

IROBOT CORP
Form 10-K
February 16, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 30, 2017

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 (I.R.S. Employer
incorporation or organization) 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 No

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

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

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

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

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Large accelerated filer

Accelerated filer

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the Common Stock held by nonaffiliates of the registrant was approximately \$2.3 billion based on the last reported sale of the Common Stock on The Nasdaq Global Select Market on July 1, 2017, the last business day of the registrant's most recently completed second fiscal quarter.

As of February 12, 2018, there were 27,945,275 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant intends to file a definitive Proxy Statement pursuant to Regulation 14A within 120 days of the end of the fiscal year ended December 30, 2017. Portions of such Proxy Statement are incorporated by reference into Part III of this Form 10-K.

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ANNUAL REPORT ON FORM 10-K
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PART I

ITEM 1. BUSINESS

This Annual Report on Form 10-K contains forward-looking statements. All statements other than statements of historical facts contained in this Annual Report on Form 10-K, including statements regarding our future results of operations and financial position, business strategy, plans and objectives of management for future operations, and plans for product development, launches 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 and its stylized logo, Roomba, NorthStar, Create, iAdapt, Aware, Home Base, Looj, Braava, AeroForce, Mirra, vSLAM and Virtual Wall are trademarks of iRobot Corporation.

Overview

iRobot Corporation ("iRobot" or the "Company" or "we") is a leading global consumer robot company that designs and builds robots that empower people to do more both inside and outside of the home. The Company's consumer robots help people find smarter ways to clean and accomplish more in their daily lives. iRobot's portfolio of solutions features proprietary technologies for the connected home and advanced concepts in cleaning, mapping and navigation, human-robot interaction, and physical solutions. For more than 25 years, we have been a pioneer in the robotics and consumer products industries.

Since our founding in 1990, we have developed 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 consumer products. Over the past sixteen years, we have sold more than 20 million consumer robots worldwide. During 2016, we took several steps to become more focused on our well-established consumer robots business and to capitalize on the substantial opportunities available to us within consumer markets. We completed the sale of our defense and security business unit in April 2016. In addition, we reallocated all the research and development resources from our remote presence business to our consumer business during the first quarter of 2016, and exited the remote presence business during the second quarter of 2016. These actions were taken to solidify our position as the leader in diversified consumer 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.

During 2017, we continued to expand our global operations with the acquisition of two of our major distributors in Japan and Europe. On April 3, 2017, we closed the acquisition of the iRobot-related distribution business of Sales On Demand Corporation (SODC) based in Tokyo, Japan for approximately \$16.6 million in cash. The acquisition of SODC will better enable us to maintain our leadership position and accelerate the growth of our business in Japan through direct control of pre- and post-sales market activities including sales, marketing, branding, channel relationships and customer service. It also expands our presence and customer outreach opportunities in Japan. Additionally, on October 2, 2017, we closed the acquisition of our largest European distributor, Robopolis SAS, a French company (Robopolis), for approximately \$170.1 million in cash, which was offset by acquired cash held by Robopolis and its subsidiaries, resulting in a net cash outlay of approximately \$132.1 million. We anticipate that this acquisition will enhance our distribution network, ensure global brand consistency and help us better serve the needs of European consumers. We expect to drive continued growth in global markets through a consistent approach to all

market activities including sales, marketing, branding, channel relationships and customer service. Both acquisitions provide us with more direct control over the go-to-market execution in these key regions.

We also achieved a number of significant milestones in the past two years that we believe will assist us in continuing to generate profitable growth and enhance value for our shareholders. In particular, in 2016, we successfully launched Roomba 960, our second 900 series Roomba, that extends mapping, visual navigation and cloud connectivity to a wider range of customers. We also launched the Braava jet mopping robot, with precision jet spray and vibrating cleaning head, focused on expanding our wet floor care business. Both the Roomba 900 series and Braava jet are significantly more complex products, delivering enhanced performance enabled by software. The iRobot HOME App, compatible with both the Roomba 900 series and Braava jet, helps users get the most out of their experience by allowing them to choose the appropriate cleaning options for their unique home. We also announced a relationship with Amazon Web Services, or AWS, that we believe will enable iRobot

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to address significant opportunities within our consumer business and the connected home. AWS Cloud is a managed cloud solution that enables connected devices to interact easily and securely with cloud applications and other devices. The AWS Cloud will enable iRobot to scale the number of connected robots it supports globally and allow for increased capabilities in the Smart Home. We implemented new Roomba marketing programs in the United States that resulted in a significant return on our investment which we plan to leverage as part of our strategy to accelerate growth in international markets. In 2017, we launched Roomba 690 and 890, extending Wi-Fi connectivity to the entire Roomba line. And, we launched several connected product features, including push notifications, Clean Map Reports and integrations with Amazon Alexa, Google Assistant and IFTTT platform technology.

Our total revenue for 2017 was \$883.9 million, which represents a 33.8% increase from 2016 revenue of \$660.6 million. Domestic consumer robots revenue grew \$133.2 million primarily due to increased sales as a result of significant investments in advertising media and national promotions as well as the strength of the Roomba 900 series and Roomba 600 series. International consumer robots revenue grew by \$94.6 million in 2017 with increases in most markets, offset by a decline in China.

Our financial performance in 2018 will be driven by our continued transformation to a global consumer robots company. Our strategy is to maintain Roomba's leadership in the robotic vacuum cleaner segment while positioning the Company as a strategic player in the emerging Smart Home. We expect growth to be driven by:

- deeper household penetration of Roomba globally;
- continued investment in innovation to extend our technology and product leadership;
- increased gross margin due to our acquisitions of two of our foreign distributors, SODC and Robopolis, in 2017;
- adoption and awareness of Braava products through targeted marketing programs; and
- research and development of new products.

Strategy

In 2002, iRobot created the home robot cleaning category with the introduction of its Roomba vacuuming robot. Today, we are a global enterprise that has sold more than 20 million consumer robots worldwide. iRobot's success in driving adoption of connected Roomba robots has created a unique opportunity to extend consumer value in the home and expand our business. Our long-term strategy is to increase the penetration of our products in existing markets, expand current products into new markets, and develop and launch new products into current and adjacent markets. As our customer base grows, iRobot plans to create an ecosystem of connected robots designed to integrate with other devices. This ecosystem will create greater possibilities for new features and capacities as well as empowering the Smart Home.

Global expansion is a key component of our strategy. Our relentless pursuit of product leadership, through targeted investment in key technologies and capabilities, coupled with our investments in furthering our global brand and targeted marketing initiatives, allows us to continue to maintain our leadership position in the robotic vacuum cleaner segment despite increasing competition. Our recent acquisitions of distributors in Japan and Europe further this strategic objective.

To successfully execute our 2018 plan and drive revenue diversification and significant revenue growth beyond 2018, we plan to continue to make investments in our business during the year. These investments are expected to help iRobot achieve the following goals:

- Continue to strengthen our marketing capabilities globally and accelerate worldwide consumer adoption of Roomba to maintain our market-leading position in robotic vacuum cleaners;
- Continue to develop our wet floor care business to generate a material, secondary revenue stream;
- Scale our infrastructure to support global operations and connected products;
- Explore, develop and grow adjacent non-floor care consumer robot products that can generate meaningful diversified revenue streams; and
- Make continued operational improvements that can reduce product and operating costs.

Key pillars of our strategy include:

Technology: As a leading global consumer robotics company, iRobot must develop and maintain best-in-class technology in the areas of cleaning, mapping and navigation. In 2018, iRobot plans to take steps towards expanding its product lines with new products that will deliver innovative solutions to improve cleaning performance, efficiency and

ease-of-use. Mapping and navigation continues to be the core focus for iRobot. Consumer robots that can map and are spatially aware creates a unique and differentiating opportunity to expand consumer value.

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Brand: In 2016, we rolled out a new logo, mark and brand language to signify the partnership between man and machine. In 2017, to meet our goal of a consistent brand experience in every region, we expanded our presence globally by taking more direct control of marketing programs and the customer experience in Japan and Europe by acquiring key regional distributors. We believe our expanded global presence will allow us to strengthen strategic retailer partnerships, minimize competitive pressures and increase our consumer activation field programs.

Portfolio: Our strategy includes building a portfolio of investments to diversify across markets and delivering a steady progression of innovation over time. In 2017, we introduced the Roomba 690 and 890, extending cloud connectivity to a wider range of consumers. We plan to continue to build a diverse portfolio of physical platforms and digital capabilities across international markets and deliver a steady progression of innovation and growth. To achieve this, we plan to focus on developing products with connectivity and mobile app-enabled features, including Wi-Fi home maps and advanced spatial intelligence and memory.

Talent: Our employees are the most important driver of who we are. Our success, diversity and reputation as developers of great talent make us an attractive employer to the top talent all over the world. Talent recruitment and retention continues to be at the core of what we accomplish as we map out our culture and work towards achieving our vision. We are also growing our company to meet organization needs by strategically investing in our employees around the globe.

Technology

In 2016, iRobot narrowed its focus to the consumer market and made increased, but disciplined investments in advancing mapping and navigation, user interaction including cloud and app development and cleaning efficacy. From the launch of Braava jet, to the introduction of a lower cost Visual Simultaneous Localization and Mapping, or vSLAM, solution in Roomba 960, these strategic investments in technology had an immediate impact on product diversification, performance and market expansion. In 2017, we introduced two new connected products to the product portfolio bringing the advantages of cloud connectivity to more consumers. With the iRobot HOME App, we also delivered our robots' maps directly to our customers through the launch of post-mission cleaning maps. We believe the improved performance of our connected robots, and the data sourced from our maps, will accelerate new product development and digital partnerships for the Smart Home.

We plan to continue to leverage opportunities, enabled by our growing connected product portfolio, to invest in developing technologies and interfaces for our products to provide a convenient and personalized user experience. At the foundation of our effort to drive enhanced user experience has been the deployment of our new connectivity and cloud infrastructure through AWS. We made this investment to enable us to scale our connected products globally, with increased access to valuable cloud services and applications to support future product features, and connect to other devices in the Smart Home.

From robotic vacuum cleaning to mopping, we are dedicated to developing market-leading solutions which provide compelling value to customers worldwide. From our customer's perspective, the core value of our robots is the ability to efficiently and effectively perform a physical mission - the task for which that robot was initially purchased. In addition, we focus on features that allow the robots to perform longer, without consumer interaction. Our goal is to deliver maximum autonomy and effectiveness of the mission.

Products

Historically, we have designed and marketed robots for both the consumer and defense and security markets.

Following completion of the divestiture of our defense and security business unit in April 2016, we are now focusing solely on the consumer market. With more than two decades of leadership in the robot industry, we remain committed to creating robots that empower people to do more.

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. To ensure the continued acceptance of our robots we will continue to invest in technology necessary to further improve their capabilities.

We currently offer multiple Roomba floor vacuuming robots at varying price points ranging from \$299 to \$899 based upon features and performance characteristics. Roomba's design allows it to clean under toe kicks, 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 2017, we launched our newest connected robots, Roomba 690 and 890, bringing the advantages of connectivity to more consumers. Roomba 900 series robots help keep floors cleaner throughout the entire home with intelligent visual navigation, iRobot HOME App control with wireless connectivity, and 5x the suction power over previous generation Roomba vacuum cleaners. In addition to these highest-feature products, our lineup also includes the 800 series and 600 series robots.

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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. 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.

We currently offer the Braava family of automatic floor mopping robots designed exclusively for hard surface floors. These robots provide a different cleaning approach than our Roomba products. The Braava robots, priced at \$199 and \$299, automatically dust and damp mop hard surface floors using popular cleaning cloths or our specially designed reusable microfiber cloths, and include a special reservoir that dispenses liquid throughout the cleaning cycle to keep the cloth damp. Braava jet, launched in March 2016, works with Braava jet Cleaning Pads to tackle a range of hard floor cleaning jobs, from wet mopping and damp sweeping to simple dusting.

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 develops and manufactures the pool cleaning robots.

Defense and Security Products

As noted above, we completed the divestiture of our defense and security business unit in April 2016. Prior to this divestiture, we developed and delivered unmanned tactical ground robots in defense and security product markets. Following this divestiture, we no longer develop or sell defense and security products.

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.

Sales and Distribution Channels

We sell our consumer products through distributor and retail sales channels, as well as our on-line store. For the fiscal years ended December 30, 2017, December 31, 2016, and January 2, 2016, sales to non-U.S. customers accounted for 48.8%, 51.2%, and 56.0% of total revenue, respectively. For the fiscal year ended December 30, 2017, the Company generated 13.5% of total revenue from one of its retailers (Amazon). For the fiscal year ended December 31, 2016, the Company generated 12.9%, 12.3% and 10.4% of total revenue from its distributor in Japan, Sales On Demand Corporation (SODC), Robopolis SAS, a network of affiliated European distributors (Robopolis) and Amazon, respectively. For the fiscal year ended January 2, 2016, the Company generated 13.3% and 12.7% of total revenue from SODC and Robopolis, respectively. In April 2017, the Company acquired the iRobot-related distribution business of SODC, and in October 2017, the Company acquired Robopolis.

Consumer Products

Consumer product revenues were \$883.7 million, \$655.9 million and \$559.6 million for fiscal year 2017, 2016 and 2015, respectively. In the United States and Canada, we sell our consumer products primarily through a network of national retailers. Certain smaller domestic retail operations are supported by distributors to whom we sell our products directly. With the acquisition of SODC and Robopolis, iRobot now directly services retailers in Japan and countries that were previously serviced by Robopolis, including Austria, Belgium, France, Germany, Netherlands, Portugal and Spain. In support of sales in the United States, Canada, Japan and the seven European countries previously serviced by Robopolis, we maintain in-house sales, marketing and product management teams. In China, retailers are serviced by two local distributors. Due to the special needs of this market, we maintain a local sales, marketing and product team to support the distributors, manage the local marketing plan and meet product needs. Throughout the rest of the world, our products are sold 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.

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 4.1%, 5.1% and 6.1%

of total consumer robots revenue for fiscal 2017, 2016 and 2015, 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. With Wi-Fi connectivity implemented across Roomba 690 and higher models, iRobot can more directly provide customer support via the iRobot HOME App. In addition, connectivity enables us to provide direct marketing material and push new features/fixes to robots in the field. 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.

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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.

Marketing and Brand

We market our consumer robots to end-user customers through our sales and marketing teams as well as through our extensive network of retailers and in-country distributors. In addition, we sell directly to our consumers through our website. 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 and value. Our sales and marketing expenses represented 18.3%, 17.4% and 15.9% of our total revenue in 2017, 2016 and 2015, 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 have built a trusted, recognized brand by providing high-quality robots. Customer word-of-mouth has been a significant driver of our brand's success to date. iRobot owner loyalty encourages repurchase, and positive customer experiences inspire others to adopt our products. Our marketing efforts are focused on fueling this word-of-mouth momentum, and we use public relations as well as various forms of advertising to promote our products.

In April 2017, we acquired SODC, launching four new iRobot offices in Japan. In October 2017, we acquired our largest European distributor, Robopolis, launching new iRobot offices in seven countries, including Austria, Belgium, France, Germany, Netherlands, Portugal and Spain. These acquisitions allow us to drive continued growth in the region through a consistent approach to all market activities including sales, marketing, branding, channel relationships and customer service. 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 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 our robots at a single plant in China. Our production processes give us the capacity to produce up to 20,000 robots a day, helping us to meet demand for peak seasons.

Research and Development

We believe that our future success depends upon our ability to continue to develop new products and product accessories, and enhancements to and applications for our existing products. For the years ended December 30, 2017, December 31, 2016 and January 2, 2016, our research and development expenses were \$113.1 million, \$79.8 million and \$76.1 million, or 12.8%, 12.1% and 12.3% 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. 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 consumer electronics companies such as Samsung, LG, Xiaomi and Shark, traditional floor cleaning brands with robotic offerings such as Dyson, Bissell and Hoover, as well as developers of robot floor cleaning products.

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While we believe many of our customers purchase our Roomba floor vacuuming robots and Braava mopping 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 transferred 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 December 30, 2017, we held 403 U.S. patents, more than 650 foreign patents, additional design registrations, and more than 450 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 and its stylized logo, Roomba, NorthStar, Create, iAdapt, Aware, Home Base, Looj, Braava, AeroForce, Mirra, vSLAM and Virtual Wall. Our marks iRobot, Roomba, Braava, Virtual Wall, and certain other trademarks, have also been registered in selected foreign countries.

Our means of protecting our proprietary rights may not be adequate, and our competitors may independently develop technology that is similar to ours. Legal protections afford only limited protection for our technology. The laws of many countries do not protect our proprietary rights to as great an extent as do the laws of the United States. Despite our efforts to protect our proprietary rights, unauthorized parties have in the past attempted, and may in the future attempt, to copy aspects of our products or to obtain and use information that we regard as proprietary. In 2017, we initiated a multi-party litigation at the U.S. International Trade Commission as well as in federal district court in Massachusetts based on claims of patent infringement. There is no guarantee that we will prevail on these or other patent infringement claims against third parties. 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.

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Seasonality

Historically, we have experienced higher revenue in the second half of the year compared to the first half of the year due in large part to seasonal holiday demand. In 2017, 2016 and 2015, our second-half consumer product revenue represented 60.2%, 57.5% and 50.5% of our annual consumer product revenue, respectively.

Regulations

Our business requires compliance with a variety of laws and regulations in the United States and abroad regarding privacy, data protection, and data security. In particular, we are subject to numerous U.S. federal, state, and local laws and regulations and foreign laws and regulations regarding privacy and the collection, sharing, use, processing, disclosure, and protection of personal information and other user data. In addition, the global nature of our business operations also creates various domestic and foreign regulatory challenges and subject us to laws and regulations such as the U.S. Foreign Corrupt Practices Act, or FCPA, the U.K. Bribery Act, and similar anti-bribery and anti-corruption laws in other jurisdictions, and our products are also subject to U.S. export controls, including the U.S. Department of Commerce's Export Administration Regulations and various economic and trade sanctions regulations established by the Treasury Department's Office of Foreign Assets Controls.

We are also subject to international and U.S. federal, state, and local laws and regulations designed to protect the environment, regulate energy efficiency and to regulate the discharge of materials into the environment. We believe that our policies, practices, and procedures are properly designed to prevent unreasonable risk of environmental damage and associated financial liability. To date, environmental control regulations have not had a significant adverse effect on our overall operations.

Prior to our divestiture of the defense and security business unit in April 2016, we were subject to various government regulations, including various U.S. federal government regulations as a contractor and subcontractor to the U.S. federal government. We continue to remain 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 our completion of the sale of this business.

Employees

As of December 30, 2017, we had 920 full-time employees. Approximately 31% of our employees are based outside of the United States. None of our employees in the United States are represented by a labor union. In certain foreign subsidiaries, labor unions or workers' councils represent some of our employees. 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 Austria, Belgium, China, France, Germany, Hong Kong, Japan, Netherlands, Portugal, Spain, and the United Kingdom. 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:

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- generate sufficient revenue and gross margin to maintain profitability;
- acquire and maintain market share in our consumer market;
- attract and retain customers of our consumer robots;
- attract and retain engineers and other highly-qualified personnel; and
- expand our product offerings beyond our existing robots.

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

Our business currently depends solely 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 December 30, 2017, December 31, 2016 and January 2, 2016, we derived 100.0%, 99.3%, and 90.7% of our total revenue from our consumer robots, respectively. For the foreseeable future, we expect that our revenue will be derived solely 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 to develop and introduce new consumer products offering enhanced performance and functionality at competitive prices. The development and application of new technologies involves 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 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.

A number of companies have developed or are developing robots that will compete directly with our product offerings. 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. We also face competition from manufacturers of lower-cost devices, which may drive down the average selling price in the marketplace for floor cleaning products. 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.

The global 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.

Some of our competitors may aggressively discount their products and services in order to gain market share, which could result in pricing pressures, reduced profit margins, lost market share, or a failure to grow market share for us. In addition, new products may have lower selling prices or higher costs than legacy products, which could negatively impact our gross margins 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.

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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.

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

Efforts to expand our product offerings beyond our current markets may not succeed and 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.

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 distributors for our consumer 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;
- the timing of new product introductions;
- 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; and
- warranty costs associated with our consumer products.

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. 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.

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 certain of our products. All contract manufacturers for our current 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

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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
- risks that 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.

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 prior to delivery, 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, restructuring, 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 consumer robot sales.

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.

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

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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.

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. In addition, the regulatory environment surrounding information security and privacy is increasingly demanding, with frequent imposition of new and changing requirements. For example, the European Union's General Data Protection Regulation (GDPR), which will become effective in May 2018, imposes significant new requirements on how we collect, process and transfer personal data, as well as significant fines for non-compliance. Compliance with changes in privacy and information security laws and standards may result in significant expense due to increased investment in technology and the development of new operational processes. Moreover, 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.

Acquisitions and potential future acquisitions may 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 recently 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. For example, in April 2017, we acquired the iRobot-related distribution business of Sales On Demand Corporation (SODC), a privately-held corporation based in Tokyo, Japan, and in October 2017, we acquired Robopolis SAS (Robopolis), a privately-held corporation distributing iRobot products in seven European countries.

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, potential difficulty in managing and maintaining key customer relationships, 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 our recently completed acquisitions of SODC or Robopolis or any future acquisitions or combinations. 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.

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Our service providers may experience business interruptions, delays, or quality control issues, which may negatively impact our business and operating results.

As we expand our operations, we expect to use additional enterprise resource planning systems and account and technology service providers that may also be essential to managing our business. Our ability to manage our business would suffer if one or more of our providers suffer an interruption in their business, or experience delays, disruptions or quality control problems in their operations, or we have to change or add systems and services. While we conduct reasonable diligence on our service providers, we may not always be able to control the quality of the systems and services we receive from these providers, which could impair our ability to maintain appropriate internal controls over financial reporting and complete timely and accurate financial reporting, and may impact our business, operating results and financial condition.

Our valuation estimates for our recently completed and future acquisitions are based upon assumptions that may differ from actual results.

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;
- 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; and
- charges to our operating results resulting from expenses incurred to effect the acquisition.

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 and engineers with expertise in artificial intelligence, machine learning and cloud applications. 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 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. 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.

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,

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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. Patents which may be granted to us in certain foreign countries may be subject to opposition proceedings brought by third parties or result in suits by us, which may be costly and result in adverse consequences for us. 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. 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. For example, in 2017 we initiated a multi-party litigation at the U.S. International Trade Commission as well as in federal district court in Massachusetts based on claims of patent infringement. There is no guarantee that we will prevail on these or other patent infringement claims against third parties. We may be required to expend significant resources to monitor and protect our intellectual property rights. In addition, 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.

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.

We are currently defending multiple lawsuits based on claims of patent infringement. 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.

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 an increasingly global business that in the years ended December 30, 2017, December 31, 2016 and January 2, 2016 generated approximately 48.8%, 51.2% and 56.0%, respectively, 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 risks are magnified with our expanding global presence as a result of our recent acquisitions of SODC and Robopolis. These foreign currency 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.

Our primary exposure to movements in foreign currency exchange rates relates to non-U.S. dollar denominated sales and operating expenses worldwide. Weakening of foreign currencies relative to the U.S. dollar could adversely affect the U.S. dollar value of our foreign currency-denominated sales and earnings, and lead us to raise international pricing, which may reduce

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demand for our products. In some circumstances, for competitive or other reasons, we may decide not to raise local prices to fully offset the strengthening of the U.S. dollar, or for any other reason, which would adversely affect the U.S. dollar value of our foreign currency denominated sales and earnings. Conversely, a strengthening of foreign currencies relative to the U.S. dollar, while generally beneficial to our foreign currency-denominated sales and earnings, could cause us to reduce international pricing, incur losses on our foreign currency derivative instruments, and incur increased operating expenses, thereby limiting any benefit. Additionally, strengthening of foreign currencies may also increase our cost of product components denominated in those currencies, thus adversely affecting gross margins.

We use derivative instruments, such as foreign currency forward contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any, or more than a portion, of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place. In addition, our counterparties may be unable to meet the terms of the agreements. We seek to mitigate this risk by limiting counterparties to major financial institutions and by spreading the risk across several major financial institutions.

We are subject to a variety of U.S. and foreign laws and regulations that are central to our business; our failure to comply with these laws and regulations could harm our business or our operating results.

We are or may become subject to a variety of laws and regulations in the United States and abroad that involve matters central to our business, including laws and regulations regarding consumer protection, advertising, electronic commerce, intellectual property, manufacturing, anti-bribery and anti-corruption, and economic or other trade prohibitions or sanctions.

The increasingly global nature of our business operations subjects us to domestic and foreign laws and regulations such as the U.S. Foreign Corrupt Practices Act, or FCPA, the U.K. Bribery Act, and similar anti-bribery and anti-corruption laws in other jurisdictions. Our products are also subject to U.S. export controls, including the U.S. Department of Commerce's Export Administration Regulations and various economic and trade sanctions regulations established by the Treasury Department's Office of Foreign Assets Controls. Given the increasing number of foreign laws to which we are subject and the high level of complexity of these laws, there is a risk that some provisions may be inadvertently breached by us or by our subsidiaries, for example through fraudulent or negligent behavior of individual employees, our failure to comply with certain formal documentation requirements, or otherwise. If we incur liability for noncompliance under these laws or regulations, we may be forced to implement new measures to reduce our exposure to this liability. This may require us to expend substantial resources or to discontinue certain products or services, which would negatively affect our business, financial condition, and operating results. In addition, any negative publicity directed to us as a result of lawsuits, regulatory proceedings, and legislative proposals could harm our brand or otherwise impact the growth of our business. Any costs incurred as a result of compliance efforts or other liabilities under these laws or regulations could harm our business and operating 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, particularly following our acquisitions of SODC and Robopolis. For the fiscal years ended December 30, 2017, December 31, 2016 and January 2, 2016, sales to non-U.S. customers accounted for 48.8%, 51.2% and 56.0% of total revenue, respectively. We expect that international revenues will continue to account for a significant percentage of our revenues for the foreseeable future. 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;

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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

our relationships with international 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 direct 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.

Moreover, the United Kingdom (UK) held a referendum on June 23, 2016 in which a majority of voters voted to exit the European Union (EU). Due to the unprecedented nature of the proposed withdrawal, significant uncertainty exists surrounding the timing and terms of the proposed exit. We have operations in the UK and business activities in several EU member states whose currencies, namely British Pound Sterling and Euro, economies, taxation, and trade regulation, among other factors, could be adversely impacted by the negotiations and outcomes of the UK's leaving the EU, which is likely to be a lengthy and complicated process. While we do not anticipate near term adverse effects on business operations, these events could have a material adverse effect on our business operations, results of operations and financial condition over time.

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 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. 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 a tax authority will take a final 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.

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 a valuation allowance in future

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reporting periods. Our results of operations would be impacted negatively if we determine that a deferred tax asset valuation allowance is required in a future reporting period.

The effect of comprehensive U.S. tax reform legislation on us, whether adverse or favorable, is uncertain.

On December 22, 2017, President Trump signed into law H.R. 1, "An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018" (informally titled the "Tax Cuts and Jobs Act"). Among a number of significant changes to the U.S. federal income tax rules, the Tax Cuts and Jobs Act (the "Act") reduces the marginal U.S. corporate income tax rate from 35% to 21%, limits the deduction for net interest expense, limits the deduction for net operating losses and eliminates net operating loss carrybacks, modifies or repeals many business deductions and credits, shifts the United States toward a more territorial tax system, and imposes new taxes to combat erosion of the U.S. federal income tax base. Our net deferred tax assets and liabilities will be revalued at the newly enacted U.S. corporate rate, and the impact will be recognized in our tax expense in the year of enactment. We continue to examine the impact this tax reform legislation may have on our business. However, the effect of the Tax Cuts and Jobs Act on us and our affiliates, whether adverse or favorable, is uncertain, and may not become evident for some period of time.

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.

If significant tariffs or other restrictions are placed on Chinese imports or any related counter-measures are taken by China, our revenues and results of operations may be materially harmed.

The current U.S. administration has signaled it may alter trade agreements and terms between China and the United States, including limiting trade with China and/or imposing a tariff on imports from China. If any such restrictions or tariffs are imposed on products that we import to our customers, we would be required to raise our prices which may result in the loss of customers and harm our business.

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

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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. 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.

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

We 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 consumer robot products. For the years ended December 30, 2017, December 31, 2016 and January 2, 2016, sales and marketing expenses were \$162.1 million, \$115.1 million and \$97.8 million, respectively, representing approximately 18.3%, 17.4%, and 15.9% 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.

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 technology 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters are located in Bedford, Massachusetts, where we lease approximately 209,000 square feet. This lease expires on April 30, 2030. We also lease smaller facilities around the world. 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.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

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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 Select 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 Select Market.

| | High | Low |
|----------------|----------|---------|
| Fiscal 2016: | | |
| First quarter | \$36.00 | \$28.02 |
| Second quarter | \$39.00 | \$33.90 |
| Third quarter | \$44.67 | \$34.27 |
| Fourth quarter | \$60.86 | \$42.06 |
| Fiscal 2017: | | |
| First quarter | \$66.24 | \$52.12 |
| Second quarter | \$104.61 | \$65.00 |
| Third quarter | \$109.78 | \$72.63 |
| Fourth quarter | \$81.93 | \$62.96 |

As of February 12, 2018, there were approximately 27,945,275 shares of our common stock outstanding held by approximately 150 stockholders of record and the last reported sale price of our common stock on The Nasdaq Global Select Market on February 12, 2018 was \$61.58 per share.

Dividend Policy

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

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ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data are derived from the audited financial statements of the Company, and 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 of future operations.

| | Year Ended | | | | |
|---|---|----------------------|--------------------|----------------------|----------------------|
| | December 31, 2017 | December 31, 2016 | January 2, 2016 | December 27, 2014 | December 28, 2013 |
| | (In thousands, except earnings per share amounts) | | | | |
| Consolidated Statements of Income: | | | | | |
| Total revenue | \$883,911 | \$ 660,604 | \$ 616,778 | \$ 556,846 | \$ 487,401 |
| Gross margin | 433,159 | 319,315 | 288,926 | 258,055 | 221,154 |
| Operating income | 72,690 | 57,557 | 60,618 | 53,117 | 32,618 |
| Income tax expense | 25,402 | 19,422 | 18,841 | 14,606 | 4,774 |
| Net income | 50,964 | 41,939 | 44,130 | 37,803 | 27,641 |
| Net Income Per Share Data: | | | | | |
| Basic | \$1.85 | \$ 1.51 | \$ 1.49 | \$ 1.28 | \$ 0.97 |
| Diluted | \$1.77 | \$ 1.48 | \$ 1.47 | \$ 1.25 | \$ 0.94 |
| Shares Used In Per Common Share Calculations: | | | | | |
| Basic | 27,611 | 27,698 | 29,550 | 29,485 | 28,495 |
| Diluted | 28,753 | 28,292 | 30,107 | 30,210 | 29,354 |
| Consolidated Balance Sheet Data: | | | | | |
| Cash and cash equivalents | \$128,635 | \$ 214,523 | \$ 179,915 | \$ 185,957 | \$ 165,404 |
| Short term investments | 37,225 | 39,930 | 33,124 | 36,166 | 21,954 |
| Total assets | 691,522 | 507,912 | 521,743 | 493,213 | 416,337 |
| Total liabilities | 221,195 | 118,956 | 104,332 | 102,777 | 85,648 |
| Total stockholders' equity | 470,327 | 388,956 | 417,411 | 390,436 | 330,689 |

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, our consumer robots, our competition, our strategy, our market position, market acceptance of our products, seasonal factors, the impact of our recent acquisitions of SODC and Robopolis, revenue recognition, our profits, growth of our revenues, composition of our revenues, our cost of revenues, units shipped, average selling prices, operating expenses, selling and marketing expenses, general and administrative expenses, research and development expenses, and compensation costs, our projected income tax rate, our credit and letter of credit facilities, our valuations of investments, valuation and composition of our stock-based awards, and liquidity, constitute forward-looking statements and are made under these safe harbor provisions. Some of the forward-looking statements can be identified by the use of forward-looking terms such as "believes," "expects," "may," "will," "should," "could," "seek," "intends," "plans," "estimates," "anticipates," or other comparable terms. Forward-looking statements involve inherent risks and uncertainties, which could cause actual results to differ materially from those in the forward-looking statements. 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.

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Overview

iRobot designs and builds robots that empower people to do more both inside and outside of the home. The Company's consumer robots help people find smarter ways to clean and accomplish more in their daily lives. iRobot's portfolio of solutions features proprietary technologies for the connected home and advanced concepts in cleaning, mapping and navigation, human-robot interaction and physical solutions. For more than 25 years, we have been a pioneer in the robotics and consumer products industries. We sell our robots through a variety of distribution channels, including chain stores and other national retailers, through our on-line store, and through value-added distributors and resellers worldwide.

Over the past sixteen years, we have sold more than 20 million consumer robots worldwide. During 2016, we took several steps to become more focused on our well established consumer robots business and capitalize on the substantial opportunities available to us within consumer markets. We completed the sale of our defense and security business unit in April 2016. In addition, we reallocated all of the research and development resources from our remote presence business to our consumer business during the first quarter of 2016, and exited the remote presence business during the second quarter of 2016. These actions were taken to solidify our position as the leader in diversified consumer 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.

During 2017, we continued to expand our global operations with the acquisition of two of our major distributors in Japan and Europe. On April 3, 2017, we closed the acquisition of the iRobot-related distribution business of Sales On Demand Corporation (SODC) based in Tokyo, Japan for approximately \$16.6 million in cash. The acquisition of SODC will better enable us to maintain our leadership position and accelerate the growth of our business in Japan through direct control of pre- and post-sales market activities including sales, marketing, branding, channel relationships and customer service. It also expands our presence and customer outreach opportunities in Japan. Additionally, on October 2, 2017, we acquired our largest European distributor, Robopolis SAS, a French company (Robopolis) for approximately \$170.1 million in cash, which was offset by acquired cash held by Robopolis and its subsidiaries, resulting in a net cash outlay of approximately \$132.1 million. We anticipate that this acquisition will enhance our distribution network, ensure global brand consistency and better serve the needs of European consumers. We expect to drive continued growth in global markets through a consistent approach to all market activities including sales, marketing, branding, channel relationships and customer service. Both acquisitions provide us with more direct control over the go-to-market execution in these key regions.

As of December 30, 2017, we had 920 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 growth we expect in the market for robot-based consumer products.

Our continued success depends upon our ability to respond to a number of future challenges. We believe the most significant of these include increasing competition, and our ability to successfully develop and introduce products and product enhancements into both new and existing markets.

We also achieved a number of significant milestones over the past two years that we believe will assist us in continuing to generate profitable growth and enhance value for our shareholders. In particular, in 2016, we successfully launched Roomba 960, our second 900 series Roomba, that extends mapping, visual navigation and cloud connectivity to a wider range of customers. We also launched the Braava jet mopping robot, with precision jet spray and vibrating cleaning head, focused on expanding our wet floor care business. Both the Roomba 900 series and Braava jet are significantly more complex products, delivering enhanced performance enabled by software. The iRobot HOME App, compatible with both the Roomba 900 series and Braava jet, helps users get the most out of their experience by allowing them to choose the appropriate cleaning options for their unique home. We also announced a relationship with Amazon Web Services, or AWS, that we believe will enable iRobot to address significant

opportunities within our consumer business and the connected home. AWS Cloud is a managed cloud solution that enables connected devices to interact easily and securely with cloud applications and other devices. The AWS Cloud will enable iRobot to scale the number of connected robots it supports globally and allow for increased capabilities in the Smart Home. Additionally, we implemented new Roomba marketing programs in the United 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 2017, we launched Roomba 690 and 890, extending Wi-Fi connectivity to the entire Roomba line. In addition, we launched several connected product features, including push notifications, Clean Map Reports and integrations with Amazon Alexa, Google Assistant and IFTTT platform technology.

Our total revenue for 2017 was \$883.9 million, which represents a 33.8% increase from 2016 revenue of \$660.6 million. Domestic consumer robots revenue grew \$133.2 million primarily due to increased sales as a result of significant investments in advertising media and national promotions as well as the strength of the Roomba 900 series and Roomba 600 series.

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International consumer robots revenue grew by \$94.6 million in 2017 with increases in most markets, offset by a decline in China.

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

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses and the disclosure of contingent assets and liabilities in the consolidated financial statements. These estimates and judgments, include but are not limited to, revenue recognition (specifically sales returns and other allowances); valuation of goodwill and acquired intangible assets; accounting for business combinations; evaluating loss contingencies; and accounting for income taxes and related valuation allowances. We base these estimates and judgments on historical experience, market participant fair value considerations, projected future cash flows and various other factors that we believe are reasonable under the circumstances. Actual results may differ from our 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 primarily derive our revenue from product sales. Until the divestiture of the defense and security business unit in April 2016 (see Note 4), we also generated minimal revenue from 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 and allowances, provided that collection is determined to be reasonably assured and no significant obligations remain.

Beginning in the third quarter of 2015, we introduced our first connected robot. Each sale of a connected robot represents a multiple-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, which is the estimated life of the robot.

Sales to retailers of consumer 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 and certain international distributors. Accordingly, we reduce revenue for our estimates of liabilities for these rights of return, rebates and price protection, as well as discounts and promotions, at the time the related sale is recorded. The estimates for rights of return are directly based on specific terms and conditions included in the customer 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 return 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 customer 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 agreement is modified. In 2016, we began selling to one domestic distributor under an agreement that provides product return privileges. As a result, we recognize revenue from sales to this distributor when the product is resold by the distributor. The estimates and adjustments for rebates and price

protection are based on specific programs, expected usage and historical experience. Actual results could differ from these estimates. As of December 30, 2017, we have reserves for product returns of \$42.7 million, discounts and promotions of \$58.2 million and price protection of \$3.1 million. As of December 31, 2016, we had reserves for product returns of \$27.7 million, discounts and promotions of \$22.1 million and price protection of \$1.5 million. Prior to our divestiture of the defense and security business unit in April 2016 (see Note 4), we generated minimal revenue from government contracts. Under cost-plus-fixed-fee (CPFF) type contracts, we recognized revenue based on costs incurred plus a pro rata portion of the total fixed fee. Costs incurred included labor and material that were directly associated with individual CPFF contracts plus indirect overhead and general and administrative type costs based upon billing rates we

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submitted to the Defense Contract Management Agency (DCMA). Annually, we submitted 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 used, 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 December 30, 2017, fiscal year 2016 is open for audit by DCAA. In the situation where our anticipated actual billing rates will be lower than the provisional rates used, we record a cumulative revenue adjustment in the period in which the rate differential is identified. Revenue on firm fixed price (FFP) contracts was recognized using the percentage-of-completion method. For government product FFP contracts, revenue was recognized as the product was shipped or in accordance with the contract terms. Costs and estimated gross margins on contracts were recorded as revenue as work was performed based on the percentage that incurred costs compared to estimated total costs utilizing the most recent estimates of costs and funding. Revenue earned in excess of billings, if any, was recorded as unbilled revenue. Billings in excess of revenue earned, if any, were recorded as deferred revenue.

Business Combinations

We account for transactions that represent business combinations under the acquisition method of accounting. We allocate the total consideration paid for each acquisition to the assets we acquire and liabilities we assume based on their fair values as of the date of acquisition, including identifiable intangible assets. We base the fair value of identifiable intangible assets acquired in a business combination on valuations that use information and assumptions determined by us and which consider our best estimates of inputs and assumptions that a market participant would use. While we use our best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the business combination date, our estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the measurement period, which is generally one year from the acquisition date, any adjustment to the assets acquired and liabilities assumed is recorded against goodwill in the period in which the amount is determined. Any adjustment identified subsequent to the measurement period is included in operating results in the period in which the amount is determined.

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. We maintain a reserve for inventory items to provide for an estimated amount of excess or obsolete inventory.

Warranty

We typically provide a one-year warranty (with the exception of European consumer products, which typically have a two-year warranty period) 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.

Goodwill and Other Long-Lived Assets

Goodwill represents the excess of the purchase price in a business combination over the fair value of the net tangible and intangible assets acquired. Goodwill is not amortized but rather is assessed 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. Goodwill impairment, if any, is determined by comparing the reporting unit's fair value to its carrying value. An impairment loss is recognized in an amount equal to the excess of the reporting unit's carrying value over its fair value, up to the amount of goodwill allocated to the reporting unit. We complete the annual impairment evaluation during the fourth quarter each year.

Other long-lived assets consist principally of completed technology, tradename, customer relationships, reacquired distribution rights and non-competition agreements. Reacquired distribution rights are amortized on an accelerated basis while all other intangible assets are amortized over their respective estimated useful lives on a straight-line basis, consistent with the pattern in which the economic benefits are being utilized.

We periodically evaluate the recoverability of other long-lived 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. The impairment assessment of goodwill and other long-lived assets involves significant estimates and assumptions, which may be unpredictable and inherently uncertain. These estimates and assumptions include identification of reporting units and

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asset groups, long-term growth rates, profitability, estimated useful lives, comparable market multiples, and discount rates. Any changes in these assumptions could impact the result of the impairment assessment.

Stock-Based Compensation

We account for stock-based compensation through recognition of the fair value of the stock-based compensation as a charge against earnings. The fair value of employee stock options is estimated at the grant date using the Black-Scholes option-pricing model. The fair value for restricted stock awards, time-based restricted stock units and performance-based restricted stock units is based on the closing share price of our common stock on the date of grant. For performance-based restricted stock units, the compensation cost is recognized based on the number of units expected to vest upon the achievement of the performance conditions. We recognize stock-based compensation as an expense over the requisite service period. We have elected to account for forfeitures as they occur, rather than applying an estimated forfeiture rate, following our adoption of ASU 2016-09 in the first quarter of 2017.

Accounting for Income Taxes

Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis using enacted tax rates in effect in the years in which those temporary differences are expected to be recovered or settled in each jurisdiction. A valuation allowance is provided if, based upon the weight of available evidence, it is more likely than not that the related benefits will not be realized. The Company regularly reviews the deferred tax assets for recoverability considering historical profitability, projected future taxable income, future reversals of existing taxable temporary differences, as well as feasible tax planning strategies in each jurisdiction. As of December 30, 2017, the Company recorded a valuation allowance of \$0.8 million for certain foreign deferred tax assets for which the Company believes do not meet the "more likely than not" criteria for recognition.

The Company reports a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in the income tax provision.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system and a one-time transition tax on the mandatory deemed repatriation of foreign earnings. We have estimated our provision for income taxes in accordance with the Act and guidance available as of the date of this filing and as a result have recorded a one-time income tax provision of \$11.9 million in the fourth quarter of 2017, the period in which the legislation was enacted. The one-time income tax provision includes \$8.9 million related to the remeasurement of certain deferred tax assets and liabilities based on the tax rates at which they are expected to reverse in the future. The one-time income tax expense also includes a provisional amount of \$3.0 million related to the one-time transition tax on the mandatory deemed repatriation of foreign earnings.

On December 22, 2017, Staff Accounting Bulletin No. 118 (SAB 118) was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. In accordance with SAB 118, we have determined that the \$3.0 million of current income tax provision recorded relating to the transition tax on the mandatory deemed repatriation of foreign earnings was a provisional amount and a reasonable estimate at December 30, 2017. Additional information and analysis is necessary to complete the calculation and accounting relating to the transition tax on the mandatory deemed repatriation of foreign earnings. Any subsequent adjustments to this amount will be recorded to current income tax provision during the measurement period which is not expected to extend beyond one year from the enactment date.

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Overview of Results of Operations

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

| | Fiscal Year Ended | | |
|-----------------------------------|-------------------|-------------------|-----------------|
| | December 31, 2017 | December 31, 2016 | January 2, 2016 |
| | (In thousands) | | |
| Revenue | \$883,911 | \$ 660,604 | \$616,778 |
| Cost of revenue: | | | |
| Cost of product revenue (1) | 438,114 | 337,832 | 325,295 |
| Amortization of intangible assets | 12,638 | 3,457 | 2,557 |
| Gross margin | 433,159 | 319,315 | 288,926 |
| Operating expenses: | | | |
| Research and development (1) | 113,149 | 79,805 | 76,071 |
| Selling and marketing (1) | 162,110 | 115,125 | 97,772 |
| General and administrative (1) | 84,771 | 66,828 | 53,540 |
| Amortization of intangible assets | 439 | — | 925 |
| Total operating expenses | 360,469 | 261,758 | 228,308 |
| Operating income | 72,690 | 57,557 | 60,618 |
| Other income, net | 3,676 | 3,804 | 2,353 |
| Income before income taxes | 76,366 | 61,361 | 62,971 |
| Income tax expense | 25,402 | 19,422 | 18,841 |
| Net income | \$50,964 | \$ 41,939 | \$44,130 |

(1) Stock-based compensation recorded in fiscal 2017, 2016 and 2015 breaks down by expense classification as follows:

| | Fiscal Year Ended | | |
|----------------------------|-------------------|-------------------|-----------------|
| | December 31, 2017 | December 31, 2016 | January 2, 2016 |
| | (In thousands) | | |
| Cost of revenue | \$1,082 | \$ 760 | \$ 1,076 |
| Research and development | 5,009 | 3,646 | 3,256 |
| Selling and marketing | 2,571 | 2,008 | 1,457 |
| General and administrative | 11,089 | 9,581 | 8,394 |

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

| | Fiscal Year Ended | | | | |
|-----------------------------------|-------------------|-------------------|---|-----------------|---|
| | December 30, 2017 | December 31, 2016 | | January 2, 2016 | |
| Revenue | 100.0% | 100.0 | % | 100.0 | % |
| Cost of revenue: | | | | | |
| Cost of product revenue | 49.6 | 51.1 | | 52.7 | |
| Amortization of intangible assets | 1.4 | 0.6 | | 0.5 | |
| Total cost of revenue | 51.0 | 51.7 | | 53.2 | |
| Gross margin | 49.0 | 48.3 | | 46.8 | |
| Operating expenses: | | | | | |
| Research and development | 12.8 | 12.1 | | 12.3 | |
| Selling and marketing | 18.3 | 17.4 | | 15.9 | |
| General and administrative | 9.6 | 10.1 | | 8.7 | |
| Amortization of intangible assets | 0.1 | — | | 0.1 | |
| Total operating expenses | 40.8 | 39.6 | | 37.0 | |
| Operating income | 8.2 | 8.7 | | 9.8 | |
| Other income, net | 0.5 | 0.5 | | 0.5 | |
| Income before income taxes | 8.7 | 9.2 | | 10.3 | |
| Income tax expense | 2.9 | 2.9 | | 3.1 | |
| Net income | 5.8 | % 6.3 | % | 7.2 | % |

Comparison of Years Ended December 30, 2017, December 31, 2016 and January 2, 2016

Revenue

We currently derive revenue from product sales. Until the divestiture of the defense and security business unit in April 2016, we also generated minimal revenue from government and commercial research and development contracts. For the fiscal years ended December 30, 2017, December 31, 2016 and January 2, 2016, approximately 62.7%, 72.8% and 76.6%, respectively, of our consumer robots 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 4.1%, 5.1% and 6.1% of our consumer robots revenue for the fiscal years ended December 30, 2017, December 31, 2016 and January 2, 2016, respectively. We typically sell our recently launched products direct on-line, and then subsequently offer these products through other channels of distribution. For the fiscal years ended December 30, 2017, December 31, 2016 and January 2, 2016, sales to non-U.S. customers accounted for 48.8%, 51.2% and 56.0% of total revenue, respectively.

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.

The following table shows total revenue for fiscal years 2017, 2016 and 2015 (dollars in thousands):

| | Fiscal Year Ended | | | \$ Change 2017 vs. 2016 | \$ Change 2016 vs. 2015 |
|---------------|----------------------|----------------------|--------------------|-------------------------------|----------------------------------|
| | December 30, 2017 | December 31, 2016 | January 2, 2016 | | |
| Total Revenue | \$883,911 | \$ 660,604 | \$ 616,778 | \$223,307 | \$43,826 |

Year ended December 30, 2017 as compared to the year ended December 31, 2016

Revenue increased 33.8% to \$883.9 million in fiscal 2017 from \$660.6 million in fiscal 2016. Revenue increased approximately \$227.8 million, or 34.7%, in our consumer business while revenue decreased \$3.1 million in our defense and security business as a result of its sale in April 2016. The \$227.8 million increase in revenue from our consumer business was driven by a 25.7% increase in units shipped and a 10.8% increase in average selling price. In

fiscal 2017, domestic consumer revenue increased \$133.2 million, or 41.8%, and international consumer revenue increased \$94.6 million, or 28.1%, compared to fiscal 2016. Total consumer robots shipped in fiscal 2017 were approximately 3,698,000 units compared to approximately

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2,943,000 units in fiscal 2016. The increase in domestic consumer robot revenue was primarily attributable to increased sales as a result of investments in advertising media and national promotions and further adoption of our robots, particularly our Roomba 900 and Roomba 600 series robots. During 2017, we recorded a net benefit to revenue and income before income taxes of \$2.2 million related to adjustments to our product returns reserves compared to a net benefit to revenue and income before income taxes of \$3.5 million during fiscal 2016. The net adjustments recorded in each period resulted from lower product returns experience as compared to estimates used to establish reserves in prior periods.

Year ended December 31, 2016 as compared to the year ended January 2, 2016

Revenue increased 7.1% to \$660.6 million in fiscal 2016 from \$616.8 million in fiscal 2015. Revenue increased approximately \$96.2 million, or 17.2%, in our consumer business while revenue decreased \$51.9 million in our defense and security business as a result of the sale of our defense and security business unit in April 2016. The \$96.2 million increase in revenue from our consumer business was driven by a 20.8% increase in units shipped, partially offset by a 0.8% decrease in net average selling price. In fiscal 2016, domestic consumer revenue increased \$84.2 million, or 35.8%, and international consumer revenue increased \$12.0 million, or 3.7%, compared to fiscal 2015. Total consumer robots shipped in fiscal 2016 were approximately 2,943,000 units compared to approximately 2,436,000 units in fiscal 2015. The increase in domestic consumer robots revenue was primarily attributable to increased sales as a result of significant investments in advertising media and national promotions as well as increased sales of the Roomba 900 series robots. Roomba 980 launched in late 2015, with a full year of revenue included in fiscal 2016. Roomba 960 was introduced in the third quarter of 2016. International consumer robots revenue grew 3.7% primarily due to our execution of successful marketing programs in those markets, as well as stronger overseas economies. During 2016, we recorded a net benefit to revenue and income before income taxes of \$3.5 million related to adjustments to our product returns reserves compared to a net benefit to revenue and income before income taxes of \$6.9 million during fiscal 2015. The net adjustments recorded in each period resulted from lower product returns experience as compared to estimates used to establish reserves in prior periods. Partially offsetting these items in 2016 was a net reduction to revenue and income before income taxes of \$6.4 million for pricing support to customers in response to changing market conditions.

Cost of Product Revenue

Cost of product revenue includes the cost of raw materials and labor that go into the development and manufacture of our products as well as manufacturing overhead costs such as manufacturing engineering, quality assurance, logistics, 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. 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 consumer 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 been increasing for the last few years. In addition, fluctuations in currency exchange rates could increase the cost of labor.

Consequently, the labor costs for our consumer robots could increase in the future.

The following table shows cost of product revenue for fiscal years 2017, 2016 and 2015 (dollars in thousands):

| | Fiscal Year Ended | | | \$ Change 2017 vs. 2016 | \$ Change 2016 vs. 2015 |
|----------------------------------|----------------------|----------------------|--------------------|-------------------------------|-------------------------------|
| | December 30, 2017 | December 31, 2016 | January 2, 2016 | | |
| Cost of product revenue | \$438,114 | \$337,832 | \$325,295 | \$100,282 | \$12,537 |
| As a percentage of total revenue | 49.6 | % 51.1 | % 52.7 | % | |

Year ended December 30, 2017 as compared to the year ended December 31, 2016

Cost of product revenue increased \$100.3 million, or 29.7% to \$438.1 million in fiscal 2017, compared to \$337.8 million in fiscal 2016. The increase is primarily due to the 33.8% increase in revenue as well as the impact from our acquisitions of the iRobot-related distribution business of SODC in April 2017 and Robopolis in October 2017.

Year ended December 31, 2016 as compared to the year ended January 2, 2016

Cost of product revenue increased \$12.5 million, or 3.9% to \$337.8 million in fiscal 2016, compared to \$325.3 million in fiscal 2015. The increase is primarily due to the 7.1% increase in revenue and increased costs associated with assuming warranty liability in China as part of our strategy in that market.

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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.

The following table shows total gross margin for fiscal years 2017, 2016 and 2015 (dollars in thousands):

| | Fiscal Year Ended | | | \$ Change 2017 vs. 2016 | \$ Change 2016 vs. 2015 |
|----------------------------------|----------------------|----------------------|--------------------|-------------------------------|----------------------------------|
| | December 30, 2017 | December 31, 2016 | January 2, 2016 | | |
| Total gross margin | \$433,159 | \$319,315 | \$288,926 | \$113,844 | \$30,389 |
| As a percentage of total revenue | 49.0 | % 48.3 | % 46.8 | % | |

Year ended December 30, 2017 as compared to the year ended December 31, 2016

Gross margin increased \$113.8 million, or 35.7%, to \$433.2 million (49.0% of revenue) in fiscal 2017 from \$319.3 million (48.3% of revenue) in fiscal 2016. The increase in gross margin as a percentage of revenue was primarily driven by favorable product and region mix, partially offset by an increase in promotional support to our customers as well as the impact from our acquisitions of the iRobot-related distribution business of SODC in April 2017 and Robopolis in October 2017. During 2017, we recorded a net benefit to revenue and gross margin of \$2.2 million related to adjustments to our product returns reserves compared to a net benefit to revenue and gross margin of \$3.5 million during fiscal 2016.

Year ended December 31, 2016 as compared to the year ended January 2, 2016

Gross margin increased \$30.4 million, or 10.5%, to \$319.3 million (48.3% of revenue) in fiscal 2016 from \$288.9 million (46.8% of revenue) in fiscal 2015. The increase in gross margin as a percentage of revenue was primarily driven by favorable product and region mix in the consumer robots business as well as the success of the higher margin Roomba 900 series robots. These increases were partially offset by pricing support to customers in response to changing market conditions as well as increased warranty costs. During 2016, we recorded a net benefit to revenue and gross margin of \$3.5 million related to adjustments to our product returns reserves compared to a net benefit to revenue and gross margin of \$6.9 million during fiscal 2015.

Research and Development

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.

The following table shows total research and development costs for fiscal years 2017, 2016 and 2015 (dollars in thousands):

| | Fiscal Year Ended | | | \$ Change 2017 vs. 2016 | \$ Change 2016 vs. 2015 |
|----------------------------------|----------------------|----------------------|--------------------|----------------------------------|----------------------------------|
| | December 30, 2017 | December 31, 2016 | January 2, 2016 | | |
| Total research and development | \$113,149 | \$79,805 | \$76,071 | \$33,344 | 3,734 |
| As a percentage of total revenue | 12.8 | % 12.1 | % 12.3 | % | |

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Year ended December 30, 2017 as compared to the year ended December 31, 2016

Research and development expenses increased \$33.3 million, or 41.8%, to \$113.1 million (12.8% of revenue) in fiscal 2017 from \$79.8 million (12.1% of revenue) in fiscal 2016. This increase is attributable to increased efforts in product development and continued product enhancements. During 2017, people and program related costs increased \$19.7 million and \$13.2 million, respectively, compared to fiscal 2016.

Year ended December 31, 2016 as compared to the year ended January 2, 2016

Research and development expenses increased \$3.7 million, or 4.9%, to \$79.8 million (12.1% of revenue) in fiscal 2016 from \$76.1 million (12.3% of revenue) in fiscal 2015. This increase is attributable to increased efforts in product development and continued product enhancements. During 2016, people and program related costs increased \$12.0 million compared to 2015. This increase was partially offset by decreases related to defense and security and remote presence headcount and program spend of approximately \$6.2 million and \$2.1 million, respectively, compared to 2015.

Selling and Marketing

Our selling and marketing expenses consist primarily of:

- salaries and related costs for sales and marketing personnel;
- advertising, marketing and other brand-building costs;
- customer service costs;
- and
- travel and related costs.

We anticipate that in 2018, selling and marketing expenses will increase in absolute dollars and as a percentage of revenue as we integrate our recent acquisitions, launch new products and continue to build awareness of our consumer robots products.

The following table shows total selling and marketing costs for fiscal years 2017, 2016 and 2015 (dollars in thousands):

| | Fiscal Year Ended | | | \$ | \$ |
|----------------------------------|-------------------|--------------|------------|----------|----------|
| | December 30, | December 31, | January 2, | Change | Change |
| | 2017 | 2016 | 2016 | 2017 vs. | 2016 vs. |
| | | | | 2016 | 2015 |
| Total selling and marketing | \$162,110 | \$115,125 | \$97,772 | \$46,985 | 17,353 |
| As a percentage of total revenue | 18.3 | % 17.4 | % 15.9 | % | |

Year ended December 30, 2017 as compared to the year ended December 31, 2016

Selling and marketing expenses increased by \$47.0 million, or 40.8%, to \$162.1 million (18.3% of revenue) in fiscal 2017 from \$115.1 million (17.4% of revenue) in fiscal 2016. This increase is primarily attributable to increases of \$35.3 million in investments in advertising media, national promotions and other selling and marketing costs incurred to support our continued global marketing and branding efforts and approximately \$8.7 million in people-related costs including additional headcount related to our recent acquisitions of SODC and Robopolis.

Year ended December 31, 2016 as compared to the year ended January 2, 2016

Selling and marketing expenses increased by \$17.4 million, or 17.7%, to \$115.1 million (17.4% of revenue) in fiscal 2016 from \$97.8 million (15.9% of revenue) in fiscal 2015. This increase is primarily attributable to increases of \$12.1 million in investments in advertising media, national promotions and other selling and marketing costs incurred to support our continued global marketing and branding efforts and approximately \$5.1 million associated with the go-to market transition in China.

General and Administrative

Our general and administrative expenses consist primarily of:

- salaries and related costs for executives and administrative personnel;
- professional services costs;
- information systems and infrastructure costs;
- travel and related costs; and

occupancy and other overhead costs.

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The following table shows total general and administrative costs for fiscal years 2017, 2016 and 2015 (dollars in thousands):

| | Fiscal Year Ended | | | \$ | \$ |
|----------------------------------|-------------------|-------------------|-----------------|----------------------|----------------------|
| | December 30, 2017 | December 31, 2016 | January 2, 2016 | Change 2017 vs. 2016 | Change 2016 vs. 2015 |
| General and administrative | \$84,771 | \$ 66,828 | \$53,540 | \$17,943 | 13,288 |
| As a percentage of total revenue | 9.6 % | 10.1 % | 8.7 % | | |

Year ended December 30, 2017 as compared to the year ended December 31, 2016

General and administrative expenses increased by \$17.9 million, or 26.8%, to \$84.8 million (9.6% of revenue) in fiscal 2017 from \$66.8 million (10.1% of revenue) in fiscal 2016. This increase is primarily attributable to an increase of \$7.6 million in legal and consulting costs mainly driven by acquisition expense and litigation expense where we continued to defend and protect our intellectual property, as well as increases of \$7.0 million in people-related costs including additional headcount related to our recent acquisitions of SODC and Robopolis and \$1.2 million related to investments in enterprise hardware and software maintenance, support and services.

Year ended December 31, 2016 as compared to the year ended January 2, 2016

General and administrative expenses increased by \$13.3 million, or 24.8%, to \$66.8 million (10.1% of revenue) in fiscal 2016 from \$53.5 million (8.7% of revenue) in fiscal 2015. This increase is primarily attributable to increases of \$7.8 million in people-related costs, \$2.7 million in legal, advisory and other consulting costs associated with the proxy contest initiated by Red Mountain Capital Partners, \$1.1 million in legal costs related to patent litigation and \$0.9 million related to investments in enterprise hardware and software maintenance, support, and services.

Amortization of Intangible Assets

Amortization of acquired technology and reacquired distribution rights are recorded within cost of revenue whereas the amortization of acquired customer relationships, non-compete agreements and tradenames are recorded within operating expenses. All intangible assets, with the exception of the reacquired distribution rights, which are being amortized on an accelerated basis, are being amortized on a straight-line basis, which is consistent when the pattern in which the economic benefits are being utilized.

The following table shows total amortization expense for fiscal years 2017, 2016 and 2015 (dollars in thousands):

| | Fiscal Year Ended | | | \$ | \$ |
|----------------------------------|-------------------|-------------------|-----------------|----------------------|----------------------|
| | December 30, 2017 | December 31, 2016 | January 2, 2016 | Change 2017 vs. 2016 | Change 2016 vs. 2015 |
| Cost of revenue | \$12,638 | \$ 3,457 | \$2,557 | \$9,181 | 900 |
| Operating expense | 439 | — | 925 | 439 | (925) |
| Total amortization expense | 13,077 | 3,457 | 3,482 | 9,620 | (25) |
| As a percentage of total revenue | 1.5 % | 0.5 % | 0.6 % | | |

Year ended December 30, 2017 as compared to the year ended December 31, 2016

The increase in amortization of intangible assets during fiscal 2017, as compared to fiscal 2016, was related to our recent acquisitions of SODC and Robopolis.

Other Income, Net

The following table shows other income, net for fiscal years 2017, 2016 and 2015 (dollars in thousands):

| | Fiscal Year Ended | | | \$ | \$ |
|-------------------|-------------------|-------------------|-----------------|----------------------|----------------------|
| | December 30, 2017 | December 31, 2016 | January 2, 2016 | Change 2017 vs. 2016 | Change 2016 vs. 2015 |
| Other income, net | \$3,676 | \$ 3,804 | \$2,353 | \$(128) | \$1,451 |

As a percentage of total revenue 0.5 % 0.5 % 0.5 %

Other income, net, amounted to \$3.7 million, \$3.8 million and \$2.4 million for fiscal 2017, 2016 and 2015, respectively. Other income, net, for fiscal 2017 consisted primarily of a \$2.2 million gain on business acquisition related to our acquisition of SODC, which represents the excess of the fair value of the net assets acquired over the purchase price, as well as a \$1.3 million gain associated with the sale of a cost method investment. Other income, net, for fiscal 2016 consisted primarily of income

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related to an equity method investment of approximately \$1.4 million, defense and security business transition services income of \$1.2 million, a gain on sale of a cost method investment of approximately \$0.6 million and a gain on the sale of the defense and security business unit of \$0.4 million. During fiscal 2015, we recorded a gain of approximately \$3.3 million related to the sale of a cost method investment, which was partially offset primarily by foreign currency exchange losses.

Income Tax Provision

The following table shows income tax provision for fiscal years 2017, 2016 and 2015 (dollars in thousands):

| | Fiscal Year Ended | | | | |
|-----------------------------------|-------------------|-------------------|-----------------|-------------------------|-------------------------|
| | December 30, 2017 | December 31, 2016 | January 2, 2016 | \$ Change 2017 vs. 2016 | \$ Change 2016 vs. 2015 |
| Income tax provision | \$25,402 | \$ 19,422 | \$ 18,841 | \$ 5,980 | \$ 581 |
| As a percentage of pre-tax income | 33.3 % | 31.7 % | 29.9 % | | |

Year ended December 30, 2017 as compared to the year ended December 31, 2016

We recorded an income tax provision of \$25.4 million and \$19.4 million for fiscal 2017 and fiscal 2016, respectively. The effective income tax rate was 33.3% in fiscal 2017, as compared to 31.7% in fiscal 2016. The increase in our effective tax rate is primarily due to jurisdictional mix of earnings and the one-time income tax provision of \$11.9 million related to the enactment of the Act during the fourth quarter of 2017, partially offset by the excess tax benefits of \$11.7 million related to ASU 2016-09.

Year ended December 31, 2016 as compared to the year ended January 2, 2016

We recorded an income tax provision of \$19.4 million and \$18.8 million for fiscal 2016 and fiscal 2015, respectively. The \$19.4 million income tax provision for fiscal 2016 was based upon a 2016 effective income tax rate of 31.7%. 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 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.

Liquidity and Capital Resources

At December 30, 2017, our principal sources of liquidity were cash and cash equivalents totaling \$128.6 million, short-term investments of \$37.2 million and accounts receivable of \$142.8 million. Our working capital, which represents our total current assets less total current liabilities, was \$237.0 million as of December 30, 2017, compared to \$271.0 million as of December 31, 2016.

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 December 30, 2017, December 31, 2016 and January 2, 2016, we spent \$23.4 million, \$10.8 million and \$9.4 million respectively, on capital equipment

Our strategy for delivering consumer 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 consumer product inventory consists of goods shipped to our third-party logistics providers for the fulfillment of distributor, retail and direct-to-consumer sales. 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 December 30, 2017, we held cash, cash equivalents and short-term investments of \$165.9 million. Net cash provided by our operations for the fiscal year ended December 30, 2017 was \$76.3 million, of which the principal components were our net income of \$51.0 million and non-cash charges of \$42.9 million, partially offset by a net increase in operating assets and liabilities of \$17.5 million. The increase in net operating assets and liabilities includes an increase in accounts receivable of \$53.3 million primarily due to increased sales, partially offset by a \$40.9 million increase in accounts payable and accrued liabilities primarily due to growth in the business and timing of payments to our suppliers. As of December 30, 2017, we did not have any borrowings outstanding under our working capital line of credit and had \$1.0 million in letters of credit outstanding under our revolving letter of credit facility.

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During the year ended December 30, 2017, we acquired SODC and Robopolis for a total of \$148.8 million, net of cash acquired, and invested \$23.4 million in the purchase of property and equipment, including machinery and tooling for new products. We also purchased \$10.6 million of marketable securities, while sales and maturities of marketable securities amounted to \$13.1 million. In addition, we received an earn-out payment of \$1.3 million from a sold cost method investment.

During the year ended December 30, 2017, we received \$10.6 million from the exercise of stock options. Shares issued upon vesting of restricted stock were net of 51,229 shares retained by us to cover employee tax withholdings of \$3.0 million.

Net cash provided by our operations for the fiscal year ended December 31, 2016 was \$116.4 million, of which the principal components were our net income of \$41.9 million and non-cash charges of \$28.0 million and a net decrease in operating assets and liabilities of \$46.5 million. The decrease in net operating assets and liabilities includes a decrease in accounts receivable of \$25.7 million primarily due to the timing of billing in respective periods and a \$16.5 million increase in accounts payable and accrued liabilities primarily due to growth in the business and timing of payments to our suppliers. As of December 31, 2016, we did not have any borrowings outstanding under our working capital line of credit and had \$1.0 million in letters of credit outstanding under our revolving letter of credit facility.

We received \$23.5 million for the divestiture of our defense and security business unit, net of a \$1.0 million payment to our financial adviser. We invested \$10.8 million in the purchase of property and equipment in 2016, including tooling for new products. We purchased \$16.6 million of marketable securities in 2016, while sales and maturities of marketable securities amounted to \$9.5 million. We made strategic investments of \$2.2 million in the form of preferred shares and notes receivable.

During 2016, we received \$9.3 million from the exercise of stock options and \$3.0 million from the excess tax benefit related to our stock-based compensation plans. In addition, we repurchased 2,641,122 shares of our common stock for an aggregate purchase price of \$97.0 million. Shares issued upon vesting of restricted stock were net of 39,676 shares retained by us to cover employee tax withholdings of \$1.3 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 December 30, 2017, 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 December 30, 2017, 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 guarantee 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 December 30, 2017, 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 \$5.0 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 December 30, 2017, we had letters of credit outstanding of \$1.0 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 guarantee 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

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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 December 30, 2017, we were in compliance with all covenants under the revolving letter of credit facility.

Working Capital and Capital Expenditure Needs

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

Contractual Obligations

We generally do not enter into binding purchase commitments. Our principal commitments consist of obligations under our working capital line of credit, leases for office space and minimum contractual obligations. Other obligations consist primarily of software licensing arrangements. The following table describes our commitments to settle contractual obligations in cash as of December 30, 2017:

| | Payments Due by Period | | | | Total |
|------------------------------|------------------------|-----------------|-----------------|----------------------|----------|
| | Less Than 1 Year | 1 to 3 Years | 3 to 5 Years | More Than 5 Years | |
| | (In thousands) | | | | |
| Operating leases | \$6,361 | \$13,407 | \$13,000 | \$39,839 | \$72,607 |
| Minimum contractual payments | 897 | 492 | — | — | 1,389 |
| Other obligations | 1,645 | 926 | — | — | 2,571 |
| Total | \$8,903 | \$14,825 | \$13,000 | \$39,839 | \$76,567 |

At December 30, 2017, we had outstanding purchase orders aggregating approximately \$74.4 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 December 30, 2017, we had no off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

Recently Adopted Accounting Pronouncements

See Note 2 to the accompanying consolidated financial statements for a description of recently adopted accounting standards.

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Recently Issued Accounting Pronouncements

See Note 2 to the accompanying consolidated financial statements for a description of certain recently issued accounting standards which may impact our financial statements in future reporting periods.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Exchange Rate Sensitivity

Our international revenue and expenses are denominated in multiple currencies, including Japanese Yen, Canadian Dollars, Chinese Yuan Renminbi and Euros. As such, we have exposure to adverse changes in exchange rates associated with the revenue and operating expenses of our foreign operations. Any fluctuations in other currencies will have minimal direct impact on our international revenue.

In addition to international business conducted in foreign currencies, we have a significant amount of international revenue denominated in U.S. dollars. 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.

We regularly monitor the forecast of non-U.S. dollar revenue and expenses and the level of non-U.S. dollar monetary asset and liability 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. Periodically, we enter into forward exchange contracts to hedge against foreign currency fluctuations. These contracts may or may not be designated as cash flow hedges for accounting purposes. We use cash flow hedges primarily to reduce the effects of foreign exchange rate changes on purchase and sales, primarily in Japanese Yen and Euros.

At December 30, 2017 and December 31, 2016, we had outstanding cash flow hedges with a total notional value of \$73.7 million and \$0.0 million, respectively.

We also enter into economic hedges that are not designated as hedges from an accounting standpoint to reduce or eliminate the effects of foreign exchange rate changes typically related to short term trade receivables and payables. These contracts have maturities of two months or less. At December 30, 2017 and December 31, 2016, we had outstanding economic hedges with a total notional value of \$36.6 million and \$8.1 million, respectively.

A hypothetical change of 10% in exchange rates would not have a material impact on our financial results.

Interest Rate Sensitivity

At December 30, 2017, we had unrestricted cash and cash equivalents of \$128.6 million and short term investments of \$37.2 million. The unrestricted cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. Some of the securities in which we invest, however, may be subject to market risk. This means that a change in prevailing interest rates may cause the fair market value of the investment to fluctuate. To minimize this risk in the future, we intend to maintain our portfolio of cash equivalents in a variety of securities, commercial paper, money market funds, debt securities and certificates of deposit. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. As of December 30, 2017, all of our cash and cash equivalents were held in demand deposits, money market accounts, and government bonds.

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 December 30, 2017, we had letters of credit outstanding of \$1.0 million under our revolving letter of credit facility.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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| <u>Consolidated Balance Sheets at December 30, 2017 and December 31, 2016</u> | <u>39</u> |
| <u>Consolidated Statements of Income for the Years ended December 30, 2017, December 31, 2016 and January 2, 2016</u> | <u>40</u> |
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| <u>Consolidated Statements of Stockholders' Equity for the Years ended December 30, 2017, December 31, 2016 and January 2, 2016</u> | <u>42</u> |
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
iRobot Corporation:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of iRobot Corporation and its subsidiaries as of December 30, 2017 and December 31, 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 30, 2017, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 30, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 30, 2017 and December 31, 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 30, 2017 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 December 30, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated 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 appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. 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 described in Management's Report on Internal Control over Financial Reporting, management has excluded iRobot Japan G.K. and iRobot France SAS (formerly known as Robopolis SAS) from its assessment of internal control over financial reporting as of December 30, 2017, because they were acquired by the Company in purchase business combinations during fiscal 2017. We have also excluded iRobot Japan G.K. and iRobot France SAS (formerly known as Robopolis SAS) from our audit of internal control over financial reporting. iRobot Japan G.K. and iRobot France SAS (formerly known as Robopolis SAS) are wholly-owned subsidiaries whose total assets and total revenues excluded from management's assessment and our audit of internal control over financial reporting collectively represent approximately 8.3% and 23.9% of total assets, respectively and approximately 9.9% and 13.0% of total revenues, respectively, of the related consolidated financial statement amounts as of and for the year ended December 30, 2017.

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Definition and Limitations of Internal Control over Financial Reporting

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 16, 2018

We have served as the Company's auditor since 1999.

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CONSOLIDATED BALANCE SHEETS

| | December 30, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| | (In thousands) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 128,635 | \$ 214,523 |
| Short term investments | 37,225 | 39,930 |
| Accounts receivable, net | 142,829 | 73,048 |
| Inventory | 106,932 | 50,578 |
| Other current assets | 19,105 | 5,591 |
| Total current assets | 434,726 | 383,670 |
| Property and equipment, net | 44,579 | 27,532 |
| Deferred tax assets | 31,531 | 30,585 |
| Goodwill | 121,440 | 41,041 |
| Intangible assets, net | 44,712 | 12,207 |
| Other assets | 14,534 | 12,877 |
| Total assets | \$691,522 | \$ 507,912 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 116,316 | \$ 67,281 |
| Accrued expenses | 73,647 | 40,869 |
| Deferred revenue and customer advances | 7,761 | 4,486 |
| Total current liabilities | 197,724 | 112,636 |
| Deferred tax liabilities | 9,539 | — |
| Other long term liabilities | 13,932 | 6,320 |
| Total long term liabilities | 23,471 | 6,320 |
| Total liabilities | 221,195 | 118,956 |
| Commitments and contingencies (Note 14): | | |
| Preferred stock, 5,000,000 shares authorized and none outstanding | — | — |
| Common stock, \$0.01 par value, 100,000,000 shares authorized; 27,945,144 and 27,237,870 shares issued and outstanding at December 30, 2017 and December 31, 2016, respectively | 279 | 272 |
| Additional paid-in capital | 190,067 | 161,885 |
| Retained earnings | 277,989 | 226,950 |
| Accumulated other comprehensive income (loss) | 1,992 | (151) |
| Total stockholders' equity | 470,327 | 388,956 |
| Total liabilities and stockholders' equity | \$691,522 | \$ 507,912 |
| See accompanying Notes to Consolidated Financial Statements | | |

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CONSOLIDATED STATEMENTS OF INCOME

| | Fiscal Year Ended | | |
|---|--|-------------------|-----------------|
| | December 31, 2017 | December 31, 2016 | January 2, 2016 |
| | (In thousands, except per share amounts) | | |
| Revenue | \$883,911 | \$ 660,604 | \$ 616,778 |
| Cost of revenue: | | | |
| Cost of product revenue | 438,114 | 337,832 | 325,295 |
| Amortization of intangible assets | 12,638 | 3,457 | 2,557 |
| Total cost of revenue(1) | 450,752 | 341,289 | 327,852 |
| Gross margin | 433,159 | 319,315 | 288,926 |
| Operating expenses: | | | |
| Research and development(1) | 113,149 | 79,805 | 76,071 |
| Selling and marketing(1) | 162,110 | 115,125 | 97,772 |
| General and administrative(1) | 84,771 | 66,828 | 53,540 |
| Amortization of intangible assets | 439 | — | 925 |
| Total operating expenses | 360,469 | 261,758 | 228,308 |
| Operating income | 72,690 | 57,557 | 60,618 |
| Other income, net | 3,676 | 3,804 | 2,353 |
| Income before income taxes | 76,366 | 61,361 | 62,971 |
| Income tax expense | 25,402 | 19,422 | 18,841 |
| Net income | \$50,964 | \$ 41,939 | \$ 44,130 |
| Net income per share | | | |
| Basic | \$ 1.85 | \$ 1.51 | \$ 1.49 |
| Diluted | \$ 1.77 | \$ 1.48 | \$ 1.47 |
| Number of weighted average common shares used in calculations per share | | | |
| Basic | 27,611 | 27,698 | 29,550 |
| Diluted | 28,753 | 28,292 | 30,107 |

(1) Stock-based compensation recorded in fiscal 2017, 2016 and 2015 breaks down by expense classification as follows:

| | Fiscal Year Ended | | |
|----------------------------|-------------------|-------------------|-----------------|
| | December 31, 2017 | December 31, 2016 | January 2, 2016 |
| | (In thousands) | | |
| Cost of revenue | \$ 1,082 | \$ 760 | \$ 1,076 |
| Research and development | 5,009 | 3,646 | 3,256 |
| Selling and marketing | 2,571 | 2,008 | 1,457 |
| General and administrative | 11,089 | 9,581 | 8,394 |

See accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Fiscal Year Ended | | |
|---|-------------------|-------------------|-----------------|
| | December 31, 2017 | December 31, 2016 | January 2, 2016 |
| | (In thousands) | | |
| Net income | \$50,964 | \$ 41,939 | \$ 44,130 |
| Other comprehensive income (loss): | | | |
| Net foreign currency translation adjustments | 1,994 | — | — |
| Net unrealized gains on cash flow hedges, net of tax | 490 | — | — |
| Net gains on cash flow hedge reclassified into earnings, net of tax | (295) | — | — |
| Net unrealized gains (losses) on marketable securities, net of tax | (46) | 85 | (85) |
| Total comprehensive income | \$53,107 | \$ 42,024 | \$ 44,045 |
| See accompanying Notes to Consolidated Financial Statements | | | |

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iROBOT CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| | Common Stock | | Additional | Retained | Accumulated | Stockholders' |
|--|-----------------------------------|-------|--------------------|-----------|--|---------------|
| | Shares | Value | Paid-In Capital | Earnings | Other Comprehensive Income (Loss) | Equity |
| | (In thousands, except share data) | | | | | |
| 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) | | | — |
| Tax benefit of excess stock-based compensation deduction | | | 822 | | | 822 |
| Stock-based compensation | | | 14,183 | | | 14,183 |
| Stock withheld to cover tax withholdings requirements upon vesting of restricted stock units | (37,969) | | (1,295) | | | (1,295) |
| Other comprehensive loss | | | | | (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 |
| Issuance of common stock for exercise of stock options | 456,498 | 4 | 9,340 | | | 9,344 |
| Conversion of deferred compensation | 6,721 | — | — | | | — |
| Vesting of restricted stock units | 363,643 | 4 | (4) | | | — |
| Tax benefit of excess stock-based compensation deduction | | | 2,421 | | | 2,421 |
| Stock-based compensation | | | 15,995 | | | 15,995 |
| Stock withheld to cover tax withholdings requirements upon vesting of restricted stock units | (39,676) | | (1,300) | | | (1,300) |
| Other comprehensive income | | | | | 85 | 85 |
| Directors' deferred compensation | | | 82 | | | 82 |
| Stock repurchases | (2,641,122) | (27) | (96,994) | | | (97,021) |
| Net income | | | | 41,939 | | 41,939 |
| Balance at December 31, 2016 | 27,237,870 | \$272 | \$161,885 | \$226,950 | \$ (151) | \$ 388,956 |
| Issuance of common stock for exercise of stock options | 367,267 | 4 | 10,569 | | | 10,573 |
| Conversion of deferred compensation | 14,901 | — | — | | | — |
| Vesting of restricted stock units | 376,335 | 4 | (4) | | | — |
| Stock-based compensation | | | 19,751 | | | 19,751 |
| Stock withheld to cover tax withholdings requirements upon vesting of restricted stock units | (51,229) | (1) | (2,982) | | | (2,983) |
| Other comprehensive income | | | | | 1,948 | 1,948 |
| Directors' deferred compensation | | | 65 | | | 65 |

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| | | | | | | | |
|---|------------|-------|-----------|----|-----------|----------|------------|
| Unrealized net gain on derivative financial instruments | | | | | 195 | | 195 |
| Cumulative effect of a change in accounting principle related to stock-based compensation | | 783 | | 75 | | | 858 |
| Net income | | | | | 50,964 | | 50,964 |
| Balance at December 30, 2017 | 27,945,144 | \$279 | \$190,067 | | \$277,989 | \$ 1,992 | \$ 470,327 |
| See accompanying Notes to Consolidated Financial Statements | | | | | | | |

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CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Fiscal Year Ended | | |
|--|----------------------|----------------------|--------------------|
| | December 31, 2017 | December 31, 2016 | January 2, 2016 |
| | (In thousands) | | |
| Cash flows from operating activities: | | | |
| Net income | \$50,964 | \$ 41,939 | \$44,130 |
| Adjustments to reconcile net income to net cash provided by operating activities, net of the effects of acquisitions: | | | |
| Depreciation and amortization | 25,499 | 13,606 | 15,304 |
| Gain on sale of business unit and cost method investment | (1,267) | (1,067) | (3,287) |
| (Income) loss on equity method investment | 65 | (1,376) | — |
| Impairment on cost method investment | 155 | — | — |
| Gain on business acquisition | (2,243) | — | — |
| Stock-based compensation | 19,751 | 15,995 | 14,183 |
| Deferred income taxes, net | (999) | 3,557 | (985) |
| Tax benefit of excess stock-based compensation deductions | — | (2,971) | (1,467) |
| Non-cash director deferred compensation | 65 | 82 | 149 |
| Other | 1,846 | — | — |
| Changes in operating assets and liabilities — (use) source | | | |
| Accounts receivable | (53,251) | 25,682 | (31,461) |
| Inventory | (1,470) | (981) | (13,978) |
| Other assets | (10,562) | 3,187 | 203 |
| Accounts payable | 17,457 | 6,502 | 3,786 |
| Accrued liabilities | 23,447 | 10,181 | (3,251) |
| Deferred revenue and customer advances | 2,149 | 2,996 | (584) |
| Long term liabilities | 4,709 | (908) | 3,970 |
| Net cash provided by operating activities | 76,315 | 116,424 | 26,712 |
| Cash flows from investing activities: | | | |
| Additions of property and equipment | (23,371) | (10,817) | (9,372) |
| Change in other assets | (1,542) | (2,093) | (1,015) |
| Proceeds from sale of business unit and cost method investment | 1,267 | 24,154 | 5,645 |
| Cash paid for business acquisitions, net of cash acquired | (148,765) | — | — |
| Purchases of investments | (10,578) | (16,554) | (17,755) |
| Sales and maturities of investments | 13,066 | 9,500 | 20,500 |
| Net cash provided by (used in) investing activities | (169,923) | 4,190 | (1,997) |
| Cash flows from financing activities: | | | |
| Income tax withholding payment associated with restricted stock vesting | (2,983) | (1,300) | (1,295) |
| Proceeds from stock option exercises | 10,573 | 9,344 | 6,464 |
| Stock repurchases | — | (97,021) | (37,393) |
| Tax benefit of excess stock-based compensation deductions | — | 2,971 | 1,467 |
| Net cash provided by (used in) financing activities | 7,590 | (86,006) | (30,757) |
| Effect of exchange rate changes on cash and cash equivalents | 130 | — | — |
| Net increase (decrease) in cash and cash equivalents | (85,888) | 34,608 | (6,042) |
| Cash and cash equivalents, at beginning of period | 214,523 | 179,915 | 185,957 |
| Cash and cash equivalents, at end of period | \$128,635 | \$ 214,523 | \$179,915 |
| Supplemental disclosure of cash flow information | | | |
| Cash paid for income taxes | \$25,879 | \$ 14,061 | \$14,341 |

Non-cash investing and financing activities:

| | | | |
|--|---------|----------|-------|
| Additions of property and equipment included in accounts payable | \$5,001 | \$ 1,550 | \$848 |
| See accompanying Notes to Consolidated Financial Statements | | | |

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iROBOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of the Business

iRobot Corporation ("iRobot" or the "Company") designs and builds robots that empower people to do more. The Company develops robotic technology and applies it to produce and market consumer robots. The Company's revenue is primarily generated from product sales.

2. Summary of Significant Accounting Policies

Basis of Presentation and Foreign Currency Translation

The accompanying consolidated financial statements include those of iRobot and its subsidiaries, after elimination of all intercompany balances and transactions. In addition, certain prior year amounts have been reclassified to conform to the current year presentation. iRobot has prepared the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP).

For the Company's subsidiaries that transact in a functional currency other than the U.S. dollar, assets and liabilities are translated into U.S. dollars at period-end foreign exchange rates. Revenues and expenses are translated into U.S. dollars at the average foreign exchange rates for the period. Translation adjustments are excluded from the determination of net income and are recorded in accumulated other comprehensive income (loss), a separate component of stockholders' equity.

Use of Estimates

The preparation of these financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses and the disclosure of contingent assets and liabilities in the consolidated financial statements. These estimates and judgments, include but are not limited to, revenue recognition (specifically sales returns and other allowances); valuation of goodwill and acquired intangible assets; accounting for business combinations; evaluating loss contingencies; and accounting for income taxes and related valuation allowances. The Company bases these estimates and judgments on historical experience, market participant fair value considerations, projected future cash flows and various other factors that the Company believes are reasonable under the circumstances. Actual results may differ from the Company's estimates.

Fiscal Year-End

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

Revenue Recognition

The Company primarily derives its revenue from product sales. Until the divestiture of the defense and security business unit in April 2016 (see Note 4), the Company also generated minimal revenue from 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 and allowances, provided that collection is determined to be reasonably assured and no significant obligations remain.

Beginning in the third quarter of 2015, the Company introduced its first connected robot. Each sale of a connected robot represents a multiple-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, which is the estimated life of the robot.

Sales to retailers of consumer 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 and certain international distributors. Accordingly, the Company reduces revenue for its

estimates of liabilities for these rights of return, rebates, and price protection, as well as discounts and promotions, at the time the related sale is recorded. The estimates for rights of return are directly based on specific terms and conditions included in the customer agreements,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 customer 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 agreement is modified. In 2016, the Company began selling to one domestic distributor under an agreement that provides product return privileges. As a result, the Company recognizes revenue from sales to this distributor when the product is resold by the distributor. The estimates and adjustments for rebates and price protection are based on specific programs, expected usage and historical experience. Actual results could differ from these estimates. As of December 30, 2017, the Company has reserves for product returns of \$42.7 million, discounts and promotions of \$58.2 million and price protection of \$3.1 million. As of December 31, 2016, the Company had reserves for product returns of \$27.7 million, discounts and promotions of \$22.1 million and price protection of \$1.5 million. Prior to the Company's divestiture of the defense and security business unit in April 2016 (see Note 4), the Company generated minimal revenue from government contracts. Under cost-plus-fixed-fee (CPFF) type contracts, the Company recognized revenue based on costs incurred plus a pro rata portion of the total fixed fee. Costs incurred included labor and material that were 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 submitted 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 used, 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 December 30, 2017, fiscal year 2016 is open for audit by DCAA. In the situation where the Company's anticipated actual billing rates will be lower than the provisional rates used, the Company records a cumulative revenue adjustment in the period in which the rate differential is identified. Revenue on firm fixed price (FFP) contracts was recognized using the percentage-of-completion method. For government product FFP contracts, revenue was recognized as the product was shipped or in accordance with the contract terms. Costs and estimated gross margins on contracts were recorded as revenue as work was performed based on the percentage that incurred costs compared to estimated total costs utilizing the most recent estimates of costs and funding. Revenue earned in excess of billings, if any, was recorded as unbilled revenue. Billings in excess of revenue earned, if any, were recorded as deferred revenue.

Business Combinations

The Company accounts for transactions that represent business combinations under the acquisition method of accounting. The Company allocates the total consideration paid for each acquisition to the assets it acquires and liabilities it assumes based on their fair values as of the date of acquisition, including identifiable intangible assets.

The Company bases the fair value of identifiable intangible assets acquired in a business combination on valuations that use information and assumptions determined by management and which consider management's best estimates of inputs and assumptions that a market participant would use. While the Company uses its best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the business combination date, its estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the measurement period, which is generally one year from the acquisition date, any adjustment to the assets acquired and liabilities assumed is recorded against goodwill in the period in which the amount is determined.

Any adjustment identified subsequent to the measurement period is included in operating results in the period in which the amount is determined.

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 December 30, 2017 and December 31, 2016, cash equivalents were comprised of money market funds totaling \$3.2 million and \$157.0 million, respectively. These cash equivalents are carried at cost, which approximates fair value.

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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 December 30, 2017 and December 31, 2016, investments consisted of:

| | December 30, 2017 | | December 31, 2016 | |
|--------------------------------|----------------------|----------------------|----------------------|----------------------|
| | Cost | Fair Market Value | Cost | Fair Market Value |
| | (In thousands) | | | |
| Corporate and government bonds | \$37,767 | \$ 37,225 | \$40,439 | \$ 39,930 |
| Total short term investments | \$37,767 | \$ 37,225 | \$40,439 | \$ 39,930 |

As of December 30, 2017, the Company's investments had maturity dates ranging from March 2018 to September 2020. The Company invests primarily in investment grade securities and limits the amount of investment in any single issuer.

Accounts receivable allowances

Allowance for product returns: The Company records an allowance for product returns for the estimated amount of product that may be returned. The allowance is based on specific terms and conditions included in the customer agreements, historical returns experience and various other assumptions that the Company believes are reasonable under the circumstances.

Allowance for discounts and promotions: The Company records an allowance for discounts and promotions related to promotional marketing support, contractual discounts, etc. The allowance is based on specific programs, expected usage and historical experience.

Allowance for price protection: The Company records an allowance for price protection for the estimated amount of support expected to be provided to customers for product transitions. The allowance is based on specific programs, expected usage and historical experience.

Allowance for doubtful accounts: The Company records an allowance for doubtful accounts for the estimated amount of accounts receivable that may not be collected. The allowance is based on an assessment of customer creditworthiness, historical payment experience and the age of outstanding receivables.

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Activity related to accounts receivable allowances was as follows:

| | Fiscal Year Ended | | |
|--|-------------------|-------------------|-----------------|
| | December 31, 2017 | December 31, 2016 | January 2, 2016 |
| | (In thousands) | | |
| Allowance for product returns | | | |
| Balance at beginning of period | \$27,673 | \$ 25,992 | \$ 27,449 |
| Acquired balance | 6,088 | — | — |
| Provision | 54,981 | 33,992 | 27,432 |
| Deduction | (43,831) | (28,826) | (21,979) |
| Other adjustments | (2,218) | (3,485) | (6,910) |
| Balance at end of period | \$42,693 | \$ 27,673 | \$ 25,992 |
| Allowance for discounts and promotions | | | |
| Balance at beginning of period | \$22,108 | \$ 23,005 | \$ 10,749 |
| Acquired balance | 11,932 | — | — |
| Provision | 107,390 | 45,869 | 39,482 |
| Deduction | (79,652) | (46,610) | (26,587) |
| Other adjustments | (3,567) | (156) | (639) |
| Balance at end of period | \$58,211 | \$ 22,108 | \$ 23,005 |
| Allowance for price protection | | | |
| Balance at beginning of period | \$1,550 | \$ — | \$ — |
| Acquired balance | — | — | — |
| Provision | 3,215 | 1,550 | — |
| Deduction | (1,617) | — | — |
| Other adjustments | — | — | — |
| Balance at end of period | \$3,148 | \$ 1,550 | \$ — |
| Allowance for doubtful accounts | | | |
| Balance at beginning of period | \$29 | \$ 33 | \$67 |
| Acquired balance | 248 | — | — |
| Provision | 1 | — | — |
| Deduction | (2) | (4) | (34) |
| Other adjustments | — | — | — |
| Balance at end of period | \$276 | \$ 29 | \$ 33 |

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.

Warranty

The Company typically provides a one-year warranty (with the exception of European consumer products, which typically have a two-year warranty period) 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. The Company records estimated warranty costs, based on historical experience by product, at the time revenue is recognized.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Actual results could differ from these estimates, which could cause increases or decreases to the warranty reserves in future periods.

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 | 2-5 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 property 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.

Goodwill and Other Long-Lived Assets

Goodwill represents the excess of the purchase price in a business combination over the fair value of the net tangible and intangible assets acquired. Goodwill is not amortized but rather is assessed 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. Goodwill impairment, if any, is determined by comparing the reporting unit's fair value to its carrying value. An impairment loss is recognized in an amount equal to the excess of the reporting unit's carrying value over its fair value, up to the amount of goodwill allocated to the reporting unit. The Company completes the annual impairment evaluation during the fourth quarter each year.

Other long-lived assets consist principally of completed technology, tradename, customer relationships, reacquired distribution rights and non-competition agreements. Reacquired distribution rights are amortized on an accelerated basis while all other intangible assets are amortized over their respective estimated useful lives on a straight-line basis, consistent with the pattern in which the economic benefits are being utilized.

The Company periodically evaluates the recoverability of other long-lived 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.

The impairment assessment of goodwill and other long-lived assets involves significant estimates and assumptions, which may be unpredictable and inherently uncertain. These estimates and assumptions include identification of reporting units and asset groups, long-term growth rates, profitability, estimated useful lives, comparable market multiples, and discount rates. Any changes in these assumptions could impact the result of the impairment assessment.

Other Assets

At December 30, 2017 and December 31, 2016, other assets consisted primarily of cost and an equity method investment totaling \$14.2 million and \$12.9 million, respectively. 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.

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Financial Instruments and Hedging Activities

The Company utilizes derivative instruments to hedge specific financial risks including foreign exchange risk. The Company does not engage in speculative hedging activity. In order to account for a derivative instrument as a hedge, specific criteria must be met, including: (i) ensuring at the inception of the hedge that formal documentation exists for both the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge and (ii) at the inception of the hedge and on an ongoing basis, the hedging relationship is expected to be highly effective in achieving offsetting changes in fair value attributed to the hedged risk during the period that the hedge is designated. Further, an assessment of effectiveness is required whenever financial statements or earnings are reported. Absent meeting these criteria, changes in fair value are recognized in other income, net, in the consolidated statements of income. Once the underlying forecasted transaction is realized, the gain or loss from the derivative designated as a hedge of the transaction is reclassified from accumulated other comprehensive income (loss) to the statement of income, in revenue or cost of revenue. Any ineffective portion of the derivatives designated as cash flow hedges is recognized in current earnings.

Fair Value Measurements

The Company accounts for certain assets and liabilities at fair value. The fair value is established based on a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1 - observable inputs such as quoted prices for identical instruments in active markets;
- Level 2 - inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3 - unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

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. The fair value of employee stock options is estimated at the grant date using the Black-Scholes option-pricing model. The fair value for restricted stock awards, time-based restricted stock units and performance-based restricted stock units is based on the closing share price of the Company's common stock on the date of grant. For performance-based restricted stock units, the compensation cost is recognized based on the number of units expected to vest upon the achievement of the performance conditions. The Company recognizes stock-based compensation as expense over the requisite service period. The Company has elected to account for forfeitures as they occur, rather than applying an estimated forfeiture rate, following its adoption of ASU 2016-09 in the first quarter of 2017.

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 December 30, 2017 and December 31, 2016, the Company had \$12.8 million and \$9.5 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 \$1.5 million, \$0.4 million and \$0.7 million of amortization expense for the years ended December 30, 2017, December 31, 2016 and January 2, 2016, respectively.

Advertising Expense

The Company expenses advertising costs as they are incurred. During the years ended December 30, 2017, December 31, 2016 and January 2, 2016 advertising expense totaled \$91.8 million, \$64.4 million and \$54.7 million, respectively, and are recorded within the selling and marketing expenses line item.

Income Taxes

Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis using enacted tax rates in effect in the years in which those temporary differences are expected to be recovered or settled in each jurisdiction. A valuation allowance is provided if, based upon the weight of available evidence, it is

more likely than not that the related benefits will not be realized. The Company regularly reviews the deferred tax assets for recoverability considering historical profitability, projected future taxable income, future reversals of existing taxable temporary differences, as well as feasible tax planning strategies in each jurisdiction. As of December 30, 2017, the Company recorded a valuation allowance of \$0.8 million for certain foreign deferred tax assets for which the Company believes do not meet the "more likely than not" criteria for recognition.

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The Company reports a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in the income tax provision.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system and a one-time transition tax on the mandatory deemed repatriation of foreign earnings. We have estimated our provision for income taxes in accordance with the Act and guidance available as of the date of this filing and as a result have recorded a one-time income tax provision of \$11.9 million in the fourth quarter of 2017, the period in which the legislation was enacted. The one-time income tax provision includes \$8.9 million related to the remeasurement of certain deferred tax assets and liabilities based on the tax rates at which they are expected to reverse in the future. The one-time income tax expense also includes a provisional amount of \$3.0 million related to the one-time transition tax on the mandatory deemed repatriation of foreign earnings.

On December 22, 2017, Staff Accounting Bulletin No. 118 (SAB 118) was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. In accordance with SAB 118, we have determined that the \$3.0 million of current income tax provision recorded relating to the transition tax on the mandatory deemed repatriation of foreign earnings was a provisional amount and a reasonable estimate at December 30, 2017. Additional information and analysis is necessary to complete the calculation and accounting relating to the transition tax on the mandatory deemed repatriation of foreign earnings. Any subsequent adjustments to this amount will be recorded to current income tax provision during the measurement period which is not expected to extend beyond one year from the enactment date.

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 December 30, 2017, one customer accounted for a total of 11.5% of the Company's accounts receivable balance. At December 31, 2016, three customers accounted for a total of 43.9% 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 32.5% of the balance. For the fiscal year ended December 30, 2017, the Company generated 13.5% of total revenue from one of its retailers (Amazon). For the fiscal year ended December 31, 2016, the Company generated 12.9%, 12.3% and 10.4% of total revenue from its distributor in Japan, Sales On Demand Corporation (SODC), Robopolis SAS, a network of affiliated European distributors (Robopolis) and Amazon, respectively. For the fiscal year ended January 2, 2016, the Company generated 13.3% and 12.7% of total revenue from SODC and Robopolis, respectively. On April 3, 2017, the Company acquired the iRobot-related distribution business of SODC, and on October 2, 2017, the Company acquired Robopolis (see Note 3).

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

Net Income Per Share

Basic income per share is calculated using the Company's weighted-average outstanding common shares. Diluted income per share is calculated using the Company's weighted-average outstanding common shares including the dilutive effect of stock awards as determined under the treasury stock method. The following table presents the calculation of both basic and diluted net income per share:

| | Fiscal Year Ended | | |
|------------|-------------------|-------------------|-----------------|
| | December 30, 2017 | December 31, 2016 | January 2, 2016 |
| Net income | \$50,964 | \$ 41,939 | \$ 44,130 |

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| | | | |
|---|--------|---------|---------|
| Weighted-average shares outstanding | 27,611 | 27,698 | 29,550 |
| Dilutive effect of employee stock options and restricted shares | 1,142 | 594 | 557 |
| Diluted weighted-average shares outstanding | 28,753 | 28,292 | 30,107 |
| Basic income per share | \$1.85 | \$ 1.51 | \$ 1.49 |
| Diluted income per share | \$1.77 | \$ 1.48 | \$ 1.47 |

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Restricted stock units and stock options representing approximately 0.0 million, 0.4 million and 0.5 million shares of common stock for the fiscal years ended December 30, 2017, December 31, 2016 and January 2, 2016, respectively, were excluded from the computation of diluted earnings per share as their effect would have been antidilutive.

Recently Adopted Accounting Standards

In May 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards update (ASU) No. 2017-09, "Stock Compensation – Scope of Modification Accounting," that clarifies that all changes to share-based payment awards are not necessarily accounted for as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award changes as a result of the change in terms or conditions. This guidance is effective prospectively beginning January 1, 2018, with early adoption permitted. This guidance will apply to any future modifications. During the fourth quarter of 2017, the Company adopted this standard, which did not have an impact on the Company's consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations; Clarifying the Definition of a Business." ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. This guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. During the fourth quarter of 2017, the Company adopted this standard, which did not have an impact on the Company's consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other." ASU 2017-04 eliminates step 2 from the goodwill impairment test, instead requiring that an entity recognize an impairment charge for the amount by which the carrying amount of goodwill exceeds the reporting unit's fair value. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. During the fourth quarter of 2017, the Company adopted this standard, which did not have a material impact on the Company's consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments." ASU 2016-15 refines how companies classify certain aspects of the cash flow statement in regards to debt prepayment, settlement of debt instruments, contingent consideration payments, proceeds from insurance claims and life insurance policies, distribution from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows. ASU 2016-15 is effective for annual periods beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. During the fourth quarter of 2017, the Company adopted this standard, which did not have a material impact on the Company's consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting," which simplifies several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. Under the new standard, all excess tax benefits and tax deficiencies are recorded as a component of the provision for income taxes in the reporting period in which they occur. Additionally, ASU 2016-09 requires that the Company present excess tax benefits on the Statement of Cash Flows as an operating activity. The Company adopted ASU 2016-09 effective January 1, 2017 and elected to apply this adoption prospectively. Upon the adoption, the Company elected to account for forfeitures of share-based payments as they occur prospectively. Prior periods have not been adjusted. As of the adoption date, this standard did not have a material impact on the Company's consolidated financial statements.

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 Company adopted ASU 2015-11 effective January 1, 2017. The adoption of this standard did not have a material impact on the Company's consolidated financial statements and related disclosures.

Recently Issued Accounting Standards

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging," that was created to better align accounting rules with a company's risk management activities, better reflect the economic results of hedging in the financial statements, and simplify hedge accounting treatment. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. For cash flow hedges existing at the

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adoption date, the standard requires adoption on a modified retrospective basis with a cumulative-effect adjustment to the consolidated balance sheet as of the beginning of the year of adoption. The amendments to presentation guidance and disclosure requirements are required to be adopted prospectively. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory." ASU 2016-16 clarifies the accounting for the current and deferred income taxes for an intra-entity transfer of an asset other than inventory. ASU 2016-16 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. The Company does not believe the adoption of ASU 2016-16 will have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases." ASU 2016-02 requires lessees to recognize the assets and liabilities on their balance sheet for the rights and obligations created by most leases and continue to recognize expenses on their income statements over the lease term. It will also require disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. The guidance is effective for annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of the pending adoption of ASU 2016-02 on its consolidated financial statements, and currently expects that most of its operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon its adoption of ASU 2016-02, which will increase the total assets and total liabilities that the Company reports relative to such amounts prior to adoption.

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 was originally 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 standard will be effective for the Company beginning in the first quarter of 2018. The Company will adopt the standard using the modified retrospective method.

The Company primarily derives its revenue from product sales. The adoption is not expected to have a material effect on the timing of recognition or measurement of revenue from the Company's product sales. The Company also derives revenue from sales of connected robots, which represent arrangements with multiple performance obligations consisting of the robot, the iRobot Home app, potential future unspecified software upgrades and cloud services. ASU 2014-09 requires revenue to be allocated amongst material performance obligations based on stand-alone selling price and recognized based on the transfer of control of the material performance obligations. It is the Company's position that the app, upgrades and cloud services related to the current offerings constitute a single immaterial performance obligation and therefore, the revenue associated with the robot and services will be recognized upon transfer of control to the customer.

The Company's product sales are typically subject to limited rights of return, rebates, discounts and promotions and price protection. Accordingly, the Company reduces revenue for its estimates of allowances for these rights of return, rebates, discounts and promotions and price protection at the time the related sale is recorded based on contractual term, future expectation and historical experience. The Company does not expect that there will be material changes to the recognition of these allowances, and that these will continue to be recorded at the time the related revenue is recorded for the sales. The Company does expect that upon adoption of the standard, certain compliance-related charges will be estimated and recorded as a reduction of revenue at the time of sale, rather than upon resolution of the validity of the charges, but expects the impact of this to be immaterial to revenue.

The Company does not expect the provisions of the new standard to impact the manner in which it treats certain costs to fulfill contracts (i.e., shipping and handling costs) and costs to acquire new contracts (i.e., commissions). Under the new standard, the Company will elect the practical expedient on shipping and handling costs and continue to treat these costs as fulfillment costs and expense as incurred. Further, commissions will continue to be expensed as incurred as the impact to the consolidated financial statements is immaterial. The new standard will also result in enhanced revenue related 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.

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3. Business Combinations

Acquisition of Robopolis

On October 2, 2017, the Company closed the acquisition of its largest European distributor, Robopolis SAS, a French company (Robopolis), subsequently renamed to iRobot France SAS. The initial purchase price was approximately \$170.1 million in cash, net of acquired cash of \$38.0 million, subject to the finalization of the working capital adjustment in accordance with the stock purchase agreement. The acquisition will better enable the Company to maintain its leadership position and grow its business in several Western European countries through direct control of pre- and post-sales market activities including sales, marketing, branding, channel relationships and customer service. The results of operations for this acquisition have been included in the Company's operating results since the acquisition date.

The estimated fair values of assets acquired and liabilities assumed are provisional and are based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed.

Therefore, the provisional measurements of fair value reflected are subject to change and such changes could be significant. The Company is continuing to analyze certain pre-acquisition income tax filing positions of Robopolis in various taxing jurisdictions that will assist the Company in finalizing the amounts to record any assumed uncertain income tax positions. The Company expects to finalize the valuation and complete the purchase price allocation as soon as practicable, but no later than one year from the acquisition date.

The following table summarizes the preliminary allocation of the purchase price (in thousands):

| | |
|---------------------------|------------|
| Cash | \$37,981 |
| Accounts receivable | 21,426 |
| Inventory | 36,304 |
| Goodwill | 79,558 |
| Intangible assets | 36,597 |
| Other assets | 2,456 |
| Total assets | 214,322 |
| Accounts payable | (29,391) |
| Accrued expenses | (3,376) |
| Deferred tax liabilities | (10,833) |
| Other liabilities | (645) |
| Total liabilities assumed | (44,245) |
| Net assets acquired | \$ 170,077 |

The following table reflects the fair value of the acquired identifiable intangible assets and related estimates of useful lives:

| | Useful Life | Fair Value (in thousands) |
|--------------------------------|-------------|---------------------------------|
| Reacquired distribution rights | 2.25 years | \$ 29,296 |
| Customer relationships | 14 years | 7,029 |
| Non-competition agreements | 3 years | 272 |
| Total | | \$ 36,597 |

The amount assigned to identifiable intangible assets acquired was based on their fair values determined as of the acquisition date, primarily using the income approach by discounting to present value the free cash flows expected to be generated by each asset over its remaining life. The discount rate used was approximately 14.5%. Reacquired distribution rights are amortized on an accelerated basis while all other intangible assets are amortized over their respective estimated useful lives on a straight-line basis, consistent with the pattern in which the economic benefits are

being utilized.

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Goodwill represents the excess of the purchase price over the fair values of the net tangible and intangible assets acquired. In accordance with current accounting standards, the goodwill is not being amortized and will be tested for impairment at least annually. None of the goodwill associated with this transaction will be deductible for tax purposes.

Acquisition of Sales On Demand Corporation

On April 3, 2017, the Company closed its acquisition of the iRobot-related distribution business of Sales On Demand Corporation (SODC), iRobot Japan G.K., for approximately \$16.6 million in cash, equal to the book value of the acquired assets. The acquisition will better enable the Company to maintain its leadership position and accelerate the growth of its business in Japan through direct control of pre- and post-sales market activities including sales, marketing, branding, channel relationships and customer service. It also expands the Company's presence and customer outreach opportunities in Japan. The acquisition was a stock purchase. The results of operations for this acquisition have been included in the Company's operating results since the acquisition date.

During the three months ended September 30, 2017, the Company finalized the purchase price allocation and made measurement period adjustments to the provisional amounts reported as the estimated fair values of assets acquired. These measurement period adjustments resulted in a \$2.2 million non-taxable gain on business acquisition which represents the excess of the fair value of the net assets acquired over the purchase price. The gain on business acquisition was recorded within other income, net in the consolidated statements of income. The Company believes that the gain on business acquisition was due to the transaction not being subjected to a competitive bidding process and the purchase price being determined based on the net book value of the net assets acquired.

The following table summarizes the final allocation of the purchase price (in thousands):

| | | | |
|--|---------|--------|---|
| Cash | \$ | 125 | |
| Accounts receivable, net (1) | (5,496) | |) |
| Inventory | 18,290 | | |
| Other assets | 2,065 | | |
| Deferred tax assets, net | 409 | | |
| Goodwill | — | | |
| Intangible assets | 8,640 | | |
| Total assets acquired | 24,033 | | |
| Accrued expenses and other current liabilities | (4,450) | |) |
| Other liabilities | (691) | |) |
| Total liabilities assumed | (5,141) | |) |
| Net assets acquired | \$ | 18,892 | |
| Gain on business acquisition | (2,243) | |) |
| Total purchase price | \$ | 16,649 | |

(1) The accounts receivable balance reflects reserves for product returns, discounts and promotions assumed as part of the acquisition.

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The following table reflects the fair value of the acquired identifiable intangible assets and related estimates of useful lives:

| | Useful Life | Fair Value (in thousands) |
|--------------------------------|-------------|---------------------------------|
| Customer relationships | 13 years | \$ 4,490 |
| Reacquired distribution rights | 9 months | 4,150 |
| Total | | \$ 8,640 |

Pro Forma Results (Unaudited)

The following table shows unaudited pro forma results of operations as if we had acquired Robopolis on January 3, 2016 (dollars in thousands, except per share amounts):

| | Fiscal Year Ended | |
|--------------------------|----------------------|----------------------|
| | December 30, 2017 | December 31, 2016 |
| Revenue | \$901,612 | \$718,917 |
| Net income | \$51,887 | \$53,320 |
| Net income per share: | | |
| Basic income per share | \$ 1.88 | \$ 1.93 |
| Diluted income per share | \$ 1.80 | \$ 1.88 |

We have not furnished pro forma financial information relating to our other fiscal 2017 acquisition because such information is not material, individually or in the aggregate, to our financial results. The unaudited pro forma results of operations are not necessarily indicative of the actual results that would have occurred had the transactions taken place at the beginning of the periods indicated.

4. Divestiture

In April 2016, the Company completed the sale of its defense and security business unit to iRobot Defense Holdings, Inc., a portfolio company of Arlington Capital Partners. The final purchase price, including adjustments for working capital and indebtedness, was \$24.5 million. The Company recognized a gain of \$0.4 million on the sale of assets. The sale of its defense and security business did not meet the criteria for discontinued operations presentation as it did not represent a strategic shift that had a major effect on the Company's operations and financial results.

The Company and iRobot Defense Holdings, Inc. also entered into a Transition Services Agreement (TSA), pursuant to which the Company continued to perform certain functions on iRobot Defense Holdings Inc.'s behalf during a transition period not to exceed 12 months. The TSA provided for the reimbursement to the Company for direct costs incurred in order to provide such functions and was recorded as a component of other income. The transition period was completed during the three months ended April 1, 2017.

5. Inventory

Inventory consists of the following at:

| | December 30, 2017 | December 31, 2016 |
|----------------|----------------------|----------------------|
| | (In thousands) | |
| Raw materials | \$4,036 | \$ 4,717 |
| Finished goods | 102,896 | 45,861 |
| | \$106,932 | \$ 50,578 |

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6. Property and Equipment

Property and equipment consists of the following at:

| | December 30, 2017 | | December 31, 2016 | |
|--------------------------------|-------------------|-----------|-------------------|------|
| | 2017 | 2016 | 2017 | 2016 |
| | (In thousands) | | | |
| Computer and equipment | \$10,669 | \$ 7,378 | | |
| Furniture | 4,120 | 2,906 | | |
| Machinery | 14,202 | 9,154 | | |
| Tooling | 31,783 | 20,487 | | |
| Leasehold improvements | 26,136 | 21,383 | | |
| Business applications software | 12,757 | 9,471 | | |
| | 99,667 | 70,779 | | |
| Less: accumulated depreciation | 55,088 | 43,247 | | |
| | \$44,579 | \$ 27,532 | | |

Depreciation expense for the years ended December 30, 2017, December 31, 2016 and January 2, 2016 was \$12.3 million, \$10.0 million, and \$11.4 million, respectively.

7. Goodwill and other intangible assets

The following table summarizes the activity in the carrying amount of goodwill for fiscal years 2017 and 2016:

| | (In thousands) |
|--|----------------|
| Balance as of January 2, 2016 | \$48,751 |
| Divestiture (1) | (7,710) |
| Balance as of December 31, 2016 | 41,041 |
| Acquisitions (Note 3) | 79,558 |
| Effect of foreign currency translation | 841 |
| Balance as of December 30, 2017 | \$ 121,440 |

In April 2016, the Company completed the sale of its defense and security business unit and therefore the goodwill (1) balance assigned to the defense and security business unit was written off during the three months ended July 2, 2016.

Intangible assets at December 30, 2017 and December 31, 2016 consisted of the following:

| | December 30, 2017 | | | December 31, 2016 | | |
|--------------------------------|-------------------|--------------------------|----------|-------------------|--------------------------|----------|
| | Cost | Accumulated Amortization | Net | Cost | Accumulated Amortization | Net |
| | (In thousands) | | | | | |
| Completed technology | \$26,900 | \$ 18,150 | \$8,750 | \$26,900 | \$ 14,693 | \$12,207 |
| Tradename | 100 | 100 | — | 100 | 100 | — |
| Customer relationships | 11,594 | 418 | 11,176 | — | — | — |
| Reacquired distribution rights | 33,760 | 9,226 | 24,534 | — | — | — |
| Non-competition agreements | 275 | 23 | 252 | — | — | — |
| Total | \$72,629 | \$ 27,917 | \$44,712 | \$27,000 | \$ 14,793 | \$12,207 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Amortization expense related to acquired intangible assets was \$13.1 million, \$3.5 million, and \$3.5 million for the fiscal years ended December 30, 2017, December 31, 2016 and January 2, 2016, 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) |
|------------|----------------|
| 2018 | \$ 19,767 |
| 2019 | 13,188 |
| 2020 | 1,950 |
| 2021 | 1,714 |
| 2022 | 1,489 |
| Thereafter | 6,604 |
| Total | \$ 44,712 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

8. Accrued Expenses

Accrued expenses consist of the following at:

| | December 31, | |
|--|----------------|-----------|
| | 2017 | 2016 |
| | (In thousands) | |
| Accrued bonus | 20,443 | 14,226 |
| Accrued warranty | 11,264 | 8,464 |
| Accrued other compensation | 9,071 | 6,789 |
| Accrued sales and other taxes | 7,256 | 422 |
| Accrued federal and state income taxes | 7,110 | 1,059 |
| Accrued sales and marketing | 3,299 | 404 |
| Accrued direct fulfillment costs | 1,885 | 1,722 |
| Accrued customer deposits | 1,324 | 1,171 |
| Accrued accounting fees | 1,221 | 686 |
| Accrued rent | — | 327 |
| Accrued other | 10,774 | 5,599 |
| | \$73,647 | \$ 40,869 |

9. 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 December 30, 2017, 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 December 30, 2017, 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 guarantee 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 December 30, 2017, 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.

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As of December 30, 2017, there were letters of credit outstanding of \$1.0 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 guarantee 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 December 30, 2017, the Company was in compliance with all covenants under the revolving letter of credit facility.

10. Derivative Instruments and Hedging Activities

The Company operates internationally and, in the normal course of business, is exposed to fluctuations in foreign currency exchange rates. The foreign currency exposures typically arise from transactions denominated in currencies other than the functional currency of the Company's operations, primarily the Japanese Yen, Canadian dollar and the Euro. The Company uses derivative instruments that are designated in cash flow hedge relationships to reduce or eliminate the effects of foreign exchange rate changes on purchases and sales. These contracts typically have maturities of fourteen months or less. At December 30, 2017 and December 31, 2016, the Company had outstanding cash flow hedges with a total notional value of \$73.7 million and \$0.0 million, respectively.

The Company also enters into economic hedges that are not designated as hedges from an accounting standpoint to reduce or eliminate the effects of foreign exchange rate changes typically related to short term trade receivables and payables. These contracts typically have maturities of two months or less. At December 30, 2017 and December 31, 2016, the Company had outstanding economic hedges with a total notional value of \$36.6 million and \$8.1 million, respectively.

The fair values of derivative instruments are as follows:

| Classification | Fair Value | |
|--|----------------------|-------------------|
| | December 30, 2017 | December 31, 2016 |
| (In thousands) | | |
| Derivatives not designated as hedging instruments: | | |
| Foreign currency option contracts | Other current assets | \$— \$ 180 |
| Foreign currency forward contracts | Other current assets | 413 — |
| Foreign currency forward contracts | Accrued expenses | 221 43 |
| Derivatives designated as cash flow hedges: | | |
| Foreign currency forward contracts | Other current assets | \$488 \$ — |
| Foreign currency forward contracts | Other assets | 116 — |
| Foreign currency forward contracts | Accrued expenses | 279 — |

Gains (losses) associated with derivative instruments not designated as hedging instruments are as follows:

| Classification | Fiscal year ended | |
|----------------------------------|-------------------|-------------------|
| | December 30, 2017 | December 31, 2016 |
| (In thousands) | | |
| Gain (loss) recognized in income | \$(444) | \$ 29 |

Other
income, net

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following tables reflect the effect of foreign exchange forward contracts that are designated as cash flow hedging instruments for the years ended December 30, 2017 and December 31, 2016 (in thousands):

| | Effective Portion | | | Ineffective Portion | | |
|------------------------------------|---|---|-----------------|--------------------------------------|-------------------------------------|-------------------|
| | Gain (loss) recognized in OCI on Derivative (1) | Gain (loss) reclassified from accumulated OCI into income (2) | Classification | Gain (loss) recognized in income (3) | Classification | |
| | Fiscal year ended December 30, 2017 | Fiscal year ended December 31, 2016 | | Fiscal year ended December 30, 2017 | Fiscal year ended December 31, 2016 | |
| Foreign currency forward contracts | \$584 | \$— | Revenue | \$320 | \$— | Other income, net |
| | | | Cost of revenue | \$(63) | \$— | |

(1) The amount represents the change in fair value of derivative contracts due to changes in spot rates.

(2) The amount represents reclassification from other comprehensive income to earnings that occurs when the hedged item affects earnings.

(3) The amount represents the change in fair value of derivative contracts due to changes in the forward rates. No gains or losses were reclassified as a result of discontinuance of cash flow hedges.

11. Fair Value Measurements

The Company's financial assets and liabilities measured at fair value on a recurring basis at December 30, 2017, were as follows:

| Description | Fair Value Measurements as of December 30, 2017 | | |
|--|---|-------------|---------|
| | Level 1 | Level 2 (1) | Level 3 |
| | (In thousands) | | |
| Assets: | | | |
| Money market funds | \$3,165 | \$— | \$— |
| Corporate and government bonds | — | 37,225 | — |
| Derivative instruments (Note 10) | — | 1,017 | — |
| Total assets measured at fair value | \$3,165 | \$38,242 | \$— |
| Liabilities: | | | |
| Derivative instruments (Note 10) | \$— | \$500 | \$— |
| Total liabilities measured at fair value | \$— | \$500 | \$— |

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The Company's financial assets and liabilities measured at fair value on a recurring basis at December 31, 2016, were as follows:

| Description | Fair Value Measurements as of December 31, 2016 | | |
|--|---|----------------|---------|
| | Level 1 | Level 2 (1) | Level 3 |
| | (In thousands) | | |
| Assets: | | | |
| Money market funds | \$ 156,980 | \$ — | \$ — |
| Corporate and government bonds | — | 39,930 | — |
| Derivative instruments (Note 10) | — | 180 | — |
| Total assets measured at fair value | \$ 156,980 | \$ 40,110 | \$ — |
| Liabilities: | | | |
| Derivative instruments (Note 10) | \$ — | \$ 43 | \$ — |
| Total liabilities measured at fair value | \$ — | \$ 43 | \$ — |

(1) Level 2 fair value estimates are based on observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

12. Stockholders' Equity

Preferred Stock

The Company has authorized 5,000,000 shares of undesignated preferred stock with a par value of \$0.01 per share. None of the preferred shares were issued and outstanding at December 30, 2017 and December 31, 2016.

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.

Share Repurchase Activity

On April 2, 2014, the Company announced a stock repurchase program. Under the program, the Company could 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. On December 28, 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 was authorized to purchase up to one million shares or \$40 million of its common stock. On March 1, 2016, the Company replaced the then-current stock repurchase program and entered into an accelerated share repurchase (ASR) agreement to repurchase an aggregate of \$85.0 million of common stock. The Company did not repurchase any shares of common stock during fiscal year 2017. During fiscal year 2016 and 2015, the Company repurchased 2,641,122 shares totaling \$97.0 million and 1,260,276 shares totaling \$37.4 million, respectively, in the open market under these stock repurchase plans.

13. 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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. The grant of any full value award (e.g., restricted stock units) under the 2015 Plan is counted against the share reserve for future grants under the 2015 Plan as 1.61 shares for every one share actually subject to such award. As of December 30, 2017, there were 590,655 shares available for future grant under the 2015 Plan. The Company recognized \$19.8 million, \$16.0 million and \$14.2 million of stock-based compensation expense during the fiscal years ended December 30, 2017, December 31, 2016, and January 2, 2016, respectively.

Stock Options

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 Select Market on the date of grant.

As of December 30, 2017, the unamortized compensation costs associated with stock options was \$4.0 million with a weighted-average remaining recognition period of 2.07 years.

The following table summarizes stock option activity for fiscal years 2017, 2016 and 2015:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value(1) |
|--|---------------------|------------------------------------|---|------------------------------------|
| 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 | | |
| Granted | 314,770 | 38.03 | | |
| Exercised | (456,498) | 20.47 | | |
| Canceled | (57,648) | 33.28 | | |
| Outstanding at December 31, 2016 | 1,088,174 | \$ 32.27 | | |
| Granted | 10,975 | 57.33 | | |
| Exercised | (367,267) | 28.79 | | |
| Canceled | (18,928) | 36.72 | | |
| Outstanding at December 30, 2017 | 712,954 | \$ 34.34 | 4.27 years | \$30.2 million |
| Vested and expected to vest at December 30, 2017 | 712,954 | \$ 34.34 | 4.27 years | \$30.2 million |
| Exercisable as of December 30, 2017 | 399,163 | \$ 32.10 | 3.62 years | \$17.8 million |

(1) The aggregate intrinsic value on the table above represents the difference between the Company's closing stock price on December 30, 2017 of \$76.70 and the exercise price of the underlying in-the-money option.

The fair value of each option grant for the fiscal years ended December 30, 2017, December 31, 2016, and January 2, 2016 was computed on the grant date using the Black-Scholes option-pricing model with the following assumptions:

| | Fiscal Year Ended | | |
|-------------------------|----------------------|----------------------|--------------------|
| | December 30, 2017 | December 31, 2016 | January 2, 2016 |
| Risk-free interest rate | 2.11% | 1.17% — 1.89% | 1.47% — 1.75% |
| Expected dividend yield | — | — | — |

| | | | |
|---------------------|------------|-------------------|-------------------|
| Expected life | 4.01 years | 4.01 — 4.03 years | 3.98 — 4.02 years |
| Expected volatility | 38.0% | 38.9% — 42.1% | 46.5% — 52.4% |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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. During fiscal years 2017, 2016, and 2015, the total intrinsic value of stock options exercised was \$21.8 million, \$10.3 million, and \$5.9 million, respectively.

The following table summarizes information about stock options outstanding at December 30, 2017:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|--------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|
| | Number Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| \$ 3.54 - \$ 26.59 | 113,447 | 1.90 years | \$ 23.00 | 113,447 | \$ 23.00 |
| 29.60 - 32.38 | 109,187 | 4.54 | 31.13 | 55,396 | 31.33 |
| 33.14 - 33.14 | 108,113 | 5.19 | 33.14 | 39,085 | 33.14 |
| 33.29 - 34.30 | 116,942 | 4.06 | 34.01 | 66,770 | 33.99 |
| 35.43 - 37.08 | 58,858 | 3.52 | 35.72 | 49,232 | 35.60 |
| 37.62 - 37.62 | 99,370 | 5.44 | 37.62 | 31,467 | 37.62 |
| 39.09 - 39.09 | 37,589 | 5.69 | 39.09 | 9,434 | 39.09 |
| 43.35 - 43.35 | 29,605 | 3.18 | 43.35 | 27,178 | 43.35 |
| 57.33 - 57.33 | 10,975 | 6.19 | 57.33 | — | — |
| 58.55 - 58.55 | 28,868 | 5.94 | 58.55 | 7,154 | 58.55 |
| \$ 3.54 - \$58.55 | 712,954 | 4.27 years | \$ 34.34 | 399,163 | \$ 32.10 |

Restricted Stock Units

Restricted stock units entitle the holder to a specific number of shares of common stock upon vesting, typically over a four-year period. As of December 30, 2017, the unamortized compensation costs associated with restricted stock units was \$39.3 million with a weighted-average remaining recognition period of 2.52 years.

The following table summarizes the restricted stock unit activity for fiscal years 2017, 2016 and 2015:

| | Number of Shares Underlying Restricted Stock | Weighted Average Grant Date Fair Value |
|----------------------------------|--|--|
| Outstanding at December 27, 2014 | 880,138 | \$ 30.10 |
| Granted | 505,277 | 36.88 |
| Vested | (340,754) |) 29.13 |
| Forfeited | (110,784) |) 30.82 |
| Outstanding at January 2, 2016 | 933,877 | \$ 31.42 |
| Granted | 458,237 | 37.93 |
| Vested | (358,018) |) 30.81 |
| Forfeited | (98,917) |) 32.13 |
| Outstanding at December 31, 2016 | 935,179 | \$ 35.07 |
| Granted | 396,164 | 72.63 |
| Vested | (351,543) |) 33.73 |
| Forfeited | (41,347) |) 39.52 |
| Outstanding at December 30, 2017 | 938,453 | \$ 51.24 |

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The aggregate intrinsic value of outstanding restricted stock units at December 30, 2017 was \$72.0 million based on the Company's closing stock price on December 30, 2017 of \$76.70, with a weighted average remaining contractual term of 1.50 years.

Performance Based Restricted Stock Units

The Company grants performance-based restricted stock units (PSUs) to certain of its employees. The PSUs have performance metrics based on financial performance of the Company measured at the end of a three-year performance period. The performance metric for these awards is operating income percent, with a threshold requirement for a minimum amount of revenue growth. The number of shares actually earned at the end of the three year period will range from 0% to 200% of the target number of PSUs granted based on the Company's performance against the performance conditions.

The unamortized fair value as of December 30, 2017 associated with performance based restricted stock units was \$5.6 million with a weighted-average remaining recognition period of 1.39 years.

The following table summarizes the performance based restricted stock unit activity for fiscal years 2017, 2016 and 2015:

| | Number of Shares Underlying PSU (1) | Weighted Average Grant Date Fair Value |
|----------------------------------|---|--|
| Outstanding at December 27, 2014 | 29,717 | \$ 43.35 |
| Granted | 71,133 | 34.30 |
| Vested | — | — |
| Forfeited | (10,358) |) 38.60 |
| Outstanding at January 2, 2016 | 90,492 | \$ 36.78 |
| Granted | 82,085 | 33.36 |
| Vested | (5,625) |) 34.30 |
| Forfeited | (3,041) |) 34.30 |
| Outstanding at December 31, 2016 | 163,911 | \$ 35.03 |
| Granted | 105,650 | 57.33 |
| Vested | (24,792) |) 43.35 |
| Forfeited | (2,708) |) 39.71 |
| Outstanding at December 30, 2017 | 242,061 | \$ 43.97 |

(1) Includes the target number of PSUs.

The aggregate intrinsic value of outstanding PSUs was \$18.6 million based on the Company's closing stock price on December 30, 2017 of \$76.70 with a weighted average remaining contractual term of 1.39 years.

Employee Stock Purchase Plan

In May 2017, the Company's stockholders approved the 2017 Employee Stock Purchase Plan (ESPP). The Company reserved a total of 700,000 shares of common stock for issuance under this plan. The ESPP is administered over six-month offering periods beginning November 15 and May 15 of each year. Eligible employees can contribute 1% to 15% of their compensation each period up to \$4,000, for the purchase of common stock not to exceed 1,000 shares per the six-month period. On the last business day of each period, shares of common stock are purchased at a purchase price of 85% of the lower of the fair market values of the stock as of the beginning and the end of the offering period. The first offering period began November 15, 2017, resulting in an immaterial stock-based compensation expense for the year ended December 30, 2017.

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iROBOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

14. Commitments and Contingencies

Legal Proceedings

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 our financial condition or results of operations.

Lease Obligations

The Company leases its facilities. Rental expense under operating leases for fiscal years 2017, 2016 and 2015 amounted to \$8.9 million, \$6.0 million, and \$4.9 million, respectively. Future minimum rental payments under operating leases were as follows as of December 30, 2017:

| | Operating Leases |
|------------------------------|---------------------|
| 2018 | \$ 6,361 |
| 2019 | 6,901 |
| 2020 | 6,506 |
| 2021 | 6,502 |
| 2022 | 6,498 |
| Thereafter | 39,839 |
| Total minimum lease payments | \$ 72,607 |

Outstanding Purchase Orders

At December 30, 2017, we had outstanding purchase orders aggregating approximately \$74.4 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 December 30, 2017 and December 31, 2016, respectively.

Government Contract Contingencies

Prior to the completion of the divestiture of our defense and security business unit during the second quarter of 2016, the Company had several prime contracts with the U.S. federal government which did 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 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 submitted 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 December 30, 2017, fiscal year 2016 is open for audit by DCAA.

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iROBOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 8) in the accompanying consolidated balance sheets.

Activity related to the warranty accrual was as follows:

| | Fiscal Year Ended | | |
|--------------------------------|----------------------|----------------------|--------------------|
| | December 30, 2017 | December 31, 2016 | January 2, 2016 |
| | (In thousands) | | |
| Balance at beginning of period | \$8,464 | \$ 6,907 | \$ 7,769 |
| Liability assumed (1) | 2,186 | — | — |
| Provision | 8,591 | 7,494 | 4,598 |
| Warranty usage (2) | (7,977) | (5,937) | (5,460) |
| Balance at end of period | \$11,264 | \$ 8,464 | \$ 6,907 |

(1) Warranty assumed as part of the acquisition of the iRobot-related distribution business of Sales On Demand Corporation (see Note 3).

(2) Warranty usage includes costs incurred for warranty obligations and, for the twelve month period ended December 31, 2016, the release of warranty liabilities associated with the divestiture of the defense and security business unit.

15. 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 \$2.4 million, \$1.7 million and \$1.8 million for the plan years ended December 30, 2017, December 31, 2016 and January 2, 2016 ("Plan-Year 2017," "Plan-Year 2016" and "Plan-Year 2015"), 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 2017, Plan-Year 2016 and Plan-Year 2015 is entitled up to a maximum of three percent of his or her eligible annual payroll.

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iROBOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

16. Income Taxes

Income (loss) before provision for income taxes was as follows:

| | Fiscal Year Ended | | |
|----------------------------|-------------------|-------------------|-----------------|
| | December 30, 2017 | December 31, 2016 | January 2, 2016 |
| | (In thousands) | | |
| Domestic | \$71,382 | \$61,706 | \$62,391 |
| Foreign | 4,984 | (345) | 580 |
| Income before income taxes | \$76,366 | \$61,361 | \$62,971 |

The components of income tax expense were as follows:

| | Fiscal Year Ended | | |
|-------------------------------------|-------------------|-------------------|-----------------|
| | December 30, 2017 | December 31, 2016 | January 2, 2016 |
| | (In thousands) | | |
| Current | | | |
| Federal | \$17,555 | \$17,639 | \$20,033 |
| State | 1,691 | 1,054 | 972 |
| Foreign | 7,355 | 310 | 121 |
| Total current income tax provision | 26,601 | 19,003 | 21,126 |
| Deferred | | | |
| Federal | \$6,664 | \$781 | \$(1,657) |
| State | (2,470) | (95) | (628) |
| Foreign | (5,393) | (267) | — |
| Total deferred income tax provision | (1,199) | 419 | (2,285) |
| Total income tax provision | \$25,402 | \$19,422 | \$18,841 |

Due to the adoption of ASU 2016-09 in 2017, all excess tax benefits and deficiencies are recognized as income tax expense in the Company's consolidated statement of income. This will result in increased volatility in the Company's effective tax rate.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system and a one-time transition tax on the mandatory deemed repatriation of foreign earnings. The Company has estimated the provision for income taxes in accordance with the Act and guidance available as of the date of this filing and as a result have recorded a one-time income tax provision of \$11.9 million as additional income tax provision in the fourth quarter of 2017, the period in which the legislation was enacted. The one-time income tax provision includes \$8.9 million related to the remeasurement of certain deferred tax assets and liabilities based on the tax rates at which they are expected to reverse in the future. The one-time income tax expense also includes a provisional amount of \$3.0 million related to the one-time transition tax on the mandatory deemed repatriation of foreign earnings.

On December 22, 2017, Staff Accounting Bulletin No. 118 (SAB 118) was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. In accordance with SAB 118, the Company has determined that the \$3.0 million of current income tax provision

recorded relating to the transition tax on the mandatory deemed repatriation of foreign earnings was a provisional amount and a reasonable estimate at December 30, 2017. Additional information and analysis is necessary to complete the calculation and accounting relating to the transition tax on the mandatory deemed repatriation of foreign earnings. Any subsequent adjustments to this amount will be recorded to current income tax provision during the measurement period which is not expected to extend beyond one year from the enactment date.

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iROBOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

| | Fiscal Year Ended | | |
|--|-------------------|-------------------|-----------------|
| | December 31, 2017 | December 31, 2016 | January 2, 2016 |
| | (In thousands) | | |
| Expected federal income tax | \$26,728 | \$ 21,476 | \$ 22,040 |
| Miscellaneous permanent items | 2,979 | 516 | 608 |
| State taxes (net of federal benefit) | 2,089 | 1,360 | 982 |
| Federal and state credits | (4,486) | (2,233) | (2,767) |
| Change in valuation allowance | 800 | — | — |
| Domestic production activities deduction | (1,528) | (1,731) | (2,145) |
| Statute of limitation expirations of uncertain tax positions | (106) | (167) | (194) |
| Excess tax benefits relating to stock-based compensation | (11,709) | — | — |
| Tax Cuts and Jobs Act of 2017 | 11,861 | — | — |
| Other | (1,226) | 201 | 317 |
| | \$25,402 | \$ 19,422 | \$ 18,841 |

The components of net deferred tax assets were as follows:

| | December 31, | |
|----------------------------------|----------------|-----------|
| | 2017 | 2016 |
| | (In thousands) | |
| Deferred tax assets | | |
| Reserves and accruals | \$24,315 | \$ 20,737 |
| Tax credits | 6,666 | 5,999 |
| Property and equipment | 1,382 | 1,934 |
| Stock-based compensation | 4,277 | 6,150 |
| Net operating loss carryforwards | 144 | 1,010 |
| Valuation allowance | (800) | — |
| Gross deferred tax assets | 35,984 | 35,830 |
| Deferred tax liabilities | | |
| Intangible assets | 13,419 | 4,530 |
| Other | 573 | 715 |
| Gross deferred tax liabilities | 13,992 | 5,245 |
| Net deferred tax assets | \$21,992 | \$ 30,585 |

The Act includes a mandatory one-time tax on accumulated earnings of foreign subsidiaries, and as a result, all previously unremitted earnings for which no U.S. deferred tax liability had been accrued have now been subject to U.S. tax. Notwithstanding the U.S. taxation of these amounts, the Company intends to continue to invest all of these earnings, as well as the capital in these subsidiaries, indefinitely outside of the U.S. The amount of any unrecognized deferred tax liability on these undistributed earnings would be immaterial.

The Company has fully utilized both the federal and state net operating loss carryforwards as of December 30, 2017. The Company had federal and state net operating loss carryforwards of \$1.0 million and \$8.9 million, respectively, as of December 31, 2016. The Company has fully utilized the federal research and development credit carryforwards as of December 30, 2017 and had \$1.0 million of federal research and development credit carryforwards as of December 31, 2016. The Company has state research and development credit carryforwards of \$10.1 million and \$10.0 million as of December 30, 2017 and December 31, 2016, respectively, which expire from 2026 to 2032. Under

the Internal Revenue Code and state law, 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 December 30, 2017, the Company has \$1.0 million of state research and development credits related to the acquisition of Evolution Robotics that are limited by Section 382 and Section 383,

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iROBOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

respectively, of the Internal Revenue Code. However, these limitations are not expected to cause any of these state research and development credits to expire prior to being utilized.

As of December 30, 2017, the Company recorded a valuation allowance of \$0.8 million for certain foreign deferred tax assets for which the Company believes do not meet the "more likely than not" criteria for recognition.

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

| | Fiscal Year Ended | | |
|--|-------------------|-------------------|-----------------|
| | December 30, 2017 | December 31, 2016 | January 2, 2016 |
| | (in thousands) | | |
| Balance at beginning of period | \$5,146 | \$ 6,616 | \$ 2,491 |
| Increase for tax positions related to the current year | 580 | 2,851 | 786 |
| Increase (decrease) for tax positions related to prior years | (523) | (4,224) | 3,533 |
| Decreases for settlements with applicable taxing authorities | — | — | — |
| Decreases for lapses of statute of limitations | (613) | (97) | (194) |
| Balance at end of period | \$4,590 | \$ 5,146 | \$ 6,616 |

The Company accrues interest and, if applicable, penalties for any uncertain tax positions as a component of income tax expense. As of December 30, 2017, December 31, 2016 and January 2, 2016 there were no material accrued interest or penalties.

The Company is subject to taxation in the United States (federal and state) and foreign jurisdictions. The statute of limitations for examinations by the Internal Revenue Service (the "IRS") is closed for fiscal years prior to 2014. The statute of limitations for examinations by state tax authorities is closed for fiscal years prior to 2013. Federal and state carryforward attributes that were generated prior to fiscal 2014 and 2013, respectively, 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. The Company is currently under examination by the IRS for the years 2014 and 2015. The Company does not expect a significant change in the amount of unrecognized tax benefits within the next 12 months. If all of the Company's unrecognized tax benefits as of December 30, 2017 were to become recognizable in the future, it would record a \$2.0 million benefit, inclusive of interest, to the income tax provision.

17. Industry Segment, Geographic Information and Significant Customers

Prior to completing the sale of the Company's defense and security business (see Note 4), the Company's reportable segments consisted of the home business unit and the defense and security business unit. Following this divestiture, which was completed in April 2016, the Company now operates as one operating segment, consumer robots, the results of which are included in the Company's consolidated statements of income and comprehensive income. The Company's consumer robots products are offered 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.

Geographic Information

For the fiscal years ended December 30, 2017, December 31, 2016 and January 2, 2016, sales to non-U.S. customers accounted for 48.8%, 51.2% and 56.0% of total revenue, respectively.

Significant Customers

For the fiscal years ended December 30, 2017, December 31, 2016 and January 2, 2016 approximately 62.7%, 72.8% and 76.6%, respectively, of consumer robots revenue resulted from sales to 15 customers. For the fiscal year ended December 30, 2017, the Company generated 13.5% of total revenue from one of its retailers (Amazon). For the fiscal year ended December 31, 2016, the Company generated 12.9%, 12.3% and 10.4% of total revenue from its distributor in Japan (Sales On Demand Corporation), a network of affiliated European distributors (Robopolis SAS) and Amazon,

respectively. For the fiscal year ended January 2, 2016, the Company generated 13.3% and 12.7% of total revenue from Sales on Demand Corporation and Robopolis SAS, respectively. On April 3, 2017, the Company acquired the iRobot-related distribution business of Sales On Demand Corporation, and on October 2, 2017, the Company acquired Robopolis SAS (see Note 3).

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iROBOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

18. Quarterly Information (Unaudited)

The following information has been derived from unaudited consolidated financial statements that, in the opinion of management, include all recurring adjustments necessary for a fair statement of such information (dollars in thousands, except per share amounts):

| | Fiscal Quarter Ended | | | | | | | |
|----------------------------|--|--------------------|--------------|---------------|-------------------|-----------------|--------------|---------------|
| | December 31, 2017 | September 30, 2017 | July 1, 2017 | April 1, 2017 | December 31, 2016 | October 1, 2016 | July 2, 2016 | April 2, 2016 |
| | (In thousands, except per share amounts) | | | | | | | |
| Revenue | \$326,897 | \$ 205,399 | \$ 183,148 | \$ 168,467 | \$ 212,494 | \$ 168,610 | \$ 148,696 | \$ 130,804 |
| Gross margin | 153,542 | 102,383 | 89,891 | 87,343 | 106,642 | 81,060 | 69,652 | 61,961 |
| Net income | 4,620 | 22,082 | 7,903 | 16,359 | 13,681 | 19,512 | 4,814 | 3,932 |
| Diluted earnings per share | \$0.16 | \$ 0.76 | \$0.27 | \$0.58 | \$ 0.49 | \$0.70 | \$0.17 | \$0.13 |

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

None.

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), 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 December 30, 2017, 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). We have excluded the business acquisitions

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completed during fiscal year 2017, including our acquisitions of iRobot Japan G.K. and iRobot France SAS (formerly known as Robopolis SAS), from the assessment of the effectiveness of internal control over financial reporting as of December 30, 2017. iRobot Japan G.K. and iRobot France SAS (formerly known as Robopolis SAS) are wholly-owned subsidiaries whose total assets and total revenues excluded from management's assessment and our audit of internal control over financial reporting collectively represent approximately 8.3% and 23.9% of total assets, respectively and approximately 9.9% and 13.0% of total revenues, respectively, of the related consolidated financial statement amounts as of and for the year ended December 30, 2017. Based on this assessment, management concluded that the Company maintained effective internal control over financial reporting as of December 30, 2017 based on the specified criteria.

The effectiveness of the Company's internal control over financial reporting as of December 30, 2017 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 December 30, 2017, 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.

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ITEM 9B. OTHER INFORMATION

10b5-1 Trading Plans

Our policy governing transactions in our securities by our directors, officers, and employees permits our officers, directors, funds affiliated with our directors, and certain other persons to enter into trading plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. We have been advised that certain of our officers and directors (including Colin Angle, Chief Executive Officer, Glen Weinstein, EVP & Chief Legal Officer, as well as Deborah Ellinger and Andrew Miller, each a director) 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 10b5-1 and our policy governing transactions in our securities. Generally, under these trading plans, the individual relinquishes control over the transactions once the trading plan is put into place. Accordingly, sales under these plans may occur at any time, including possibly before, simultaneously with, or immediately after significant events involving our company.

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

Amendment to Lease

On February 14, 2018, we entered into an Eighth Amendment to Lease (the "Amendment"), with DIV Bedford, LLC, to amend certain provisions of our Lease Agreement for our corporate headquarters located at 4-18 Crosby Drive, Bedford, Massachusetts (the "Property"). The Amendment provides for, among other things, 34,752 square feet of additional leased space at the Property. The Amendment also adjusts the rent payable for the Property. The full text of the Amendment is filed with Exhibit 10.6 to this Annual Report on Form 10-K.

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 December 30, 2017.

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 December 30, 2017.

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 December 30, 2017.

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 December 30, 2017.

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 December 30, 2017.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

1. Financial Statements

The following consolidated financial statements are included in Item 8:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at December 30, 2017 and December 31, 2016

Consolidated Statements of Income for the Years ended December 30, 2017, December 31, 2016 and January 2, 2016

Consolidated Statements of Comprehensive Income for the Years ended December 30, 2017, December 31, 2016 and January 2, 2016

Consolidated Statements of Stockholders' Equity for the Years ended December 30, 2017, December 31, 2016 and January 2, 2016

Consolidated Statements of Cash Flows for the Years ended December 30, 2017, December 31, 2016 and January 2, 2016

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 |
|----------------|--|
| 2.1 | Asset Purchase Agreement, dated as of February 2, 2016, by and between the Registrant and iRobot Defense Holdings, Inc. (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on February 4, 2016 and incorporated by reference herein) |
| 2.2 | Share Purchase Agreement, dated as of July 25, 2017, by and among the Registrant, iRobot UK Ltd., Robopolis SAS, the shareholders of Robopolis SAS named therein, and the Shareholders' Representative named therein (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on July 26, 2017 and incorporated by reference herein) |
| 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 Current Report on Form 8-K filed on March 9, 2016 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† | 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) |
| 10.3†(1) | Employment Agreement between the Registrant and Colin Angle, dated as of January 1, 1997 |
| 10.4† | 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) |
| 10.5† | |

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)

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- 10.6* 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)
- 10.7† 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)
- 10.8† 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)
- 10.9† 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)
- 10.10#* Manufacturing Services Agreement between the Registrant and Jabil Circuit, Inc., dated as of March 18, 2010 (as amended to date)
- 10.11 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)
- 10.12 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)
- 10.13#* Manufacturing Services Agreement between the Registrant and Kin Yat Industrial Company Limited, dated as of January 22, 2014 (as amended to date)
- 10.14† Evolution Robotics, Inc. 2007 Stock Plan and forms of agreements thereunder (filed as Exhibit 10.16 to the Registrant's Annual Report on Form 10-K for the year ended December 27, 2014 and incorporated by reference herein)
- 10.15† 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)
- 10.16 Master Confirmation - Uncollared Accelerated Share Repurchase by and between the Registrant and J.P. Morgan Securities LLC, dated March 1, 2016 (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 2, 2016 and incorporated by reference herein)
- 10.17† Form of Performance-Based Restricted Stock Unit Award Agreement under the 2015 Stock Option Incentive Plan (filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 2, 2016 and incorporated by reference herein)
- 10.18†* iRobot Corporation 2017 Employee Stock Purchase Plan
- 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 December 30, 2017 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

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ITEM 16. FORM 10-K SUMMARY

Not applicable.

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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 16, 2018

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 16, 2018.

| 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/ MOHAMAD ALI Mohamad Ali | Director |
| /s/ MICHAEL BELL Michael Bell | Director |
| /s/ RONALD CHWANG Ronald Chwang | Director |
| /s/ DEBORAH G. ELLINGER Deborah G. Ellinger | Director |
| /s/ ELISHA FINNEY Elisha Finney | Director |

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/s/ ANDREW MILLER Director
Andrew Miller

/s/ MICHELLE V. STACY Director
Michelle V. Stacy

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EXHIBIT INDEX

| Exhibit Number | Description |
|-------------------|--|
| <u>2.1</u> | Asset Purchase Agreement, dated as of February 2, 2016, by and between the Registrant and iRobot Defense Holdings, Inc. (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on February 4, 2016 and incorporated by reference herein) |
| <u>2.2</u> | Share Purchase Agreement, dated as of July 25, 2017, by and among the Registrant, iRobot UK Ltd., Robopolis SAS, the shareholders of Robopolis SAS named therein, and the Shareholders' Representative named therein (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on July 26, 2017 and incorporated by reference herein) |
| <u>3.1(1)</u> | Form of Second Amended and Restated Certificate of Incorporation of the Registrant dated November 15, 2005 |
| <u>3.2</u> | Amended and Restated By-laws of the Registrant (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on March 9, 2016 and incorporated by reference herein) |
| <u>4.1(1)</u> | Specimen Stock Certificate for shares of the Registrant's Common Stock |
| <u>10.1†(1)</u> | Form of Indemnification Agreement between the Registrant and its Directors and Executive Officers |
| <u>10.2†</u> | 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) |
| <u>10.3†(1)</u> | Employment Agreement between the Registrant and Colin Angle, dated as of January 1, 1997 |
| <u>10.4†</u> | 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) |
| <u>10.5†</u> | 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) |
| <u>10.6*</u> | 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) |
| <u>10.7†</u> | 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) |
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*Filed herewith