IROBOT CORP
Form 10-K
February 19, 2016
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
(Mark One)

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

For the fiscal year ended January 2, 2016
OR

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

Commission file no. 001-36414
iROBOT CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	77-0259 335
(State or other jurisdiction of incorporation or organization)	(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)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:
Common Stock, $0.01 par value per share The NASDAQ Stock Market LLC
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
None

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

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

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 þ 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 þ No ¨

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

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

þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Large accelerated
filer

(Do not check if a smaller
reporting company)

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

The aggregate market value of the Common Stock held by nonaffiliates of the registrant was approximately $963.2 million based on the last reported sale of the Common Stock on the NASDAQ Global Market on June 26, 2015, the last business day of the registrant's most recently completed second fiscal quarter.

As of February 16, 2016, there were 28,992,738 shares of the registrant’s Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant intends to file a definitive Proxy Statement pursuant to Regulation 14A within 120 days of the end of the fiscal year ended January 2, 2016. Portions of such Proxy Statement are incorporated by reference into Part III of this Form 10-K.

Table of Contents

iROBOT CORPORATION
ANNUAL REPORT ON FORM 10-K
Year Ended January 2, 2016
TABLE OF CONTENTS

		Page
	Part I	
Item 1.	Business	3
Item 1A.	Risk Factors	11
Item 1B.	Unresolved Staff Comments	22
Item 2.	Properties	22
Item 3.	Legal Proceedings	22
Item 4.	Mine Safety Disclosures	23
	Part II	
Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	24
Item 6.	Selected Financial Data	25
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	26
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	41
Item 8.	Financial Statements and Supplementary Data	42
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	69
Item 9A.	Controls and Procedures	69
Item 9B.	Other Information	71
	Part III	
Item 10.	Directors, Executive Officers and Corporate Governance	71
Item 11.	Executive Compensation	71
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	71
Item 13.	Certain Relationships and Related Transactions, and Directors Independence	71
Item 14.	Principal Accounting Fees and Services	71
	Part IV	
Item 15.	Exhibits, Financial Statement Schedules	71

Table of Contents

PART I

ITEM 1. BUSINESS

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

iRobot, Roomba, Ava, Scooba, Mint, ViPR, NorthStar, Create, PackBot, FirstLook, iAdapt, Aware, Home Base, Looj, Braava, Kobra, AeroForce, uPoint, AeroVac, Mirra, and Virtual Wall are trademarks of iRobot Corporation.

Overview

iRobot Corporation ("iRobot" or the "Company" or "we") designs and builds robots that empower people to do more. For 25 years, we have developed proprietary technology incorporating advanced concepts in navigation, mobility, manipulation and artificial intelligence to build industry-leading robots. Our home robots, which represented 91% of our revenue in 2015, and which we expect will grow to an even larger percentage of our revenue in 2016 and beyond, perform time-consuming domestic chores. Our defense and security robots perform tasks such as battlefield reconnaissance and bomb disposal, and multi-purpose tasks for law enforcement agencies and first responders, as well as certain commercial users. Our remote presence robots expand the reach of medical care by connecting physicians with patients from anywhere in the world and also provide autonomous telepresence capabilities enabling remote workers to more personally collaborate throughout the workplace. We sell our robots through a variety of distribution channels, including chain stores and other national retailers, through our on-line store, through value-added distributors and resellers, and to the U.S. military and other government agencies worldwide.

Since our founding, we have accumulated expertise in all the disciplines necessary to design and build durable, high-performance and cost-effective robots through the close integration of software, electronics and hardware. Our core technologies serve as reusable building blocks that we adapt and expand to develop next generation and new products, reducing the time, cost and risk of product development. Our significant expertise in robot design and engineering 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 applications are adaptable to a broad array of markets such as commercial cleaning, elder care, home automation, healthcare, video collaboration, landscaping, agriculture, and other vertical markets.

Over the past thirteen years, we have sold more than 15 million of our home robots. During that time, we also sold approximately 6,000 of our defense and security robots, most of which have been sold to the U.S. military and deployed on missions in Afghanistan and Iraq, and more recently to state, local and international government entities.

During 2015, we took several steps to become more focused on our well established home robots business to capitalize on the substantial opportunities available to us within consumer markets. First, we entered into an Asset Purchase Agreement on February 2, 2016 with iRobot Defense Holdings, Inc., a recently-formed portfolio company of Arlington Capital Partners, which provides for the sale of our defense and security business unit. The purchase price is up to $45.0 million, of which $30.0 million will be paid at the closing of the transaction, subject to adjustments for working capital and indebtedness as set forth in the purchase agreement, and up to an additional $15.0 million of which may be paid based on 2016 revenue of the defense and security business unit. The transaction is expected to close during the first quarter of 2016. Second, we reallocated research and development resources from a next generation remote presence platform to opportunities in our home robots business. These actions were taken to solidify our position as the leader in diversified home robots and to focus on key technologies, with an emphasis on software, that allow our robots to understand the homes in which they operate. It is our intent to continue investing in these critical technologies and the economic opportunities they unlock.

In addition to the above, we achieved a number of significant milestones in 2015 that we believe will assist us in continuing to generate profitable growth and enhance value for our shareholders. In particular, we successfully launched Roomba 980, our first connected home robot incorporating Visual Simultaneous Location and Mapping, or vSLAM, which provides the robot with the capability to dynamically create and update a map of its surroundings. This is our first step into the Internet of Things, enabling new functionality such as remote app-control and systematic navigation, as well as paving the way for new products and capabilities in the future. Additionally, we implemented new Roomba marketing programs in the United

Table of Contents

States that resulted in a significant return on our investment and which we plan to leverage as part of our strategy to accelerate growth in international markets.

In our continuing effort to return capital to our shareholders, we repurchased 1,260,276 shares of our common stock for an aggregate purchase price of $37.4 million during fiscal year 2015. In conjunction with the announcement to divest our defense and security business unit, we also announced a $65 million increase to our current share repurchase initiative, partially funded from the expected proceeds from the divestiture, bringing total repurchases authorized under the 2016 program to more than $100 million. We intend to initiate the incremental program in the first quarter of fiscal 2016 in conjunction with the completion of the defense and security business unit divestiture. This initiative, coupled with the previous return of capital, balances our interest to return cash to shareholders while maintaining sufficient cash to operate and invest in our business.

Our total revenue for 2015 was $616.8 million, which represents an 11% increase from 2014 revenue of $556.8 million. This increase in revenue was largely attributable to a $52.2 million increase in revenue in our home robots business unit as a direct result of growth in our domestic market. Domestic growth was primarily attributable to increased sales as a result of significant investments in advertising media and national promotions as well as the launch of Roomba 980. International home robots revenue growth slowed compared to fiscal 2014 as a result of negative macroeconomic conditions, specifically in Japan and Russia, offset by a significant growth increase in China. Revenue increased $9.5 million in our defense and security business, primarily attributable to increased sales of our SUGV robot. Our home robots revenue represented 91% of our total revenue for both 2015 and 2014. With the anticipated divestiture of our defense and security business unit, our revenue for the next few years will almost entirely be driven by our rapidly growing home robots business.

Our financial performance in 2016 will be driven by our home robots business unit. Our strategy is to maintain Roomba's market leadership while positioning it as a key component in the connected home. We expect growth to be driven by:

- Expanded worldwide consumer adoption of Roomba supported by targeted marketing programs similar to the successful programs we introduced in the United States in 2015;
- Wider geographic distribution of Roomba 980;
- Building a second material revenue stream, which we expect to do with our wet floor care products; and
- Regional growth in China, with specific emphasis on further accelerating growth in the e-commerce channel.

Strategy

We are a technology company with the goal of designing and marketing innovative robots that empower people to do more. Our deep understanding of the consumer, the consumer's needs and how robots meet those needs ensures that every robot is created with a person in mind. We strive to drive innovation, serve as an industry catalyst and change the world by fueling the era of robots. We intend to increase the penetration of our products in existing markets, expand existing products into new markets, and develop and launch new products into current and adjacent markets. Our strategy is to maintain a leadership position by delivering robotic technology-based automated home maintenance solutions that delight our customers and anticipate their needs, while extending our technical leadership in the areas of autonomous navigation, manipulation and cloud connectivity and services. With increasing levels of autonomy, continued mobility improvements, more sophisticated sensor suites and advanced human interfaces, our robots will expand in effectiveness and efficiency and reduce the requirements for actual physical operator presence and control. In the area of automated home maintenance, we seek to improve the quality of life with robotic solutions requiring as little human physical intervention as possible.

As part of our 2016 plan, we have made capital allocation choices that will require significant investments in our business during the year in order to drive future revenue diversification for our home robots business unit and further revenue acceleration in 2017, 2018 and beyond. In order to execute this plan we need to continue to strategically invest in a number of areas to:

- Strengthen our marketing capabilities globally and accelerate worldwide consumer adoption of Roomba to maintain our market-leading position in robotic vacuum cleaners;
- Better position ourselves in China to capture an even larger share of the rapidly growing market for robotic floor care;

- Develop our wet floor care business to generate a material, secondary revenue stream;
- Scale our infrastructure to support future connected products;
- Explore, develop and grow adjacent non-floor care home robot products that can generate meaningful diversified revenue streams; and
- Make continued operational improvements that can reduce product and operating costs.

Key elements of our strategy include:

4

Table of Contents

Talent: Investing in our people and our culture. To develop and integrate the best technology and to be the most innovative robotics company, we must attract the most talented people across our functional areas. Our success is directly related to the talents and abilities of our workforce, and to a culture, work environment and leadership that supports its development and growth. Our strategy focuses on transforming our company into one of the most attractive workplaces for those seeking to participate in the robotics field.

Technology: Investing in robotic technology and products to build better robots. A better robot lives in our world by moving around its environment more intelligently, by cooperating with the people it serves more compellingly, and by physically interacting with its surroundings more effectively. We strive to achieve and sustain world leadership with best-in-class technology in the areas of autonomy, navigation, cloud robotics and manipulation. Our superiority in user experience comes from leveraging the powerful capabilities of the connected world combined with thoughtful, intuitive design. We are committed to developing, maturing and integrating these technologies to support our business and make these a reality in our products. We implement these technologies with strict cost requirements to support our high-margin, profitable business model.

Tempo: Investing to improve our agility, speed and operational efficiency. We strive to increase our pace of innovation and bring compelling products to market more quickly in a cost-effective and highly reliable form. We are committed to refining our innovation and product development culture and processes to deliver results faster by increasing the pace of development, gaining efficiencies through designing and leveraging modular architecture and reusable hardware and software components across products, and utilizing remote software updates and cloud computing to provide rapid cycles for release of new features in the installed base of our products.

Brand. We invest in building a company with a vision, that strives to solve difficult problems, and empowers people to do more. We strive to achieve this image by designing high-quality robots with a recognizable look and feel and a streamlined ease of use, by employing impactful marketing, and by continuing to give back to the community. We invest in building and advertising one unified, global brand.

Technology

We are focused on behavior-based, artificially-intelligent systems developed to meet customer requirements in multiple market segments. Our systems are designed to move around their environments intelligently, by cooperating with the people they serve and by physically interacting with their surroundings.

Our robots rely on technology related to navigation, cloud robotics and manipulation to accomplish their missions autonomously.

Autonomy. Our robots employ intelligent autonomy because, without autonomy, robots require continuous human attention. Autonomy requires, among other things, advanced navigation and dynamically updated mapping. We seek to achieve and sustain a leadership position in navigation and mapping to enable a higher level of autonomy.

Navigation. Our mobile robots navigate through their environment in a variety of ways. Some do it simply by reacting to encounters with obstacles. Others use more sophisticated means that make use of maps to plan out paths, track their travel, and determine their location in the environment. Intelligent navigation empowers our robots to operate autonomously with purposeful intent. Autonomous navigation is the key enabler for our latest products.

Cloud Robotics. Connectivity and cloud services are important because they can leverage additional computational resources and capabilities. Cloud robotics refers to cloud-based shared services that solve robotic challenges and enhance robots' capabilities. By using the power of off-board computing and storage, it is possible to develop algorithms that aid with object recognition, post-process and store large maps, and share data between multiple robots operating in the same environment. Cloud robotics will allow our robots to plan more intelligently, be more productive and keep getting smarter as they are used.

Manipulation. Manipulation means physically interacting with the world to move or control objects. It is ultimately what sets robots apart from any other technology.

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

Table of Contents

Products

Historically, we have designed and marketed robots for the consumer and defense and security markets. Upon completion of the divestiture of our defense and security business unit, we will be primarily focusing on the consumer market. With over two decades of leadership in the robot industry, we remain committed to establishing robot and software platforms for invention and discovery and creating robots that improve the standards of living worldwide.

Consumer Products

We sell various products that are designed for use in and around the home. Our current consumer products are focused on both indoor and outdoor cleaning applications. We believe our consumer products provide value to our customers by delivering a better way to clean and by freeing people from repetitive home cleaning tasks. In order to ensure the continued acceptance of our robots we will continue to invest in technology necessary to further improve their cleaning capabilities.

We currently offer multiple Roomba floor vacuuming robots with varying price points ranging from $375 to $899 based upon features and performance characteristics. Our Roomba robot's compact disc shape allows it to clean under kick boards, beds and other furniture, resulting in cleaner floors since the Roomba can access more of the floor than standard upright vacuum cleaners. In addition, Roomba eliminates the need to manually vacuum -- it cleans automatically upon the push of a button or through scheduling. In September 2015, we launched our newest robot, Roomba 980, our first connected robot. Roomba 980 delivers entire level cleaning through smart navigation, recharging as needed and resumes until finished. The iRobot HOME App allows consumers the ability to conveniently schedule cleanings at anytime from anywhere. The Roomba 600 series robots offer a three-stage cleaning system which thoroughly vacuums every section of the floor multiple times, as well as AeroVac technology and improved brush design enabling the robot to better handle fibers like hair, pet fur, lint and carpet fuzz. The Roomba 700 series robots offer improved debris pick up, a larger debris bin that vigorously pulls debris and hair off brushes into the bin, and dual air filters that capture dust particles as fine as 0.3 microns. The Roomba 800 series robots offer our AEROForce technology which incorporates brushless, counter-rotating extractors that amplify suction for superior performance over bristle brushes, while requiring less maintenance than previous Roomba models.

We currently offer the Braava automatic floor mopping robots designed exclusively for hard surface floors with a price of $299. These robots provide a different cleaning approach than our Roomba products. The Braava automatically dusts and damp mops hard surface floors using popular cleaning cloths or our specially designed reusable microfiber cloths, and includes a special reservoir that dispenses liquid throughout the cleaning cycle to keep the cloth damp.

Our Scooba 450 floor scrubbing robot has a price point of $599. Unlike a conventional mop that spreads dirty water on the floor, Scooba will apply only fresh water and cleaning solution to the floor from a clean tank. Scooba will clean dirt and grime, is safe for use on all sealed, hard floor surfaces, including wood and tile, and is smart enough to avoid carpet. Our Mirra Pool Cleaning Robot is used to clean residential pools and removes debris as small as two microns from pool floors, walls and stairs. Mirra is brought to market under the iRobot brand through a relationship with Aquatron, Inc., which developed the pool cleaning robots. 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.

Defense and Security Products

As noted above, we expect to complete the divestiture of our defense and security business unit during the first quarter of 2016. In the defense and security product markets, we currently offer several unmanned ground vehicles. Our tactical ground robots include the combat-tested 510 PackBot, the 310 SUGV, the 110 FirstLook small, light, throwable robot, and the 710 Kobra multi-purpose robot capable of carrying heavy payloads. The PackBot, SUGV, FirstLook, and Kobra robots comprise a family of robots using many common platform components and offer our patented flipper technology that enables robots to easily climb stairs, navigate rubble, and penetrate inaccessible areas. These robots, which are beginning to utilize the uPoint Multi-Robot Control system, a universal control system for our line of defense and security robots, are designed to keep war fighters and public safety officials out of harm's way and are designed for high-performance, durability and ease of use while performing search, reconnaissance, mapping, bomb disposal and other dangerous missions. As of January 2, 2016, we have delivered approximately 6,000 robots to military and civil defense forces and research communities worldwide. The robots are currently priced between approximately $20,000 and $600,000 per unit, depending on model, configuration and quantities ordered.

We have continued to refine the PackBot product line, focusing on enhanced modularity and providing new capabilities to support a variety of mission scenarios. Our unique Aware 2 software is incorporated into the advanced 510 PackBot chassis and operator control unit. As a result, PackBot can support multiple configurations and payloads with the same chassis and operator control unit, providing customers with a single robot capable of performing a variety of missions. We also utilize Configure-To-Order (CTO) procurement options for our commercial 510 PackBot, allowing customers to tailor the product to

Table of Contents

their specific mission needs. The combined benefits of the Aware 2 software and CTO procurement options establish the 510 PackBot as a truly modular multi-mission robotic platform.

The 110 FirstLook is an expandable, lightweight robot that performs persistent observation and investigates dangerous and hazardous material while keeping its operator out of harm's way. The 310 SUGV is a lightweight, backpackable robot well-suited to dismounted operations. It has a modular design that accommodates a wide range of optional payloads and sensors, including a dexterous manipulator, and can easily climb stairs, roll over obstacles and enter inaccessible and dangerous areas. The 710 Kobra is a powerful, rugged, fast robot that supports or carries multiple and heavy payloads, and can lift up to 330 pounds.

Remote Presence Products

We currently have two products based upon our Ava mobile robotics platform. The U.S. Food and Drug Administration approved RP-VITA telemedicine robot expands the reach of medical care by connecting physicians with patients from anywhere in the world. The RP-VITA combines the latest in autonomous navigation and mobility technologies developed by iRobot with the state-of-the-art telemedicine and electronic health record integration developed by InTouch Health. The RP-VITA, which is sold to healthcare customers by InTouch Health, was introduced in 2012 and began shipping in early 2013. Our Ava 500 Video Collaboration robot, which we began selling in 2014, delivers autonomous telepresence to the enterprise market, enabling remote workers to more personally collaborate throughout the workplace. The Ava 500 blends together our autonomous navigation capabilities with Cisco's TelePresence to enable people working off-site to participate in meetings, presentations and events where movement and location spontaneity are important.

Strategic Alliances

In addition to our internal technology development, we leverage relevant robotic technologies through licensing, acquisitions and/or other partnerships. These strategic alliances are an important part of our product development and distribution strategies. We rely on strategic alliances to provide technology, complementary product offerings and increased and quicker access to markets. We seek to form relationships with organizations that can provide best-in-class technology or market advantages for establishing iRobot technology in new market segments.

In 2011, we signed a joint development and licensing agreement with InTouch Health, a leading remote presence telemedicine solution provider, which resulted in the introduction in 2012 of the RP-VITA, the first autonomous navigation remote presence robot to receive U.S. Food and Drug Administration clearance for use in hospitals. In 2013, we signed a joint marketing agreement and have worked in close alliance with Cisco to bring our enterprise-grade Ava 500 Video Collaboration robot to market. The Ava 500 blends together our autonomous navigation capabilities with Cisco's TelePresence to enable people working off-site to participate in meetings, presentations and events where movement and location spontaneity are important. We continue to explore strategic partnership opportunities for our remote presence technology.

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

Sales and Distribution Channels

We sell our products through distinct sales channels to the consumer, defense and security, telemedicine, and video collaboration markets. For the fiscal years ended January 2, 2016, December 27, 2014 and December 28, 2013, sales to non-U.S. customers accounted for 56.0%, 60.9% and 59.5% of total revenue, respectively. For the fiscal years ended January 2, 2016, December 27, 2014 and December 28, 2013, U.S. federal government orders, contracts and subcontracts accounted for 5.1%, 4.3% and 6.2% of total revenue, respectively. For the years ended January 2, 2016, December 27, 2014 and December 28, 2013, we generated an aggregate of 26.0%, 29.8% and 33.2% of our revenue, respectively, from our home robots distributor in Japan (Sales on Demand Corporation) and a network of affiliated European distributors of our home robots (Robopolis SAS).

Home Robots

In the United States and Canada, we sell our consumer products through a network of national retailers. In 2015, this network consisted of more than 60 retailers which often sell either one or some combination of our products. Certain smaller domestic retail operations are supported by distributors to whom we sell our products directly. In support of sales in the United States and Canada, we maintain an in-house sales and product management team. Outside of the United States and Canada, our products have been sold in more than 50 countries, primarily through a network of in-country distributors who resell to retail stores in their respective countries. These distributors are supported by our international sales and product marketing team.

Table of Contents

Our retail and distributor networks are our primary distribution channels for our consumer products. We also offer products direct-to-consumer through our domestic and international on-line stores, representing 6.1%, 6.1% and 5.9% of total home robots business unit revenue for fiscal 2015, 2014 and 2013, respectively. We have established valuable databases and customer lists that allow us to target directly those consumers most likely to purchase a new robot or upgrade. We believe we maintain a close connection with our customers in each of our markets, which provides an enhanced position from which to improve our distribution and product offerings.

Defense and Security

As noted above, we expect to complete the divestiture of our defense and security business unit during the first quarter of 2016. We currently sell our defense and security products directly to end users and indirectly through prime contractors and distributors. While the majority of defense and security products have been sold to date to various operations within the U.S. federal government, we also sell to state and local agencies as well as to international government organizations, research labs, nuclear and industrial companies and universities. Our military products are sold overseas in compliance with the International Traffic in Arms Regulations, or ITAR. We have sold our products to the governments of various countries in the past several years, including the United Kingdom, France, Germany, Sweden, Norway, Italy, Brazil, Pakistan, Israel, Australia, Republic of Korea, Singapore, Bosnia, Lithuania, Qatar, Taiwan, South Africa and Canada.

Remote Presence

The RP-VITA telemedicine robot, which was jointly developed with InTouch Health and incorporates our Ava mobile robotics platform, is sold to healthcare customers by InTouch Health. Our Ava 500 Video Collaboration robot, which incorporates our Ava mobile robotics platform and Cisco’s TelePresence, is available from certified Cisco partners on a limited basis.

Customer Service and Support

We also provide ongoing customer service and support. Consumer customer service representatives, the majority of whom are employees of outsourced service organizations or our distribution partners, are extensively trained on the technical intricacies of our consumer products. Defense and security customer representatives are usually former military personnel who are experienced in logistical and technical support requirements for military operations. Customer service for the RP-VITA product is provided by InTouch Health. Customer service for the Ava 500 is provided by iRobot.

Marketing and Brand

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

Our marketing strategy is to increase our brand awareness and associate the iRobot brand with innovation, reliability, safety and value. Our sales and marketing expenses represented 15.9%, 15.5% and 14.7% of our total revenue in 2015, 2014 and 2013, respectively. We expect to continue to invest in national advertising, consumer and industry trade shows, direct marketing and public relations to further build brand awareness.

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

Our innovative robots and public relations campaigns have generated extensive press coverage, and iRobot and our consumer robots have won several awards. Through these efforts, we have been able to build our brand, and we expect that our reputation for innovative products and customer support will continue to play a significant role in our growth and success.

Manufacturing

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

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

We outsource the manufacturing of our consumer products to four contract manufacturers, each of which manufactures at a single plant in China. We outsource the manufacturing of our defense and security robots to two contract manufacturers, both of which are located in the United States.

Research and Development

We believe that our future success depends upon our ability to continue to develop new products and product accessories, and enhancements to and applications for our existing products. For the years ended January 2, 2016, December 27, 2014 and December 28, 2013, our research and development expenses were $76.1 million, $69.4 million and $63.6 million, or 12.3%, 12.5% and 13.1% of revenue, respectively. We intend to continue our investment in research and development to respond to and anticipate customer needs, and to enable us to introduce new products over the next few years that will continue to address our existing and adjacent market sectors.

Our research and development is conducted by teams dedicated to particular projects. Our research and development efforts are primarily located at our headquarters in Bedford, Massachusetts and our office in Pasadena, California.

Competition

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

Our competitors include developers of robot floor cleaning products and developers of small unmanned ground vehicles.

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

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

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

Intellectual Property

We believe that our continued success depends in large part on our proprietary technology, the intellectual skills of our employees and the ability of our employees to continue to innovate. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as confidentiality agreements, to establish and protect our proprietary rights. As part of the sale of our defense and security business, we will transfer to the buyer ownership of certain of our intellectual property related to the defense and security business, including patents, patent applications and trademarks.

As of January 2, 2016, we held 375 U.S. patents, more than 350 foreign patents, additional design registrations, and more than 500 patent applications pending worldwide. Our U.S. patents will begin to expire in 2019. We will continue to file and prosecute patent (or design registration, as applicable) applications when and where appropriate to attempt to protect our rights in our proprietary technologies. We also encourage our employees to continue to invent and develop new technologies so as to maintain our competitiveness in the marketplace. It is possible that our current patents, or patents which we may later acquire, may be successfully challenged or invalidated in whole or in part. It is also possible that we may not obtain issued patents for our pending patent applications or other inventions we seek to protect. In that regard, we sometimes permit certain intellectual property to lapse or go abandoned under appropriate circumstances, and due to uncertainties inherent in prosecuting patent applications, sometimes patent applications are rejected and we subsequently abandon them. It is also possible that we may not develop proprietary products or technologies in the future that are patentable, or that any patent issued to us may not provide us with any competitive advantages, or that the patents of others will harm or altogether preclude our ability to do business.

Our registered U.S. trademarks include iRobot, Roomba, Ava, Scooba, Mint, ViPR, NorthStar, Create, PackBot, FirstLook, iAdapt, Aware, Home Base, Looj, Braava, Kobra, AeroForce, uPoint, AeroVac, Mirra, and Virtual Wall. Our marks iRobot, Roomba, Virtual Wall, Scooba, and certain other trademarks, have also been registered in selected foreign countries.

Table of Contents

Our means of protecting our proprietary rights may not be adequate, and our competitors may independently develop technology that is similar to ours. Legal protections afford only limited protection for our technology. The laws of many countries do not protect our proprietary rights to as great an extent as do the laws of the United States. Despite our efforts to protect our proprietary rights, unauthorized parties have in the past attempted, and may in the future attempt, to copy aspects of our products or to obtain and use information that we regard as proprietary. Third parties may also design around our proprietary rights, which may render our protected products less valuable, if the design around is favorably received in the marketplace. In addition, if any of our products or the technology underlying our products is covered by third-party patents or other intellectual property rights, we could be subject to various legal actions. We cannot assure you that our products do not infringe patents held by others or that they will not in the future. We have received in the past communications from third parties relating to technologies used in our various robot products that have alleged infringement of patents or violation of other intellectual property rights. In response to these communications, we have contacted these third parties to convey our good faith belief that we do not infringe the patents in question or otherwise violate those parties' rights. Although there have been no additional actions or communications with respect to these allegations, we cannot assure you that we will not receive further correspondence from these parties, or not be subject to additional allegations of infringement from others. Litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity, misappropriation, or other claims. Any such litigation could result in substantial costs and diversion of our resources. Moreover, any settlement of or adverse judgment resulting from such litigation could require us to obtain a license to continue to use the technology that is the subject of the claim, or otherwise restrict or prohibit our use of the technology. Any required licenses may not be available to us on acceptable terms, if at all. If we attempt to design around the technology at issue or to find another provider of suitable alternative technology to permit us to continue offering applicable software or product solutions, our continued supply of software or product solutions could be disrupted or our introduction of new or enhanced software or products could be significantly delayed.

Regulations

We are subject to various government regulations, including various U.S. federal government regulations as a contractor and subcontractor to the U.S. federal government. Following closing of the sale of our defense and security business unit, we will be subject to certain of these regulations only as they pertain to matters related to our operation of the defense and security business unit prior to the sale. Among the most significant U.S. federal government regulations currently affecting our business are:

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

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

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

Table of Contents

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

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

Defense and Security Product Backlog

Our defense and security product backlog consists of written purchase orders or contracts received from our defense and security customers. Total backlog of product sales to defense and security customers, which includes federal, state, local and foreign governments, and non-government customers, as of January 2, 2016, December 27, 2014 and December 28, 2013, amounted to approximately $10.5 million, $18.2 million and $8.8 million, respectively. There can be no assurance that any of our backlog will result in revenue. At the closing of the sale of our defense and security business unit, all defense and security product backlog will transfer to the buyer.

Employees

As of January 2, 2016, we had 622 full-time employees located in the United States and abroad. We believe that we have a good relationship with our employees.

Available Information

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

ITEM 1A. RISK FACTORS

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

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

Robots represent a new and emerging market. Accordingly, our business and future prospects are difficult to evaluate. We cannot accurately predict the extent to which demand for consumer robots will increase, if at all. You should consider the challenges, risks and uncertainties frequently encountered by companies using new and unproven business models in rapidly evolving markets. These challenges include our ability to:

- generate sufficient revenue and gross margin to maintain profitability;
- acquire and maintain market share in our consumer and defense markets;
- attract and retain customers of our consumer robots;
- attract and retain additional engineers and other highly-qualified personnel;
- expand our product offerings beyond our existing robots; and
- adapt to new or changing policies and spending priorities of governments and government agencies.

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

Table of Contents

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

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

- the size, timing and mix of orders from retail stores and international distributors for our home robots;
- the mix of products that we sell in the period;
- disruption of supply of our products from our manufacturers;
- disruptions to our supply chain due to inclement weather, labor disruptions or other factors beyond our control;
- seasonality in the sales of our products;
- unanticipated costs incurred in the introduction of new products;
- costs and availability of labor and raw materials;
- costs of freight;
- changes in our rate of returns for our consumer products;
- our ability to introduce new products and enhancements to our existing products on a timely basis;
- warranty costs associated with our consumer products;
- the size and timing of orders from military and other government agencies;
- the amount of government funding and the political, budgetary and purchasing constraints of our government agency customers; and
- cancellations, delays or contract amendments by government agency customers.

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

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

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

Because we are a global business that in 2015 generated approximately 56% of our total revenue from sales to customers outside of the United States, we are subject to a number of additional risks including foreign currency fluctuations. These fluctuations may make our products more expensive to our distributors, which in turn may impact sales directly or the ability or willingness of our distribution partners to invest in growing product demand.

Table of Contents

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

For the years ended January 2, 2016, December 27, 2014 and December 28, 2013, we derived 90.7%, 91.1% and 87.8% of our total revenue from our consumer robots, respectively. For the foreseeable future, we expect that a significant portion of our revenue will be derived from sales of consumer robots in general and home floor care products in particular. Accordingly, our future success depends upon our ability to further penetrate the consumer home care market, to enhance our current consumer products and develop and introduce new consumer products offering enhanced performance and functionality at competitive prices. The development and application of new technologies involve time, substantial costs and risks. Our inability to achieve significant sales of our newly introduced robots, or to enhance, develop and introduce other products in a timely manner, or at all, would materially harm our sales growth and operating results.

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

We have signed a definitive agreement to divest our defense and security business unit. If we are unable to consummate this transaction, we may be subject to significant reputational, financial, and operational consequences.

On February 2, 2016, we entered into an Asset Purchase Agreement with iRobot Defense Holdings, Inc., a recently-formed portfolio company of Arlington Capital Partners, which provides for the sale of our defense and security business unit. Consummation of this transaction is subject to the satisfaction of customary closing conditions for transactions of this type. If these closing conditions are not satisfied, Buyer may not be obligated to consummate the purchase of our defense and security business unit. We believe that, if this transaction is not completed, our continued operation of our defense and security business unit may be adversely affected as a result of the public disclosure of our intention to divest this business unit, including harming relationships with key customers and suppliers and our ability to retain key employees within the defense and security business unit. In addition, if the transaction is not consummated, we may be unable to enter into a similar transaction with another party or may be unable to enter into a transaction with financial or other terms as favorable as those provided in the asset purchase agreement with the buyer.

Although we have signed a definitive agreement to divest our defense and security business unit, we currently depend on the U.S. federal government for a portion of our revenue, and any unexpected reduction in the amount of business that we do with the U.S. federal government would negatively impact our operating results and financial condition.

For the years ended January 2, 2016, December 27, 2014 and December 28, 2013, we derived 5.1%, 4.3% and 6.2% of our total revenue, respectively, directly or indirectly, from the U.S. federal government and its agencies. If we are unable to complete the divestiture of our defense and security business unit, further reduction in the amount of revenue that we derive from a limited number of U.S. federal government agencies without an offsetting increase in new sales to other customers would have a material adverse effect on our operating results.

Specifically, the defense industry in which we operate is dependent upon the level of equipment expenditures by the armed forces of countries throughout the world, and especially those of the United States, which represents a significant portion of world-wide defense expenditures. In prior years, the war on terror increased the level of equipment expenditures by the U.S. armed forces; however, this level of spending does not appear to be sustainable in light of current government spending priorities.

If we are unable to complete the divestiture of our defense and security business unit, future sales of our military robots will depend largely on our ability to secure contracts with the U.S. military under its robot programs. We expect that there will continue to be only a limited number of programs under which U.S. federal government agencies will seek to fund the development of, or purchase, robots. Moreover, it is difficult to predict the timing of the award of government contracts and our revenue could fluctuate significantly based on the timing of any such awards.

Table of Contents

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

We currently depend largely on several single source contract manufacturers, for the manufacture of our various families of home care and defense products. All contract manufacturers for our home robots are located in China. These manufacturers supply substantially all of the raw materials and provide all facilities and labor required to manufacture our products. If these companies were to terminate their arrangements with us or fail to provide the required capacity and quality on a timely basis, we would be unable to manufacture our products until replacement contract manufacturing services could be obtained or volume transferred to an alternative manufacturing partner, each of which is a costly and time-consuming process. We cannot assure you that we would be able to establish alternative manufacturing arrangements on acceptable terms or in a timely manner.

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

- lack of direct control over production capacity and delivery schedules;
- lack of direct control over quality assurance, manufacturing yields and production costs;
- lack of enforceable contractual provisions over the production and costs of consumer products;
- risk of loss of inventory while in transit;
- risks associated with international commerce, including unexpected changes in legal and regulatory requirements, changes in tariffs and trade policies, risks associated with the protection of intellectual property and political and economic instability; and
- our attempts to add additional manufacturing resources may be significantly delayed and thereby create disruptions in production of our products.

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

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

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

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

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

We have recently begun to spend significant amounts on advertising and other marketing campaigns, which may not be successful or cost effective.

We have recently begun to spend significant amounts on advertising and other marketing campaigns, such as television, print advertising, and social media, as well as increased promotional activities, to acquire new customers, and we expect our marketing expenses to increase in the future as we continue to spend significant amounts to increase awareness of our home robot products. For the years ended January 2, 2016, December 27, 2014 and December 28, 2013, sales and marketing expenses were $97.8 million, $86.1 million and $71.5 million, respectively, representing approximately 15.9%, 15.5% and 14.7% of our revenue, respectively. While we seek to structure our advertising campaigns in the manner that we believe is most likely to encourage people to purchase our products, we may fail to identify advertising opportunities that satisfy our anticipated return on advertising spend as we scale our investments in marketing or to fully understand or estimate the conditions and behaviors that drive customer behavior. If any of our advertising campaigns prove less successful than anticipated in attracting customers, we may not be able to recover our advertising spend, and our revenue may fail to meet market expectations, either of which could have an adverse effect on our business. There can be no assurance that our advertising and other marketing efforts will result in increased sales of our products.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

We collect, store, process, and use customer data, including certain personal and robot-specific information, which subjects us to governmental regulation and other legal obligations related to privacy, information security, and data protection, and any security breaches or our actual or perceived failure to comply with such legal obligations could harm our business.

Our latest Roomba products, as well as additional products in development, collect, store, process, and use certain customer data, which subjects us to governmental regulation and other legal obligations related to privacy, information security, and data protection, and any security breaches or our actual or perceived failure to comply with such legal obligations could harm our business. We collect, store, process, and use personal information and other user data, and we rely on third parties that are not directly under our control to do so as well. If our security measures, some of which are managed by third parties, are breached or fail, unauthorized persons may be able to obtain access to or acquire sensitive user data, which may expose us to a risk of loss, litigation, or regulatory proceedings. Depending on the nature of the information compromised, in the event of a data breach or other unauthorized access to or acquisition of our user data, we may also have obligations to notify users about the incident, and we may need to provide some form of remedy, such as a subscription to a credit monitoring service, for the individuals affected by the incident. A growing number of legislative and regulatory bodies have adopted consumer notification requirements in the event of unauthorized access to or acquisition of certain types of personal data. Such breach notification laws continue to evolve and may be inconsistent from one jurisdiction to another. Complying with these obligations could cause us to incur substantial costs and could increase negative publicity surrounding any incident that compromises user data.

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

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

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

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

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

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

Table of Contents

compete with us in the commercial sector. If we fail to protect our intellectual property and other proprietary rights, our business, results of operations or financial condition could be materially harmed.

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

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

We believe that developing and maintaining awareness of the iRobot brand is critical to achieving widespread acceptance of our existing and future products and is an important element in attracting new customers. Furthermore, we expect the importance of global brand recognition to increase as competition develops. If customers do not perceive our products to be of high quality, our brand and reputation could be harmed, which could adversely impact our financial results. In addition, brand promotion efforts may not yield significant revenue or increased revenue sufficient to offset the additional expenses incurred in building our brand. Maintaining, protecting, and enhancing our brand may require us to make substantial investments, and these investments may not be successful. If we fail to successfully maintain, promote, and position our brand and protect our reputation, or if we incur significant expenses in this effort, our business, financial condition and operating results may be adversely affected.

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

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

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

As a contractor and subcontractor to the U.S. federal government, we are subject to and must comply with various government regulations that impact our operating costs, profit margins and the internal organization and operation of our business. Following closing of the sale of our defense and security business unit, we will be subject to certain of these regulations only as they pertain to matters related to our operation of the defense and security business unit prior to the sale. Among the most significant regulations currently affecting our business are:

- the Federal Acquisition Regulations and supplemental agency regulations, which comprehensively regulate the formation and administration of, and performance under government contracts;
- the Truth in Negotiations Act, which requires certification and disclosure of all cost and pricing data in connection with contract negotiations;
- the Cost Accounting Standards, which impose accounting requirements that govern our right to reimbursement under cost-based government contracts;
- the Foreign Corrupt Practices Act, which prohibits U.S. companies from providing anything of value to a foreign official to help obtain, retain or direct business, or obtain any unfair advantage;
- the False Claims Act and the False Statements Act, which, respectively, impose penalties for payments made on the basis of false facts provided to the government, and impose penalties on the basis of false statements, even if they do

not result in a payment;

- laws, regulations and executive orders restricting the use and dissemination of information classified for national security purposes and the exportation of certain products and technical data;
- Certain contracts from the U.S. federal government may require us to maintain certain certifications including but not limited to AS9100 and CMMI;

18

- Contractor Purchasing Systems review (CPSR) requirements, which evaluate the efficiency and effectiveness with which we spend U.S. Government funds; and
- The sale of our products in countries outside the United States is regulated by the governments of those countries. While compliance with such regulation will generally be undertaken by our international distributors, we may assist with such compliance and in certain cases may be liable if a distributor fails to comply.

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

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

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

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

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

In addition, charges to earnings as a result of acquisitions may adversely affect our operating results in the foreseeable future, which could have a material and adverse effect on the market value of our common stock. In particular we have allocated the cost of acquiring businesses to the individual assets acquired and liabilities assumed, including various identifiable intangible assets such as acquired technology, acquired trade names and acquired customer relationships based on their respective fair values. Our estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain. After we complete an acquisition, the following factors could result in material charges and adversely affect our operating results and may adversely affect our cash flows:

- costs incurred to combine the operations of businesses we acquire, such as transitional employee expenses and employee retention, redeployment or relocation expenses;
- impairment of goodwill or intangible assets;
- amortization of intangible assets acquired;

Table of Contents

- a reduction in the useful lives of intangible assets acquired;
- identification of or changes to assumed contingent liabilities, both income tax and non-income tax related after our final determination of the amounts for these contingencies or the conclusion of the measurement period (generally up to one year from the acquisition date), whichever comes first;
- charges to our operating results to eliminate certain duplicative pre-merger activities, to restructure our operations or to reduce our cost structure;
- charges to our operating results resulting from expenses incurred to effect the acquisition; and
- charges to our operating results due to the expensing of certain stock awards assumed in an acquisition.

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

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

Cybersecurity risks could adversely affect our business and disrupt our operations.

The threats to network and data security are increasingly diverse and sophisticated. Despite our efforts and processes to prevent breaches, our devices, as well as our servers, computer systems, and those of third parties that we use in our operations are vulnerable to cybersecurity risks, including cyber attacks such as viruses and worms, phishing attacks, denial-of-service attacks, and similar disruptions from unauthorized tampering with our servers and computer systems or those of third parties that we use in our operations, which could lead to interruptions, delays, loss of critical data, and loss of consumer confidence. In addition, we may be the target of email scams that attempt to acquire sensitive information or company assets. Despite our efforts to create security barriers to such threats, we may not be able to entirely mitigate these risks. Any cyber attack that attempts to obtain our data and assets, disrupt our service, or otherwise access our systems, or those of third parties we use, if successful, could adversely affect our business, operating results, and financial condition, be expensive to remedy, and damage our reputation.

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

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

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

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

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

We derive, and expect to continue to derive, a significant portion of our revenue from international sales in various European and Far East markets, and Canada. For the fiscal years ended January 2, 2016, December 27, 2014 and December 28, 2013, sales to non-U.S. customers accounted for 56.0%, 60.9% and 59.5% of total revenue, respectively. Our international revenue and operations are subject to a number of material risks, including, but not limited to:

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

- difficulties in enforcing agreements and collecting receivables through foreign legal systems and other relevant legal issues;
- fewer legal protections for intellectual property;
- foreign and U.S. taxation issues, tariffs, and international trade barriers;
- difficulties in obtaining any necessary governmental authorizations for the export of our products to certain foreign jurisdictions;
- potential fluctuations in foreign economies;
- government currency control and restrictions on repatriation of earnings;
- fluctuations in the value of foreign currencies and interest rates;
- general economic and political conditions in the markets in which we operate;
- domestic and international economic or political changes, hostilities and other disruptions in regions where we currently operate or may operate in the future;
- changes in foreign currency exchange rates;
- different and changing legal and regulatory requirements in the jurisdictions in which we currently operate or may operate in the future; and
- outside of the United States, we primarily rely on a network of exclusive distributors, some of whom may be operating without written contracts.

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

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

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

The effects of new regulations relating to conflict minerals may adversely affect our business.

On August 22, 2012, under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the SEC adopted new requirements for companies that use certain minerals and metals, known as conflict minerals, in their products, whether or not these products are manufactured by third parties. These requirements require companies to research, disclose and report whether or not such minerals originate from the Democratic Republic of Congo and adjoining countries. We have to research whether such minerals are used in the manufacture of our products. However, the implementation of these requirements could adversely affect the sourcing, availability and pricing of such minerals if they are found to be used in the manufacture of our products. In addition, we continue to incur additional costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant minerals and metals used in our products. Since our supply chain is complex, we may not be able to sufficiently verify the origins for these minerals and metals used in our products through the due diligence procedures that we implement, which may harm our reputation. In such event, we may also face difficulties in satisfying customers who require that all of the components of our products are certified as conflict mineral free.

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

From time to time, we are audited by various federal, state, local and foreign authorities regarding income tax matters. Significant judgment is required to determine our provision for income taxes and our liabilities for federal, state, local and foreign taxes. Although we believe our approach to determining the appropriate tax treatment is supportable and in accordance with relevant authoritative guidance it is possible that the final tax authority will take a tax position that is materially different than that which is reflected in our income tax provision. Such differences could have a material adverse effect on our income tax provision or benefit, in the reporting period in which such determination is made and, consequently, on our results of operations, financial position and/or cash flows for such period.

Table of Contents

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

Our business could be negatively affected as a result of activist investors.

In the event that any activist investor makes proposals concerning our operations, governance or other matters, or seeks to change our board of directors, our review and consideration of such proposals may be a significant distraction for our management and employees, and could require the expenditure of significant time and resources by us. We have received significant attention from an activist investor, Red Mountain Capital Partners, or RMCP, since April 2015. On February 18, 2016, RMCP delivered notice to us that it plans to nominate two director candidates for election to our board of directors at our 2016 annual meeting of stockholders. As a result of this potential proxy contest, our business could be adversely affected, including incurring significant costs, diverting the attention of our management and employees, and making it more difficult to attract and retain qualified personnel and business partners.

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters are located in Bedford, Massachusetts, where we lease approximately 203,000 square feet. This lease expires on May 1, 2020. We lease smaller facilities in Hong Kong; Guangzhou, China; London, England; and Pasadena, California. We do not own any real property. We believe that our leased facilities and additional or alternative space available to us will be adequate to meet our needs for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

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

Table of Contents

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

Table of Contents

PART II

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

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

	High	Low
Fiscal 2014:		
First quarter	$48.36	$32.93
Second quarter	$44.43	$30.11
Third quarter	$42.00	$30.24
Fourth quarter	$38.10	$29.73
Fiscal 2015:		
First quarter	$35.27	$28.05
Second quarter	$34.93	$31.61
Third quarter	$33.27	$27.55
Fourth quarter	$37.71	$28.27

As of February 16, 2016, there were approximately 28,992,738 shares of our common stock outstanding held by approximately 125 stockholders of record and the last reported sale price of our common stock on the NASDAQ Global Market on February 16, 2016 was $30.72 per share.

Issuer Purchases of Equity Securities

The following is a summary of our repurchases of our common stock during the three months ended January 2, 2016:

Period	(a) Total number of Shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Fiscal month beginning September 27, 2015 and ended October 24, 2015	228,186	$28.87	228,186	$23,100,000
Fiscal month beginning October 25, 2015 and ended November 21, 2015	—	—	—	23,100,000
Fiscal month beginning November 22, 2015 and ended January 2, 2016	169,344	32.94	169,344	17,500,000
Total	397,530	$30.61	397,530	$17,500,000

(1) Consists of shares of our common stock. All repurchases were made in open market transactions and pursuant to our previously-announced stock repurchase program.

(2) On March 19, 2015, we announced the adoption of our stock repurchase program, which provided that we may purchase up to $50 million of our common stock from May 1, 2015 to April 30, 2016.

Dividend Policy

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

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The selected historical financial data set forth below as of January 2, 2016 and December 27, 2014 and for the years ended January 2, 2016, December 27, 2014 and December 28, 2013 are derived from financial statements, which have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm. Consolidated balance sheets as of January 2, 2016 and December 27, 2014 and the related consolidated statements of income and of cash flows for each of the three years in the period ended January 2, 2016 and notes thereto appear elsewhere in this Annual Report on Form 10-K. The selected historical financial data as of December 28, 2013, December 29, 2012 and December 31, 2011 and for the years ended December 29, 2012 and December 31, 2011 are derived from our financial statements, which have been audited by PricewaterhouseCoopers LLP and which are not included elsewhere in this Annual Report.

In fiscal year 2012, we initiated a reorganization that resulted in, among other things, the centralization of all of our engineering and operations activities. This reorganization was completed at the beginning of fiscal year 2013. In conjunction with this reorganization, we reviewed the financial statement classification of our costs and expenses. As a result of this review, we decided to classify certain expenses differently than had been classified and presented in prior periods to provide a more clear understanding of our financial performance. Because the classification of certain expenses on the income statement changed in fiscal year 2013 as compared to prior periods, we recast the financial results of prior periods in a manner consistent with the fiscal year 2015, 2014 and 2013 presentation for comparability purposes. The following selected consolidated financial data reflects the reclassified amounts for the years ended December 29, 2012 and December 31, 2011.

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

	Year Ended				
	January 2, 2016	December 27, 2014	December 28, 2013	December 29, 2012	December 31, 2011
	(In thousands, except earnings per share amounts)				
Consolidated Statements of Income:					
Revenue	$616,778	$556,846	$487,401	$436,244	$465,500
Cost of revenue	327,852	298,791	266,247	241,896	257,847
Gross margin	288,926	258,055	221,154	194,348	207,653
Operating expenses					
Research and development	76,071	69,408	63,649	57,066	60,100
Selling and marketing	97,772	86,091	71,529	66,412	50,477
General and administrative	54,465	49,439	53,358	45,698	43,753
Total operating expenses	228,308	204,938	188,536	169,176	154,330
Operating income	60,618	53,117	32,618	25,172	53,323
Net income	$44,130	$37,803	$27,641	$17,297	$40,191
Net income per common share basic	$1.49	$1.28	$0.97	$0.63	$1.50
Diluted	$1.47	$1.25	$0.94	$0.61	$1.44
Shares used in per common share calculations					
Basic	29,550	29,485	28,495	27,577	26,712
Diluted	30,107	30,210	29,354	28,301	27,924

Table of Contents

	January 2, 2016	December 27, 2014	December 28, 2013	December 29, 2012	December 31, 2011
	(In thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$179,915	$185,957	$165,404	$126,770	$166,308
Short term investments	33,124	36,166	21,954	12,430	17,811
Total assets	521,743	493,213	416,337	354,313	332,213
Total liabilities	104,332	102,777	85,648	78,496	89,255
Total stockholders’ equity	417,411	390,436	330,689	275,817	242,958

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

The information contained in this section has been derived from our consolidated financial statements and should be read together with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, or the Exchange Act, and are subject to the “safe harbor” created by those sections. In particular, statements contained in this Annual Report on Form 10-K that are not historical facts, including, but not limited to statements concerning new product sales, product development and offerings, Roomba, Scooba, Looj, Braava and Mirra products, PackBot tactical military robots, the Small Unmanned Ground Vehicle, FirstLook, Kobra, Ava, our home robots, defense and security robots and remote presence robots business units, 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 terms. Forward-looking statements involve inherent risks and uncertainties, which could cause actual results to differ materially from those in the forward-looking statements. We urge you to consider the risks and uncertainties discussed in greater detail under the heading “Risk Factors” in evaluating our forward-looking statements. We have no plans to update our forward-looking statements to reflect events or circumstances after the date of this report. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made.

Overview

iRobot designs and builds robots that empower people to do more. For 25 years, we have developed proprietary technology incorporating advanced concepts in navigation, mobility, manipulation and artificial intelligence to build industry-leading robots. Our home robots perform time-consuming domestic chores while our defense and security robots perform tasks such as battlefield reconnaissance and bomb disposal, and multi-purpose tasks for law enforcement agencies and first responders, as well as certain commercial users. We sell our robots through a variety of distribution channels, including chain stores and other national retailers, through our on-line store, through value-added distributors and resellers, and to the U.S. military and other government agencies worldwide.

During 2015, we took several steps to become more focused on our well-established home robots business unit to capitalize on the substantial opportunities available to us within consumer markets. First, we entered into an Asset Purchase Agreement on February 2, 2016 with iRobot Defense Holdings, Inc., a recently-formed portfolio company of Arlington Capital Partners, which provides for the sale of our defense and security business unit. The purchase price is up to $45.0 million, of which $30.0 million will be paid at the closing of the transaction, subject to adjustments for working capital and indebtedness as set forth in the purchase agreement, and up to an additional $15.0 million of which may be paid based on 2016 revenue of the defense and security business unit. The transaction is expected to close during the first quarter of 2016. Second, we reallocated research and development resources from a next generation remote presence platform to opportunities in our home robots business unit. These actions were taken to solidify our position as the leader in diversified home robots and to focus on key technologies, with an emphasis on software, that allow our robots to understand the homes in which they operate. It is our intent to continue investing in these critical technologies and the economic opportunities they unlock.

Table of Contents

As of January 2, 2016, we had 622 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 positions us to capitalize on the expected growth in the market for robot-based products. 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 market competition, and our ability to successfully develop and introduce products and product enhancements into both new and existing markets.

During 2015, we launched our first connected robot, Roomba 980. Roomba 980 has navigating and mapping capabilities using vSLAM technology that we acquired as part of our acquisition of Evolution Robotics. Roomba 980 was available on our website, in select retail locations in the U.S. and in Japan, as well as several European markets during fiscal 2015. Roomba 980 will be available in additional domestic and international locations in fiscal 2016.

Our total revenue for 2015 was $616.8 million, which represents an 11% increase from 2014 revenue of $556.8 million. This increase in revenue was largely attributable to a $52.2 million increase in revenue in our home robots business as a direct result of growth in our domestic market. Domestic growth was primarily attributable to increased sales as a result of significant media investments as well as the launch of Roomba 980. International home robots revenue growth slowed compared to fiscal 2014 as a result of negative macroeconomic conditions, specifically in Japan and Russia, offset by a significant growth increase in China. Revenue increased $9.5 million in our defense and security business as compared to 2014, primarily attributable to increased sales of our SUGV robot. During 2015, we recorded a net benefit to revenue and income before income taxes of $6.9 million related to adjustments to our product returns reserves compared to a net benefit to revenue and income before income taxes of $4.3 million and $5.7 million during fiscal 2014. The adjustments recorded in each of these periods resulted from lower product returns experience as compared to estimates used to establish reserves in prior periods, resulting from continued improvements in product quality, especially in our most recently released products. Our home robots revenue represented 91% of our total revenue for both 2015 and 2014. With the expected divestiture of our defense and security business, our revenue for the next few years will be driven by our rapidly growing home robots business.

Our total revenue for 2014 was $556.8 million, which represents a 14% increase from 2013 revenue of $487.4 million. This increase in revenue was largely attributable to a $79.6 million increase in revenue in our home robots business as a direct result of growth in both domestic and international markets, which was primarily driven by expanded distribution of our Roomba 800 series robot worldwide, growth in China and the replacement of the Roomba 500 series robot with the higher-priced Roomba 600 series in club stores. The increase in home robots revenue was partially offset by a decrease in revenue of $4.5 million in our defense and security business related to continued budget reductions within the U.S. government in 2014. We began selling our remote presence robots into the healthcare market and the enterprise market in 2013 and 2014, respectively. However, these sales did not generate meaningful revenue in 2014 or 2013. Our home robots revenue represented 91% of our total 2014 revenue compared to 88% in 2013.

Revenue

We currently derive revenue from product sales and, to a lesser extent, government and commercial research and development contracts. Product revenue is derived from the sale of our various home cleaning robots and defense and security robots and related spares and accessories. Research and development revenue is derived from the execution of contracts awarded by the U.S. federal government, other governments and a small number of other partners.

We currently derive a majority of our product revenue from the sale of our home cleaning robots, and to a lesser extent, our PackBot, FirstLook, SUGV and Kobra defense and security robots, and product life cycle revenue related to these robots. For the fiscal years ended January 2, 2016, December 27, 2014 and December 28, 2013, product revenues accounted for 99.8%, 99.2% and 98.0% of total revenue, respectively. For the fiscal years ended January 2, 2016, December 27, 2014 and December 28, 2013, our funded research and development contracts accounted for approximately 0.2%, 0.8% and 2.0% of our total revenue, respectively.

For the fiscal years ended January 2, 2016, December 27, 2014 and December 28, 2013, approximately 76.6%, 75.7% and 75.3%, respectively, of our home robot product revenue resulted from sales to 15 customers, which were comprised of both domestic retailers and international distributors. Direct-to-consumer revenue generated through our domestic and international on-line stores accounted for 6.1%, 6.1% and 5.9% of our home robot product revenue for the fiscal years ended January 2, 2016, December 27, 2014 and December 28, 2013, respectively. We typically sell our recently launched products direct on-line, and then subsequently offer these products through other channels of distribution.

Table of Contents

For the fiscal years ended January 2, 2016, December 27, 2014 and December 28, 2013, sales to non-U.S. customers accounted for 56.0%, 60.9% and 59.5% of total revenue, respectively.

Our revenue from product sales is generated through sales to our retail distribution channels, our distributor network and to certain U.S. and foreign governments. We recognize revenue from sales of robots under the terms of the customer agreement upon transfer of title and risk of loss to the customer, net of estimated returns, provided that collection is determined to be reasonably assured and no significant obligations remain. During 2015, we recorded a net benefit to revenue and income before income taxes of $6.9 million related to adjustments to our product returns reserves compared to a net benefit to revenue and income before income taxes of $4.3 million and $5.7 million during fiscal 2014. The net adjustments recorded in 2015 and 2014 resulted from lower product returns experience as compared to estimates used to establish reserves in prior periods.

Revenue from our defense and security business unit is occasionally influenced by the September 30 fiscal year-end of the U.S. federal government. In addition, our revenue can be affected by the timing of the release of new products and the size and timing of contract awards from defense and other government agencies. Historically, revenue from consumer product sales has been significantly seasonal, with a majority of our consumer product revenue generated in the second half of the year (in advance of the holiday season). A significant portion of our revenue was recorded in the second half of 2014 and 2015 and we expect this trend to continue into 2016.

Cost of Revenue

Cost of revenue includes the cost of raw materials and labor that go into the development and manufacture of our products as well as manufacturing overhead costs such as manufacturing engineering, quality assurance, logistics, warranty, third-party consulting, travel and associated direct material costs. Additionally, we include overhead expenses such as indirect engineering labor, occupancy costs associated with the project resources, engineering tools and supplies and program management expenses. For the fiscal years ended January 2, 2016, December 27, 2014 and December 28, 2013, total cost of revenue was 53.2%, 53.7% and 54.6% of total revenue, respectively. Raw material costs, which are our most significant cost items, can fluctuate materially on a periodic basis, although many components have been historically stable. Additionally, unit costs can vary significantly depending on the mix of products sold. There can be no assurance that our costs of raw materials will not increase. Labor costs also comprise a significant portion of our cost of revenue. We outsource the manufacture of our home robots to contract manufacturers in China. While labor costs in China traditionally have been favorable compared to labor costs elsewhere in the world, including the United States, they have recently been increasing. In addition, fluctuations in currency exchange rates could increase the cost of labor. Consequently, the labor costs for our home robots could increase in the future.

Gross Margin

Our gross margin as a percentage of revenue varies according to the mix of product and contract revenue, the mix of products sold, total sales volume, the level of defective product returns, and levels of other product costs such as warranty, scrap, re-work and manufacturing overhead. For the years ended January 2, 2016, December 27, 2014 and December 28, 2013, gross margin was 46.8%, 46.3% and 45.4% of total revenue, respectively.

Research and Development Expenses

Research and development expenses consist primarily of:

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

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

For the fiscal years ended January 2, 2016, December 27, 2014 and December 28, 2013, research and development expense was $76.1 million, $69.4 million and $63.6 million, or 12.3%, 12.5% and 13.1% of total revenue, respectively.

Selling, Marketing, General and Administrative Expenses

Our selling, marketing, general and administrative expenses consist primarily of:

- salaries and related costs for sales and marketing personnel;
- salaries and related costs for executives and administrative personnel;

Table of Contents

- advertising, marketing and other brand-building costs;
- customer service costs;
- professional services costs;
- information systems and infrastructure costs;
- travel and related costs; and
- occupancy and other overhead costs.

We anticipate that in 2016, selling, marketing, general and administrative expenses will increase in absolute dollars and as a percentage of revenue and will, for the foreseeable future thereafter, continue to increase in absolute dollars but remain relatively consistent, or decrease slightly, as a percentage of revenue, as we continue to build the iRobot brand.

For the fiscal years ended January 2, 2016, December 27, 2014 and December 28, 2013 selling, marketing, general and administrative expense was $152.2 million, $135.5 million and $124.9 million, or 24.7%, 24.3% and 25.6% of total revenue, respectively.

Fiscal Periods

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

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

We derive our revenue from product sales and, to a lesser extent, government and commercial research and development contracts. We sell products directly to customers and indirectly through resellers and distributors. We recognize revenue from sales of robots under the terms of the customer agreement upon transfer of title and risk of loss to the customer, net of estimated returns, provided that collection is determined to be reasonably assured and no significant obligations remain.

Beginning in the third quarter of 2015, with the introduction of our first connected robot, each sale of a connected robot represents a multi-element arrangement containing the robot, an app and potential future unspecified software upgrades. Revenue is allocated to the deliverables based on their relative selling prices which have been determined using best estimate of selling price (BESP), as we have not been able to establish vendor specific objective evidence (VSOE) or obtain relevant third party evidence (TPE). Revenue allocated to the app and unspecified software upgrades is then deferred and recognized on a straight-line basis over the period in which we expect to provide the upgrades over the estimated life of the robot.

Sales to domestic and Canadian resellers of home robots are typically subject to agreements allowing for limited rights of return, rebates and price protection. We also provide limited rights of returns for direct-to-consumer sales generated through our on-line stores. Accordingly, we reduce revenue for our estimates of liabilities for these rights of return, rebates and price protection at the time the related sale is recorded. These estimates for rights of return are directly based on specific terms and conditions included in the reseller agreements, historical returns experience and various other assumptions that we believe are reasonable under the circumstances. In the case of new product introductions, the estimates for returns applied to the new products are based upon the estimates for the most similar predecessor products until such time that we have enough actual returns experience for the new products, which is typically two holiday returns cycles. At that time, we incorporate that data into the development of returns estimates for the new products. We update our analysis of returns on a quarterly basis. If actual returns differ significantly from our estimates, or if modifications to individual reseller agreements are entered into that impact their rights of returns, such differences could result in an adjustment to previously established reserves and could have a material impact, either favorably or unfavorably, on our results of operations for the period in which the actual returns become known or the reseller agreement is modified. Our international distributor agreements do not currently allow for product returns and, as a result, no reserve for returns is established for this group of customers. 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.

Table of Contents

Under cost-plus-fixed-fee (CPFF) type contracts, we recognize 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 we submit to the Defense Contract Management Agency (DCMA). We submit on an annual basis final indirect billing rates to DCMA based upon actual costs incurred throughout the year. In the situation where our final actual billing rates are greater than the estimated rates currently in effect, we record 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 January 2, 2016, fiscal years 2012 through 2015 are open for audit by DCAA. In the situation where our anticipated actual billing rates will be lower than the provisional rates currently in effect, we record 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 Stock-Based Awards

We recognized $3.4 million of stock-based compensation expense during the fiscal year ended January 2, 2016 for stock options. The unamortized fair value as of January 2, 2016 associated with these grants was $6.4 million with a weighted-average remaining recognition period of 2.83 years.

The risk-free interest rate is derived from the average U.S. Treasury constant maturity rate, which approximates the rate in effect at the time of grant, commensurate with the expected life of the instrument. The dividend yield is zero based upon the fact that we have never paid and have no present intention to pay cash dividends. We utilize company-specific historical data for purposes of establishing expected volatility and expected term.

Based upon the above assumptions, the weighted average fair value of each stock option granted for the fiscal year ended January 2, 2016 was $13.21.

During the fiscal year ended January 2, 2016, we recognized $10.7 million of stock-based compensation associated with restricted stock units. Unamortized expense associated with restricted stock units at January 2, 2016, was $24.3 million.

We have assumed a forfeiture rate for all stock options and restricted stock-based units based on our historical data. In the future, we will record incremental stock-based compensation expense if the actual forfeiture rates are lower than estimated and will record a recovery of prior stock-based compensation expense if the actual forfeitures are higher than estimated.

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

Accounting for Income Taxes

We are subject to taxation in the United States and various states and foreign jurisdictions. The statute of limitations for examinations by the Internal Revenue Service is closed for fiscal years prior to 2012. The statute of limitations for examinations by state tax authorities is closed for fiscal years prior to 2011. Federal carryforward attributes that were generated prior to fiscal year 2012 and state carryforward attributes that were generated prior to fiscal year 2011 may still be adjusted upon examination by the federal or state tax authorities if they either have been or will be used in a period for which the statute of limitations is still open.

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

We monitor the realization of our deferred tax assets based on changes in circumstances, for example, recurring periods of income for tax purposes following historical periods of cumulative losses, generation of tax credits compared to future utilization of credits, or changes in tax laws or regulations. Our income tax provision and our assessment of the ability to realize our deferred tax assets involve significant judgments and estimates. We are currently generating state research credits

Table of Contents

that exceed the amount being utilized. As a result of this trend, a valuation allowance may be needed in the future related to these state tax credits.

As of December 28, 2013, we maintained a valuation allowance of $2.1 million related to certain state tax attributes from the Evolution Robotics, Inc. acquisition. During the year ended December 27, 2014, this valuation allowance was released when the realization of these state tax attributes became more likely than not. As of January 2, 2016, we did not record a valuation allowance as all deferred tax assets are considered realizable.

Warranty

We typically provide a one-year warranty (with the exception of European consumer products which typically have a two-year warranty period, and our defense and security spares and remote presence robots, which typically have a warranty period of less than one year) against defects in materials and workmanship and will either repair the goods, provide replacement products at no charge to the customer or refund amounts to the customer for defective products. We record estimated warranty costs, based on historical experience by product, at the time we recognize product revenue. Actual results could differ from these estimates, which could cause increases or decreases to our warranty reserves in future periods.

Inventory Valuation

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

Long-Lived Assets, including Purchased Intangible Assets

We periodically evaluate the recoverability of long-lived assets, including other purchased intangible assets whenever events and changes in circumstances, such as reductions in demand or significant economic slowdowns in the industry, indicate that the carrying amount of an asset may not be fully recoverable. When indicators of impairment are present, the carrying values of the asset group are evaluated in relation to the future undiscounted cash flows of the underlying business. The net book value of the underlying asset is adjusted to fair value if the sum of the expected discounted cash flows is less than book value. Fair values are based on estimates of market prices and assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates, reflecting varying degrees of perceived risk.

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. We evaluate goodwill for impairment at the reporting unit level (operating segment or one level below an operating segment) annually or more frequently if we believe indicators of impairment exist. In accordance with guidance, we are permitted 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 we conclude that it is more likely than not that the fair value of a reporting unit is 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, we perform 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. We complete the annual impairment evaluation during the fourth quarter each year.

Table of Contents

Overview of Results of Operations

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

	Fiscal Year Ended		
	January 2, 2016	December 27, 2014	December 28, 2013
	(In thousands)		
Revenue	$616,778	$556,846	$487,401
Cost of revenue (1)	327,852	298,791	266,247
Gross margin	288,926	258,055	221,154
Operating expenses			
Research and development (1)	76,071	69,408	63,649
Selling and marketing (1)	97,772	86,091	71,529
General and administrative (1)	54,465	49,439	53,358
Total operating expenses	228,308	204,938	188,536
Operating income	60,618	53,117	32,618
Other income (expense), net	2,353	(708)	(203)
Income before income taxes	62,971	52,409	32,415
Income tax expense	18,841	14,606	4,774
Net income	$44,130	$37,803	$27,641

(1) Stock-based compensation recorded in fiscal 2015, 2014 and 2013 breaks down by expense classification as follows.

	Fiscal Year Ended		
	January 2, 2016	December 27, 2014	December 28, 2013
	(In thousands)		
Cost of revenue	$1,076	$865	$700
Research and development	3,256	3,359	2,700
Selling and marketing	1,457	1,296	1,246
General and administrative	8,394	8,258	8,763

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

	Fiscal Year Ended		
	January 2, 2016	December 27, 2014	December 28, 2013
Revenue	100.0 %	100.0 %	100.0 %
Cost of revenue	53.2	53.7	54.6
Gross margin	46.8	46.3	45.4
Operating expenses			
Research and development	12.3	12.5	13.1
Selling and marketing	15.9	15.5	14.7
General and administrative	8.8	8.9	10.9
Total operating expenses	37.0	36.9	38.7
Operating income	9.8	9.4	6.7
Other income (expense), net	0.5	(0.1)	—
Income before income taxes	10.3	9.3	6.7
Income tax expense	3.1	2.6	1.0
Net income	7.2 %	6.7 %	5.7 %

Table of Contents

Comparison of Years Ended January 2, 2016 and December 27, 2014

Revenue

	Fiscal Year Ended			
	January 2, 2016	December 27, 2014	Dollar Change	Percent Change
	(In thousands)			
Total Revenue	$616,778	$556,846	$59,932	10.8 %

Our revenue increased 10.8% to $616.8 million in fiscal 2015 from $556.8 million in fiscal 2014. Revenue increased $52.2 million, or 10.3%, in our home robots business unit, and $9.5 million, or 20.9%, in our defense and security business unit.

The $52.2 million increase in revenue from our home robots business unit was driven by a 12.1% increase in units shipped, partially offset by a 1.5% decrease in net average selling price. In fiscal 2015, domestic home robots revenue increased $47.3 million, or 25.2%, and international home robots revenue increased $4.9 million, or 1.5%, compared to fiscal 2014. Total home robots shipped in fiscal 2015 were 2,436,000 units compared to 2,174,000 units in fiscal 2014. The increase in domestic home robots revenue was primarily attributable to increased sales as a result of significant investments in advertising media and national promotions as well as the launch of Roomba 980. International home robots revenue growth slowed compared to fiscal 2014 as a result of negative macroeconomic conditions, specifically in Japan and Russia, offset by a significant growth increase in China. The increase in revenue also includes a $1.6 million favorable adjustment associated with the release of marketing allowances to a former customer that went unused and for which the statute of limitations has lapsed. During 2015, we recorded a net benefit to revenue and income before income taxes of $6.9 million related to adjustments to our product returns reserves compared to a net benefit to revenue and income before income taxes of $4.3 million and $5.7 million during fiscal 2014. The net adjustments recorded in each period resulted from lower product returns experience as compared to estimates used to establish reserves in prior periods.

The $9.5 million increase in revenue from our defense and security business unit was driven by a $7.7 million increase in defense and security robot revenue and a $4.1 million increase in product life cycle revenue (spare parts, accessories), partially offset by a $2.3 million decrease in recurring contract revenue generated under research and development contracts. Total defense and security robots shipped in fiscal 2015 were 294 units compared to 265 units in fiscal 2014, while the net average selling price of our defense and security robots increased from approximately $56 thousand in fiscal 2014 to approximately $77 thousand in fiscal 2015. The increase in the number of units shipped and the increase in average selling price resulted from increased sales of our higher-priced SUGV robot in fiscal 2015 as compared to fiscal 2014. The $2.3 million decrease in contract revenue was primarily due to our change in strategy to not pursue funded research. The $4.1 million increase in product life cycle revenue was driven primarily by the delivery of robots and spare parts under a contract with the Canadian Department of National Defence.

Cost of Revenue

	Fiscal Year Ended			
	January 2, 2016	December 27, 2014	Dollar Change	Percent Change
	(In thousands)			
Total cost of revenue	$327,852	$298,791	$29,061	9.7 %
As a percentage of total revenue	53.2 %	53.7 %		

Total cost of revenue increased $29.1 million, or 9.7% to $327.9 million in fiscal 2015, compared to $298.8 million in fiscal 2014. The increase is primarily due to the 12.1% and 10.9% increase of units shipped in our home robots business unit and defense and security business unit, respectively. These increases are partially offset by a higher mix of lower margin products sold in the defense and security business unit.

Gross Margin

	Fiscal Year Ended			
	January 2, 2016	December 27, 2014	Dollar Change	Percent Change

	(In thousands)			
Total gross margin	$288,926	$258,055	$30,871	12.0 %
As a percentage of total revenue	46.8 %	46.3 %		

Table of Contents

Gross margin increased $30.9 million, or 12.0%, to $288.9 million (46.8% of revenue) in fiscal 2015 from $258.1 million (46.3% of revenue) in fiscal 2014. The increase in gross margin as a percentage of revenue was the result of the home robots business unit gross margin increasing 0.4 percentage points, partially offset by the defense and security business unit gross margin decreasing 0.5 percentage points. The 0.4 percentage point increase in the home robots business unit was primarily driven by favorable product and customer mix, the introduction of the higher margin Roomba 980, a decrease in warranty costs, as well as the favorable impact of the $1.6 million adjustment to revenue related to the release of marketing allowances. During 2015, we recorded a net benefit to revenue and gross margin of $6.9 million related to adjustments to our product returns reserves compared to a net benefit to revenue and gross margin of $4.3 million and $5.7 million during fiscal 2014. The 0.5 percentage point decrease in the defense and security business unit is attributable to the increase in sales of our lower margin robots.

Research and Development

	Fiscal Year Ended			
	January 2, 2016	December 27, 2014	Dollar Change	Percent Change
	(In thousands)			
Total research and development	$76,071	$69,408	$6,663	9.6 %
As a percentage of total revenue	12.3 %	12.5 %		

Research and development expenses increased $6.7 million, or 9.6%, to $76.1 million (12.3% of revenue) in fiscal 2015 from $69.4 million (12.5% of revenue) in fiscal 2014. This increase is attributable to increased efforts in product development and continued product enhancements. People-related costs increased $7.0 million associated with an approximate 10% increase in headcount, especially related to software engineers, as well as a $0.7 million increase in materials. These increases were partially offset by decreased consulting expenses of $1.0 million in 2015 compared to 2014.

Selling and Marketing

	Fiscal Year Ended			
	January 2, 2016	December 27, 2014	Dollar Change	Percent Change
	(In thousands)			
Total selling and marketing	$97,772	$86,091	$11,681	13.6 %
As a percentage of total revenue	15.9 %	15.5 %		

Selling and marketing expenses increased by $11.7 million, or 13.6%, to $97.8 million (15.9% of revenue) in fiscal 2015 from $86.1 million (15.5% of revenue) in fiscal 2014. This increase is primarily attributable to an increase of $8.9 million in investments in advertising media, national promotions and other selling and marketing costs incurred to support the retail launch of the Roomba 980 series and our continued global marketing and branding efforts, as well as increases in people-related costs of $2.2 million driven by increased headcount in fiscal 2015 compared to fiscal 2014.

General and Administrative

	Fiscal Year Ended			
	January 2, 2016	December 27, 2014	Dollar Change	Percent Change
	(In thousands)			
General and administrative	$54,465	$49,439	$5,026	10.2 %
As a percentage of total revenue	8.8 %	8.9 %		

General and administrative expenses increased by $5.0 million, or 10.2%, to $54.5 million (8.8% of revenue) in fiscal 2015 from $49.4 million (8.9% of revenue) in fiscal 2014. This increase is primarily attributable to increases of $2.6 million in consulting costs, $1.8 million in people-related costs and $0.7 million related to investments in enterprise hardware and software maintenance, support, and services.

34

Table of Contents

Other Income (Expense), Net

	Fiscal Year Ended			
	January 2, 2016	December 27, 2014	Dollar Change	Percent Change
	(In thousands)			
Other income (expense), net	$2,353	$(708)	$3,061	(432.3)%
As a percentage of total revenue	0.5%	(0.1)%		

Other income (expense), net, amounted to $2.4 million and $(0.7) million for fiscal 2015 and fiscal 2014, respectively. During fiscal 2015, we recorded a gain of approximately $3.3 million related to the sale of a cost method investment, which was offset primarily by foreign currency exchange losses resulting from foreign currency exchange rate fluctuations.

Income Tax Provision

	Fiscal Year Ended			
	January 2, 2016	December 27, 2014	Dollar Change	Percent Change
	(In thousands)			
Income tax provision	$18,841	$14,606	$4,235	29.0%
As a percentage of pre-tax income	29.9%	27.9%		

We recorded an income tax provision of $18.8 million and $14.6 million for fiscal 2015 and fiscal 2014, respectively. The $18.8 million income tax provision for fiscal 2015 was based upon a 2015 effective income tax rate of 31.3% reduced by a net income tax benefit of $0.9 million primarily resulting from an increase in federal and state tax credits upon filing the 2014 tax returns during 2015. The $14.6 million provision for fiscal 2014 was based upon a 2014 effective income tax rate of 31.5% plus a net income tax benefit of $1.9 million primarily resulting from the release of $2.1 million of valuation allowance related to certain state tax attributes of Evolution Robotics, Inc.

The federal research and development tax credit expired at the end of 2014. In December 2015, legislation was enacted that included the permanent extension of the federal research and development tax credit. The legislation also retroactively reinstated the research and development tax credit for 2015.

Comparison of Years Ended December 27, 2014 and December 28, 2013

Revenue

	Fiscal Year Ended			
	December 27, 2014	December 28, 2013	Dollar Change	Percent Change
	(In thousands)			
Total Revenue	$556,846	$487,401	$69,445	14.2%

Our revenue increased 14.2% to $556.8 million in fiscal 2014 from $487.4 million in fiscal 2013. Revenue increased $79.6 million, or 18.6%, in our home robots business unit, and decreased $4.5 million, or 9.0%, in our defense and security business unit.

The $79.6 million increase in revenue from our home robots business unit was driven by a 12.5% increase in units shipped and a 6.1% increase in net average selling price. In fiscal 2014, international home robots revenue increased $46.0 million, or 16.8%, and domestic home robots revenue increased $33.5 million, or 21.8%, compared to fiscal 2013. Total home robots shipped in fiscal 2014 were 2,174,000 units compared to 1,933,000 units in fiscal 2013. The increase in both domestic and international home robots revenue was primarily driven by expanded distribution of our Roomba 800 series robot worldwide, and the replacement of the Roomba 500 series robot with the higher-priced Roomba 600 series in club stores. International home robots revenue growth was further supported by strong demand in China, where revenue increased over 200% in fiscal 2014 compared to fiscal 2013.

The $4.5 million decrease in revenue from our defense and security business unit was driven by a $4.7 million decrease in defense and security robot revenue and a $1.2 million decrease in recurring contract development revenue generated under research and development contracts, partially offset by a $1.4 million increase in product life cycle revenue (spare parts, accessories). Total defense and security robots shipped in fiscal 2014 were 265 units compared to 534 units in fiscal 2013, while the net average selling price of our defense and security robots increased from approximately $36 thousand in fiscal 2013

Table of Contents

to approximately $56 thousand in fiscal 2014. The decrease in the number of units shipped and the increase in average selling price resulted from decreased sales of our lower-priced FirstLook robot in fiscal 2014 as compared to fiscal 2013. The $1.2 million decrease in contract revenue was primarily due to a decrease in revenue related to the U.S. Army's Brigade Combat Team Modernization program, for which efforts were completed during the first half of fiscal 2013. The $1.4 million increase in product life cycle revenue was due to an increase in Packbot upgrades, partially offset by decreases in FirstLook and SUGV spares. Continued funding delays for government contracts have reduced our near-term visibility in our defense and security business unit and contributed to the decrease in period-over-period revenue in this business unit. As previously described, we have entered into an agreement to sell our defense and security business unit. We anticipate this transaction will close during the first quarter of 2016.

Cost of Revenue

	Fiscal Year Ended			
	December 27, 2014	December 28, 2013	Dollar Change	Percent Change
	(In thousands)			
Total cost of revenue	$298,791	$266,247	$32,544	12.2 %
As a percentage of total revenue	53.7 %	54.6 %		

Total cost of revenue increased to $298.8 million in fiscal 2014, compared to $266.2 million in fiscal 2013. The increase is primarily due to the 12.5% increase in home robot units shipped, as well as the increase in per unit costs of defense and security robots driven by a lower mix of the lower-cost FirstLook robot in fiscal 2014 compared to fiscal 2013. These increases are partially offset by the 50.4% decrease in defense and security units shipped in fiscal 2014 as compared to fiscal 2013.

Gross Margin

	Fiscal Year Ended			
	December 27, 2014	December 28, 2013	Dollar Change	Percent Change
	(In thousands)			
Total gross margin	$258,055	$221,154	$36,901	16.7 %
As a percentage of total revenue	46.3 %	45.4 %		

Gross margin increased $36.9 million, or 16.7%, to $258.1 million (46.3% of revenue) in fiscal 2014 from $221.2 million (45.4% of revenue) in fiscal 2013. The increase in gross margin as a percentage of revenue was the result of the home robots business unit gross margin increasing 1.2 percentage points, partially offset by the defense and security business unit gross margin decreasing 3.7 percentage points. The 1.2 percentage point increase in the home robots business unit was primarily driven by favorable product and customer mix, with increased volume of higher margin Roomba 800 and 600 series robots in fiscal 2014 compared to fiscal 2013. During 2014, we recorded a net benefit to revenue and gross margin of $4.3 million and $5.7 million, respectively, related to adjustments to our product returns reserves, compared to a net benefit to both revenue and gross margin of $7.9 million related to adjustments to our product returns reserves during fiscal 2013. The net adjustments recorded in each period resulted from lower product returns experience as compared to estimates used to establish reserves in prior periods. The favorable product and customer mix was partially offset by the decrease in favorable adjustments to our product returns reserve in fiscal 2014 compared to fiscal 2013. The 3.7 percentage point decrease in the defense and security business unit is attributable to unfavorable overhead leverage associated with the 9.0% decrease in the defense and security business unit revenue.

Research and Development

	Fiscal Year Ended			
	December 27, 2014	December 28, 2013	Dollar Change	Percent Change
	(In thousands)			
Total research and development	$69,408	$63,649	$5,759	9.0 %

As a percentage of total revenue	12.5 %	13.1 %

Research and development expenses increased $5.8 million, or 9.0%, to $69.4 million (12.5% of revenue) in fiscal 2014 from $63.6 million (13.1% of revenue) in fiscal 2013. This increase is attributable to increased efforts in product development

Table of Contents

and continued product enhancements, including increases in consultant and other people-related costs of $3.5 million in 2014 compared to 2013.

Selling and Marketing

	Fiscal Year Ended December 27, 2014 (In thousands)	December 28, 2013	Dollar Change	Percent Change
Total selling and marketing	$86,091	$71,529	$14,562	20.4 %
As a percentage of total revenue	15.5 %	14.7 %		

Selling and marketing expenses increased by $14.6 million, or 20.4%, to $86.1 million (15.5% of revenue) in fiscal 2014 from $71.5 million (14.7% of revenue) in fiscal 2013. This increase is primarily attributable to $11.6 million in promotions, marketing displays, on-line media and other selling and marketing costs incurred to support the retail launch of the Roomba 800 series and Scooba 450 robots and our continued global marketing and branding efforts, as well as increases in people-related costs of $2.6 million driven by increased headcount in fiscal 2014 compared to fiscal 2013.

General and Administrative

	Fiscal Year Ended December 27, 2014 (In thousands)	December 28, 2013	Dollar Change	Percent Change
General and administrative	$49,439	$53,358	$(3,919)	(7.3)%
As a percentage of total revenue	8.9 %	10.9 %		

General and administrative expenses decreased by $3.9 million, or 7.3%, to $49.4 million (8.9% of revenue) in fiscal 2014 from $53.4 million (10.9% of revenue) in fiscal 2013. This decrease is primarily attributable to a $3.9 million decrease in people-related costs. Additionally, we recorded a $1.8 million write-down of an intangible asset in fiscal 2013, resulting from a decision made in 2013 to refocus our funded research activities that significantly reduced our utilization of the technology associated with the intangible asset, with no such write-down in fiscal 2014. These decreases are partially offset by increases in consulting and other miscellaneous general and administrative costs.

Other Expense, Net

	Fiscal Year Ended December 27, 2014 (In thousands)	December 28, 2013	Dollar Change	Percent Change
Other expense, net	$(708)	$(203)	$(505)	248.8 %
As a percentage of total revenue	(0.1)%	— %		

Other income (expense), net, amounted to $(0.7) million and $(0.2) million for fiscal 2014 and fiscal 2013, respectively, and consisted primarily foreign currency exchange losses resulting from foreign currency exchange rate fluctuations, offset by interest income.

Income Tax Provision

	Fiscal Year Ended December 27, 2014 (In thousands)	December 28, 2013	Dollar Change	Percent Change
Income tax provision	$14,606	$4,774	$9,832	205.9 %
As a percentage of pre-tax income	27.9 %	14.7 %		

We recorded an income tax provision of $14.6 million and $4.8 million for fiscal 2014 and fiscal 2013, respectively. The $14.6 million income tax provision for fiscal 2014 was based upon a 2014 effective income tax rate of 31.5%

reduced by a net income tax benefit of $1.9 million primarily resulting from the release of $2.1 million of valuation allowance related to certain state tax attributes of Evolution Robotics, Inc. The $4.8 million provision for fiscal 2013 was based upon a 2013 effective

Table of Contents

income tax rate of 28.5% plus a net income tax benefit of $4.5 million primarily resulting from the extension of the federal research and development tax credit in 2013 and the settlement of uncertain tax positions upon completion of an IRS audit.

In January 2013, legislation was enacted that included the extension of the federal research and development tax credits. The legislation retroactively reinstated the research and development tax credit for 2012 and extended it through December 31, 2013. As a result, we recorded a discrete benefit of approximately $1.7 million related to 2012 in 2013.

The increase in the effective tax rate from 28.5% in 2013 to 31.5% in 2014 was primarily due to a smaller research and development credit in 2014 as compared to 2013 and an increase in state tax expense in 2014 as compared to 2013.

Liquidity and Capital Resources

At January 2, 2016, our principal sources of liquidity were cash and cash equivalents totaling $179.9 million, short-term investments of $33.1 million and accounts receivable of $104.7 million.

We manufacture and distribute our products through contract manufacturers and third-party logistics providers. We believe that this approach gives us the advantages of relatively low capital investment and significant flexibility in scheduling production and managing inventory levels. By leasing our office facilities, we also minimize the cash needed for expansion. Accordingly, our capital spending is generally limited to leasehold improvements, computers, office furniture, product-specific production tooling, internal use software and test equipment. In the fiscal years ended January 2, 2016, December 27, 2014 and December 28, 2013, we spent $9.4 million, $13.8 million and $6.8 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 consists mostly of components, as well as carefully-managed levels of sub-assemblies. Our contract manufacturers are also responsible for purchasing and stocking components required for the production of our products, and they typically invoice us when the finished goods are shipped.

As of January 2, 2016, we held cash, cash equivalents and short-term investments of $213.0 million, primarily the result of our increased profitability, as well as our on-going focus on managing working capital. Net cash provided by our operations for the fiscal year ended January 2, 2016 was $26.7 million, of which the principal components were our net income of $44.1 million and non-cash charges of $23.9 million, partially offset by a net increase in operating assets and liabilities of $41.3 million. The increase in net operating assets and liabilities includes an increase in accounts receivable (including unbilled revenue) of $31.5 million primarily due to an increase in revenue and timing of billing in respective periods and a $14.0 million increase in inventory primarily to support increased domestic sales and the roll-out of Roomba 980. As of January 2, 2016, we did not have any borrowings outstanding under our working capital line of credit and had $1.5 million in letters of credit outstanding under our revolving letter of credit facility.

We invested $9.4 million in the purchase of property and equipment in 2015, including tooling for new products. We purchased $17.8 million of marketable securities in 2015, while sales and maturities of marketable securities amounted to $20.5 million. We received $5.6 million from sales of other assets. We made strategic investments of $1.0 million in the form of preferred shares and notes receivable.

During 2015, we received $6.5 million from the exercise of stock options and $1.5 million from the excess tax benefit related to our stock-based compensation plans. In addition, we repurchased 1,260,276 shares of our common stock for an aggregate purchase price of $37.4 million. Shares issued upon vesting of restricted stock were net of 37,969 shares retained by us to cover employee tax withholdings of $1.3 million.

Net cash provided by our operations for the fiscal year ended December 27, 2014 was $40.6 million, of which the principal components were our net income of $37.8 million and non-cash charges of $27.2 million, partially offset by a net increase in operating assets and liabilities of $24.4 million. The increase in net operating assets and liabilities includes an increase in accounts receivable (including unbilled revenue) of $33.5 million primarily due to an increase in revenue, normal billing and collection activities and timing of the billing in respective periods, a $3.4 million decrease in accrued compensation reflecting higher accrual for incentive compensation in 2013 compared to 2014, a $2.9 million increase on other assets relating to an increase in prepaid income tax expenses, a $2.4 million increase in inventory, partially offset by a $19.9 million increase in accounts payable and accrued expenses as a result of normal purchasing and vendor payment activities.

We invested $13.8 million in the purchase of property and equipment in 2014, including $3.5 million for leasehold improvements in our Bedford, Massachusetts office. We purchased $31.2 million of marketable securities in 2014, while maturities of marketable securities amounted to $16.5 million. We also made a strategic investment of $250 thousand in a cost-method investment.

During 2014, we received $8.9 million from the exercise of stock options and $3.1 million from the excess tax benefit related to our stock-based compensation plans. In addition, we repurchased 55,973 shares of our common stock for an

Table of Contents
aggregate purchase price of $1.7 million. Shares issued upon vesting of restricted stock were net of 39,297 shares retained by us to cover employee tax withholdings of $1.6 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 January 2, 2016, the total amount of 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 our election, at either (1) LIBOR plus a margin, currently equal to 1.0%, based on our ratio of indebtedness to Adjusted EBITDA (the "Eurodollar Rate"), or (2) the lender’s base rate. The lender’s base rate is equal to the highest of (1) the federal funds rate plus 0.5%, (2) the lender’s prime rate and (3) the Eurodollar Rate plus 1.0%. The credit facility will terminate and all amounts outstanding thereunder will be due and payable in full on December 20, 2018.
As of January 2, 2016, we had no outstanding borrowings under our revolving credit facility. 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 maximum ratio of indebtedness to Adjusted EBITDA and a minimum specified interest coverage ratio. This credit facility contains customary events of default, including for payment defaults, breaches of representations, breaches of affirmative or negative covenants, cross defaults to other material indebtedness, bankruptcy and failure to discharge certain judgments. If a default occurs and is not cured within any applicable cure period or is not waived, our obligations under the credit facility may be accelerated.
As of January 2, 2016, we were in compliance with all covenants under the revolving credit facility.
Letter of Credit Facility
We have an unsecured revolving letter of credit facility with Bank of America, N.A. The credit facility is available to fund letters of credit on our behalf up to an aggregate outstanding amount of $5 million. We may terminate at any time, subject to proper notice, or from time to time permanently reduce the amount of the credit facility.
We pay a fee on outstanding letters of credit issued under the credit facility of up to 1.5% per annum of the outstanding letters of credit. The maturity date for letters of credit issued under the credit facility must be no later than 365 days following the maturity date of the credit facility.
As of January 2, 2016, we had letters of credit outstanding of $1.5 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, 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 maximum ratio of indebtedness to Adjusted EBITDA and a minimum specified interest coverage ratio.
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 January 2, 2016, 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

39

Table of Contents

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 material. Other obligations consist of software licensing arrangements. The following table describes our commitments to settle contractual obligations in cash as of January 2, 2016:

	Payments Due by Period				
	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years	Total
	(In thousands)				
Operating leases	$3,856	$6,368	$3,903	$—	$14,127
Minimum contractual payments	675	—	—	—	675
Other obligations	641	2,307	493	—	3,441
Total	$5,172	$8,675	$4,396	$—	$18,243

At January 2, 2016, we had outstanding purchase orders aggregating approximately $74.7 million. The purchase orders, the majority of which are with our contract manufacturers for the purchase of inventory in the normal course of business, are for manufacturing and non-manufacturing related goods and services, and are generally cancelable without penalty. In circumstances where we determine that we have financial exposure associated with any of these commitments, we record a liability in the period in which that exposure is identified.

Off-Balance Sheet Arrangements

As of January 2, 2016, we had no off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

Recently Issued Accounting Pronouncements

In November 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-17, "Income Taxes: Balance Sheet Classification of Deferred Taxes." ASU 2015-17 requires that the presentation of deferred tax assets and liabilities be classified as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. This standard will become effective for fiscal years, and the interim periods within those years, beginning after December 15, 2016, with early adoption allowed. We elected to prospectively adopt ASU 2015-17. The prior reporting period was not retrospectively adjusted. The adoption of this guidance had no impact on our Consolidated Statements of Income and Comprehensive Income.

In July 2015, the FASB issued ASU No. 2015-11, "Inventory: Simplifying the Measurement of Inventory." ASU 2015-11 applies only to inventory for which cost is determined by methods other than last-in, first-out and the retail inventory method, which includes inventory that is measured using first-in, first-out or average cost. Inventory within the scope of this standard is required to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new standard will be effective for us on January 1, 2017. We are currently assessing the potential impact of ASU 2015-11 on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, "Intangibles - Goodwill and Other - Internal-Use Software: Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." Under ASU 2015-05, if a cloud computing arrangement includes a software license, the software license element of the arrangement should be accounted for consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the arrangement should be accounted for as a service contract. The new standard will be effective for us on January 3, 2016. We do not believe that the impact of this standard will be material to our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 requires an entity to present debt issuance costs related to a recognized debt liability as a direct

Table of Contents

deduction from the carrying amount of that debt liability consistent with debt discounts and is effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. We do not believe that the impact of this standard will be material to our consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation - Amendments to the Consolidation Analysis." ASU 2015-02 reduces the number of consolidation models and changes the way reporting entities evaluate a variable interest entity. It is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. We do not believe that the impact of this standard will be material to our consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." ASU 2014-12 requires a reporting entity to treat a performance target that affects vesting and that could be achieved after the requisite service period as a performance condition. It is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. We do not believe that the impact of this standard will be material to our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers," which provides guidance for revenue recognition. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods. In July 2015, the FASB voted to defer the effective date of the new accounting guidance related to revenue recognition by one year to December 17, 2017 for annual reporting periods beginning after that date and permitted early adoption of the standard, but not before the original effective date of December 15, 2016. We are in the process of evaluating the impact that the adoption of the new revenue recognition standard issued in May 2014 will have on our consolidated financial statements and footnote disclosures.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Risk

We maintain sales and business operations in foreign countries. As such, we have exposure to adverse changes in exchange rates associated with operating expenses of our foreign operations, but we believe this exposure to be immaterial. Additionally, we accept orders for home robots products in currencies other than the U.S. dollar. We regularly monitor the level of non-U.S. dollar accounts receivable balances to determine if any actions, including possibly entering into foreign currency forward contracts or swaps, 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.

Interest Rate Sensitivity

At January 2, 2016, we had unrestricted cash and cash equivalents of $179.9 million and short term investments of $33.1 million. The unrestricted cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. Some of the securities in which we invest, however, may be subject to market risk. This means that a change in prevailing interest rates may cause the 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 January 2, 2016, 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 at the time of the borrowing. At January 2, 2016, we had letters of credit outstanding of $1.5 million under our revolving letter of credit facility.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

iROBOT CORPORATION
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of Independent Registered Public Accounting Firm	43
Consolidated Balance Sheets at January 2, 2016 and December 27, 2014	44
Consolidated Statements of Income for the Years ended January 2, 2016, December 27, 2014 and December 28, 2013	45
Consolidated Statements of Comprehensive Income for the Years ended January 2, 2016, December 27, 2014 and December 28, 2013	45
Consolidated Statements of Stockholders' Equity for the Years ended January 2, 2016, December 27, 2014 and December 28, 2013	47
Consolidated Statements of Cash Flows for the Years ended January 2, 2016, December 27, 2014 and December 28, 2013	48
Notes to Consolidated Financial Statements	49

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
iRobot Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of iRobot Corporation and its subsidiaries at January 2, 2016 and December 27, 2014, and the results of their operations and their cash flows for each of the three years in the period ended January 2, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 2, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 10 to the consolidated financial statements, the Company changed the manner in which it accounts for the classification of deferred taxes in the consolidated balance sheets due to the adoption of ASU 2015-17, Balance Sheet Classification of Deferred Taxes.

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

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

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts
February 19, 2016

Table of Contents

iROBOT CORPORATION
CONSOLIDATED BALANCE SHEETS

	January 2, 2016	December 27, 2014
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$179,915	$185,957
Short term investments	33,124	36,166
Accounts receivable, net of allowance of $33 at January 2, 2016 and $67 at December 27, 2014	104,679	71,056
Unbilled revenue	452	2,614
Inventory	61,678	47,857
Deferred tax assets	—	21,505
Other current assets	9,501	9,704
Total current assets	389,349	374,859
Property and equipment, net	26,850	31,297
Deferred tax assets	31,721	8,409
Goodwill	48,751	48,751
Intangible assets, net	15,664	19,146
Other assets	9,408	10,751
Total assets	$521,743	$493,213
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$61,655	$60,256
Accrued expenses	15,954	18,701
Accrued compensation	15,752	16,235
Deferred revenue and customer advances	3,265	3,849
Total current liabilities	96,626	99,041
Long term liabilities	7,706	3,736
Commitments and contingencies (Note 11):		
Redeemable convertible preferred stock, 5,000,000 shares authorized and no shares issued or outstanding	—	—
Common stock, $0.01 par value, 100,000,000 shares authorized; and 29,091,806 and 29,644,602 shares issued and outstanding at January 2, 2016 and December 27, 2014, respectively	291	297
Additional paid-in capital	232,345	249,409
Retained earnings	185,011	140,881
Accumulated other comprehensive loss	(236)	(151)
Total stockholders’ equity	417,411	390,436
Total liabilities, redeemable convertible preferred stock and stockholders’ equity	$521,743	$493,213

See accompanying Notes to Consolidated Financial Statements

Table of Contents

iROBOT CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Fiscal Year Ended		
	January 2, 2016	December 27, 2014	December 28, 2013
	(In thousands, except per share amounts)		
Revenue	$616,778	$556,846	$487,401
Cost of revenue(1)	327,852	298,791	266,247
Gross margin	288,926	258,055	221,154
Operating expenses:			
Research and development(1)	76,071	69,408	63,649
Selling and marketing(1)	97,772	86,091	71,529
General and administrative(1)	54,465	49,439	53,358
Total operating expenses	228,308	204,938	188,536
Operating income	60,618	53,117	32,618
Other income (expense), net	2,353	(708)	(203)
Income before income taxes	62,971	52,409	32,415
Income tax expense	18,841	14,606	4,774
Net income	$44,130	$37,803	$27,641
Net income per share			
Basic	$1.49	$1.28	$0.97
Diluted	$1.47	$1.25	$0.94
Number of weighted average common shares used in calculations per share			
Basic	29,550	29,485	28,495
Diluted	30,107	30,210	29,354

(1) Stock-based compensation recorded in fiscal 2015, 2014 and 2013 breaks down by expense classification as follows:

	Fiscal Year Ended		
	January 2, 2016	December 27, 2014	December 28, 2013
	(In thousands)		
Cost of revenue	$1,076	$865	$700
Research and development	3,256	3,359	2,700
Selling and marketing	1,457	1,296	1,246
General and administrative	8,394	8,258	8,763

See accompanying Notes to Consolidated Financial Statements

Table of Contents

iROBOT CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Fiscal Year Ended		
	January 2, 2016	December 27, 2014	December 28, 2013
	(In thousands)		
Net income	$44,130	$37,803	$27,641
Other comprehensive loss, net of tax:			
Unrealized losses on investments, net of tax	(85)	(298)	(52)
Total comprehensive income	$44,045	$37,505	$27,589

See accompanying Notes to Consolidated Financial Statements

Table of Contents

iROBOT CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Stockholders' Equity
	Shares	Value				
	(In thousands, except share data)					
Balance at December 29, 2012	27,781,659	$278	$199,903	$75,437	$ 199	$275,817
Issuance of common stock for exercise of stock options	840,951	8	13,621			13,629
Conversion of deferred compensation	9,780	—	—			—
Vesting of restricted stock units	348,141	3	(3)			—
Tax benefit of excess stock based compensation deduction			1,413			1,413
Amortization of deferred compensation relating to stock options and restricted stock units			13,409			13,409
Stock withheld to cover tax withholdings requirements upon vesting of restricted stock units	(45,278)		(1,212)			(1,212)
Unrealized loss on short term investment					(52)	(52)
Directors' deferred compensation			44			44
Net income				27,641		27,641
Balance at December 28, 2013	28,935,253	$289	$227,175	$103,078	$ 147	$330,689
Issuance of common stock for exercise of stock options	486,252	5	8,938			8,943
Vesting of restricted stock units	318,367	3	(3)			—
Tax benefit of excess stock based compensation deduction			2,776			2,776
Amortization of deferred compensation relating to stock options and restricted stock units			13,778			13,778
Stock withheld to cover tax withholdings requirements upon vesting of restricted stock units	(39,297)		(1,626)			(1,626)
Unrealized loss on short term investment					(298)	(298)
Directors' deferred compensation			49			49
Stock repurchases	(55,973)		(1,678)			(1,678)
Net income				37,803		37,803
Balance at December 27, 2014	29,644,602	$297	$249,409	$140,881	$ (151)	$390,436
Issuance of common stock for exercise of stock options	390,085	4	6,460			6,464
Conversion of deferred compensation	14,610	—	—			—
Vesting of restricted stock units	340,754	3	(3)			—
			822			822

Tax benefit of excess stock based compensation deduction						
Amortization of deferred compensation relating to stock options and restricted stock units			14,183			14,183
Stock withheld to cover tax withholdings requirements upon vesting of restricted stock units	(37,969)		(1,295)			(1,295)
Unrealized loss on short term investment					(85)	(85)
Directors' deferred compensation			149			149
Stock repurchases	(1,260,276)	(13)	(37,380)			(37,393)
Net income				44,130		44,130
Balance at January 2, 2016	29,091,806	$291	$232,345	$185,011	$ (236)	$417,411

See accompanying Notes to Consolidated Financial Statements

47

Table of Contents

iROBOT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended January 2, 2016	December 27, 2014	December 28, 2013
	(In thousands)		
Cash flows from operating activities:			
Net income	$44,130	$37,803	$27,641
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	15,090	13,049	12,169
Loss on disposal of property and equipment	214	246	189
Gain on sale of cost method investment	(3,287)	—	—
Goodwill and intangible assets impairment	—	—	1,988
Stock-based compensation	14,183	13,778	13,409
Deferred income taxes, net	(985)	3,101	(768)
Tax benefit of excess stock-based compensation deductions	(1,467)	(3,051)	(2,406)
Non-cash director deferred compensation	149	49	44
Changes in operating assets and liabilities — (use) source			
Accounts receivable	(33,623)	(31,708)	(9,935)
Unbilled revenue	2,162	(1,758)	340
Inventory	(13,978)	(2,387)	(9,365)
Other assets	203	(2,856)	1,980
Accounts payable	3,786	16,249	(1,743)
Accrued expenses	(2,768)	3,695	1,255
Accrued compensation	(483)	(3,371)	7,751
Deferred revenue and customer advances	(584)	(1,236)	(1,172)
Long term liabilities	3,970	(997)	515
Net cash provided by operating activities	26,712	40,606	41,892
Cash flows from investing activities:			
Additions of property and equipment	(9,372)	(13,774)	(6,829)
Change in other assets	(1,015)	(250)	(2,000)
Proceeds from sale of cost method investment	5,645	—	—
Purchases of investments	(17,755)	(31,219)	(17,946)
Sales and maturities of investments	20,500	16,500	8,044
Proceeds from sale of assets	—	—	650
Net cash used in investing activities	(1,997)	(28,743)	(18,081)
Cash flows from financing activities:			
Income tax withholding payment associated with restricted stock vesting	(1,295)	(1,626)	(1,212)
Proceeds from stock option exercises	6,464	8,943	13,629
Stock repurchases	(37,393)	(1,678)	—
Tax benefit of excess stock-based compensation deductions	1,467	3,051	2,406
Net cash provided by (used in) financing activities	(30,757)	8,690	14,823
Net increase (decrease) in cash and cash equivalents	(6,042)	20,553	38,634
Cash and cash equivalents, at beginning of period	185,957	165,404	126,770
Cash and cash equivalents, at end of period	$179,915	$185,957	$165,404
Supplemental disclosure of cash flow information			
Cash paid for income taxes	$14,341	$15,508	$7,235

Non-cash investing and financing activities:			
Transfer of inventory to property and equipment	157	637	223
Additions of property and equipment included in accounts payable	$848	$3,235	$572

See accompanying Notes to Consolidated Financial Statements

48

Table of Contents

iROBOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of the Business

iRobot Corporation ("iRobot" or the "Company") develops robotics and artificial intelligence technologies and applies these technologies in producing and marketing robots. The Company’s revenue is primarily generated from product sales.

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.

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, valuation of goodwill and intangible assets, 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.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original or remaining maturity of three months or less at the time of purchase to be cash equivalents. The Company invests its excess cash primarily in money market funds or savings accounts of major financial institutions. Accordingly, its cash equivalents are subject to minimal credit and market risk. At January 2, 2016 and December 27, 2014, cash equivalents were comprised of money market funds totaling $110.8 million and $109.8 million, respectively. These cash equivalents are carried at cost, which approximates fair value.

Short Term Investments

The Company’s investments are classified as available-for-sale and are recorded at fair value with any unrealized gain or loss recorded as an element of stockholders’ equity. The fair value of investments is determined based on quoted market prices at the reporting date for those instruments. As of January 2, 2016 and December 27, 2014, investments consisted of:

	January 2, 2016		December 27, 2014	
	Cost	Fair Market Value	Cost	Fair Market Value
	(In thousands)			
Corporate and government bonds	$33,622	$33,124	$36,659	$36,166
Total short term investments	$33,622	$33,124	$36,659	$36,166

As of January 2, 2016, the Company’s investments had maturity dates ranging from January 2016 to August 2018. The Company invests primarily in investment grade securities and limits the amount of investment in any single issuer.

Revenue Recognition

The Company derives its revenue from product sales and, to a lesser extent, government 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 robots under the terms of the customer agreement upon transfer of title and risk of loss to the customer, net of estimated returns, provided that collection is determined to be reasonably assured and no significant obligations remain.

Beginning in the third quarter of 2015, with the introduction of the Company's first connected robot, each sale of a connected robot represents a multi-element arrangement containing the robot, an app and potential future unspecified software upgrades. Revenue is allocated to the deliverables based on their relative selling prices which have been determined using best estimate of selling price (BESP), as the Company has not been able to establish vendor specific objective evidence (VSOE) or obtain relevant third party evidence (TPE). Revenue allocated to the app and unspecified software upgrades is then deferred and recognized on a straight-line basis over the period in which the Company expects to provide the upgrades over the estimated life of the robot.

Sales to domestic and Canadian resellers of home robots are typically subject to agreements allowing for limited rights of return, rebates and price protection. The Company also provides limited rights of returns for direct-to-consumer sales generated through its on-line stores. 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. These estimates for rights of return are directly based on specific terms and conditions included in the reseller agreements, historical returns experience and various other assumptions that the Company believes are reasonable under the circumstances. In the case of new product introductions, the estimates for returns applied to the new products are based upon the estimates for the most similar predecessor products until such time that the Company has enough actual returns experience for the new products, which is typically two holiday return cycles. At that time, the Company incorporates that data into the development of returns estimates for the new products. The Company updates its analysis of returns on a quarterly basis. If actual returns differ significantly from the Company's estimates, or if modifications to individual reseller agreements are entered into that impact their rights of returns, such differences could result in an adjustment to previously established reserves and could have a material impact, either favorably or unfavorably, on the Company's results of operations for the period in which the actual returns become known or the reseller agreement is modified. 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 estimates and reserve for rebates and price protection are based on specific programs, expected usage and historical experience. Actual results could differ from these estimates.

Under cost-plus-fixed-fee (CPFF) type contracts, the Company recognizes revenue based on costs incurred plus a pro rata portion of the total fixed fee. 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 January 2, 2016, fiscal years 2012 through 2015 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.

Allowance for Doubtful Accounts

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

Table of Contents
iROBOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	Fiscal Year Ended		
	January 2, 2016	December 27, 2014	December 28, 2013
	(In thousands)		
Balance at beginning of period	$67	$67	$111
Provision	—	—	—
Deduction(*)	(34)	—	(44)
Balance at end of period	$33	$67	$67

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

Inventory

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

Activity related to the inventory reserve was as follows:

	Fiscal Year Ended		
	January 2, 2016	December 27, 2014	December 28, 2013
	(In thousands)		
Balance at beginning of period	$5,251	$5,280	$6,608
Provision	424	1,045	1,571
Deduction(*)	(1,753)	(1,074)	(2,899)
Balance at end of period	$3,922	$5,251	$5,280

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

Property and Equipment

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

	Estimated Useful Life
Computer and research equipment	3 years
Furniture	5
Machinery	2-5
Tooling	2-5
Business applications software	5-7
Capital leases and leasehold improvements	Lesser of economic benefit period or term of lease

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

Long-Lived Assets, including Purchased Intangible Assets

The Company periodically evaluates the recoverability of long-lived assets, including other purchased intangible assets whenever events and changes in circumstances, such as reductions in demand or significant economic slowdowns in the industry, indicate that the carrying amount of an asset may not be fully recoverable. When indicators of impairment are present, the carrying values of the asset group are evaluated in relation to the future undiscounted cash flows of the underlying business. The net book value of the underlying asset is adjusted to fair value if the sum of the expected discounted cash flows is less than book value. Fair values are based on estimates of market prices and assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates, reflecting varying degrees of perceived risk.

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 accordance with the guidance, the Company is permitted 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 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. The Company completes the annual impairment evaluation during the fourth quarter each year.

Research and Development

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

Internal Use Software

The Company capitalizes costs associated with the development and implementation of software for internal use. At January 2, 2016, December 27, 2014 and December 28, 2013, the Company had $8.6 million, $8.2 million and $8.2 million, respectively, of costs related to enterprise-wide software included in fixed assets. Capitalized costs are being amortized over the assets’ estimated useful lives. The Company has recorded $0.7 million, $0.8 million and $0.9 million of amortization expense for the years ended January 2, 2016, December 27, 2014 and December 28, 2013, respectively.

Concentration of Credit Risk and Significant Customers

Financial instruments which potentially expose the Company to concentrations of credit risk consist of accounts receivable. Management believes its credit policies are prudent and reflect normal industry terms and business risk. At January 2, 2016, three customers accounted for a total of 45.8% of the Company's accounts receivable balance, each of which was greater than 10% of the balance and two of whom secured their balance with guaranteed letters of credit which together represents 34.1% of the balance. At December 27, 2014, two customers accounted for a total of 32.2% of the Company’s accounts receivable balance, each of which was greater than 10% of the balance and each of whom secured their balance with guaranteed letters of credit. For the years ended January 2, 2016, December 27, 2014 and December 28, 2013, revenue from U.S. federal government orders, contracts and subcontracts, represented 5.1%, 4.3% and 6.2% of total revenue, respectively. For the fiscal years ended January 2, 2016, December 27, 2014 and December 28, 2013, the Company generated an aggregate of 26.0%, 29.8% and 33.2%, respectively, of total revenue from its home robots distributor in Japan (Sales on Demand Corporation) and a network of affiliated European distributors of its home robots (Robopolis SAS).

The Company maintains its cash in bank deposit accounts at high quality financial institutions. The individual balances, at times, may exceed federally insured limits.

Stock-Based Compensation

The Company accounts for stock-based compensation through recognition of the fair value of the stock-based compensation as a charge against earnings. Stock-based compensation cost for stock options is estimated at the grant date based on each option’s fair value as calculated by the Black-Scholes option-pricing model. Stock-based compensation cost for restricted stock awards, time-based restricted stock units and performance-based restricted stock units is measured based on the closing fair market value of the Company's common stock on the date of grant. For performance-based restricted stock units, the compensation costs will be subsequently adjusted for assumptions of achievement during the period in which the assumption of achievement changes, as applicable. The Company recognizes stock-based compensation cost as expense ratably on a straight-line basis over the requisite service period, net of estimated forfeitures.

Table of Contents

Advertising Expense

The Company expenses advertising costs as they are incurred. During the years ended January 2, 2016, December 27, 2014 and December 28, 2013 advertising expense totaled $54.7 million, $46.1 million and $38.2 million, respectively, and are recorded with the selling and marketing expenses line item.

Net Income Per Share

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

	Fiscal Year Ended		
	January 2, 2016	December 27, 2014	December 28, 2013
Net income	$44,130	$37,803	$27,641
Weighted-average shares outstanding	29,550	29,485	28,495
Dilutive effect of employee stock options and restricted shares	557	725	859
Diluted weighted-average shares outstanding	30,107	30,210	29,354
Basic income per share	$1.49	$1.28	$0.97
Diluted income per share	$1.47	$1.25	$0.94

Restricted stock units and stock options representing approximately 0.5 million, 0.2 million and 0.7 million shares of common stock for the fiscal years ended January 2, 2016, December 27, 2014 and December 28, 2013, 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 examinations by the Internal Revenue Service is closed for fiscal years prior to 2012. The statute of limitations for examinations by state tax authorities is closed for fiscal years prior to 2011. Federal carryforward attributes that were generated prior to fiscal year 2012 and state carryforward attributes that were generated prior to fiscal year 2011 may still be adjusted upon examination by the federal or state tax authorities if they either have been or will be used in a period for which the statute of limitations is still open.

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, generation of tax credits compared to future utilization of credits, or changes in tax laws or regulations. The Company's income tax provision and its assessment of the ability to realize its deferred tax assets involve significant judgments and estimates. The Company is currently generating state research credits that exceed the amount being utilized. As a result of this trend, a valuation allowance may be needed in the future related to these state tax credits.

As of December 28, 2013, the Company maintained a valuation allowance of $2.1 million related to certain state tax attributes from the Evolution Robotics, Inc. acquisition. During the year ended December 27, 2014, this valuation allowance was released when the realization of these state tax attributes became more likely than not. As of January 2, 2016, the Company did not record a valuation allowance as all deferred tax assets are considered realizable.

Comprehensive Income

Accumulated other comprehensive income includes unrealized gains and losses on certain investments. The differences between net income and comprehensive income were related to unrealized gains (losses) on investments, net of tax.

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.

iROBOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Financial Assets and Liabilities
The Company’s financial assets and liabilities measured at fair value on a recurring basis at January 2, 2016, were as follows:

Description	Fair Value Measurements as of January 2, 2016		
	Level 1	Level 2	Level 3
	(In thousands)		
Assets:			
Cash and cash equivalents			
Money market funds	$110,817	$—	$—
Short term investments			
Corporate and government bonds (1)	—	33,124	—
Total assets measured at fair value	$110,817	$33,124	$—
Liabilities:			
Accrued expenses			
Derivative instruments (Note 13) (2)	$—	$28	$—
Total liabilities measured at fair value	$—	$28	$—

The Company’s financial assets measured at fair value on a recurring basis at December 27, 2014, were as follows:

Description	Fair Value Measurements as of December 27, 2014		
	Level 1	Level 2	Level 3
	(In thousands)		
Assets:			
Cash and cash equivalents			
Money market funds	$109,843	$—	$—
Short term investments			
Corporate and government bonds (1)	—	36,166	—
Total assets measured at fair value	$109,843	$36,166	$—

(1) The bond investments are valued based on observable market values as of the Company's reporting date. 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.
(2) Derivative instruments are valued using an income approach based on the present value of the forward rate less the contract rate multiplied by the notional amount.

Recent Accounting Pronouncements
In November 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-17, "Income Taxes: Balance Sheet Classification of Deferred Taxes." ASU 2015-17 requires that the presentation of deferred tax assets and liabilities be classified as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. This standard will become effective for fiscal years, and the interim periods within those years, beginning after December 15, 2016, with early adoption allowed. The Company elected to prospectively adopt ASU 2015-17. The prior reporting period was not retrospectively adjusted. The adoption of this guidance had no impact on the Company's Consolidated Statements of Income and Comprehensive Income.
In July 2015, the FASB issued ASU No. 2015-11, "Inventory: Simplifying the Measurement of Inventory." ASU 2015-11 applies only to inventory for which cost is determined by methods other than last-in, first-out and the retail

inventory method, which includes inventory that is measured using first-in, first-out or average cost. Inventory within the scope of this standard is required to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new standard will be effective for the Company on January 1, 2017. The Company is currently assessing the potential impact of ASU 2015-11 on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, "Intangibles - Goodwill and Other - Internal-Use Software: Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." Under ASU 2015-05, if a cloud computing arrangement includes a software license, the software license element of the arrangement should be accounted for consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the arrangement should be accounted for as a service contract. The new standard will be effective for the Company on January 3, 2016. The Company does not believe that the impact of this standard will be material to the Company’s consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 requires an entity to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability consistent with debt discounts and is effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. The Company does not believe that the impact of this standard will be material to the Company’s consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation - Amendments to the Consolidation Analysis." ASU 2015-02 reduces the number of consolidation models and changes the way reporting entities evaluate a variable interest entity. It is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. The Company does not believe that the impact of this standard will be material to the Company’s consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." ASU 2014-12 requires a reporting entity to treat a performance target that affects vesting and that could be achieved after the requisite service period as a performance condition. It is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. The Company does not believe that the impact of this standard will be material to the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers," which provides guidance for revenue recognition. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods. In July 2015, the FASB voted to defer the effective date of the new accounting guidance related to revenue recognition by one year to December 17, 2017 for annual reporting periods beginning after that date and permitted early adoption of the standard, but not before the original effective date of December 15, 2016. The Company is in the process of evaluating the impact that the adoption of the new revenue recognition standard issued in May 2014 will have on its consolidated financial statements and footnote disclosures.

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 recently issued standards, which are not yet effective, will not have a material impact on the Company’s consolidated financial statements upon adoption.

3. Inventory

Inventory consists of the following at:

	January 2, 2016	December 27, 2014

	(In thousands)	
Raw materials	$9,082	$9,455
Finished goods	52,596	38,402
	$61,678	$47,857

Table of Contents

4. Property and Equipment

Property and equipment consists of the following at:

	January 2, 2016	December 27, 2014
	(In thousands)	
Computer and equipment	$13,825	$15,173
Furniture	2,441	2,297
Machinery	7,134	5,307
Tooling	16,599	18,614
Leasehold improvements	21,022	20,833
Business applications software	8,559	8,214
	69,580	70,438
Less: accumulated depreciation	42,730	39,141
	$26,850	$31,297

Depreciation expense for the years ended January 2, 2016, December 27, 2014 and December 28, 2013 was $11.4 million, $9.2 million, and $8.1 million, respectively.

5. Other Assets

At January 2, 2016, other assets consisted of six investments totaling $9.4 million. At December 27, 2014, other assets consisted of three investments totaling $10.8 million. At January 2, 2016, these investments consisted primarily of cost method investments and notes receivable. The Company regularly monitors these investments to determine if facts and circumstances have changed in a manner that would require a change in accounting methodology. Additionally, the Company regularly evaluates whether or not these investments have been impaired by considering such factors as economic environment, market conditions, operational performance and other specific factors relating to the businesses underlying the investments. If any such impairment is identified, a reduction in the carrying value of the investments would be recorded at that time. Since the Company believes the fair value of its investments is greater than the carrying value of its investments, it has not impaired these investments.

6. Accrued Expenses

Accrued expenses consist of the following at:

	January 2, 2016	December 27, 2014
	(In thousands)	
Accrued warranty	$6,907	$7,769
Accrued direct fulfillment costs	2,030	1,346
Accrued sales tax	625	867
Accrued customer deposits	788	702
Accrued rent	547	701
Accrued sales commissions	465	531
Accrued accounting fees	395	167
Accrued other	4,197	6,618
	$15,954	$18,701

Accrued compensation consists of the following at:

	January 2, 2016	December 27, 2014
	(In thousands)	
Accrued bonus	$8,640	$8,455
Accrued other compensation	7,112	7,780
	$15,752	$16,235

7. Working Capital Facilities

Credit Facility

The Company has an unsecured revolving credit facility with Bank of America, N.A., which is available to fund working capital and other corporate purposes. As of January 2, 2016, the total amount of the credit facility was $75.0 million and the full amount was available for borrowing. The interest on loans under the credit facility will accrue, at the Company's election, at either (1) LIBOR plus a margin, currently equal to 1.0%, based on the Company's ratio of indebtedness to Adjusted EBITDA (the "Eurodollar Rate"), or (2) the lender's base rate. The lender's base rate is equal to the highest of (1) the federal funds rate plus 0.5%, (2) the lender's prime rate and (3) the Eurodollar Rate plus 1.0%. The credit facility will terminate and all amounts outstanding thereunder will be due and payable in full on December 20, 2018.

As of January 2, 2016, the Company had no outstanding borrowings under its revolving credit facility. This credit facility contains customary terms and conditions for credit facilities of this type, including restrictions on the Company's 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, the Company's stock, and consolidate or merge with other entities.

In addition, the Company is required to meet certain financial covenants customary with this type of agreement, including maintaining a maximum ratio of indebtedness to Adjusted EBITDA and a minimum specified interest coverage ratio.

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

As of January 2, 2016, the Company was in compliance with all covenants under its credit facility.

Letter of Credit Facility

The Company has an unsecured revolving letter of credit facility with Bank of America, N.A. The credit facility is available to fund letters of credit on the Company's behalf up to an aggregate outstanding amount of $5 million. The Company may terminate at any time, subject to proper notice, or from time to time permanently reduce the amount of the credit facility.

The Company pays a fee on outstanding letters of credit issued under the credit facility of up to 1.5% per annum of the outstanding letters of credit. The maturity date for letters of credit issued under the credit facility must be no later than 365 days following the maturity date of the credit facility.

As of January 2, 2016, there were letters of credit outstanding of $1.5 million under the revolving letter of credit facility. The credit facility contains customary terms and conditions for credit facilities of this type, including restrictions on the Company's 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 stock, and consolidate or merge with other entities. In addition, the Company is required to meet certain financial covenants customary with this type of agreement, including maintaining a maximum ratio of indebtedness to Adjusted EBITDA and a minimum specified interest coverage ratio.

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 January 2, 2016, the Company was in compliance with all covenants under the revolving letter of credit facility.

Table of Contents

8. Common Stock

Common stockholders are entitled to one vote for each share held and to receive dividends if and when declared by the Board of Directors and subject to and qualified by the rights of holders of the preferred stock. Upon dissolution or liquidation of the Company, holders of common stock will be entitled to receive all available assets subject to any preferential rights of any then outstanding preferred stock.

On April 2, 2014, the Company announced a stock repurchase program. Under the program, the Company may purchase up to $50 million of its common stock from May 1, 2014 to April 30, 2015. On March 19, 2015, the Company announced an additional stock repurchase program, which authorized the repurchase of $50 million of its common stock from May 1, 2015 to April 30, 2016. During 2015 and 2014, the Company repurchased 1,260,276 shares totaling $37.4 million and 55,973 shares totaling $1.7 million, respectively, in the open market under these stock repurchase plans. During the fourth quarter of 2015, the Company replaced the then-current stock repurchase program with a new stock repurchase program, effective January 4, 2016 and ending on December 31, 2016, pursuant to which the Company is authorized to purchase up to one million shares or $40 million of its common stock, whichever occurs earlier.

9. Stock Option Plans and Stock-Based Compensation

The Company has options outstanding under three stock incentive plans: the 2005 Stock Option and Incentive Plan (the "2005 Plan"), the Evolution Robotics, Inc. 2007 Stock Plan (the "2007 Plan") and the 2015 Stock Option and Incentive Plan (the "2015 Plan" and together with the 2005 Plan and the 2007 Plan, the “Plans”). All options that remained outstanding under the 2004 Stock Option and Incentive Plan as of December 27, 2014 were exercised during fiscal 2015. The 2015 Plan is the only one of the three plans under which new awards may currently be granted. Under the 2015 Plan, which became effective May 20, 2015, 3,100,000 shares were initially reserved for issuance in the form of incentive stock options, non-qualified stock options, stock appreciation rights, deferred stock awards, restricted stock units, unrestricted stock awards, cash-based awards, performance share awards and dividend equivalent rights. Stock awards returned to the Plans, with the exception of those issued under the 2007 Plan, as a result of their expiration, cancellation or termination are automatically made available for issuance under the 2015 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 January 2, 2016, there were 2,484,296 shares available for future grant under the 2015 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 four years, and expire five or ten years from the date of grant or, if earlier, 90 days from employee termination. The exercise price of stock options is typically equal to the closing price on the NASDAQ Global Market on the date of grant. Other awards granted under the Plans generally vest over periods from three to four years.

In conjunction with the acquisition of Evolution Robotics, Inc. on October 1, 2012, each outstanding and unvested incentive stock option held by Evolution employees as of the acquisition date was automatically converted into stock options of the Company under the same terms and conditions as were applicable to the original Evolution grants. The number of replacement options granted and the associated exercise prices were determined utilizing a conversion ratio as defined in the merger agreement. There were 114,248 incentive stock options issued by the Company as a result of this automatic conversion with exercise prices ranging from $2.55 to $4.81. All of these options were granted from the 2007 Plan, which was assumed by the Company as a result of the acquisition.

The Company recognized $3.4 million of stock-based compensation expense during the fiscal year ended January 2, 2016 for stock options. The unamortized fair value as of January 2, 2016 associated with these grants was $6.4 million with a weighted-average remaining recognition period of 2.83 years. The Company expects to recognize associated stock-based compensation expense of $2.6 million, $1.9 million, $1.3 million and $0.6 million in 2016, 2017, 2018 and 2019, respectively.

The fair value of each option grant for the fiscal years ended January 2, 2016, December 27, 2014 and December 28, 2013 was computed on the grant date using the Black-Scholes option-pricing model with the following assumptions:

	Fiscal Year Ended		
	January 2, 2016	December 27, 2014	December 28, 2013
Risk-free interest rate	1.47% — 1.75%	1.65% — 1.69%	0.90% — 1.77%
Expected dividend yield	—	—	—
Expected life	3.98 — 4.02 years	3.91 — 4.00 years	4.03 — 4.21 years
Expected volatility	46.5% — 52.4%	52.8% — 56.0%	54.0% — 58.0%

The risk-free interest rate is derived from the average U.S. Treasury constant maturity rate, which approximates the rate in effect at the time of grant, commensurate with the expected life of the instrument. The dividend yield is zero based upon the fact the Company has never paid and has no present intention to pay cash dividends. The Company utilizes company specific historical data for purposes of establishing expected volatility and expected term.

Based upon the above assumptions, the weighted average fair value of each stock option granted for the fiscal years ended January 2, 2016, December 27, 2014 and December 28, 2013 was $13.21, $15.87 and $11.17, respectively.

The table below summarizes stock option plan activity:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value(1)
Outstanding at December 29, 2012	2,503,667	$ 18.27		
Granted	293,325	24.60		
Exercised	(840,951)	16.21		
Canceled	(185,666)	22.16		
Outstanding at December 28, 2013	1,770,375	$ 19.89		
Granted	233,181	37.10		
Exercised	(486,252)	18.39		
Canceled	(43,984)	27.17		
Outstanding at December 27, 2014	1,473,320	$ 22.89		
Granted	323,104	32.58		
Exercised	(390,085)	16.57		
Canceled	(118,789)	28.41		
Outstanding at January 2, 2016	1,287,550	$ 26.73	4.00 years	$11.6 million
Vested and expected to vest at January 2, 2016	1,230,537	$ 26.45	3.90 years	$11.4 million
Exercisable as of January 2, 2016	768,184	$ 23.18	2.74 years	$9.6 million
Weighted average fair value of options granted during the fiscal year ended January 2, 2016		$ 13.21		
Options available for future grant at January 2, 2016	2,484,296			

(1) The aggregate intrinsic value on the table was calculated based upon the positive difference between the closing market value of the Company’s stock on January 2, 2016 of $35.40 and the exercise price of the underlying option.

During fiscal years 2015, 2014, and 2013, the total intrinsic value of stock options exercised was $5.9 million, $10.5 million and $12.1 million, respectively. No amounts relating to stock-based compensation have been capitalized.

Table of Contents
iROBOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes information about stock options outstanding at January 2, 2016:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 3.54 - $ 13.46	81,723	2.88 years	$7.97	78,713	$ 8.09
14.52 - 14.52	144,017	1.25	14.52	144,017	14.52
17.70 - 21.23	82,171	1.61	18.44	73,194	18.41
22.86 - 22.86	166,757	4.10	22.86	112,252	22.86
24.53 - 26.59	167,468	2.85	25.75	153,635	25.71
29.60 - 32.38	162,225	6.51	31.04	1,500	31.22
33.29 - 33.48	159,940	3.27	33.42	125,453	33.46
33.72 - 34.30	168,599	6.24	34.13	12,671	33.72
34.67 - 37.08	107,648	5.34	35.83	44,991	35.66
43.35 - 43.35	47,002	4.95	43.35	21,758	43.35
$ 3.54 - $43.35	1,287,550	4.00 years	$26.73	768,184	$ 23.18

During the fiscal year ended January 2, 2016, the Company recognized $10.7 million of stock-based compensation expense associated with restricted stock units. As of January 2, 2016, December 27, 2014 and December 28, 2013, the unamortized fair value of all restricted stock units was $24.3 million, $20.1 million and $17.5 million, respectively. The Company expects to recognize associated stock-based compensation expense of $9.7 million, $7.3 million, $5.2 million and $2.1 million in 2016, 2017, 2018 and 2019, respectively.

The table below summarizes activity relating to restricted stock units:

	Number of Shares Underlying Restricted Stock	Weighted Average Grant Date Fair Value
Outstanding at December 29, 2012	941,030	$ 24.09
Granted	521,056	25.87
Vested	(348,141)	22.57
Forfeited	(186,291)	24.91
Outstanding at December 28, 2013	927,654	$ 25.50
Granted	372,159	38.25
Vested	(318,367)	25.38
Forfeited	(71,591)	28.42
Outstanding at December 27, 2014	909,855	$ 30.53
Granted	576,410	32.33
Vested	(340,754)	29.13
Forfeited	(121,142)	31.49
Outstanding at January 2, 2016	1,024,369	$ 31.90

In 2014 and 2015, the Company granted performance-based restricted stock units (PSUs) to certain of its employees. The performance metric for these awards is operating income percent, with a threshold requirement for a minimum amount of revenue growth. These awards vest over a three year period. The number of shares actually earned at the end of the three year period will range from 0% to 100% of the target number of PSUs granted based on the

Company's performance against three year operating income and revenue goals. In addition, while all vesting of earned PSUs occurs on the third anniversary of the date of grant, achievement of cumulative intermediate targets for each individual year will allow PSUs to be deemed earned but not yet vested for the intermediate periods. Achievement of the cumulative target will allow all shares subject to the PSUs to be earned regardless of the achievement of the intermediate individual year targets.

Table of Contents

10. Income Taxes

The components of income tax expense were as follows:

	Fiscal Year Ended		
	January 2, 2016	December 27, 2014	December 28, 2013
	(In thousands)		
Current			
Federal	$20,033	$15,128	$6,363
State	972	129	1,124
Foreign	121	91	41
Total current tax provision	21,126	15,348	7,528
Deferred			
Federal	(1,657)	1,268	(2,026)
State	(628)	(2,010)	(728)
Total deferred tax provision	(2,285)	(742)	(2,754)
Total income tax provision	$18,841	$14,606	$4,774

In certain jurisdictions, an immaterial provision has been made for deferred taxes on undistributed earnings of non-U.S. subsidiaries. In other jurisdictions, for the remaining undistributed earnings of non-U.S. subsidiaries, no provision has been made for deferred taxes as these earnings have been indefinitely reinvested. As of January 2, 2016, a deferred tax liability has not been established for approximately $1.0 million of cumulative undistributed earnings of non-U.S. subsidiaries, as the Company plans to keep these amounts permanently reinvested overseas. The amount of any unrecognized deferred tax liability on these undistributed earnings would be immaterial.

Table of Contents
iROBOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The components of net deferred tax assets were as follows:

	January 2, 2016	December 27, 2014
	(In thousands)	
Net deferred tax assets		
Current deferred tax assets		
Reserves and accruals	$—	$18,568
Stock-based compensation	—	767
Net operating loss carryforwards	—	2,470
Foreign tax credits	—	148
Total current deferred tax assets	—	21,953
Non-current deferred tax assets		
Reserves and accruals	21,544	586
Tax credits	6,114	5,927
Property and equipment	1,308	178
Stock-based compensation	5,962	5,011
Net operating loss carryforwards	3,606	3,879
Total non-current deferred tax assets	38,534	15,581
Current deferred tax liabilities		
Prepaids	—	448
Total current deferred tax liabilities	—	448
Non-current deferred tax liabilities		
Prepaids	623	—
Intangible assets	6,190	7,172
Total non-current deferred tax liabilities	6,813	7,172
Total net deferred tax assets	$31,721	$29,914

In November 2015, the FASB issued ASU No. 2015-17, "Income Taxes: Balance Sheet Classification of Deferred Taxes." ASU 2015-17 requires that the presentation of deferred tax assets and liabilities be classified as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. This standard will become effective for fiscal years, and the interim periods within those years, beginning after December 15, 2016, with early adoption allowed. The Company elected to prospectively adopt ASU 2015-17. The prior reporting period was not retrospectively adjusted. The adoption of this guidance had no impact on the Company's Consolidated Statements of Income and Comprehensive Income.

As of December 28, 2013, the Company maintained a valuation allowance of $2.1 million related to certain state tax attributes from the Evolution Robotics, Inc. acquisition. During the year ended December 27, 2014, this valuation allowance was released when realization of these state tax attributes became more likely than not. As of January 2, 2016, the Company did not record a valuation allowance as all deferred tax assets are considered realizable.

The table below summarizes activity relating to the valuation allowance:

Fiscal Year Ended	Balance at beginning of period	Additions Charged to Costs and Expenses	Additions Charged to Goodwill	Deductions	Balance at End of Period
	(In thousands)				
December 28, 2013	$2,691	—	—	601	$2,090
December 27, 2014	$2,090	—	—	2,090	$—
January 2, 2016	$—	—	—	—	$—

The Company has federal net operating loss carryforwards of $8.0 million and $15.1 million as of January 2, 2016 and December 27, 2014, respectively, which expire in 2031. The Company has state net operating loss carryforwards of

$15.0 million and $19.4 million as of January 2, 2016 and December 27, 2014, respectively, which expire from 2029 to 2031. The Company has federal research and development credit carryforwards of $1.0 million and $1.0 million as of January 2, 2016 and December 27, 2014, respectively, which expire from 2026 to 2031. The Company has state research and development credit carryforwards of $9.3 million and $8.1 million as of January 2, 2016 and December 27, 2014, respectively, which expire from 2023 to 2030. The Company has state investment tax credit carryforwards of $0.3 million and $0.7 million as of January 2, 2016 and December 27, 2014, respectively, which expire from 2024 to 2025. Under the Internal Revenue Code, certain substantial changes in the Company's ownership could result in an annual limitation on the amount of these tax carryforwards which can be utilized in future years. As of January 2, 2016, the Company has $23.0 million of federal and state net operating loss carryforwards and $2.2 million of federal and state research and development credits related to the acquisition of Evolution Robotics that are limited by Section 382 and Section 383, respectively, of the Internal Revenue Code. However, these limitations are not expected to cause any of these federal and state net operating loss carryforwards or federal and state research and development credits to expire prior to being utilized.

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

	Fiscal Year Ended		
	January 2, 2016	December 27, 2014	December 28, 2013
	(In thousands)		
Expected federal income tax	$22,040	$18,344	$11,345
Miscellaneous permanent items	608	691	405
State taxes (net of federal benefit)	982	1,058	867
Federal and state credits	(2,767)	(1,487)	(3,909)
Change in valuation allowance	—	(2,090)	—
Domestic production activities deduction	(2,145)	(1,562)	(1,168)
Settlement of uncertain tax positions	(194)	(176)	(2,696)
Other	317	(172)	(70)
	$18,841	$14,606	$4,774

A summary of the Company's adjustments to its gross unrecognized tax benefits in the current year is as follows:

	Fiscal Year Ended		
	January 2, 2016	December 27, 2014	December 28, 2013
	(in thousands)		
Balance at beginning of period	$2,491	$2,618	$4,469
Increase for tax positions related to the current year	786	252	355
Increase (decrease) for tax positions related to prior years	3,533	(108)	490
Decreases for settlements with applicable taxing authorities	—	(271)	(2,696)
Decreases for lapses of statute of limitations	(194)	—	—
Balance at end of period	$6,616	$2,491	$2,618

The Company accrues interest and, if applicable, penalties for any uncertain tax positions. Interest and penalties are classified as a component of income tax expense. As of January 2, 2016, December 27, 2014 and December 28, 2013 there were no material accrued interest or penalties. Over the next twelve months, it is reasonably possible that the Company may recognize approximately $0.2 million of previously net unrecognized tax benefits related to U.S.

federal, state and foreign tax audits and expiration of the statute of limitations. If all of our unrecognized tax benefits as of January 2, 2016 were to become recognizable in the future, we would record a $2.1 million benefit, inclusive of interest, to the income tax provision, reflective of federal benefit on state items.

Included in the Company’s state tax credit carryforwards are unrecognized tax benefits related to stock-based compensation beginning from January 1, 2006 of $0.6 million and $0.5 million as of January 2, 2016 and December 27, 2014, respectively. Included in the Company's state net operating loss carryforwards are unrecognized tax benefits related to stock-based compensation beginning from January 1, 2006 of $1.0 million and $0.7 million as of January 2, 2016 and December 27, 2014, respectively. These unrecognized tax benefits will be credited to additional paid-in capital when they reduce income taxes payable. Therefore, these amounts were not included in the Company’s gross or net deferred tax assets at January 2, 2016 and December 27, 2014.
The Company follows the with and without approach for direct and indirect effects of windfall tax deductions.

11. Commitments and Contingencies

Legal

From time to time and in the ordinary course of business, the Company is 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 the Company's financial condition or results of operations.

Lease Obligations

The Company leases its facilities. Rental expense under operating leases for fiscal 2015, 2014 and 2013 amounted to $4.9 million, $4.8 million, and $5.3 million, respectively. Future minimum rental payments under operating leases were as follows as of January 2, 2016:

	Operating Leases
2016	$3,856
2017	3,411
2018	2,957
2019	2,925
2020	978
Thereafter	—
Total minimum lease payments	$14,127

Outstanding Purchase Orders

At January 2, 2016, we had outstanding purchase orders aggregating approximately $74.7 million. The purchase orders, the majority of which are with our contract manufacturers for the purchase of inventory in the normal course of business, are for manufacturing and non-manufacturing related goods and services, and are generally cancelable without penalty. In circumstances where we determine that we have financial exposure associated with any of these commitments, we record a liability in the period in which that exposure is identified.

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. The term of these indemnification agreements is generally perpetual any time after execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of January 2, 2016 and December 27, 2014, respectively.

Government Contract Contingencies

Several of the Company's prime contracts with the U.S. federal government do not contain a limitation of liability provision, creating a risk of responsibility for direct and consequential damages. Several subcontracts with prime contractors hold the prime contractor harmless against liability that stems from our work and do not contain a limitation of liability. These

Table of Contents
iROBOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

provisions could cause substantial liability for the Company. In addition, the Company is subject to audits by the U.S. federal government as part of routine audits of government contracts. As part of an audit, these agencies may review the Company's performance on contracts, cost structures and compliance with applicable laws, regulations and standards. If any of its costs are found to be allocated improperly to a specific contract, the costs may not be reimbursed and any costs already reimbursed for such contract may have to be refunded. Accordingly, an audit could result in a material adjustment to our revenue and results of operations. Annually, the Company submits final indirect billing rates to DCMA based upon actual costs incurred throughout the year. These final billing rates are subject to audit by DCAA. As of January 2, 2016, fiscal years 2012 through 2015 are open for audit by DCAA.

Warranty

The Company provides warranties on most products and has established a reserve for warranty based on estimated warranty costs. The reserve is included as part of accrued expenses (Note 6) in the accompanying consolidated balance sheets.

Activity related to the warranty accrual was as follows:

	Fiscal Year Ended		
	January 2, 2016	December 27, 2014	December 28, 2013
	(In thousands)		
Balance at beginning of period	$7,769	$6,497	$6,057
Provision	4,598	6,410	1,744
Warranty usage(*)	(5,460)	(5,138)	(1,304)
Balance at end of period	$6,907	$7,769	$6,497

(*) Warranty usage includes costs incurred for warranty obligations.

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 nexus in new jurisdictions with respect to sales tax. The Company has recorded a liability for potential exposure in 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.

12. Employee Benefits

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

The Company elected to make a matching contribution of approximately $1.8 million, $1.7 million and $1.5 million for the plan years ended January 2, 2016, December 27, 2014 and December 28, 2013 ("Plan-Year 2015," "Plan-Year 2014" and "Plan-Year 2013"), respectively. The employer contribution represents a matching contribution at a rate of 50% of each employee's first six percent contribution. Accordingly, each employee participating during Plan-Year 2015, Plan-Year 2014 and Plan-Year 2013 is entitled up to a maximum of three percent of his or her eligible annual payroll. The employer matching contribution for Plan-Year 2015 is included in accrued compensation in the accompanying consolidated balance sheet.

Table of Contents
iROBOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

13. Derivative Instruments
The Company is exposed to adverse changes in foreign currency exchange rates, primarily related to sales in the Canadian Dollar and the Euro. As a result, the Company periodically enters into foreign currency forward contracts to minimize the impact of fluctuating exchange rates on results of operations. These derivative instruments have maturities of two months or less and have not qualified for hedge accounting.
Notional amounts and fair values of derivative instruments are as follows:

		Notional amount		Fair Value	
	Classification	January 2, 2016	December 27, 2014	January 2, 2016	December 27, 2014
		(In thousands)			
Foreign currency forward contracts	Accrued expenses	$6,773	$—	$28	$—

Gains/(losses) associated with derivative instruments are as follows:

	Classification	Twelve Months Ended January 2, 2016 (In thousands)	December 27, 2014
Derivatives not designated as hedging instruments			
Gain (loss) recognized in income	Other expense, net	$368	$—

14. Goodwill and other intangible assets
The carrying amount of the goodwill at January 2, 2016 is $48.8 million. $41.0 million resulted from the acquisition of Evolution Robotics, Inc. in October 2012 and was assigned to the home robots reporting unit. $7.7 million (net of a subsequent write-down of $0.2 million) resulted from the acquisition of Nekton Research, LLC completed in September 2008 and was assigned to the defense and security reporting unit. In conjunction with the reorganization completed as of the beginning of the fiscal year 2013, the defense and security reporting unit was divided into two reporting units: the defense and security reporting unit and the research reporting unit. As a result, the goodwill of $7.9 million was reassigned utilizing a relative fair value allocation approach. $7.7 million and $0.2 million were reassigned to the defense and security and research reporting units, respectively.
During the second quarter of 2013, the Company decided to refocus its funded research activities. The Company considered this decision to be an impairment indicator, requiring an interim impairment test within the research reporting unit. The Company performed an impairment assessment using the income approach, and determined that goodwill was impaired. The Company recorded an impairment loss of $0.2 million within general and administrative expenses during the fiscal year ended December 28, 2013.
In the fourth quarter of 2015, the Company completed its annual goodwill impairment tests on the goodwill associated with the acquisitions of Evolution Robotics, Inc. and Nekton Research, LLC and did not identify any goodwill impairment. The Company further considered the subsequent event of the signed definitive agreement associated with the sale of the defense and security business unit, and reevaluated its position which incorporated the associated purchase price and reconfirmed that no impairment of the Nekton goodwill exists.
Other intangible assets include the value assigned to completed technology, research contracts, and trade names. 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 estimated economic benefits of the intangible assets are expected to be utilized.

Table of Contents
iROBOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Intangible assets at January 2, 2016 and December 27, 2014 consisted of the following:

	January 2, 2016			December 27, 2014			
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Impairment Loss	Net
	(In thousands)						
Completed technology	$26,900	$ 11,236	$15,664	$30,600	$ 9,691	$1,788	$19,121
Research contracts	—	—	—	100	100	—	—
Tradename	100	100	—	800	775	—	25
Total	$27,000	$ 11,336	$15,664	$31,500	$ 10,566	$1,788	$19,146

As part of the Company's decision during 2013 to refocus its funded research activities, the Company decided to no longer pursue certain research contracts in which completed technology acquired as part of the acquisition of Nekton Research, LLC was utilized. As a result, the Company performed an impairment assessment of the associated intangible asset using the income approach, and recorded an impairment loss of $1.8 million within general and administrative expenses during the fiscal year ended December 28, 2013.
Amortization expense related to acquired intangible assets was $3.5 million, $3.5 million, and $3.8 million for the fiscal years ended January 2, 2016, December 27, 2014 and December 28, 2013, respectively. The estimated future amortization expense related to current intangible assets in each of the five succeeding fiscal years is expected to be as follows:

	(In thousands)
2016	$3,457
2017	3,457
2018	3,457
2019	2,818
2020	900
Total	$14,089

15. Restructuring charges

In 2013, the Company incurred restructuring charges of $3.3 million primarily related to a $1.8 million write-down of an intangible asset, costs associated with the closing of its San Luis Obispo, California office and severance-related costs.
The activity for the restructuring program is presented below:

	Fiscal Year Ended		
	January 2, 2016	December 27, 2014	December 28, 2013
	(In thousands)		
Balance at beginning of period	$—	$675	$197
Charges	—	—	3,296
Utilization	—	(675)	(2,818)
Balance at end of period	$—	$—	$675

16. Industry Segment, Geographic Information and Significant Customers
The Company operates in two reportable segments, the home robots business unit and the defense and security business unit. The nature of products and types of customers for the two segments vary significantly. As such, the

segments are managed separately.

Table of Contents
iROBOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Home Robots
The Company’s home robots business unit 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 business unit includes mobile robots used in the maintenance of households.
Defense and Security Robots
The Company’s defense and security business unit offers products to the U.S. Department of Defense through a small U.S. government-focused sales force, and to other North American and international entities through small domestic and international sales teams, as well as through North American and international distributors. The Company’s defense and security robots are used to increase warfighters', law enforcement, security forces and first responders' safety and productivity.
Other
The Company’s other revenue and cost of revenue result from other smaller business units that do not meet the criteria of a reportable segment, as well as certain operational costs included in cost of revenue.
The table below presents segment information about revenue, cost of revenue, gross margin and income before income taxes:

	Fiscal Year Ended		
	January 2, 2016	December 27, 2014	December 28, 2013
	(In thousands)		
Revenue:			
Home Robots	$559,619	$507,414	$427,853
Defense & Security Robots	55,004	45,502	50,003
Other	2,155	3,930	9,545
Total revenue	616,778	556,846	487,401
Cost of revenue:			
Home Robots	274,613	251,095	217,011
Defense & Security Robots	29,737	24,409	24,975
Other	23,502	23,287	24,261
Total cost of revenue	327,852	298,791	266,247
Gross margin:			
Home Robots	285,006	256,319	210,842
Defense & Security Robots	25,267	21,093	25,028
Other	(21,347)	(19,357)	(14,716)
Total gross margin	288,926	258,055	221,154
Research and development	76,071	69,408	63,649
Selling and marketing	97,772	86,091	71,529
General and administrative	54,465	49,439	53,358
Other expense, net	2,353	(708)	(203)
Income before income taxes	$62,971	$52,409	$32,415

As of January 2, 2016, goodwill of $41.0 million and purchased intangible assets, net of $15.7 million recorded in conjunction with the acquisition of Evolution Robotics, Inc. in October 2012 are directly associated with the home robots business unit. Goodwill of $7.7 million recorded in conjunction with the acquisition of Nekton in September 2008 is directly associated with the defense and security business unit. Other long lived assets are not directly attributable to individual business segments.

68

Table of Contents
iROBOT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Geographic Information
For the fiscal years ended January 2, 2016, December 27, 2014 and December 28, 2013, sales to non-U.S. customers accounted for 56.0%, 60.9% and 59.5% of total revenue, respectively. For the fiscal years ended January 2, 2016, December 27, 2014 and December 28, 2013, sales to our home robots distributor in Japan accounted for 13.3%, 17.0%, and 19.8% of total revenue, respectively.
Significant Customers
For the fiscal years ended January 2, 2016, December 27, 2014 and December 28, 2013, U.S. federal government orders, contracts and subcontracts accounted for 5.1%, 4.3% and 6.2% of total revenue, respectively. For the fiscal years ended January 2, 2016, December 27, 2014 and December 28, 2013 approximately 76.6%, 75.7% and 75.3%, respectively, of our home robot product revenue resulted from sales to 15 customers. For the fiscal years ended January 2, 2016, December 27, 2014 and December 28, 2013, the Company generated an aggregate of 26.0%, 29.8% and 33.2%, respectively, of its total revenue from its home robots distributor in Japan (Sales on Demand Corporation) and a network of affiliated European distributors of the Company's home robots (Robopolis SAS).

17. Quarterly Information (Unaudited)

	Fiscal Quarter Ended							
	January 2, 2016	September 26, 2015	June 27, 2015	March 28, 2015	December 27, 2014	September 27, 2014	June 28, 2014	March 29, 2014
	(In thousands, except per share amounts)							
Revenue	$206,420	$ 143,609	$148,788	$117,961	$ 159,342	$ 143,497	$139,803	$114,204
Gross margin	95,327	69,858	70,033	53,708	76,335	67,889	62,121	51,710
Net income	19,331	12,793	7,252	4,754	9,386	14,607	8,530	5,280
Diluted earnings per share	$0.65	$ 0.42	$0.24	$0.16	$ 0.31	$ 0.48	$0.28	$0.18

During the fourth quarter of 2015, the Company identified immaterial errors to previously reported revenue due to certain customer allowances recorded at an incorrect rate and a reserve calculation which was overstated. The recorded out of period adjustment to revenue resulted in a $1.5 million increase in fourth quarter 2015 income before taxes. Of the $1.5 million adjustment, $0.7 million relates to prior years and $0.8 million relates to the first three quarters of 2015. The adjustment did not have a material impact on the reported financial position or results of operations for the three and twelve months ended January 2, 2016. Additionally, had the errors been recorded in the prior periods to which they relate, the impact would not have been material to the reported financial position or results of operations for those periods.
18. Subsequent Event
On February 2, 2016, the Company entered into an Asset Purchase Agreement with iRobot Defense Holdings, Inc., a recently-formed portfolio company of Arlington Capital Partners, to sell all of the assets and certain liabilities of the defense and security business unit. The purchase price is up to $45.0 million, of which $30.0 million will be paid at the closing of the transaction, subject to adjustments for working capital and indebtedness as set forth in the purchase agreement, and up to an additional $15.0 million of which may be earned based on 2016 revenue of the defense and security business unit. The transaction is expected to close during the first quarter of 2016.

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

Not Applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

As required by Rule 13a-15(b) under the Exchange Act, we have carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (CEO) and our Chief Financial Officer (CFO),

Table of Contents

of the effectiveness, as of the end of the period covered by this report, of the design and operation of our "disclosure controls and procedures" as defined in Rule 13a-15(e) promulgated by the SEC under the Exchange Act. Based upon that evaluation, our CEO and our CFO concluded that our disclosure controls and procedures, as of the end of such period, were adequate and effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information was accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

Under the supervision and with the participation of management, including our principal executive and financial officers, we assessed the Company's internal control over financial reporting as of January 2, 2016, based on criteria for effective internal control over financial reporting established in Internal Control — Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that the Company maintained effective internal control over financial reporting as of January 2, 2016 based on the specified criteria.

The effectiveness of the Company's internal control over financial reporting as of January 2, 2016 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Changes in Internal Control Over Financial Reporting

During the quarter ended January 2, 2016, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

ITEM 9B. 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-l 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 and Glen D. Weinstein, EVP & Chief Legal Officer) of the Company have entered into trading plans (each a "Plan" and collectively, the "Plans") covering periods after the date of this Annual Report on Form 10-K in accordance with Rule 10b5-l 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-l and our policy governing transactions in our securities, some or all of our officers, directors and employees may establish trading plans in the future. We intend to disclose the names of our executive officers and directors who establish a trading plan in compliance with Rule 10b5-l and the requirements of our policy governing transactions in our securities in our future quarterly and annual reports on Form 10-Q and 10-K filed with the Securities and Exchange Commission. We, however, undertake no obligation to update or revise the information provided herein, including for revision or termination of an established trading plan, other than in such quarterly and annual reports.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement pursuant to Regulation 14A, which proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended January 2, 2016.

ITEM 11. EXECUTIVE COMPENSATION

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement pursuant to Regulation 14A, which proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended January 2, 2016.

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

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement pursuant to Regulation 14A, which proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended January 2, 2016.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement pursuant to Regulation 14A, which proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended January 2, 2016.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement pursuant to Regulation 14A, which proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended January 2, 2016.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

1. Financial Statements

The following consolidated financial statements are included in Item 8:
Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets at January 2, 2016 and December 27, 2014

71

Table of Contents

Consolidated Statements of Income for the Years ended January 2, 2016, December 27, 2014 and December 28, 2013
Consolidated Statements of Comprehensive Income for the Years ended January 2, 2016, December 27, 2014 and December 28, 2013
Consolidated Statements of Stockholders' Equity for the Years ended January 2, 2016, December 27, 2014 and December 28, 2013
Consolidated Statements of Cash Flows for the Years ended January 2, 2016, December 27, 2014 and December 28, 2013
Notes to Consolidated Financial Statements

2. Financial Statement Schedules

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

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

(b) Exhibits

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

Exhibit Number	Description
3.1(1)	Form of Second Amended and Restated Certificate of Incorporation of the Registrant dated November 15, 2005
3.2	Amended and Restated By-laws of the Registrant (filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 28, 2014 and incorporated by reference herein)
4.1(1)	Specimen Stock Certificate for shares of the Registrant's Common Stock
10.1†(1)	Form of Indemnification Agreement between the Registrant and its Directors and Executive Officers
10.2†	Amended and Restated 2004 Stock Option and Incentive Plan and forms of agreements thereunder (filed as Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 and incorporated by reference herein)
10.3†	Form of Executive Agreement between the Registrant and certain executive officers of the Registrant, as amended (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 2010 and incorporated by reference herein)
10.4†(1)	Employment Agreement between the Registrant and Colin Angle, dated as of January 1, 1997
10.5†	2005 Stock Option and Incentive Plan, as amended, and forms of agreements thereunder (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 2, 2009 and incorporated by reference herein)
10.6#(1)	Manufacturing and Services Agreement between the Registrant and Gem City Engineering Corporation, dated as of July 27, 2004
10.7†	Non-Employee Directors' Deferred Compensation Program, as amended (filed as Exhibit 10.19 to the Registrant's Annual Report on Form 10-K for the year ended December 29, 2007 and incorporated by reference herein)
10.8*	Lease Agreement between the Registrant and Boston Properties Limited Partnership for premises located at 4-18 Crosby Drive, Bedford, Massachusetts, dated as of February 22, 2007 (as amended to date)

Table of Contents

Exhibit Number	Description
10.9†	Senior Executive Incentive Compensation Plan (filed as Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended July 2, 2011 and incorporated by reference herein)
10.10†	Form of Deferred Stock Award Agreement under the 2005 Stock Option and Incentive Plan (filed as Exhibit 10.3 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 28, 2008 and incorporated by reference herein)
10.11†	Form of Restricted Stock Award Agreement under the 2005 Stock Option and Incentive Plan (filed as Exhibit 10.4 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 28, 2008 and incorporated by reference herein)
10.12#	Manufacturing Services Agreement between the Registrant and Jabil Circuit, Inc., dated as of March 18, 2010 (filed as Exhibit 10.1 to Amendment No. 1 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended April 3, 2010 and incorporated by reference herein)
10.13	Amended and Restated Credit Agreement between the Registrant and Bank of America N.A. dated December 20, 2013 (filed as Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the year ended December 28, 2013 and incorporated by reference herein)
10.14	Amended and Restated Reimbursement Agreement between the Registrant and Bank of America N.A. dated December 20, 2013 (filed as Exhibit 10.16 to the Registrant's Annual Report on Form 10-K for the year ended December 28, 2013 and incorporated by reference herein)
10.15#	Manufacturing Services Agreement between the Registrant and Kin Yat Industrial Company Limited, dated as of January 22, 2014 (filed as Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 29, 2014 and incorporated by reference herein)
10.16†	Evolution Robotics, Inc. 2007 Stock Plan and forms of agreements thereunder
10.17†	2015 Stock Option and Incentive Plan and forms of agreements thereunder (filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 27, 2015 and incorporated by reference herein)
10.18	Separation Agreement by and between the Registrant and Paolo Pirjanian, dated as of July 2, 2015 (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 26, 2015 and incorporated by reference herein)
21.1*	Subsidiaries of the Registrant
23.1*	Consent of PricewaterhouseCoopers LLP
24.1	Power of Attorney (incorporated by reference to the signature page of this report on Form 10-K)
31.1*	Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934
31.2*	Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934
32.1*	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101*	The following materials from the Registrant’s Annual Report on Form 10-K for the year ended January 2, 2016 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 Stockholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) related notes to these financial statements

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

\# Confidential treatment requested for portions of this document.

(1) Incorporated by reference herein to the exhibits to the Company’s Registration Statement on Form S-1 (File No. 333-126907)

* Filed herewith

Table of Contents

SIGNATURES

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

iROBOT CORPORATION

By: /s/ Colin M. Angle
Colin M. Angle
Chairman of the Board,
Chief Executive Officer and Director

Date: February 19, 2016

POWER OF ATTORNEY

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

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Annual Report on Form 10-K has been signed by the following persons in the capacities indicated on February 19, 2016.

Signature	Title(s)
/s/ COLIN M. ANGLE Colin M. Angle	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)
/s/ ALISON DEAN Alison Dean	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)
/s/ RONALD CHWANG Ronald Chwang	Director
/s/ MICHELLE V. STACY Michelle V. Stacy	Director
/s/ GAIL DEEGAN Gail Deegan	Director
/s/ ANDREA GEISSER Andrea Geisser	Director

Table of Contents

/s/ GEORGE C. MCNAMEE George C. McNamee	Director
/s/ DEBORAH G. ELLINGER Deborah G. Ellinger	Director
/s/ MOHAMAD ALI Mohamad Ali	Director

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
3.1(1)	Form of Second Amended and Restated Certificate of Incorporation of the Registrant dated November 15, 2005
3.2	Amended and Restated By-laws of the Registrant (filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 28, 2014 and incorporated by reference herein)
4.1(1)	Specimen Stock Certificate for shares of the Registrant’s Common Stock
10.1†(1)	Form of Indemnification Agreement between the Registrant and its Directors and Executive Officers
10.2†	Amended and Restated 2004 Stock Option and Incentive Plan and forms of agreements thereunder (filed as Exhibit 10.4 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 and incorporated by reference herein)
10.3†	Form of Executive Agreement between the Registrant and certain executive officers of the Registrant, as amended (filed as Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended October 2, 2010 and incorporated by reference herein)
10.4†(1)	Employment Agreement between the Registrant and Colin Angle, dated as of January 1, 1997
10.5†	2005 Stock Option and Incentive Plan, as amended, and forms of agreements thereunder (filed as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed on June 2, 2009 and incorporated by reference herein)
10.6#(1)	Manufacturing and Services Agreement between the Registrant and Gem City Engineering Corporation, dated as of July 27, 2004
10.7†	Non-Employee Directors’ Deferred Compensation Program, as amended (filed as Exhibit 10.19 to the Registrant’s Annual Report on Form 10-K for the year ended December 29, 2007 and incorporated by reference herein)
10.8*	Lease Agreement between the Registrant and Boston Properties Limited Partnership for premises located at 4-18 Crosby Drive, Bedford, Massachusetts, dated as of February 22, 2007 (as amended to date)
10.9†	Senior Executive Incentive Compensation Plan (filed as Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended July 2, 2011 and incorporated by reference herein)
10.10†	Form of Deferred Stock Award Agreement under the 2005 Stock Option and Incentive Plan (filed as Exhibit 10.3 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 28, 2008 and incorporated by reference herein)
10.11†	Form of Restricted Stock Award Agreement under the 2005 Stock Option and Incentive Plan (filed as Exhibit 10.4 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 28, 2008 and incorporated by reference herein)
10.12#	Manufacturing Services Agreement between the Registrant and Jabil Circuit, Inc., dated as of March 18, 2010 (filed as Exhibit 10.1 to Amendment No. 1 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended April 3, 2010 and incorporated by reference herein)
10.13	Amended and Restated Credit Agreement between the Registrant and Bank of America N.A. dated December 20, 2013 (filed as Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the year ended December 28, 2013 and incorporated by reference herein)
10.14	Amended and Restated Reimbursement Agreement between the Registrant and Bank of America N.A. dated December 20, 2013 (filed as Exhibit 10.16 to the Registrant's Annual Report on Form 10-K for the year ended December 28, 2013 and incorporated by reference herein)
10.15#	Manufacturing Services Agreement between the Registrant and Kin Yat Industrial Company Limited, dated as of January 22, 2014 (filed as Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 29, 2014 and incorporated by reference herein)
10.16†	Evolution Robotics, Inc. 2007 Stock Plan and forms of agreements thereunder
10.17†	

	2015 Stock Option and Incentive Plan and forms of agreements thereunder (filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 27, 2015 and incorporated by reference herein)
10.18	Separation Agreement by and between the Registrant and Paolo Pirjanian, dated as of July 2, 2015 (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 26, 2015 and incorporated by reference herein)
21.1*	Subsidiaries of the Registrant
23.1*	Consent of PricewaterhouseCoopers LLP
24.1	Power of Attorney (incorporated by reference to the signature page of this report on Form 10-K)
31.1*	Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934

76

Table of Contents

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 Annual Report on Form 10-K for the year ended January 2, 2016 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 Stockholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) related notes to these financial statements

† Indicates a management contract or any compensatory plan, contract or arrangement.
# Confidential treatment requested for portions of this document.
(1) Incorporated by reference herein to the exhibits to the Company's Registration Statement on Form S-1 (File No. 333-126907)
* Filed herewith