

IROBOT CORP
Form 10-Q
August 03, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED June 30, 2012

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 000-51598

iROBOT CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

8 Crosby Drive

Bedford, MA 01730

(Address of principal executive offices)

(Zip code)

(781) 430-3000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The number of shares outstanding of the Registrant's Common Stock as of July 30, 2012 was 27,589,291.

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iROBOT CORPORATION

FORM 10-Q

THREE AND SIX MONTHS ENDED JUNE 30, 2012

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(unaudited)

| | June 30, 2012 | December 31, 2011 |
|---|-------------------|----------------------|
| | (in thousands) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 156,543 | \$ 166,308 |
| Short term investments | 20,181 | 17,811 |
| Accounts receivable, net of allowance of \$85 at June 30, 2012 and \$88 at December 31, 2011 | 39,527 | 43,338 |
| Unbilled revenue | 2,073 | 2,362 |
| Inventory | 34,597 | 31,089 |
| Deferred tax assets | 15,494 | 15,344 |
| Other current assets | 8,270 | 7,928 |
| Total current assets | 276,685 | 284,180 |
| Property and equipment, net | 26,940 | 29,029 |
| Deferred tax assets | 11,086 | 6,127 |
| Other assets | 18,692 | 12,877 |
| Total assets | \$ 333,403 | \$ 332,213 |
| LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 45,212 | \$ 48,406 |
| Accrued expenses | 13,878 | 17,188 |
| Accrued compensation | 9,738 | 17,879 |
| Deferred revenue and customer advances | 1,882 | 1,527 |
| Total current liabilities | 70,710 | 85,000 |
| Long term liabilities | 4,069 | 4,255 |
| Commitments and contingencies (Note 6) | | |
| Redeemable convertible preferred stock, 5,000,000 shares authorized and none outstanding | | |
| Common stock, \$0.01 par value, 100,000,000 shares authorized; 27,513,376 and 27,216,555 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively | 275 | 272 |
| Additional paid-in capital | 191,975 | 184,395 |
| Retained earnings | 66,168 | 58,140 |
| Accumulated other comprehensive income | 206 | 151 |
| Total stockholders' equity | 258,624 | 242,958 |
| Total liabilities, redeemable convertible preferred stock and stockholders' equity | \$ 333,403 | \$ 332,213 |

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

Table of Contents**Consolidated Statements of Income**

(in thousands, except per share amounts)

(unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|--------------|------------------|--------------|
| | June 30, 2012 | July 2, 2011 | June 30, 2012 | July 2, 2011 |
| Revenue: | | | | |
| Product revenue | \$ 107,760 | \$ 97,396 | \$ 199,502 | \$ 194,107 |
| Contract revenue | 3,685 | 10,686 | 9,750 | 20,252 |
| Total revenue | 111,445 | 108,082 | 209,252 | 214,359 |
| Cost of revenue: | | | | |
| Cost of product revenue (1) | 58,795 | 57,835 | 117,070 | 114,025 |
| Cost of contract revenue (1) | 3,203 | 7,711 | 8,722 | 14,344 |
| Total cost of revenue | 61,998 | 65,546 | 125,792 | 128,369 |
| Gross margin | 49,447 | 42,536 | 83,460 | 85,990 |
| Operating expenses: | | | | |
| Research and development (1) | 9,667 | 8,146 | 18,391 | 16,875 |
| Selling and marketing (1) | 19,122 | 12,767 | 32,692 | 25,748 |
| General and administrative (1) | 10,022 | 10,097 | 21,064 | 20,697 |
| Total operating expenses | 38,811 | 31,010 | 72,147 | 63,320 |
| Operating income | 10,636 | 11,526 | 11,313 | 22,670 |
| Other income (expense), net | 60 | 112 | 280 | 350 |
| Income before income taxes | 10,696 | 11,638 | 11,593 | 23,020 |
| Income tax expense | 3,321 | 3,614 | 3,565 | 7,519 |
| Net income | \$ 7,375 | \$ 8,024 | \$ 8,028 | \$ 15,501 |
| Net income per share | | | | |
| Basic | \$ 0.27 | \$ 0.30 | \$ 0.29 | \$ 0.59 |
| Diluted | \$ 0.26 | \$ 0.29 | \$ 0.28 | \$ 0.56 |
| Number of shares used in calculations per share | | | | |
| Basic | 27,522 | 26,667 | 27,441 | 26,388 |
| Diluted | 28,182 | 27,911 | 28,259 | 27,733 |

(1) Total stock-based compensation recorded in the three and six months ended June 30, 2012 and July 2, 2011 included in the above figures breaks down by expense classification as follows:

| | Three Months Ended | | Six Months Ended | |
|--------------------------|--------------------|--------------|------------------|--------------|
| | June 30, 2012 | July 2, 2011 | June 30, 2012 | July 2, 2011 |
| Cost of product revenue | \$ 296 | \$ 320 | \$ 586 | \$ 571 |
| Cost of contract revenue | 73 | 156 | 191 | 250 |

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| | | | | |
|----------------------------|-------|-------|-------|-------|
| Research and development | 295 | 239 | 554 | 320 |
| Selling and marketing | 179 | 158 | 416 | 339 |
| General and administrative | 2,059 | 1,538 | 3,668 | 2,710 |

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

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Consolidated Statements of Comprehensive Income

(in thousands)

(unaudited)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|--------------|------------------|--------------|
| | June 30, 2012 | July 2, 2011 | June 30, 2012 | July 2, 2011 |
| Net income, as reported | \$ 7,375 | \$ 8,024 | \$ 8,028 | \$ 15,501 |
| Other comprehensive income (loss), net of tax: | | | | |
| Unrealized gains (losses) on investments, net of tax | (91) | 121 | 54 | 95 |
| Total comprehensive income | \$ 7,284 | \$ 8,145 | \$ 8,082 | \$ 15,596 |

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

Table of Contents**Consolidated Statements of Cash Flows****(in thousands)****(unaudited)**

| | Six Months Ended | |
|---|-------------------------|----------------|
| | June 30, | July 2, |
| | 2012 | 2011 |
| Cash flows from operating activities: | | |
| Net income | \$ 8,028 | \$ 15,501 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 5,313 | 4,640 |
| Loss on disposal of property and equipment | 166 | 473 |
| Stock-based compensation | 5,415 | 4,190 |
| Deferred income taxes, net | (4,230) | 4,488 |
| Tax benefit of excess stock based compensation deductions | (1,035) | (5,655) |
| Non-cash director deferred compensation | 42 | 82 |
| Changes in operating assets and liabilities (use) source | | |
| Accounts receivable | 3,811 | (473) |
| Unbilled revenue | 289 | (4,022) |
| Inventory | (3,508) | (7,042) |
| Other assets | (378) | (4,809) |
| Accounts payable | (3,194) | (5,416) |
| Accrued expenses | (3,252) | (1,889) |
| Accrued compensation | (8,141) | (4,733) |
| Deferred revenue | 355 | (1,494) |
| Long term liabilities | (186) | 266 |
| Net cash used in operating activities | (505) | (5,893) |
| Cash flows from investing activities: | | |
| Additions of property and equipment | (2,956) | (7,208) |
| Change in other assets | (6,000) | |
| Purchases of investments | (5,086) | (5,000) |
| Sales of investments | 2,500 | 5,000 |
| Net cash used in investing activities | (11,542) | (7,208) |
| Cash flows from financing activities: | | |
| Proceeds from stock option exercises | 2,022 | 8,597 |
| Income tax withholding payment associated with restricted stock vesting | (775) | (809) |
| Tax benefit of excess stock-based compensation deductions | 1,035 | 5,655 |
| Net cash provided by financing activities | 2,282 | 13,443 |
| Net increase (decrease) in cash and cash equivalents | (9,765) | 342 |
| Cash and cash equivalents, at beginning of period | 166,308 | 108,383 |
| Cash and cash equivalents, at end of period | \$ 156,543 | \$ 108,725 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for income taxes | \$ 6,411 | \$ 7,792 |

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

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Notes To Consolidated Financial Statements

(unaudited)

1. Description of Business

iRobot Corporation (iRobot or the Company) develops robotics and artificial intelligence technologies and applies these technologies in producing and marketing robots. The majority of the Company s revenue is generated from product sales and government and commercial research and development contracts.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

The accompanying unaudited financial data as of June 30, 2012 and for the three and six months ended June 30, 2012 and July 2, 2011 has been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. These consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and the notes thereto included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed with the SEC on February 17, 2012.

In the opinion of management, all adjustments necessary to state fairly its statement of financial position as of June 30, 2012 and results of operations and cash flows for the periods ended June 30, 2012 and July 2, 2011 have been made. The results of operations and cash flows for any interim period are not necessarily indicative of the operating results and cash flows for the full fiscal year or any future periods.

Use of Estimates

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

Fiscal Year-End

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

Revenue Recognition

The Company derives its revenue from product sales, government research and development contracts, and commercial research and development contracts. The Company sells products directly to customers and indirectly through resellers and distributors. The Company recognizes revenue from sales of home robots under the terms of the customer agreement upon transfer of title and risk of loss to the customer, net of estimated returns, provided that collection is determined to be

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Notes To Consolidated Financial Statements - Continued

(unaudited)

reasonably assured and no significant obligations remain. Sales to domestic resellers are typically subject to agreements allowing for limited rights of return, rebates and price protection. Accordingly, the Company reduces revenue for its estimates of liabilities for these rights of return, rebates and price protection at the time the related sale is recorded. The Company makes an estimate of sales returns for products sold by domestic resellers directly based on historical returns experience and other relevant data. The Company's international distributor agreements do not currently allow for product returns and, as a result, no reserve for returns is established for this group of customers. The Company has aggregated and analyzed historical returns from domestic resellers and end users which form the basis of its estimate of future sales returns by resellers or end users. When a right of return exists, the provision for these estimated returns is recorded as a reduction of revenue at the time that the related revenue is recorded. If actual returns 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.

During the three month period ended June 30, 2012, the Company completed its periodic assessment of customer defective product returns in its home robots business unit. This assessment demonstrated lower actual returns experience than the estimates included on its historical returns reserve. The Company believes these lower actual returns are the result of its sustained investment in product quality. In the second quarter, the Company accordingly adjusted its accrual rates to reflect these lower return rates, resulting in a \$3.3 million benefit to revenue for the three and six month periods ended June 30, 2012.

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. Costs incurred include labor and material that are directly associated with individual CPFF contracts plus indirect overhead and general and administrative type costs based upon billing rates submitted by the Company to the Defense Contract Management Agency (DCMA). Annually, the Company submits final indirect billing rates to DCMA based upon actual costs incurred throughout the year. In the situation where the Company's final actual billing rates are greater than the estimated rates currently in effect, the Company records a cumulative revenue adjustment in the period in which the rate differential is collected from the customer. These final billing rates are subject to audit by the Defense Contract Audit Agency (DCAA), which can occur several years after the final billing rates are submitted and may result in material adjustments to revenue recognized based on estimated final billing rates. As of June 30, 2012, fiscal years 2007, 2008, 2009, 2010 and 2011 are open for audit by DCAA. In the situation where the Company's anticipated actual billing rates will be lower than the provisional rates currently in effect, the Company records a cumulative revenue adjustment in the period in which the rate differential is identified. Revenue on firm fixed price (FFP) contracts is recognized using the percentage-of-completion method. For government product FFP contracts, revenue is recognized as the product is shipped or in accordance with the contract terms. Costs and estimated gross margins on contracts are recorded as revenue as work is performed based on the percentage that incurred costs compare to estimated total costs utilizing the most recent estimates of costs and funding. Changes in job performance, job conditions, and estimated profitability, including those arising from final contract settlements and government audits, may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Since many contracts extend over a long period of time, revisions in cost and funding estimates during the progress of work have the effect of adjusting earnings applicable to past performance in the current period. When the current contract estimate indicates a loss, a provision is made for the total anticipated loss in the current period. Revenue earned in excess of billings, if any, is recorded as unbilled revenue. Billings in excess of revenue earned, if any, are recorded as deferred revenue.

Accounting for Share-Based Payments

The Company accounts for share-based payments to employees, including grants of employee stock options and awards in the form of restricted shares and restricted stock units by establishing the fair value of each option grant using the Black-Scholes option-pricing model and the fair value of awards based on stock price at the time of grant. The fair value of share-based payments is recorded by the Company as a charge against earnings. The Company recognizes share-based payment expense over the requisite service period of the underlying grants and awards. The Company's share-based payment awards are accounted for as equity instruments.

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Notes To Consolidated Financial Statements - Continued

(unaudited)

Net Income Per Share

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

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|--------------|------------------|--------------|
| | June 30, 2012 | July 2, 2011 | June 30, 2012 | July 2, 2011 |
| Net income | \$ 7,375 | \$ 8,024 | \$ 8,028 | \$ 15,501 |
| Weighted-average shares outstanding | 27,522 | 26,667 | 27,441 | 26,388 |
| Dilutive effect of employee stock options and restricted shares | 660 | 1,244 | 818 | 1,345 |
| Diluted weighted-average shares outstanding | 28,182 | 27,911 | 28,259 | 27,733 |
| Basic income per share | \$ 0.27 | \$ 0.30 | \$ 0.29 | \$ 0.59 |
| Diluted income per share | \$ 0.26 | \$ 0.29 | \$ 0.28 | \$ 0.56 |

Potentially dilutive securities representing approximately 1.2 million and 0.4 million shares of common stock for the three month periods ended June 30, 2012 and July 2, 2011, respectively, and approximately 0.6 million and 0.4 million shares of common stock for the six month periods ended June 30, 2012 and July 2, 2011, respectively were excluded from the computation of diluted earnings per share for these periods because their effect would have been antidilutive.

Income Taxes

The Company is subject to taxation in the United States and various states and foreign jurisdictions. The statute of limitations for examination by the IRS and state tax authorities is closed for fiscal years prior to December 31, 2008, although carryforward attributes that were generated prior to fiscal year 2008 may still be adjusted upon examination by the IRS or state tax authorities if they either have been or will be used in a future period. The IRS is currently examining the Company's tax returns for the years 2008, 2009 and 2010.

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

The Company monitors the realization of its deferred tax assets based on changes in circumstances, 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 ability to realize its deferred tax assets involve significant judgments and estimates.

The Company recorded a tax provision of \$3.3 million and \$3.6 million for the three month periods ended June 30, 2012 and July 2, 2011, respectively. The \$3.3 million provision for the three month period ended June 30, 2012 was based upon a projected 2012 effective income tax rate of 31%. The \$3.6 million provision for the three month period ended July 2, 2011 was based upon a projected 2011 effective tax rate of 33%. The Company recorded a tax provision of \$3.6 million and \$7.5 million for the six month periods ended June 30, 2012 and July 2, 2011, respectively. The \$3.6 million provision for the six month period ended June 30, 2012 was based upon a projected 2012 effective income tax rate of 31%. The \$7.5 million provision for the six month period ended July 2, 2011 was based upon a projected 2011 effective tax rate of 33%. The decrease in the projected effective tax rates from 33% in 2011 to 31% in 2012 was primarily due to an increase in state research and development tax credits.

Comprehensive Income

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Comprehensive income includes unrealized gains (losses) on certain investments. The differences between net income and comprehensive income were as follows:

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-----------------|------------------|------------------|
| | June 30, 2012 | July 2, 2011 | June 30, 2012 | July 2, 2011 |
| Net income, as reported | \$ 7,375 | \$ 8,024 | \$ 8,028 | \$ 15,501 |
| Unrealized gains (losses) on investments, net of tax | (91) | 121 | 54 | 95 |
| Total comprehensive income | \$ 7,284 | \$ 8,145 | \$ 8,082 | \$ 15,596 |

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Notes To Consolidated Financial Statements - Continued

(unaudited)

Fair Value Measurements

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

The Company's assets measured at fair value on a recurring basis at June 30, 2012, were as follows:

| Description | Fair Value Measurements as of June 30, 2012 | | |
|-------------------------------------|--|-----------|---------|
| | Level 1 | Level 2 | Level 3 |
| | (In thousands) | | |
| Assets: | | | |
| Money Market Funds | \$ 130,164 | \$ | \$ |
| Corporate bonds | | 20,181 | |
| Total assets measured at fair value | \$ 130,164 | \$ 20,181 | \$ |

The Company's assets measured at fair value on a recurring basis at December 31, 2011, were as follows:

| Description | Fair Value Measurements as of December 31, 2011 | | |
|-------------------------------------|--|-----------|---------|
| | Level 1 | Level 2 | Level 3 |
| | (In thousands) | | |
| Assets: | | | |
| Money Market Funds | \$ 117,196 | \$ | \$ |
| U.S. Government bonds | | 2,502 | |
| Corporate bonds | | 15,309 | |
| Total assets measured at fair value | \$ 117,196 | \$ 17,811 | \$ |

In each table above, the bond investments are valued based on observable market values as of the Company's reporting date and are included in Level 2. The bond investments are recorded at fair value and marked-to-market at the end of each reporting period. The realized and unrealized gains and losses are included in comprehensive income for that period. The fair value of the Company's bond investments are included in short term investments in its consolidated balance sheet.

Goodwill

Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and intangible assets acquired. The Company evaluates goodwill for impairment at the reporting unit level (operating segment or one level below an operating segment) annually or more frequently if the Company believes indicators of impairment exist. In 2011, the Company early adopted the new provisions issued by the Financial Accounting Standards Board (FASB) that intended to simplify goodwill impairment testing. The updated guidance permits the Company to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Company concludes that it is more likely than not that the fair value of a reporting unit is

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less than its carrying amount, then a two-step goodwill impairment test is performed. The first step of the impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying values, including goodwill. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, the Company performs the second step of the goodwill impairment test to determine the amount of impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill.

Recent Accounting Pronouncements

In May 2011, the FASB issued amended guidance on fair value measurement and related disclosures. The new guidance clarifies the concepts applicable for fair value measurement of non-financial assets and requires the disclosure of quantitative information about the unobservable inputs used in a fair value measurement. This guidance will be effective for reporting periods beginning after December 15, 2011. The Company adopted the amendments on January 1, 2012. The impact of these amendments on the Company's consolidated financial statements was not material.

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Notes To Consolidated Financial Statements - Continued

(unaudited)

In June 2011, the FASB amended its accounting guidance on the presentation of other comprehensive income (OCI) in an entity's financial statements. The amended guidance eliminates the option to present the components of OCI as part of the statement of changes in shareholders equity and provides two options for presenting OCI: in a statement included in the income statement or in a separate statement immediately following the income statement. The amendments do not change the guidance for the items that have to be reported in OCI or when an item of OCI has to be moved into net income. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company adopted the updates on January 1, 2012 and disclosed the components of comprehensive income in a separate statement.

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

3. Inventory

Inventory consists of the following:

| | June 30, 2012 | December 31, 2011 |
|-----------------|------------------|----------------------|
| | (In thousands) | |
| Raw materials | \$ 8,352 | \$ 7,769 |
| Work in process | 6 | |
| Finished goods | 26,239 | 23,320 |
| | \$ 34,597 | \$ 31,089 |

4. Stock Option Plans

The Company has options outstanding under three stock incentive plans: the 1994 Stock Option Plan (the 1994 Plan), the 2004 Stock Option and Incentive Plan (the 2004 Plan) and the 2005 Stock Option and Incentive Plan (the 2005 Plan and together with the 1994 Plan and the 2004 Plan, the Plans). The 2005 Plan is the only one of the three plans under which new awards may currently be granted. Under the 2005 Plan, which became effective October 10, 2005, 1,583,682 shares were initially reserved for issuance in the form of incentive stock options, non-qualified stock options, stock appreciation rights, deferred stock awards and restricted stock awards. Additionally, the 2005 Plan provides that the number of shares reserved and available for issuance under the plan will automatically increase each January 1, beginning in 2007, by 4.5% of the outstanding number of shares of common stock on the immediately preceding December 31. Stock options returned to the Plans as a result of their expiration, cancellation or termination are automatically made available for issuance under the 2005 Plan. Eligibility for incentive stock options is limited to those individuals whose employment status would qualify them for the tax treatment associated with incentive stock options in accordance with the Internal Revenue Code of 1986, as amended. As of June 30, 2012, there were 3,495,996 shares available for future grant under the 2005 Plan.

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

On June 8, 2012, the Company granted each of its nine non-employee board members 5,181 restricted stock units. These restricted stock units will vest at the earlier of the first anniversary of the grant or the date of the first annual meeting of the stockholders following the date of grant.

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Notes To Consolidated Financial Statements - Continued

(unaudited)

5. Accrued Expenses

Accrued expenses consist of the following:

| | June 30, 2012 | December 31, 2011 |
|----------------------------------|------------------|----------------------|
| | (In thousands) | |
| Accrued warranty | \$ 8,990 | \$ 10,306 |
| Accrued direct fulfillment costs | 426 | 1,907 |
| Accrued rent | 710 | 726 |
| Accrued sales commissions | 310 | 411 |
| Accrued accounting fees | 375 | 354 |
| Accrued other | 3,067 | 3,484 |
| | \$ 13,878 | \$ 17,188 |

6. Commitments and Contingencies*Lease Obligations*

Rental expense under operating leases for the three months ended June 30, 2012 and July 2, 2011 were \$1.1 million and \$1.0 million, respectively, and for the six months ended June 30, 2012 and July 2, 2011 were \$2.2 million and \$2.0 million, respectively. Future minimum rental payments under operating leases were as follows as of June 30, 2012:

| | Operating Leases (In thousands) |
|------------------------------|---------------------------------------|
| Remainder of 2012 | \$ 1,509 |
| 2013 | 2,574 |
| 2014 | 2,505 |
| 2015 | 2,505 |
| 2016 | 2,505 |
| Thereafter | 8,187 |
| Total minimum lease payments | \$ 19,785 |

Sales Taxes

The Company collects and remits sales tax in jurisdictions in which it has a physical presence or it believes nexus exists, which therefore obligates the Company to collect and remit sales tax. The Company continually evaluates whether it has established a nexus in new jurisdictions with respect to sales tax. The Company has recorded a liability for potential exposure in several states where there is uncertainty about the point in time at which the Company established a sufficient business connection to create nexus. The Company continues to analyze possible sales tax exposure, but does not currently believe that any individual claim or aggregate claims that might arise will ultimately have a material effect on its consolidated results of operations, financial position or cash flows.

Guarantees and Indemnification Obligations

The Company enters into standard indemnification agreements in the ordinary course of business. Pursuant to these agreements, the Company indemnifies and agrees to reimburse the indemnified party for losses incurred by the indemnified party, generally the Company's customers, in connection with any patent, copyright, trade secret or other proprietary right infringement claim by any third party with respect to the Company's products. The term of these indemnification agreements is generally perpetual after execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of June 30, 2012 and December 31, 2011, respectively.

Warranty

The Company provides warranties on most products and has established a reserve for warranty based on identified or estimated 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

(unaudited)

Activity related to the warranty accrual was as follows:

| | Three Months Ended | | Six Months Ended | |
|--------------------------------|--------------------|--------------|------------------|--------------|
| | June 30, 2012 | July 2, 2011 | June 30, 2012 | July 2, 2011 |
| | (In thousands) | | (In thousands) | |
| Balance at beginning of period | \$ 10,132 | \$ 9,670 | \$ 10,306 | \$ 9,284 |
| Provision(1) | (675) | 932 | 238 | 2,265 |
| Warranty usage(2) | (467) | (1,130) | (1,554) | (2,077) |
| Balance at end of period | \$ 8,990 | \$ 9,472 | \$ 8,990 | \$ 9,472 |

- (1) The provision for the three and six months ended June 30, 2012 includes a release of the previously established reserve of \$1.5 million. The Company concluded its periodic assessment based on the settlement cycle with the majority of its home robots business unit international distributors for warranty claims during the quarter ended June 30, 2012 and the results demonstrated lower actual warranty claims experience than the estimates included in its historical warranty reserve, which is primarily the result of the Company's continued investment in product quality.
- (2) Warranty usage includes the expiration of product warranties unutilized.

7. Industry Segment, Geographic Information and Significant Customers

The Company operates in two reportable segments, the home robots division and defense and security robots division. The nature of products and types of customers for the two segments vary significantly. As such, the segments are managed separately.

Home Robots

The Company's home robots division offers products to consumers through a network of retail businesses throughout the United States, to various countries through international distributors and retailers, and through the Company's on-line store. The Company's home robots division includes mobile robots used in the maintenance of households.

Defense and Security

The Company's defense and security robots division offers products through a small U.S. government-focused sales force. Products are also sold to a limited number of countries, other than the United States, primarily through international distributors but also through a small internationally focused sales team. The Company's defense and security robots are used by various U.S. and foreign governments, primarily for reconnaissance and bomb disposal missions.

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Notes To Consolidated Financial Statements - Continued

(unaudited)

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

| | Three Months Ended | | Six Months Ended | |
|------------------------------------|--------------------|--------------|------------------|--------------|
| | June 30, 2012 | July 2, 2011 | June 30, 2012 | July 2, 2011 |
| Revenue: | | | | |
| Home Robots | \$ 96,013 | \$ 63,892 | \$ 177,596 | \$ 131,774 |
| Defense & Security | 15,432 | 44,190 | 31,656 | 82,585 |
| Total revenue | 111,445 | 108,082 | 209,252 | 214,359 |
| Cost of revenue: | | | | |
| Home Robots | 46,328 | 35,713 | 90,963 | 72,701 |
| Defense & Security | 15,670 | 29,833 | 34,829 | 55,668 |
| Total cost of revenue | 61,998 | 65,546 | 125,792 | 128,369 |
| Gross margin: | | | | |
| Home Robots | 49,685 | 28,179 | 86,633 | 59,073 |
| Defense & Security | (238) | 14,357 | (3,173) | 26,917 |
| Total gross margin | 49,447 | 42,536 | 83,460 | 85,990 |
| Research and development | 9,667 | 8,146 | 18,391 | 16,875 |
| Selling and marketing | 19,122 | 12,767 | 32,692 | 25,748 |
| General and administrative | 10,022 | 10,097 | 21,064 | 20,697 |
| Other income (expense), net | 60 | 112 | 280 | 350 |
| Income before income taxes | \$ 10,696 | \$ 11,638 | \$ 11,593 | \$ 23,020 |

Geographic Information

For the three months ended June 30, 2012 and July 2, 2011, sales to non-U.S. customers accounted for 60.2% and 39.2% of total revenue, respectively, and for the six months ended June 30, 2012 and July 2, 2011, sales to non-U.S. customers accounted for 62.3% and 46.8% of total revenue, respectively.

Significant Customers

For the three months ended June 30, 2012 and July 2, 2011, U.S. federal government orders, contracts and subcontracts accounted for 11.0% and 31.5% of total revenue, respectively. For the six months ended June 30, 2012 and July 2, 2011, U.S. federal government orders, contracts and subcontracts accounted for 11.3% and 30.2% of total revenue, respectively.

For the three months ended June 30, 2012, the Company generated 22.4% and 13.3%, respectively, of total revenue from two of its international distributors of home robots products. For the three months ended July 2, 2011, the Company generated 10.4% of total revenue from one of its international distributors of home robots products.

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For the six months ended June 30, 2012, the Company generated 21.7% and 12.8%, respectively, of total revenue from two of its international distributors of home robots products. For the six months ended July 2, 2011, the Company generated 10.0% of total revenue from one of its international distributors of home robots products.

8. Goodwill, Other Intangible Assets and Other Assets

The carrying amount of the goodwill at June 30, 2012 of \$7.9 million is from the acquisition of Nekton Research, LLC completed in September 2008 and is included in other assets on the Balance Sheet.

Other intangible assets include the value assigned to completed technology, research contracts, and a trade name. The estimated useful lives for all of these intangible assets are two to ten years. The intangible assets are being amortized on a straight-line basis, which is consistent with the pattern that the economic benefits of the intangible assets are expected to be utilized.

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Notes To Consolidated Financial Statements - Continued

(unaudited)

Intangible assets at June 30, 2012 and December 31, 2011 consisted of the following:

| | Cost | June 30, 2012 Accumulated Amortization | Net (In thousands) | Cost | December 31, 2011 Accumulated Amortization | Net |
|----------------------|----------|--|-----------------------|----------|--|----------|
| Completed technology | \$ 3,700 | \$ 1,418 | \$ 2,282 | \$ 3,700 | \$ 1,233 | \$ 2,467 |
| Research contracts | 100 | 100 | | 100 | 100 | |
| Tradename | 700 | 700 | | 700 | 700 | |
| Total | \$ 4,500 | \$ 2,218 | \$ 2,282 | \$ 4,500 | \$ 2,033 | \$ 2,467 |

Amortization expense related to acquired intangible assets was \$92,500 and \$110,000 for the three months ended June 30, 2012 and July 2, 2011, respectively. Amortization expense related to acquired intangible assets was \$185,000 and \$220,000 for the six months ended June 30, 2012 and July 2, 2011, respectively. The estimated future amortization expense is expected to be as follows:

| | (In thousands) |
|-------------------|----------------|
| Remainder of 2012 | \$ 185 |
| 2013 | 370 |
| 2014 | 370 |
| 2015 | 370 |
| 2016 | 370 |
| Thereafter | 617 |
| Total | \$ 2,282 |

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

The following discussion of the financial condition and results of operations of iRobot Corporation should be read in conjunction with the consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the audited financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2011, which has been filed with the SEC. This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by those sections. In particular, statements contained in this Quarterly Report on Form 10-Q, and in the documents incorporated by reference into this Quarterly Report on Form 10-Q, that are not historical facts, including, but not limited to statements concerning new product sales, product development and offerings, Roomba, Scooba, Looj and Verro products, PackBot tactical military robots, the Small Unmanned Ground Vehicle, FirstLook, Warrior, Seaglider, Ava, our home robots and defense and security robots divisions, our competition, our strategy, our market position, market acceptance of our products, seasonal factors, revenue recognition, our profits, growth of our revenues, product life cycle revenue, composition of our revenues, our cost of revenues, units shipped, average selling prices, funding of our defense and security robot development programs, operating expenses, selling and marketing expenses, general and administrative expenses, research and development expenses, and compensation costs, our projected income tax rate, our credit and letter of credit facilities, our valuations of investments, valuation and composition of our stock-based awards, and liquidity, constitute forward-looking statements and are made under these safe harbor provisions. Some of the forward-looking statements can be identified by the use of forward-looking terms such as believes, expects, may, will, should, could, seek, intends, plans, estimates, anticipates, or other comparable terms. Forward-looking statements involve inherent risks and uncertainties which could cause actual results to differ materially from those in the forward-looking statements, including those risks and uncertainties described in our Annual Report on Form 10-K for the year ended December 31, 2011, as well as elsewhere in this Quarterly Report on Form 10-Q. We urge you to consider the risks and uncertainties discussed in our Annual Report on Form 10-K and in Item 1A contained herein in evaluating our forward-looking statements. We have no plan to update our forward-looking statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made.

Overview

iRobot designs and builds robots that make a difference. For over 20 years, we have developed proprietary technology incorporating advanced concepts in navigation, mobility, manipulation and artificial intelligence to build industry-leading robots. Our Roomba floor vacuuming robot and Scooba floor washing robot perform time-consuming domestic chores in the home, while our Looj gutter cleaning robot and Verro pool cleaning robot perform tasks outside the home. Our PackBot, Small Unmanned Ground Vehicle (SUGV), FirstLook and Warrior tactical ground military robots perform battlefield reconnaissance and bomb disposal. Our 1KA Seaglider unmanned underwater robot performs long endurance oceanic missions. We sell our robots to consumers through a variety of distribution channels, including chain stores and other national retailers, and through our on-line store, and to the U.S. military and other government agencies worldwide. We maintain certifications for AS9100 and Capability Maturity Model Integration. These certifications enable us to service our military products and services.

As of June 30, 2012, we had 604 full-time employees. We have developed expertise in the disciplines necessary to build durable, high-performance and cost-effective robots through the close integration of software, electronics and hardware. Our core technologies serve as reusable building blocks that we adapt and expand to develop next generation and new products, reducing the time, cost and risk of product development. Our significant expertise in robot design and engineering, combined with our management team's experience in military and consumer markets, positions us to capitalize on the expected growth in the market for robots.

Although we have successfully launched consumer and defense and security 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 defense and security products, our ability to obtain U.S. federal government funding for research and development programs, uncertainty regarding the future level of U.S. federal government defense spending, and our ability to successfully develop and introduce products and product enhancements.

During the three and six month periods ended June 30, 2012, strong growth in our domestic and international markets for home robots products drove increases in home robots business unit revenue of 50% and 35%, respectively, as compared to the three and six month periods ended July 2, 2011. These increases in home robots revenue resulted primarily from our domestic advertising campaign, an increase in international marketing programs by us and our international distributors, and the expanded distribution of our Roomba 700 series robot. Offsetting these increases were decreases in our defense and

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security business unit revenue of 65% and 62%, respectively, for the same periods due to U.S. government funding and program delays. We expect revenue generated by our home robots business unit to comprise a greater percentage of our total revenue for fiscal 2012 as compared to fiscal 2011.

During the three month period ended June 30, 2012, we completed our periodic assessment of customer defective product returns in our home robots business unit. This assessment demonstrated lower actual returns experience than the estimates included on our historical returns reserve. We believe these lower actual returns are the result of our sustained investment in product quality. In the second quarter, we accordingly adjusted our accrual rates to reflect these lower return rates resulting in a \$3.3 million benefit to revenue, and a \$0.08 per share benefit to net income per share, for the three and six month periods ended June 30, 2012.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates and judgments, in particular those related to revenue recognition (specifically sales returns and other allowances); valuation allowances; assumptions used in valuing stock-based compensation instruments; evaluating loss contingencies; and valuation allowances for deferred tax assets. Actual amounts could differ significantly from these estimates. Our management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the amounts of revenue and expenses that are not readily apparent from other sources. Additional information about these critical accounting policies may be found in the Management's Discussion and Analysis of Financial Condition and Results of Operations section included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Overview of Results of Operations

The following table sets forth our results of operations as a percentage of revenue for the three and six month periods ended June 30, 2012 and July 2, 2011:

| | Three Months Ended | | Six Months Ended | |
|---------------------------------|--------------------|--------------|------------------|--------------|
| | June 30, 2012 | July 2, 2011 | June 30, 2012 | July 2, 2011 |
| Revenue | | | | |
| Product revenue | 96.7% | 90.1% | 95.3% | 90.6% |
| Contract revenue | 3.3 | 9.9 | 4.7 | 9.4 |
| Total revenue | 100.0 | 100.0 | 100.0 | 100.0 |
| Cost of revenue | | | | |
| Cost of product revenue | 52.7 | 53.5 | 55.9 | 53.2 |
| Cost of contract revenue | 2.9 | 7.1 | 4.2 | 6.7 |
| Total cost of revenue | 55.6 | 60.6 | 60.1 | 59.9 |
| Gross margin | 44.4 | 39.4 | 39.9 | 40.1 |
| Operating expenses | | | | |
| Research and development | 8.7 | 7.6 | 8.8 | 7.9 |
| Selling and marketing | 17.2 | 11.8 | 15.6 | 12.0 |
| General and administrative | 9.0 | 9.3 | 10.1 | 9.6 |
| Total operating expenses | 34.9 | 28.7 | 34.5 | 29.5 |
| Operating income | 9.5 | 10.7 | 5.4 | 10.6 |

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| | | | | |
|-----------------------------|------|------|------|------|
| Other income (expense), net | 0.1 | 0.1 | 0.1 | 0.1 |
| Income before income taxes | 9.6 | 10.8 | 5.5 | 10.7 |
| Income tax expense | 3.0 | 3.4 | 1.7 | 3.5 |
| Net income | 6.6% | 7.4% | 3.8% | 7.2% |

Table of Contents**Comparison of Three and Six Months Ended June 30, 2012 and July 2, 2011***Revenue*

| | Three Months Ended | | | | Six Months Ended | | | |
|---------------|--------------------|-----------------------------------|------------------|-------------------|------------------|-----------------------------------|------------------|-------------------|
| | June 30, 2012 | July 2, 2011 (In thousands) | Dollar Change | Percent Change | June 30, 2012 | July 2, 2011 (In thousands) | Dollar Change | Percent Change |
| Total revenue | \$ 111,445 | \$ 108,082 | \$ 3,363 | 3.1% | \$ 209,252 | \$ 214,359 | \$ (5,107) | (2.4)% |

Total revenue for the three months ended June 30, 2012 increased to \$111.4 million, or 3.1%, compared to \$108.1 million for the three months ended July 2, 2011. Revenue increased approximately \$32.1 million, or 50.3%, in our home robots division and decreased approximately \$28.8 million, or 65.1%, in our defense and security robots division.

The \$32.1 million increase in revenue from our home robots division for the three months ended June 30, 2012 was driven by a 29.9% increase in units shipped and a 20.1% increase in net average selling price as compared to the three months ended July 2, 2011. In the three months ended June 30, 2012, international home robots revenue increased \$23.3 million and domestic home robots revenue increased \$8.8 million as compared to the three months ended July 2, 2011. Total home robots shipped in the three months ended June 30, 2012 were 426,000 units compared to 328,000 units in the three months ended July 2, 2011. The increase in home robots division revenue and units shipped was primarily attributable to a 56.2% increase in international sales of our home robots products and a 39.2% increase in domestic sales of our home robots products. The increase in international sales is due primarily to increased demand in our European and Asian markets, particularly Japan. This increase in demand was driven by demand for our Roomba 700 series robot and an increase in marketing programs by us and our international distributors. Home robots division revenue from international sales was 67.5% of total home robots division revenue in the three month period ending June 30, 2012 as compared to 64.9% in the three month period ended July 2, 2011. The increase in domestic sales of our home robots products was primarily attributable to increased sales to domestic retail stores driven by our recent domestic advertising campaign and expanded distribution of our Roomba 700 series robot. In addition, net average selling prices in the home robots division increased due to increased volume of higher priced products including the Roomba 700 series robot, and fewer sales of our lower priced Roomba series robots in the current quarter and compared to the prior year.

The \$28.8 million decrease in revenue from our defense and security robots division was driven by a \$20.0 million decrease in defense and security robots revenue, a \$7.0 million decrease in recurring contract development revenue generated under research and development contracts, and a \$1.8 million decrease in product life cycle revenue (spare parts, accessories). The \$20.0 million decrease in defense and security robots revenue was primarily due to a decrease in sales of PackBot and SUGV units in the three month period ended June 30, 2012 as compared to the three month period ended July 2, 2011. Total defense and security robots shipped in the three months ended June 30, 2012 were 49 units compared to 192 units in the three months ended July 2, 2011. The \$1.8 million decrease in product life cycle revenue is due to reduction in spares associated with lower robot sales. The \$7.0 million decrease in recurring contract development revenue generated under research and development contracts was primarily the result of decreases in government funding for our SUGV, Research and Maritime programs. Continued funding delays for government contracts have reduced our near-term visibility in our defense and security robots division and contributed to the decrease in period-over-period revenue in this division. We cannot predict with any certainty the extent to which these funding delays will continue.

Total revenue for the six months ended June 30, 2012 decreased to \$209.3 million, or 2.4%, compared to \$214.4 million for the six months ended July 2, 2011. Revenue increased approximately \$45.8 million, or 34.8%, in our home robots division and decreased approximately \$50.9 million, or 61.7%, in our defense and security robots division.

The \$45.8 million increase in revenue from our home robots division for the six months ended June 30, 2012 was driven by a 20.8% increase in units shipped and a 14.9% increase in net average selling price as compared to the six months ended July 2, 2011. In the six months ended June 30, 2012, international home robots revenue increased \$33.3 million and domestic home robots revenue increased \$12.5 million as compared to the six months ended July 2, 2011. Total home robots shipped in the six months ended June 30, 2012 were 818,000 units compared to 677,000 units in the six months ended July 2, 2011. The increase in home robots division revenue and units shipped was primarily attributable to a 36.4% increase in international sales of our home robots products and a 31.0% increase in domestic sales of our home robots products. The increase in international sales is due primarily to increased demand in our European and Asian markets, particularly Japan. This increase in demand was driven by demand for our Roomba 700 series robot and an increase in marketing programs by us and our international distributors. Home robots division revenue from international sales was 70.2% of total home robots division revenue in the six month period ending June 30, 2012 as compared to 69.3% in the six month period ended July 2, 2011. The increase in domestic sales of our home robots products was primarily attributable to increased sales to domestic retail stores driven by our recent domestic advertising campaign and expanded distribution

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of our Roomba 700 series robot. In addition, net average selling prices in the home robots division increased due to increased volume of higher priced products including the Roomba 700 series robot, and fewer sales of our lower priced Roomba series robots in the first half of fiscal 2012 and compared to the prior year.

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The \$50.9 million decrease in revenue from our defense and security robots division was driven by a \$30.9 million decrease in defense and security robot revenue, a \$10.5 million decrease in recurring contract development revenue generated under research and development contracts, and a \$9.5 million decrease in product life cycle revenue (spare parts, accessories). The \$30.9 million decrease in defense and security robots revenue was primarily due to a decrease in sales of higher price PackBot and SUGV units in the six month period ended June 30, 2012 as compared to the six month period ended July 2, 2011. Net average selling price decreased by 53.8% due to product mix primarily attributable to FirstLook units shipped in the six month period ended June 30, 2012 which have a lower selling price than the PackBot and SUGV units that comprised a larger portion of the units shipped in the six-month period ended July 2, 2011. Total defense and security robots shipped in the six months ended June 30, 2012 were 187 units compared to 306 units in the six months ended July 2, 2011. The \$9.5 million decrease in product life cycle revenue is due to reduction in spares associated with lower robot sales and a decrease in PackBot upgrades. The \$10.5 million decrease in recurring contract development revenue generated under research and development contracts was primarily the result of decreases in government funding for our SUGV, Research and Maritime programs. Continued funding delays for government contracts have reduced our near-term visibility in our defense and security robots division and contributed to the decrease in period-over-period revenue in this division. We cannot predict with any certainty the extent to which these funding delays will continue.

Cost of Revenue

| | Three Months Ended | | | | Six Months Ended | | | |
|----------------------------------|--------------------|-----------------|------------------|-------------------|------------------|-----------------|------------------|-------------------|
| | June 30, 2012 | July 2, 2011 | Dollar Change | Percent Change | June 30, 2012 | July 2, 2011 | Dollar Change | Percent Change |
| | (In thousands) | | | | (In thousands) | | | |
| Total cost of revenue | \$ 61,998 | \$ 65,546 | \$ (3,548) | (5.4)% | \$ 125,792 | \$ 128,369 | \$ (2,577) | (2.0)% |
| As a percentage of total revenue | 55.6% | 60.6% | | | 60.1% | 59.9% | | |

Total cost of revenue decreased to \$62.0 million in the three months ended June 30, 2012, compared to \$65.5 million in the three months ended July 2, 2011. The decrease is primarily due to the 74.5% decrease in defense and security units shipped offset by the 29.9% increase in home robots units shipped.

Total cost of revenue decreased to \$125.8 million in the six months ended June 30, 2012, compared to \$128.4 million in the six months ended July 2, 2011. The decrease is primarily due to the 38.9% decrease in defense and security units shipped and the product mix of those units, offset by the 20.8% increase in home robots units shipped.

Gross Margin

| | Three Months Ended | | | | Six Months Ended | | | |
|----------------------------------|--------------------|-----------------|------------------|-------------------|------------------|-----------------|------------------|-------------------|
| | June 30, 2012 | July 2, 2011 | Dollar Change | Percent Change | June 30, 2012 | July 2, 2011 | Dollar Change | Percent Change |
| | (In thousands) | | | | (In thousands) | | | |
| Total gross margin | \$ 49,447 | \$ 42,536 | \$ 6,911 | 16.2% | \$ 83,460 | \$ 85,990 | \$ (2,530) | (2.9)% |
| As a percentage of total revenue | 44.4% | 39.4% | | | 39.9% | 40.1% | | |

Gross margin increased \$6.9 million, or 16.2%, to \$49.4 million (44.4% of revenue) in the three months ended June 30, 2012 from \$42.5 million (39.4% of revenue) in the three months ended July 2, 2011. The increase in gross margin as a percentage of revenue was the result of the home robots division gross margin increasing 7.6 percentage points and the defense and security robots division gross margin decreasing 34.0 percentage points. The 7.6 percentage point increase in the home robots division is primarily attributable to adjustments to our return provision and warranty accruals due to gradual improvement in returns and repairs resulting from sustained investment in product quality. Also contributing to this increase are changes in customer and product mix to higher margin home robots products including the introduction of our Roomba 700 series and Scooba 230 robots, and improved leverage of our overhead expense against higher revenue in the three month period ended June 30, 2012 as compared to the three month period ended July 2, 2011. The 34.0 percentage point decrease in the defense and security robots division is primarily attributable to unfavorable absorption of our overhead expense against lower revenue and scrap and rework costs in the three month period ended June 30, 2012 as compared to the three month period ended July 2, 2011.

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Gross margin decreased \$2.5 million, or 2.9%, to \$83.5 million (39.9% of revenue) in the six months ended June 30, 2012 from \$86.0 million (40.1% of revenue) in the six months ended July 2, 2011. The decrease in gross margin as a percentage of revenue was the result of the defense and security robots division gross margin decreasing 42.6 percentage points offset by the home robots division gross margin increasing 4.0 percentage points. The 42.6 percentage point decrease in the defense and security robots division is primarily attributable to unfavorable absorption of our overhead expense against lower revenue and scrap and rework costs in the six month period ended June 30, 2012 as compared to the six month period ended July 2, 2011, and product mix primarily attributable to the lower-margin FirstLook units shipped in the first half of fiscal 2012 compared to PackBot and SUGV units shipped in the first half of fiscal 2011. The 4.0 percentage point increase in the home robots division is attributable to an adjustment to our return provision due to gradual improvement in returns resulting from sustained investment in product quality, changes in customer and product mix to higher margin home robots products including the introduction of our Roomba 700 series and Scooba 230 robots, lower warranty expense, and improved leverage of our overhead expense against higher revenue in the six month period ended June 30, 2012 as compared to the six month period ended July 2, 2011.

Research and Development

| | Three Months Ended | | | | Six Months Ended | | | |
|----------------------------------|--------------------|-----------------|------------------|-------------------|------------------|-----------------|------------------|-------------------|
| | June 30, 2012 | July 2, 2011 | Dollar Change | Percent Change | June 30, 2012 | July 2, 2011 | Dollar Change | Percent Change |
| | (In thousands) | | | | (In thousands) | | | |
| Total research and development | \$ 9,667 | \$ 8,146 | \$ 1,521 | 18.7% | \$ 18,391 | \$ 16,875 | \$ 1,516 | 9.0% |
| As a percentage of total revenue | 8.7% | 7.6% | | | 8.8% | 7.9% | | |

Research and development expenses increased \$1.5 million, or 18.7%, to \$9.7 million (8.7% of revenue) in the three months ended June 30, 2012 from \$8.1 million (7.6% of revenue) in the three months ended July 2, 2011. The increase in research and development expenses is primarily due to increases in compensation, contractor, consultants and material associated with internal research and development projects in our home robots business unit partially offset by reduced compensation in our defense and security business unit. The increase in our home robots business unit is primarily the result of increased efforts in the areas of product development, including our efforts associated with the recently announced RP-VITA (Remote Presence Virtual + Independent Telemedicine Assistant) product that was jointly developed with, and being sold by, InTouch Technologies, Inc.

Research and development expenses increased \$1.5 million, or 9.0%, to \$18.4 million (8.8% of revenue) in the six months ended June 30, 2012 from \$16.9 million (7.9% of revenue) in the six months ended July 2, 2011. The increase in research and development expenses is primarily due to increases in compensation, contractor, consultants and material associated with internal research and development projects in our home robots business unit partially offset by reduced compensation in our defense and security business unit. The increase in our home robots business unit is primarily the result of increased efforts in the areas of product development, including our efforts associated with the recently announced RP-VITA (Remote Presence Virtual + Independent Telemedicine Assistant) product that was jointly developed with, and being sold by, InTouch Technologies, Inc.

In addition to our research and development activities classified as research and development expense, we incur research and development expenses under funded development arrangements with governments and industrial third parties. For the three and six months ended June 30, 2012, these expenses amounted to \$3.2 million and \$8.7 million, compared to \$7.7 million and \$14.3 million for the three and six months ended July 2, 2011. These expenses have been classified as cost of revenue rather than research and development expense. The combined investment in future technologies, classified as cost of revenue and research and development expense, was \$12.9 million and \$27.1 million for the three and six months ended June 30, 2012, compared to \$15.9 million and \$31.2 million for the three and six months ended July 2, 2011.

Selling and Marketing

| | Three Months Ended | | | | Six Months Ended | | | |
|----------------------------------|--------------------|-----------------|------------------|-------------------|------------------|-----------------|------------------|-------------------|
| | June 30, 2012 | July 2, 2011 | Dollar Change | Percent Change | June 30, 2012 | July 2, 2011 | Dollar Change | Percent Change |
| | (In thousands) | | | | (In thousands) | | | |
| Total selling and marketing | \$ 19,122 | \$ 12,767 | \$ 6,355 | 49.8% | \$ 32,692 | \$ 25,748 | \$ 6,944 | 27.0% |
| As a percentage of total revenue | 17.2% | 11.8% | | | 15.6% | 12.0% | | |

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Selling and marketing expenses increased by \$6.4 million, or 49.8%, to \$19.1 million (17.2% of revenue) in the three months ended June 30, 2012 from \$12.8 million (11.8% of revenue) in the three months ended July 2, 2011. This was driven by an increase in our home robots business unit of \$6.8 million primarily attributable our recent multi-media advertising campaign focused on our domestic market for home robot products and increases in advertising as part of our continued

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global marketing and branding efforts partially offset by a decrease of \$0.4 million related to various corporate and defense and security division marketing activities for the three months ended June 30, 2012 as compared to the three months ended July 2, 2011.

Selling and marketing expenses increased by \$6.9 million, or 27.0%, to \$32.7 million (15.6% of revenue) in the six months ended June 30, 2012 from \$25.7 million (12.0% of revenue) in the six months ended July 2, 2011. This was driven by an increase in our home robots business unit of \$7.6 million primarily attributable our recent multi-media advertising campaign focused on our domestic market for home robot products and increases in advertising as part of our continued global marketing and branding efforts partially offset by a decrease of \$0.7 million related to various corporate and defense and security division marketing activities for the six months ended June 30, 2012 as compared to the six months ended July 2, 2011.

General and Administrative

| | Three Months Ended | | | | Six Months Ended | | | |
|----------------------------------|--------------------|-----------------|------------------|-------------------|------------------|-----------------|------------------|-------------------|
| | June 30, 2012 | July 2, 2011 | Dollar Change | Percent Change | June 30, 2012 | July 2, 2011 | Dollar Change | Percent Change |
| | (In thousands) | | | | (In thousands) | | | |
| Total general and administrative | \$ 10,022 | \$ 10,097 | \$ (75) | (0.7)% | \$ 21,064 | \$ 20,697 | \$ 367 | 1.8% |
| As a percentage of total revenue | 9.0% | 9.3% | | | 10.1% | 9.6% | | |

General and administrative expenses decreased by \$0.1 million, or 0.7%, to \$10.0 million (9.0% of revenue) in the three months ended June 30, 2012 from \$10.1 million (9.3% of revenue) in the three months ended July 2, 2011. General and administrative expenses increased by \$0.4 million, or 1.8%, to \$21.1 million (10.1% of revenue) in the six months ended June 30, 2012 from \$20.7 million (9.6% of revenue) in the six months ended July 2, 2011. General and administrative expenses did not change significantly in the three and six months ended June 30, 2012 compared to the three and six months ended July 2, 2011.

Other Income (Expense), Net

| | Three Months Ended | | | | Six Months Ended | | | |
|----------------------------------|--------------------|-----------------|------------------|-------------------|------------------|-----------------|------------------|-------------------|
| | June 30, 2012 | July 2, 2011 | Dollar Change | Percent Change | June 30, 2012 | July 2, 2011 | Dollar Change | Percent Change |
| | (In thousands) | | | | (In thousands) | | | |
| Total other income (expense) | \$ 60 | \$ 112 | \$ (52) | (46.4)% | \$ 280 | \$ 350 | \$ (70) | (20.0)% |
| As a percentage of total revenue | 0.1% | 0.1% | | | 0.1% | 0.1% | | |

Other income (expense), net, amounted to \$0.1 million and \$0.3 million for the three and six months ended June 30, 2012 and July 2, 2011. Other income (expense), net, for the three and six month periods ended June 30, 2012 and July 2, 2011 consisted primarily of interest income.

Income Tax Expense

| | Three Months Ended | | | | Six Months Ended | | | |
|----------------------------------|--------------------|-----------------|------------------|-------------------|------------------|-----------------|------------------|-------------------|
| | June 30, 2012 | July 2, 2011 | Dollar Change | Percent Change | June 30, 2012 | July 2, 2011 | Dollar Change | Percent Change |
| | (In thousands) | | | | (In thousands) | | | |
| Total income tax expense | \$ 3,321 | \$ 3,614 | \$ (293) | (8.1)% | \$ 3,565 | \$ 7,519 | \$ (3,954) | (52.6)% |
| As a percentage of total revenue | 3.0% | 3.4% | | | 1.7% | 3.5% | | |

We recorded a tax provision of \$3.3 million and \$3.6 million for the three month periods ended June 30, 2012 and July 2, 2011, respectively. The \$3.3 million provision for the three month period ended June 30, 2012 was based upon a projected 2012 effective income tax rate of 31%. The \$3.6 million provision for the three month period ended July 2, 2011 was based upon a projected 2011 effective tax rate of 33%.

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We recorded a tax provision of \$3.6 million and \$7.5 million for the six month periods ended June 30, 2012 and July 2, 2011, respectively. The \$3.6 million provision for the six month period ended June 30, 2012 was based upon a projected 2012 effective income tax rate of 31%. The \$7.5 million provision for the six month period ended July 2, 2011 was based upon a projected 2011 effective tax rate of 33%.

The decrease in the projected effective tax rates from 33% in 2011 to 31% in 2012 was primarily due an increase in state research and development tax credits.

Liquidity and Capital Resources

At June 30, 2012, our principal sources of liquidity were cash and cash equivalents totaling \$156.5 million, short-term investments of \$20.2 million and accounts receivable of \$39.5 million.

We manufacture and distribute our products through contract manufacturers and third-party logistics providers. We believe that this approach gives us the advantages of relatively low capital investment and significant flexibility in scheduling production and managing inventory levels. By leasing our office facilities, we also minimize the cash needed for expansion. Accordingly, our capital spending is generally limited to leasehold improvements, computers, office furniture, product-specific production tooling, internal use software and test equipment. In the six months ended June 30, 2012 and July 2, 2011, we spent \$3.0 million and \$7.2 million, respectively, on capital equipment.

Our strategy for delivering home robots products to our distributors and retail customers gives us the flexibility to provide container shipments directly to the retailer from China and, alternatively, allows our distributors and retail partners to take possession of product on a domestic basis. Accordingly, our home robots product inventory consists of goods shipped to our third-party logistics providers for the fulfillment of distributor, retail and direct-to-consumer sales. Our inventory of defense and security products is relatively low as they are generally built to order. Our contract manufacturers are responsible for purchasing and stocking the majority of components required for the production of our products, and they typically invoice us when the finished goods are shipped.

The balance of cash and short-term investments of \$176.7 million at June 30, 2012 is primarily the result of cash generated by operations and our on-going focus on managing working capital. As of June 30, 2012, we did not have any borrowings outstanding under our working capital line of credit and had \$1.4 million in letters of credit outstanding under our revolving letter of credit facility.

Discussion of Cash Flows

Net cash used in operating activities for the six months ended June 30, 2012 was \$0.5 million, a decrease of \$5.4 million compared to the \$5.9 million of net cash used in operating activities for the six months ended July 2, 2011. The decrease in net cash used in operating activities was primarily driven by the following factors:

A decrease in cash of \$7.5 million resulting from net income of \$8.0 million in 2012 versus net income of \$15.5 million in 2011;

An increase in cash of \$1.2 million resulting from an increase in stock-based compensation expense to \$5.4 million in 2012 from \$4.2 million in 2011;

A decrease in cash of \$8.7 million resulting from an increase in deferred tax assets of \$4.2 million in 2012 versus a decrease of \$4.5 million in 2011, primarily due to changes in book-tax differences associated with fixed asset depreciation and stock-based compensation expense;

An increase in cash of \$4.6 million resulting from an increase in the tax benefit associated with excess stock-based compensation deductions of \$1.0 million in 2012 versus an increase of \$5.6 million in 2011;

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An increase in cash of \$8.6 million resulting from a decrease in accounts receivable (including unbilled revenue) of \$4.1 million in 2012 versus an increase of \$4.5 million in 2011, primarily due to a decline in revenue and an improvement in days sales outstanding;

An increase in cash of \$3.5 million resulting from an increase in inventory of \$3.5 million in 2012 versus an increase of \$7.0 million in 2011, primarily due to improvements in inventory planning and management systems and procedures, and a focus on inventory level control in response to lower revenue growth expectations in 2012;

An increase in cash of \$4.4 million resulting from an increase in other assets of \$0.4 million in 2012 versus an increase of \$4.8 million in 2011, primarily due to a reduction in prepaid taxes in 2012 versus an increase in prepaid taxes in 2011;

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An increase in cash of \$2.2 million resulting from a decrease in accounts payable of \$3.2 million in 2012 versus a decrease of \$5.4 million in 2011, primarily due to the timing of purchases and payments to suppliers and an improvement in days payables outstanding;

A decrease in cash of \$1.4 million resulting from a decrease in accrued expenses of \$3.3 million in 2012 versus a decrease of \$1.9 million in 2011, primarily due to a reduction in accrued warranty expense in 2012;

An increase in cash of \$1.8 million resulting from an increase in deferred revenue of \$0.3 million in 2012 versus a decrease of \$1.5 million in 2011, primarily due to an increase in customer advance payments in 2012 and a reduction in customer advance payments in 2011; and

A decrease in cash of \$3.4 million resulting from a decrease in accrued compensation of \$8.1 million in 2012 versus a decrease of \$4.7 million in 2011, primarily due to a reduction in the incentive compensation accrual rate in 2012.

Net cash used in investing activities for the six months ended June 30, 2012 was \$11.5 million, representing an increase of \$4.3 million compared to the \$7.2 million of net cash used in investing activities for the six months ended July 2, 2011. This increase in net cash used in investing activities was primarily due to:

An investment of \$6.0 million in preferred shares of InTouch Technologies, Inc. in 2012;

The sale of investments of \$2.5 million in 2012, compared to the sale of investments of \$5.0 million in 2011; and

The purchase of property and equipment of \$3.0 million in 2012, compared to \$7.2 million in 2011. The reduction in spending on capital equipment in 2012 is primarily due to a reduction in spending on leasehold improvements, production tooling and equipment, and product manufactured for demonstration and product development purposes.

Net cash provided by financing activities for the six months ended June 30, 2012 was \$2.2 million, a decrease of \$11.2 million compared to the \$13.4 million of net cash provided by financing activities for the six months ended July 2, 2011. The decrease is due primarily to a decrease in proceeds from stock option exercises of \$6.6 million and a decrease in the tax benefit associated with excess stock-based compensation deductions of \$4.6 million.

Working Capital Facilities

Credit Facility

We have an unsecured revolving credit facility with Bank of America, N.A., which is available to fund working capital and other corporate purposes. As of June 30, 2012, the total amount available for borrowing under our credit facility was \$75.0 million and the full amount was available for borrowing. The interest on loans under our credit facility accrues at a rate between LIBOR plus 1% and LIBOR plus 1.5%, based on our ratio of indebtedness to Adjusted EBITDA, and the credit facility termination date is June 30, 2014.

As of June 30, 2012, we had no outstanding borrowings under our working capital line of credit. This credit facility contains customary terms and conditions for credit facilities of this type, including restrictions on our ability to incur or guaranty additional indebtedness, create liens, enter into transactions with affiliates, make loans or investments, sell assets, pay dividends or make distributions on, or repurchase, our stock, and consolidate or merge with other entities.

In addition, we are required to meet certain financial covenants customary with this type of agreement, including maintaining a minimum specified consolidated net worth, a minimum ratio of indebtedness to Adjusted EBITDA, and a minimum specified interest coverage ratio.

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

As of June 30, 2012, we were in compliance with all covenants under the revolving credit facility.

Letter of Credit Facility

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

We pay a fee on outstanding letters of credit issued under the credit facility at a rate between LIBOR plus 1% and LIBOR plus 1.5% per annum, based on our ratio of indebtedness to Adjusted EBITDA. In addition, we pay a fee equal to

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0.25% per annum of the actual daily amount by which the credit facility exceeds the aggregate undrawn amount of all outstanding letters of credit under the credit facility plus the aggregate of all unreimbursed drawings under all letters of credit under the credit facility. The maturity date for letters of credit issued under the credit facility must be no later than seven days prior to June 30, 2014.

As of June 30, 2012, we had letters of credit outstanding of \$1.4 million under our revolving letter of credit facility. The credit facility contains customary terms and conditions for credit facilities of this type, including restrictions on our ability to incur or guaranty additional indebtedness, create liens, enter into transactions with affiliates, make loans or investments, sell assets, pay dividends or make distributions on, or repurchase, its stock, and consolidate or merge with other entities. In addition, we are required to meet certain financial covenants customary with this type of agreement, including maintaining a minimum specified consolidated net worth, a minimum ratio of indebtedness to Adjusted EBITDA and a minimum specified ratio of EBIT to interest expense.

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

As of June 30, 2012, we were in compliance with all covenants under the revolving letter of credit facility.

Working Capital and Capital Expenditure Needs

We currently have no material cash commitments, except for normal recurring trade payables, expense accruals and operating leases, all of which we anticipate funding through working capital, funds provided by operating activities and our existing working capital line of credit. We do not currently anticipate significant investment in property, plant and equipment, and we believe that our outsourced approach to manufacturing provides us with flexibility in both managing inventory levels and financing our inventory. We believe our existing cash and cash equivalents, short-term investments, cash provided by operating activities, and funds available through our working capital line of credit will be sufficient to meet our working capital and capital expenditure needs over at least the next twelve months. In the event that our revenue plan does not meet our expectations, we may eliminate or curtail expenditures to mitigate the impact on our working capital. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our marketing and sales activities, the timing and extent of spending to support product development efforts, the timing of introductions of new products and enhancements to existing products, the acquisition of new capabilities or technologies, and the continuing market acceptance of our products and services. Moreover, to the extent that existing cash and cash equivalents, short-term investments, cash from operations, and cash from short-term borrowing are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. As part of our business strategy, we may consider additional acquisitions of companies, technologies and products, which could also require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

Contractual Obligations

We generally do not enter into binding purchase commitments. Our principal commitments consist of obligations under our working capital line of credit, leases for office space and minimum contractual obligations for services and certain components. The following table describes our commitments to settle contractual obligations in cash as of June 30, 2012:

| | Payments Due by Period | | | | Total |
|---------------------------------|------------------------|-----------------|-----------------|----------------------|-----------|
| | Less Than 1 Year | 1 to 3 Years | 3 to 5 Years | More Than 5 Years | |
| Operating leases | \$ 2,824 | \$ 5,016 | \$ 5,010 | \$ 6,935 | \$ 19,785 |
| Minimum contractual obligations | 340 | 3,969 | | | 4,309 |
| Other obligations | 195 | 405 | | | 600 |
| Total | \$ 3,359 | \$ 9,390 | \$ 5,010 | \$ 6,935 | \$ 24,694 |

Our minimum contractual obligations consist of obligations to key component suppliers for our home robots, which payments are incurred in the ordinary course of business. Other obligations consist of advertising agreements for corporate branding.

Off-Balance Sheet Arrangements

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As of June 30, 2012, we had no off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

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Recently Issued Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Sensitivity

At June 30, 2012, we had unrestricted cash and cash equivalents of \$156.5 million and short term investments of \$20.2 million. The unrestricted cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. Some of the securities in which we invest, however, may be subject to market risk. This means that a change in prevailing interest rates may cause the fair market value of the investment to fluctuate. To minimize this risk in the future, we intend to maintain our portfolio of cash equivalents in a variety of securities, commercial paper, money market funds, debt securities and certificates of deposit. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. As of June 30, 2012, all of our cash and cash equivalents were held in demand deposits and money market accounts.

Our exposure to market risk also relates to the increase or decrease in the amount of interest expense we must pay on any outstanding debt instruments, primarily certain borrowings under our working capital line of credit. The advances under the working capital line of credit bear a variable rate of interest determined as a function of the LIBOR rate at the time of the borrowing. As of June 30, 2012, we do not have any borrowings outstanding under our working capital line of credit. As of June 30, 2012, we had letters of credit outstanding of \$1.4 million under our revolving letter of credit facility.

Exchange Rate Sensitivity

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

Item 4. Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, or 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 at a reasonable assurance level in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms; and (ii) accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely discussions regarding required disclosure. We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

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

Part II. Other Information

Item 1. Legal Proceedings

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

Table of Contents**Item 1A. Risk Factors**

We operate in a rapidly changing environment that involves a number of risks that could materially affect our business, financial condition or future results, some of which are beyond our control. In addition to the other information set forth in this report, the risks and uncertainties that we believe are most important for you to consider are discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011, which could materially affect our business, financial condition or future results. Additional risks and uncertainties not presently known to us, which we currently deem immaterial or which are similar to those faced by other companies in our industry or business in general, may also impair our business operations. There are no material changes to the Risk Factors described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth the repurchases of our equity securities during the three months ended June 30, 2012 by or on behalf of us or any affiliated purchaser:

| Period | (a) Total number of Shares (or Units) Purchased | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|---|---|--|---|---|
| Fiscal month beginning April 1, 2012 and ended April 28, 2012 | 15,535(1) | \$ 26.52(2) | | |
| Fiscal month beginning April 29, 2012 and ended May 26, 2012 | | | | |
| Fiscal month beginning May 27, 2012 and ended June 30, 2012 | 6,263(1) | \$ 21.71(2) | | |
| Total | 21,798(1) | \$ 25.14(3) | | |

- (1) Represents shares of our common stock withheld by us to satisfy the minimum tax withholding obligation in connection with the vesting of restricted stock units held by executive officers.
- (2) The amount represents the last reported sale price of our common stock on the NASDAQ Global Market on the applicable vesting date.
- (3) The amount represents the weighted average sale price of all shares of our common stock repurchased during the three months ended June 30, 2012.

Item 5. Other Information

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

We anticipate that, as permitted by Rule 10b5-1 and our policy governing transactions in our securities, some or all of our officers, directors and employees may establish trading plans in the future. We intend to disclose the names of our executive officers and directors who establish a

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trading plan in compliance with Rule 10b5-1 and the requirements of our policy governing transactions in our securities in our future quarterly and annual reports on Form 10-Q and 10-K filed with the Securities and Exchange Commission. We, however, undertake no obligation to update or revise the information provided herein.

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Item 6. Exhibits

| Exhibit | |
|----------------|---|
| Number | Description |
| 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 |
| 101*** | The following materials from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Cash Flows, and (v) related notes to these financial statements |

* Filed herewith

** Furnished herewith

*** As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934

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SIGNATURES

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

iROBOT CORPORATION

Date: August 3, 2012

By: /s/ JOHN LEAHY
John Leahy
Executive Vice President, Chief Financial Officer and Treasurer
(Duly Authorized Officer and Principal Financial Officer)

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EXHIBIT INDEX

| Exhibit | |
|----------------|---|
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* Filed herewith

** Furnished herewith

*** As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934