supersede, affect, limit, modify or terminate any of the following, all of which shall remain in full force and effect in accordance with their respective terms: (i) any written agreements, programs, policies, plans, arrangements or practices of the Company that do not relate to the subject matter hereof; (ii) any written stock or stock option agreements between Executive and the Company (except as expressly modified hereby); and (iii) any written agreements between Executive and the Company concerning noncompetition, nonsolicitation, inventions and/or nondisclosure obligations.

14. Successors and Assignment. Executive may not assign any rights or delegate any duties or obligations under this Agreement. The Company will require its respective assigns and Successors to expressly assume this Agreement and to agree to perform hereunder in the same manner and to the same extent that the Company would be required to perform if no such succession or assignment had taken place. Regardless of whether such an agreement is executed, this Agreement shall inure to the benefit of, and be binding upon, the Company's Successors and assigns and Executive's heirs, estate, legatees, executors, administrators, and legal representatives.

15. Notices. All notices required hereunder shall be in writing and shall be delivered in person, by facsimile or by certified or registered mail (or similar means for non-U.S. addresses), return receipt requested, and shall be effective upon receipt if by personal delivery or facsimile or three (3) business days after mailing if sent by certified or registered mail (or similar means for non-U.S. addresses). All notices shall be addressed as specified on the first page of this Agreement or to such other address as the parties may later provide in writing.

16. Severability/Reformation. If any provision of this Agreement or the application of any provision hereof to any person or circumstances is held invalid, unenforceable or otherwise illegal, the remainder of this Agreement and the application of such provision to any other person or circumstances shall not be affected, and the provision so held to be invalid, unenforceable or otherwise illegal shall be reformed to the extent (and only to the extent) necessary to make it enforceable, valid and legal. The language of all parts of this Agreement shall in all cases be construed as a whole according to its fair meaning and not strictly for or against any of the parties.

17. Modification. This Agreement may be modified or waived only in accordance with this Section 17. No waiver by any party of any breach by the other or any provision hereof shall be deemed to be a waiver of any later or other breach thereof or as a waiver of any other provision of this Agreement. This Agreement and its terms may not be waived, changed, discharged or terminated orally or by any course of dealing between or among the parties, but only by a written instrument signed by the party against whom any waiver, change, discharge or termination is sought. No modification or waiver by the Company is effective without written consent of the Board of Directors of the Company.

18. Survival of Obligations and Rights. Notwithstanding anything to the contrary in this Agreement, provisions herein shall survive the termination of Executive's employment by the Company prior to a Change in Control, or due to an Involuntary Termination Upon a Change in Control or a Resignation for Good Reason Upon a Change in Control or, other expiration or termination of this Agreement, if so provided herein or if necessary or desirable to fully accomplish the purposes of such provisions, including the obligations and rights contained in Sections 4 through 20 hereof.

19. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

20. Section Headings. The descriptive section headings herein have been inserted for convenience only and shall not be deemed to define, limit, or otherwise affect the construction of any provision hereof.

**iROBOT CORPORATION  
SUBSIDIARIES OF THE REGISTRANT**

<b>Subsidiary Legal Name</b>	<b>Jurisdiction of Incorporation/Formation</b>
iRobot Securities Corporation	Massachusetts
iRobot US Holdings Inc.	Delaware
iRobot Holdings LLC.	Delaware
iRobot (India) Private Limited	India

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-129576) of iRobot Corporation of our report dated February 9, 2006 relating to the consolidated financial statements, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers  
PricewaterhouseCoopers LLP

Boston, Massachusetts  
March 16, 2006



## CERTIFICATIONS

I, Colin M. Angle, certify that:

1. I have reviewed this annual report on Form 10-K 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 period presented in this report;
4. The registrant's other certifying officers 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)) 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) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release No. 34-47986];
  - 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 officers 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 controls 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.

/s/ COLIN M. ANGLE

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Colin M. Angle  
Chief Executive Officer

Date: March 16, 2006

## CERTIFICATIONS

I, Geoffrey P. Clear, certify that:

1. I have reviewed this annual report on Form 10-K 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 period presented in this report;
4. The registrant's other certifying officers 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)) 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) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release No. 34-47986];
  - 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 officers 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 controls 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.

/s/ GEOFFREY P. CLEAR

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Geoffrey P. Clear  
Chief Financial Officer

Date: March 16, 2006

**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 Annual Report on Form 10-K of iRobot Corporation (the "Company") for the year ended December 31, 2005 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, hereby certify, pursuant to 18 U.S.C. 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 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.

/s/ COLIN M. ANGLE

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Colin M. Angle  
Chief Executive Officer

Dated: March 16, 2006

/s/ GEOFFREY P. CLEAR

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Geoffrey P. Clear  
Chief Financial Officer

Dated: March 16, 2006