iRobot Corporation's Intellectual Property*

"At iRobot, we believe there is a better way to accomplish many of the dull, dirty and dangerous tasks that face us today."[1]

iRobot designs, develops and markets robots that help people complete 'dull, dirty or dangerous' tasks in dynamic real-world situations. The company's robots use behavior-based, artificial-intelligence systems to undertake complex tasks. In contrast, most robotic manufacturing equipment or entertainment systems are designed to repeat routine actions in specific, known environments.

On March 23, 2010, iRobot celebrated 20 years of innovation in robotics. Despite its track record of innovation, iRobot reported an accumulated deficit of $7.6 million in their balance sheet as of yearend 2009 (Exhibit 4). While this deficit had decreased substantially due to annual profits in the recent years (Exhibit 9), management cautioned:

> Because we operate in a rapidly evolving industry, there are challenges to predicting our future operating results, and we cannot be certain that our revenues will grow at rates that will allow us to maintain profitability during every fiscal quarter, or even every fiscal year. In addition, we only have limited operating history on which you can base your evaluation of our business. Failure to maintain profitability may result in our inability to access capital under our existing credit arrangements. (2009 10-K, p. 19)

Background

iRobot was founded in 1990 by scientists at the Massachusetts Institute of Technology. Over the subsequent two decades, iRobot developed proprietary technologies incorporating advanced concepts of navigation, mobility, manipulation and artificial intelligence. "iRobot's mission is to change the world by building practical robots that make a difference, while delivering increased value to our shareholders."[2] iRobot became a public company in November 2005, when for the first time, a robot sounded the opening bell on the NASDAQ stock exchange. At December 31, 2009, iRobot's common stock (ticker = IRBT) closed at $17.60 per share indicating a market value of equity in excess of $440 million.

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* Robert Bowen prepared this case using publicly available sources with the assistance of Frank Hodge, Jane Kennedy and D. Shores. Public sources included Form 10-K filed with the SEC for fiscal years 2005 through 2009. Any reference to management actions or motives is purely hypothetical. Funding was provided by a PricewaterhouseCoopers IFRS Ready Grant. Revised, May 27, 2010

[1] From 2005 Annual letter to shareholders, p. 1.

[2] Colin Angle, iRobot chairman and CEO, March 23, 2010.

In 2002, iRobot launched its two flagship products, the Roomba for home floor sweeping and the PackBot military robot to conduct dangerous wartime activities. iRobot's consumer products perform time-consuming dull and dirty domestic chores. The Roomba (Exhibit 1) was intended to replace the standard home floor vacuum cleaner and came in several models, ranging in retail price from $129 to $549 (Exhibit 2). iRobot sold over 5 million Roomba vacuuming robots through 2009, but market penetration was still less than 5% of North American homes. The Scooba floor-washing robot (Exhibit 1) was introduced in 2004 to automatically sweep, wash, scrub and dry hard floors. The Scooba comes in several models ranging in retail price from $299 to $499. By yearend 2009, iRobot had several additional consumer robots as described in Exhibit 2. iRobot sells its consumer robots through the company's on-line store and other national retailers, including Costco, Sears, Target, and The Home Depot.

iRobot's PackBot tactical military robot performs dangerous activities such as battlefield reconnaissance and bomb disposal (Exhibit 1).[3] PackBot robots vary greatly in price depending on their configuration (Exhibit 3). By yearend 2009, iRobot had delivered more than 2,900 of these 'government and industrial' robots to the U.S. government, foreign governments, domestic police and first responders.[4] Most were deployed on missions in Afghanistan and Iraq.

Exhibit 8 provides information on the relative size and performance of iRobot's consumer and government segments.

Prospects for growth

Management believes iRobot's expertise in robot design and engineering puts the company in a position to experience significant growth in the coming years:

> Our significant expertise in robot design and engineering, combined with our management team's experience in military and consumer markets, positions us to capitalize on the growth we expect in the market for robot-based products. We believe that the sophisticated technologies in our existing consumer and military applications are adaptable to a broad array of markets such as law enforcement, homeland security, commercial cleaning, elder care, oil services, home automation, landscaping, agriculture, construction and other vertical markets. Our strategy is to maintain a leadership position in pursuing new applications for robot solutions by leveraging our ability to innovate, to bring new products to market quickly, to reduce costs through design and outsourcing capabilities, and to commercialize the results of our research, much of which is government funded. (2009 10-K, p. 3)

Intellectual Property

iRobot participates in the fast changing, competitive, high-technology robotics industry. iRobot's 2009 10-K (p. 24) lists 13 direct competitors in robotic floor cleaning, including AB

[3] In addition, iRobot is developing the Small Unmanned Ground Vehicle reconnaissance robot for the U.S. Army's transformational Future Combat Systems, or FCS, program and, in conjunction with Deere & Company, the R-Gator unmanned ground vehicle.

[4] Foreign governments included the United Kingdom, France, Germany, Sweden, Norway, Israel, Australia, Republic of Korea, Singapore

Electrolux and Samsung Electronics, and three direct competitors in small unmanned vehicles including Remotec, a division of Northrop Grumman. The 10-K also notes that established government contractors were working on unmanned systems including Lockheed Martin, Boeing and General Dynamics.

iRobot believes its ongoing success is dependent on its proprietary technology, the intellectual skills of its employees and the ability of these employees to continue to innovate. (2009 10-K, p. 14) iRobot's future performance will be determined by the quality of its current and future intellectual property, its ability to protect it, and its ability to excel in product development and customer support.

Litigation and Related Expenses

Section 1A of the iRobot 2009 10-K entitled 'Risk Factors' notes:

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

In fiscal 2007, iRobot incurred $2.3 million in litigation and settlement-related costs related to filling two related lawsuits in an attempt to protect their intellectual capital.

> On August 17, 2007, we filed a lawsuit in Massachusetts Superior Court against Robotic FX, Inc. and Jameel Ahed alleging, among other things, misappropriation of trade secrets and breach of contract, and seeking both injunctive and monetary relief. The case was subsequently removed to the United States District Court for the District of Massachusetts. On November 2, 2007, the court issued a preliminary injunction, and on December 21, 2007 issued a permanent injunction, against Robotic FX, Inc. and Mr. Ahed preventing the sale of products using certain of our trade secrets, including the Robotic FX Negotiator product.
>
> In addition, on August 17, 2007, we filed a lawsuit in the United States District Court for the Northern District of Alabama against Robotic FX, Inc. alleging willful infringement of two patents owned by us, and seeking both injunctive and monetary relief. On December 21, 2007, the court entered a judgment that Robotic FX, Inc. knowingly infringed on both asserted patents.
>
> In a related settlement, Robotic FX, Inc. will be dissolved and certain residual assets will be retained by us at our election. Mr. Ahed is prohibited from participating in competitive activities in the robotics industry for five years.
>
> Our cumulative litigation and settlement-related expenditures associated with this dispute are expected to total approximately $3.0 million, including an obligation to make cash payments up to $0.7 million through 2012, contingent upon Mr. Ahed and Robotic FX, Inc. continuing to meet obligations pursuant to various agreements, including but not limited to certain non-competition provisions. These contingent payments will be expensed, when and if earned. (2007 10-K, p. 35)

Accounting for Research and Development (R&D)

Despite the apparent importance of iRobot's intellectual property, current U.S. accounting standards require that iRobot expense R&D costs as incurred. Exhibit 10 provides annual R&D expense from 2003 through 2009. Some of iRobot's R&D was funded by governments

and other third parties. Thus, iRobot's reported R&D expense was far less than its total expenditures as described in the note below:

> **Research and Development**
>
> We believe that our future success depends upon our ability to continue to develop new products and product accessories, and enhancements to and applications for our existing products. For the years ended January 2, 2010, December 27, 2008 and December 29, 2007, our research and development expenses were $14.7 million, $17.6 million and $17.1 million, respectively. In addition to our internal research and development activities, for the years ended January 2, 2010, December 27, 2008 and December 29, 2007, we have incurred research and development expenses under funded development arrangements with governments and industrial third parties of $30.8 million, $23.9 million and $18.8 million, respectively. Of our total research and development spending in 2009, 2008 and 2007, approximately 63.9%, 51.7% and 37.9%, respectively was funded by government-sponsored research and development contracts. For the years ended January 2, 2010, December 27, 2008 and December 29, 2007, the combined investment in future technologies, classified as cost of revenue and research and development expense, was $45.5 million, $41.5 million and $35.9 million, respectively. We intend to continue our investment in research and development to respond to and anticipate customer needs, and to enable us to introduce new products over the next few years that will continue to address our existing market sectors. (2009 10-K, p. 13)

Sponsored R&D is shown in the income statements as contract revenue and the related expense, cost of contract revenue (Exhibits 5 and 9). The relative magnitude of contract revenue and cost of contract revenue is shown in Exhibit 7.

In early 2010, iRobot senior management began to review the implications of adopting international financial reporting standards (IFRS) on its accounting for intellectual property including R&D. Management was especially concerned about the effect of the standards on reported profitability.

Management's review of International Accounting Standard #38 (summarized in Exhibit 11) produced the following practical questions:

- Does U.S. GAAP adequately capture the importance of intellectual property at iRobot?
- How much flexibility does iRobot's management have in reporting capitalized development costs under IFRS?
- Given this flexibility, how much of iRobot's R&D should be classified as development costs subject to capitalization as an asset under IFRS?
- Should iRobot adopt the 'cost' or 'revaluation' method for reporting capitalized development costs under IFRS?
- What will be the effect on reported operating earnings and assets if iRobot capitalizes development costs under IFRS?
- What position should iRobot's management take on lobbying for the implementation of IFRS in the U.S.?

Exhibit 1

Example of iRobot products

Consumer iRobot 'Roomba' vacuum cleaner cleaner

Consumer iRobot 'Scooba' hard surface floor

Military 'PackBot' robot on rough terrain

Soldier carrying PackBot

Exhibit 2

iRobot's Consumer Products

Home Floor Cleaning Robots

Over the past seven years, we sold approximately 5 million home floor cleaning robots. We currently offer multiple Roomba floor vacuuming robots and Scooba floor washing robots with varying price points and performance characteristics.

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

We offer multiple Roomba models with various features. The suggested retail price for the Roomba robots range from $129 to $549 depending on model, configuration and accessory packages.

Scooba, our second major consumer product line, is the first floor washing robot available for home use. Our Scooba robot utilizes the expertise gained from years of Roomba development to create a robot that scrubs your floor.

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

Scooba has the ability to navigate around the room using a light-touch bumper and is smart enough to avoid carpets. Scooba features an advanced diagnostic system to provide the user with important maintenance feedback and improve user experience and product life. The suggested retail price for the Scooba robots range from $299 to $499.

Pool Cleaning Robots

Our Verro Pool Cleaning Robot is used to clean a standard size pool in about an hour while removing debris as small as two microns from the pool floor, walls and stairs. Verro is brought to market under the iRobot brand through a relationship with the Aqua Products Group companies including AquaJet LLC and Aquatron, Inc., which developed the pool cleaning robots. There are three models available with a range of suggested retail prices from $399 to $999.

Gutter Cleaning Robot

Our Looj Gutter Cleaning Robot was designed to simplify the difficult and dangerous job of gutter cleaning. The Looj cleans an entire stretch of gutter, reducing the number of times a ladder must be repositioned and climbed during gutter cleaning. The 2.25-inch high Looj drives under gutter straps propelled by a three-stage auger that dislodges and sweeps out dirt, leaves and other debris that can cause costly water damage, overspills and ice dams.

The Looj also features a detachable handle that doubles as a wireless remote control, providing full control of the robot while cleaning. The suggested retail price for the Looj ranges from $129 to $169.

Programmable Robot

Our Create Programmable Robot is a fully assembled programmable robot. The Create has ten built-in demos and 32 sensors that allow users to experiment with robotics. An open cargo bay allows the user to add their grippers, wireless connections, computers or other hardware. The Create is based on the iRobot Roomba technology and is compatible with Roomba's re-chargeable batteries, remote control and other accessories. The suggested retail price for the Create ranges from $129 to $299.

Source: iRobot 2009 10-K

Exhibit 3

iRobot's Government and Industrial Products

PacBot Robots include:

iRobot 510 PackBot (Advanced EOD configuration): This advanced robot quickly adapts to different Improvised Explosive Devices (IEDs) and conventional ordnance, keeping Explosive Ordnance Disposal (EOD) personnel at safe stand-off distances.

iRobot 510 PackBot (FasTac configuration): This multi-mission robot was specifically designed for combat infantry forces and is currently used in combat by maneuver and maneuver support units for a variety of tasks.

iRobot 510 PackBot (First Responder configuration): This configuration provides a lower price alternative for state and local customers who may not need all the capability of the 510 PackBot with EOD capability.

iRobot 510 PackBot (Engineer configuration): This configuration is based on the First Responder configuration but also includes tools for the Engineer mission and a lift kit for heavier items. Additionally, the Engineer configuration supports an optional thermal camera.

We continue to sell and support the 500 PackBot line for certain government customers. These configurations include:

EOD configuration: This is a rugged, lightweight robot designed to conduct explosive ordnance disposal, hazardous materials, search-and-surveillance and other vital law enforcement tasks for bomb squads, SWAT teams, military units and other authorities.

ICx Fido Explosives Detection configuration: This explosives-sniffing robot screens packages and other potentially dangerous items while the operator remains at a safe distance.

We also offer more than 60 accessories for the PackBot that provide additional capabilities for the robot, expanding its range and scope of missions.

Other Robots include:

iRobot 210 Negotiator: In 2008, we introduced the 210 Negotiator in a Civil Response configuration. This rugged robot performs basic reconnaissance for public safety professionals, increasing situational awareness in high-risk scenarios, including bomb identification, hostage situations, search and rescue and other dangerous missions.

310 SUGV: In 2009, iRobot, in a strategic partnership with The Boeing Company, developed the 310 SUGV, a man-portable robot with dexterous manipulator and wearable controller for dismounted mobile operations. A smaller and lighter version of the combat-proven iRobot, PackBot, 310 SUGV enters areas that are inaccessible or too dangerous for people, providing state-of-the-art technology for infantry troops, combat engineers, mobile EOD technicians and other personnel. The 310 SUGV gathers situational awareness in dangerous conditions while keeping war fighters and public safety professionals out of harm's way.

iRobot 1Ka Seaglider: This Unmanned Underwater Vehicle (UUV) is used on long endurance oceanic missions to measure temperature, salinity, depth-averaged current and other data for oceanographers and military planners. Seagliders are typically deployed on autonomous missions for six months or more, replacing manned research vessels at considerable economic advantage.

Source: iRobot 2009 10-K

Exhibit 4

iROBOT CORPORATION
CONSOLIDATED BALANCE SHEETS

	January 2, 2010	December 27, 2008
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 71,856	$ 40,852
Short term investments	4,959	—
Accounts receivable, net of allowance of $90 and $65 at January 2, 2010 and December 27, 2008, respectively	35,171	35,930
Unbilled revenue	1,831	2,014
Inventory	32,406	34,560
Deferred tax assets	8,669	7,299
Other current assets	4,119	3,340
Total current assets	159,011	123,995
Property and equipment, net	20,230	22,929
Deferred tax assets	6,089	4,508
Other assets	14,254	12,246
Total assets	$199,584	$ 163,678
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 30,559	$ 19,544
Accrued expenses	14,384	10,989
Accrued compensation	13,525	6,393
Deferred revenue and customer advances	3,908	2,632
Total current liabilities	62,376	39,558
Long term liabilities	4,014	4,444
Commitments and contingencies (Note 11):		
Redeemable convertible preferred stock, 5,000,000 shares authorized and zero outstanding	—	—
Common stock, $0.01 par value, 100,000,000 and 100,000,000 shares authorized and 25,091,619 and 24,810,736 shares issued and outstanding at January 2, 2010 and December 27, 2008, respectively	251	248
Additional paid-in capital	140,613	130,637
Deferred compensation	(64)	(314)
Accumulated deficit	(7,565)	(10,895)
Accumulated other comprehensive loss	(41)	—
Total stockholders' equity	133,194	119,676
Total liabilities, redeemable convertible preferred stock and stockholders' equity	$199,584	$ 163,678

Source: 2009 iRobot 10-K.

Exhibit 5

iROBOT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Year Ended		
	January 2, 2010	December 27, 2008	December 29, 2007
	(In thousands, except per share amounts)		
Revenue:			
Product revenue	$262,199	$ 281,187	$ 227,457
Contract revenue	36,418	26,434	21,624
Total revenue	298,617	307,621	249,081
Cost of revenue:			
Cost of product revenue(1)	176,631	190,250	147,689
Cost of contract revenue(1)	30,790	23,900	18,805
Total cost of revenue	207,421	214,150	166,494
Gross margin	91,196	93,471	82,587
Operating expenses:			
Research and development(1)	14,747	17,566	17,082
Selling and marketing(1)	40,902	46,866	44,894
General and administrative(1)	30,110	28,840	20,919
Litigation and related expenses(2)	—	—	2,341
Total operating expenses	85,759	93,272	85,236
Operating income (loss)	5,437	199	(2,649)
Other income (expense), net	(81)	926	3,151
Income before income taxes	5,356	1,125	502
Income tax expense (benefit)	2,026	369	(8,558)
Net income	$ 3,330	$ 756	$ 9,060
Net income per share			
Basic	$ 0.13	$ 0.03	$ 0.37
Diluted	$ 0.13	$ 0.03	$ 0.36
Number of shares used in per share calculations			
Basic	24,998	24,654	24,229
Diluted	25,640	25,533	25,501

(1) Stock-based compensation recorded in 2009, 2008 and 2007 breaks down by expense classification as follows:

	Fiscal Year Ended		
	January 2, 2010	December 27, 2008	December 29, 2007
	(In thousands)		
Cost of product revenue	$ 1,127	$ 753	$ 692
Cost of contract revenue	575	462	386
Research and development	351	359	377
Selling and marketing	1,410	1,055	1,074
General and administrative	4,099	3,310	2,182

(2) Consists of costs for litigation relating to lawsuits filed against Robotic FX, Inc. and Jameel Ahed, as well as settlement costs related to ending the litigation. See Note 11 to the Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K for a more detailed discussion of this litigation and related settlement.

Source: 2009 iRobot 10-K.

Exhibit 6

iROBOT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended		
	January 2, 2010	December 27, 2008	December 29, 2007
		(In thousands)	
Cash flows from operating activities:			
Net income	$ 3,330	$ 756	$ 9,060
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	8,074	7,029	5,311
Loss on disposal of property and equipment	202	231	48
Stock based compensation	7,562	5,939	4,711
In-process research and development relating to acquisition of Nekton Research LLC	—	200	—
Benefit from deferred tax assets	(3,317)	(1,967)	(10,198)
Non-cash director deferred compensation	132	95	111
Changes in operating assets and liabilities — (use) source			
Accounts receivable	759	12,221	(19,171)
Unbilled revenue	183	230	(283)
Inventory	2,154	10,662	(24,332)
Other current assets	(816)	(1,042)	595
Accounts payable	11,015	(25,350)	17,012
Accrued expenses	3,385	3,002	967
Accrued compensation	7,132	1,634	(624)
Deferred revenue	1,276	1,026	1,121
Long-term liabilities	(430)	4,444	—
Net cash provided by (used in) operating activities	40,641	19,110	(15,672)
Cash flows from investing activities:			
Additions of property and equipment	(5,038)	(14,817)	(10,352)
Purchase of Nekton Research, LLC, net of cash received	(2,500)	(9,743)	—
Change in other assets	—	—	(2,500)
Purchase of investments	(5,000)	(29,997)	(52,950)
Sales of investments	—	46,547	101,200
Net cash provided by (used in) investing activities	(12,538)	(8,010)	35,398
Cash flows from financing activities:			
Borrowings under revolving line of credit	—	5,500	—
Repayment of borrowings under revolving credit line	—	(5,500)	—
Income tax withholding payment associated with stock option exercise	—	—	(1,588)
Income tax withholding payment associated with restricted stock vesting	(76)		
Proceeds from stock option exercises	738	1,011	1,388
Tax benefit of excess stock based compensation deductions	2,239	2,006	1,626
Net cash provided by financing activities	2,901	3,017	1,426
Net increase in cash and cash equivalents	31,004	14,117	21,152
Cash and cash equivalents, at beginning of period	40,852	26,735	5,583
Cash and cash equivalents, at end of period	$ 71,856	$ 40,852	$ 26,735
Supplemental disclosure of cash flow information			
Cash paid for interest	$ —	$ 60	$ 41
Cash paid for income taxes	$ 1,127	$ 89	$ 140

Source: 2009 iRobot 10-K.

Exhibit 7

Excerpt from Managements' Discussion and Analysis

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

	Fiscal Year Ended		
	January 2, 2010	December 27, 2008	December 29, 2007
Revenue			
Product revenue	87.8%	91.4%	91.3%
Contract revenue	12.2	8.6	8.7
Total revenue	100.0	100.0	100.0
Cost of Revenue			
Cost of product revenue	59.2	61.8	59.3
Cost of contract revenue	10.3	7.8	7.5
Total cost of revenue	69.5	69.6	66.8
Gross margin	30.5	30.4	33.2
Operating Expenses			
Research and development	4.9	5.7	6.9
Selling and marketing	13.7	15.2	18.0
General and administrative	10.1	9.4	8.4
Litigation and related expenses	—	—	1.0
Total operating expenses	28.7	30.3	34.3
Operating (Loss) Income	1.8	0.1	(1.1)
Other Income (Expense), Net	0.0	0.3	1.3
Income Before Income Taxes	1.8	0.4	0.2
Income Tax Expense (Benefit)	0.7	0.1	(3.4)
Net Income	1.1%	0.3%	3.6%

Source: 2009 iRobot 10-K.

Exhibit 8

Selected Segment Information on Consumer versus Government business from Note 15

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

	Fiscal Year Ended		
	January 2, 2010	December 27, 2008	December 29, 2007
		(In thousands)	
Revenue:			
Home Robots	$165,860	$ 173,602	$ 144,483
Government & Industrial	132,757	134,019	104,598
Total revenue	298,617	307,621	249,081
Cost of revenue:			
Home Robots	112,429	123,833	97,878
Government & Industrial	94,992	90,317	68,616
Total cost of revenue	207,421	214,150	166,494
Gross margin:			
Home Robots	53,431	49,769	46,605
Government & Industrial	37,765	43,702	35,982
Total gross margin	91,196	93,471	82,587
Research and development	14,747	17,566	17,082
Selling and marketing	40,902	46,866	44,894
General and administrative	30,110	28,840	20,919
Litigation and related expenses	—	—	2,341
Other income (expense), net	(81)	926	3,151
Income before income taxes	$ 5,356	$ 1,125	$ 502

Source: 2009 iRobot 10-K.

Exhibit 9

iROBOT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS and SUMMARY BALANCE SHEETS: 2005 - 2009

	Year Ended				
	January 2, 2010	December 27, 2008	December 29, 2007	December 30, 2006	December 31, 2005
	(In thousands, except earnings per share amounts)				
Consolidated Statements of Operations:					
Revenue					
Product revenue	$ 262,199	$ 281,187	$ 227,457	$ 167,687	$ 124,616
Contract revenue	36,418	26,434	21,624	21,268	17,352
Total revenue	298,617	307,621	249,081	188,955	141,968
Cost of revenue					
Cost of product revenue	176,631	190,250	147,689	103,651	81,855
Cost of contract revenue	30,790	23,900	18,805	15,569	12,534
Total cost of revenue	207,421	214,150	166,494	119,220	94,389
Gross Margin	91,196	93,471	82,587	69,735	47,579
Operating Expenses					
Research and development	14,747	17,566	17,082	17,025	11,601
Selling and marketing	40,902	46,866	44,894	33,969	21,796
General and administrative	30,110	28,840	20,919	18,703	12,072
Litigation and related expenses(1)	—	—	2,341	—	—
Total operating expenses	85,759	93,272	85,236	69,697	45,469
Operating (Loss) Income	5,437	199	(2,649)	38	2,110
Net Income	$ 3,330	$ 756	$ 9,060	$ 3,565	$ 2,610
Net Income Attributable to Common Stockholders	$ 3,330	$ 756	$ 9,060	$ 3,565	$ 1,553
Net Income Per Common Share					
Basic	$ 0.13	$ 0.03	$ 0.37	$ 0.15	$ 0.13
Diluted	$ 0.13	$ 0.03	$ 0.36	$ 0.14	$ 0.11
Shares Used in Per Common Share Calculations					
Basic	24,998	24,654	24,229	23,516	12,007
Diluted	25,640	25,533	25,501	25,601	14,331

(1) Consists of costs for litigation relating to lawsuits filed against Robotic FX, Inc. and Jameel Ahed, as well as settlement costs related to the litigation.

	January 2, 2010	December 27, 2008	December 29, 2007	December 30, 2006	December 31, 2005
			(In thousands)		
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 71,856	$ 40,852	$ 26,735	$ 5,583	$ 76,064
Short term investments	4,959	—	16,550	64,800	—
Total assets	199,584	163,678	169,092	135,308	124,935
Total liabilities	66,390	44,002	58,865	40,389	37,379
Total stockholders' equity	133,194	119,676	110,227	94,919	87,556

Source: 2009 iRobot 10-K.

Exhibit 10

iROBOT CORPORATION
Schedule of Annual Research and Development costs

(in $thousands)

	2003	2004	2005	2006	2007	2008	2009
R&D expense as reported	$3,848	$5,504	$11,601	$17,025	$17,082	$17,556	$14,747
Contract R&D expense [5]	$6,143	$8,371	$12,534	$15,569	$18,805	$23,900	$30,790

Source: 2009 and 2005 iRobot 10-K.

[5] Shown as cost of contract revenue in iRobot's income statements (Exhibits 5 and 9).

Exhibit 11

iROBOT CORPORATION
Excerpts from International Accounting Standard #38 on internally generated R&D

Definitions

As asset is a resource:
(a) controlled by an entity as a result of past events; and
(b) from which future economic benefits are expected to flow to the entity. (Par. 8)

An intangible asset is an identifiable non-monetary asset without physical substance. (Par. 8)

Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. (Par.8)

Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use. (Par. 8)

Fair value of an asset is the amount for which that asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. (Par. 8)

Recognition

General guidance:
The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:
(a) the definition of an intangible asset; and
(b) the recognition criteria (see Par. 21 below).
This requirement applies to costs incurred initially to acquire or internally generate an intangible asset and those subsequently incurred to add to, replace part of, or service. Only rarely will subsequent expenditure be recognized in the carrying amount of an intangible asset. This is because such expenditure cannot be distinguished from expenditure to develop the business as a whole. (Par. 18, 20)

An intangible asset shall be recognized if, and only if:
(a) it is probable that the expected future benefits that are attributable to the asset will flow to the entity; and
(b) the cost of the asset can be measured reliably. (Par. 21)

Internally generated:
To assess whether an internally generated intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into:
(a) a research phase; and
(b) a development phase.

Although the terms 'research' and 'development' are defined, the terms 'research phase' and 'development phase' have a broader meaning for the purpose of this Standard. (Par. 52)

Exhibit 11 (continued)

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Excerpts from International Accounting Standard #38 on internally generated R&D

No intangible asset arising from research (or from the research phase of an internal project) shall be recognized. Expenditure on research (or on the research phase of an internal project) shall be recognized as an expense when it is incurred. (Par. 54)

An intangible asset arising from development (or from the development phase of an internal project) shall be recognized if, and only if, an entity can demonstrate all of the following:
(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.
(b) its intention to complete the intangible asset and use or sell it.
(c) its ability to use or sell the intangible asset.
(d) how the intangible asset will generate probable future economic benefits.
(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
(f) Its ability to measure reliably the expenditure attributable to the intangible asset during its development. (Par. 57)

Measurement

An entity shall choose either the cost model (Par. 74) or the revaluation model (Par. 75) as its accounting policy. If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounting for using the same model, unless there is no active market for those assets. A class of intangible assets is a grouping of assets of similar nature and use in an entity's operations. The items within a class of intangible assets are revalued simultaneously. (Par. 72-73)

Cost model:
After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortization and any accumulated impairment losses. (Par. 74)

Revaluation model:
After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated amortization and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be determined by reference to an active market. Revaluations shall be made with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from it fair value. (Par. 75)

If an intangible asset's carrying amount is increased as a result of a revaluation, the increase shall be recognized in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss. (Par. 85)

If an intangible asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss. However, the decrease shall be recognized in other comprehensive income to the extent of any credit balance in the revaluation surplus in respect of that asset. The decrease recognized in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus. (Par. 86)