



April 10, 2018

Dear Fellow Stockholder,

You are cordially invited to attend the Annual Meeting of stockholders of iRobot Corporation, a Delaware corporation (the “Company”), to be held on Wednesday, May 23, 2018, at 8:30 a.m., local time, at the Company’s headquarters located at 8 Crosby Drive, Bedford, Massachusetts 01730.

At this annual meeting, you will be asked to (1) elect two (2) Class I directors, each to serve for a three-year term; (2) ratify the appointment of the accounting firm of PricewaterhouseCoopers LLP as the Company’s independent registered public accountants for the current fiscal year; (3) approve amendments to our amended and restated certificate of incorporation to eliminate supermajority voting requirements; (4) approve amendments to our amended and restated certificate of incorporation to declassify the board of directors; (5) approve amendments to our amended and restated certificate of incorporation to eliminate the prohibition on stockholders’ ability to call a special meeting; (6) approve the iRobot Corporation 2018 Stock Option and Incentive Plan (the “2018 Stock Plan”); and (7) approve, on an advisory basis, the compensation of our named executive officers.

The board of directors unanimously recommends that you vote FOR election of the director nominees, FOR ratification of appointment of our independent registered public accountants, FOR approval of amendments to our amended and restated certificate of incorporation to eliminate supermajority voting requirements, FOR approval of amendments to our amended and restated certificate of incorporation to declassify the board of directors, FOR approval of amendments to our amended and restated certificate of incorporation to eliminate the prohibition on stockholders’ ability to call a special meeting, FOR approval of the 2018 Stock Plan, and FOR approval, on an advisory basis, of the compensation of our named executive officers. Details regarding the matters to be acted upon at this annual meeting appear in the accompanying proxy statement. Please give the accompanying materials your careful attention. Whether or not you plan to attend the annual meeting, we urge you to sign and return the enclosed proxy so that your shares will be represented at the annual meeting. If you attend the annual meeting, you may vote in person even if you have previously returned your proxy card. Your prompt cooperation will be greatly appreciated.

Because approval of Proposals 3, 4 and 5 requires the affirmative vote of at least 75% of the outstanding shares, your vote will be especially important at this year’s annual meeting.

Thank you for your continued support, interest and investment in iRobot.

Sincerely,

A handwritten signature in black ink, appearing to read "Colin M. Angle".

Colin M. Angle  
Chairman of the Board and Chief Executive Officer

## SUMMARY OF RECENT AND PROPOSED CHANGES TO CORPORATE GOVERNANCE AND EXECUTIVE COMPENSATION

In our continuing efforts to improve corporate governance and better align executive compensation with Company performance, the following highlights elements of our corporate governance and executive compensation programs and proposed changes that are described in more detail in the proxy statement.

	2015	2016	2017	2018 — Proposed
<b>Corporate Governance</b>	Recommended adoption of majority voting standards for a) removal of directors, b) amendments to our by-laws, and c) amendments to certain provisions of our certificate of incorporation	Recommended adoption of majority voting standards for a) removal of directors, b) amendments to our by-laws, and c) amendments to certain provisions of our certificate of incorporation* Recommended annual election of directors on phased-in basis upon approval* Codified Lead Independent Director role Adopted proxy access	Recommended adoption of majority voting standards for a) removal of directors, b) amendments to by-laws, and c) amendments to certain provisions of the certificate of incorporation** Recommended annual election of directors for immediate implementation upon approval** Recommended adoption of a provision to allow shareholders to call special meetings**	Recommending adoption of majority voting standards for a) removal of directors, b) amendments to our by-laws, and c) amendments to certain provisions of our certificate of incorporation*** Recommending annual election of directors for immediate implementation upon approval*** Recommending adoption of a provision to allow shareholders to call special meetings***
<b>Board Refreshment</b>	Added Mohamad Ali, technology/cloud expertise; Paul Kern, defense — retired; Paul Sagan, technology — retired	Added Michael Bell, technology/cloud expertise; Added Andrew Miller, finance/technology expertise; George McNamee, finance — retired	Added Elisha Finney, finance/technology; Gail Deegan, finance — retired; Andrea Geisser, finance — retired	
<b>Executive Compensation</b>	Adopted clawback policy		Modified executive LTI to (i) remove options and increase PSUs to 50%, and (ii) make all LTI's three-year cumulative targets (no annual targets, no "second chance" vesting provisions)	

\* 2016 — Hired a proxy solicitor to obtain the necessary number of votes to pass the proposal. Proposal received overwhelming support from voting stockholders (96%), though received the support of only 71% of the outstanding shares, which was short of the 75% of outstanding shares necessary for approval.



- \*\* 2017 — Engaged a proxy solicitor to obtain the necessary number of votes to pass the proposal. Despite overwhelming stockholder support from voting stockholders (99%), the proposal received 69% of the total outstanding shares, again short of the 75% approval threshold.
- \*\*\* 2018 — Again engaged a proxy solicitor to obtain the necessary votes and continue to demonstrate the board of directors’ support of the proposal and commitment to corporate governance best practices.

## Corporate Governance

As described in the summary table above, since 2015 our board of directors has recommended that stockholders approve various corporate governance initiatives, including the elimination of supermajority voting requirements, declassification of our board of directors and elimination of the prohibition on stockholders’ ability to call a special meeting. However, in each case, the minimum required stockholder approvals were not attained. The board of directors has determined to re-submit each of these proposals to the Company’s stockholders at the 2018 annual meeting, and has again hired a proxy solicitor to solicit approval for these proposals.

## Executive Compensation

In response to investor feedback in 2016, we modified the long-term incentive component of our executive compensation plan effective in fiscal year 2017. The revised plan moves to a mix of 50% performance share units (“PSUs”) and 50% time-based restricted stock units. The PSUs have metrics based on our cumulative financial performance measured at the end of a three-year performance period. We also added the ability to achieve an above target payout for PSUs starting in 2017 for achievement of the performance metrics above target levels.

## Board of Directors

Over the past four years we have added four independent directors with extensive experience in global branding, strategic software development, cloud infrastructure, data analytics and finance, all of which are critical to the Company’s strategy. We continually evaluate our board member skills for alignment with iRobot’s strategic goals. The following matrix summarizes our directors’ skills that are critical to our company’s success:

Skills Matrix										
Board Members	Public Co. Leadership	Public Co. Board Experience	Finance and Capital Management	Global Operating Experience	Consumer Products	Consumer Technology	Software/ SaaS	Internet of Things	Robotics	Diversity
Colin Angle	X	X	X	X	X	X	X	X	X	
Mohamad Ali	X	X	X	X	X	X	X	X		X
Michael Bell	X	X	X	X	X	X	X	X		
Ronald Chwang*	X	X	X	X	X	X		X	X	X
Deborah Ellinger	X	X	X	X	X	X				X
Elisha Finney	X	X	X	X		X	X			X
Andrew Miller	X	X	X	X	X	X	X	X		
Michelle Stacy	X	X	X	X	X	X				X

- \* Dr. Chwang is retiring from the board following the expiration of his term at the 2018 annual meeting.

The following summarizes key information about the board of directors:

<b><i>Board and Governance Information*</i></b>	
7	Size of Board
6	Number of Independent Directors
55	Average Age of Directors
11	Board Meetings Held in Fiscal 2017
2.9	Average Tenure of Independent Directors (in years)
67%	Independent Directors Added in the Last Three Years
✓	Annual Election of Directors**
✓	Proxy Access
✓	Majority Voting for Directors
✓	No Supermajority Voting Requirements***
✓	Lead Independent Director
✓	Independent Directors Meet Without Management Present
✓	Director Stock Ownership Guidelines
✓	Code of Business Conduct and Ethics for Directors, Officers and Employees
✓	Director Self-Evaluation Program

\* All of the board of directors' data excludes Dr. Chwang, who is retiring from the board as of the 2018 annual meeting, following expiration of his term.

\*\* The Company is seeking stockholder approval at the 2018 annual meeting to declassify its board of directors.

\*\*\* The Company is seeking stockholder approval at the 2018 annual meeting to eliminate supermajority voting requirements in its governing documents relating to removal of directors and amendments to the Company's certificate of incorporation and bylaws.

## **iROBOT CORPORATION**

### **NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held on May 23, 2018**

To the Stockholders of iRobot Corporation:

The annual meeting of stockholders of iRobot Corporation, a Delaware corporation (the “Company”), will be held on Wednesday, May 23, 2018, at 8:30 a.m., local time, at the Company’s headquarters located at 8 Crosby Drive, Bedford, Massachusetts 01730, for the following purposes:

1. To elect two (2) Class I directors, nominated by the board of directors, each to serve for a three-year term and until his or her successor has been duly elected and qualified or until his or her earlier resignation or removal;
2. To ratify the appointment of the accounting firm of PricewaterhouseCoopers LLP as the Company’s independent registered public accountants for the current fiscal year;
3. To approve amendments to our amended and restated certificate of incorporation to eliminate supermajority voting requirements;
4. To approve amendments to our amended and restated certificate of incorporation to declassify the board of directors;
5. To approve amendments to our amended and restated certificate of incorporation to eliminate the prohibition on stockholders’ ability to call a special meeting;
6. To approve the iRobot Corporation 2018 Stock Option and Incentive Plan;
7. To hold an advisory vote on the approval of the compensation of our named executive officers; and
8. To transact such other business as may properly come before the annual meeting and at any adjournments or postponements thereof.

Proposal 1 relates solely to the election of two (2) Class I directors nominated by the board of directors and does not include any other matters relating to the election of directors. Only stockholders of record at the close of business on April 4, 2018 are entitled to notice of and to vote at the annual meeting and at any adjournment or postponement thereof.

All stockholders are cordially invited to attend the annual meeting in person. In accordance with our security procedures, all persons attending the annual meeting will be required to present a form of government-issued picture identification. If you hold your shares in “street name”, you must also provide proof of ownership (such as a recent brokerage statement). If you are a holder of record and attend the annual meeting, you may vote by ballot in person even if you have previously returned your proxy card. If you hold your shares in “street name” and wish to vote in person, you must provide a “legal proxy” from your bank or broker. However, to assure your representation at the annual meeting, we urge you, whether or not you plan to attend the annual meeting, to sign and return the enclosed proxy so that your shares will be represented at the annual meeting. If you attend the annual meeting, you may vote in person even if you have previously returned your proxy card. Directions to iRobot Corporation headquarters can be found at the Company’s website, <http://www.irobot.com>.

Please note that, even if you plan to attend the annual meeting, we recommend that you vote using the enclosed proxy card TODAY, to ensure that your shares will be represented.

By Order of the Board of Directors,



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GLEN D. WEINSTEIN  
Executive Vice President,  
Chief Legal Officer and Secretary  
Bedford, Massachusetts  
April 10, 2018

**WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING, PLEASE VOTE BY TELEPHONE, OVER THE INTERNET OR BY SIGNING, DATING AND RETURNING THE ENCLOSED PROXY CARD IN THE POSTAGE-PAID ENVELOPE PROVIDED IN ORDER TO ASSURE REPRESENTATION OF YOUR SHARES.**

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**iROBOT CORPORATION**  
**PROXY STATEMENT**  
**For the Annual Meeting of Stockholders**  
**To Be Held on May 23, 2018**

**April 10, 2018**

This proxy statement and proxy card are furnished in connection with the solicitation of proxies by the board of directors of iRobot Corporation, a Delaware corporation (the “Company” or “iRobot”), for use at the annual meeting of stockholders to be held on Wednesday, May 23, 2018, at 8:30 a.m., local time, at the Company’s headquarters located at 8 Crosby Drive, Bedford, Massachusetts 01730, and any adjournments or postponements thereof. An annual report to stockholders, containing financial statements for the fiscal year ended December 30, 2017, is being mailed together with this proxy statement to all stockholders entitled to vote at the annual meeting. This proxy statement and the accompanying proxy card are expected to be first mailed to stockholders on or about April 16, 2018.

The purposes of the annual meeting are to elect two (2) Class I directors, each for a three-year term, to ratify the appointment of the Company’s independent registered public accountants, to approve amendments to our amended and restated certificate of incorporation to eliminate supermajority voting requirements, to approve amendments to our amended and restated certificate of incorporation to declassify the board of directors, and to approve amendments to our amended and restated certificate of incorporation to eliminate the prohibition on stockholders’ ability to call a special meeting (such amendments, together, the “Certificate Amendments”), to approve the iRobot Corporation 2018 Stock Option and Incentive Plan (the “2018 Stock Plan”), and to hold an advisory vote on the compensation of our named executive officers. Only stockholders of record at the close of business on April 4, 2018 will be entitled to receive notice of and to vote at the annual meeting. As of March 31, 2018, 28,103,120 shares of common stock, \$.01 par value per share, of the Company were issued and outstanding. The holders of common stock are entitled to one vote per share on any proposal presented at the annual meeting.

Stockholders may vote in person or by proxy. If you attend the annual meeting, you may vote in person even if you have previously returned your proxy card. Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is voted. Proxies may be revoked by (i) filing a written notice of revocation bearing a later date than the proxy with the Secretary of the Company, (ii) duly completing a later-dated proxy relating to the same shares, or (iii) attending the annual meeting and voting in person (although attendance at the annual meeting will not in and of itself constitute a revocation of a proxy). Any written notice of revocation or subsequent proxy should be sent so as to be delivered to iRobot Corporation, 8 Crosby Drive, Bedford, Massachusetts 01730, Attention: Secretary, before the taking of the vote at the annual meeting.

The representation in person or by proxy of at least a majority of the outstanding shares of common stock entitled to vote at the annual meeting is necessary to constitute a quorum for the transaction of business. Votes withheld from any nominee, abstentions and broker “non-votes” are counted as present or represented for purposes of determining the presence or absence of a quorum for the annual meeting. A broker “non-vote” occurs when a nominee holding shares for a beneficial owner votes on one proposal but does not vote on another proposal because, with respect to such other proposal, the nominee does not have discretionary voting power and has not received instructions from the beneficial owner. Broker “non-votes” are not considered voted for the particular matter. If you hold your shares in “street-name” through a broker or other nominee, if the nominee does not have discretionary voting power and absent voting instructions from you, your shares will not be counted as voting and will have no effect on Proposals 6 and 7, and will have the same effect as if you voted against Proposals 3, 4 and 5. On the other hand, Proposal 2 to ratify the appointment of our independent

registered public accountants is a “routine” matter for which your broker does not need your voting instruction in order to vote your shares.

For Proposal 1, our by-laws require that each director be elected by the affirmative vote of holders of a majority of the votes cast by holders of shares present, in person or represented by proxy, and entitled to vote on the matter. Abstentions and broker non-votes will not be counted as voting with respect to the election of the directors and, therefore, will not have an effect on the election of the Class I directors.

For Proposal 2, the ratification of the appointment of PricewaterhouseCoopers LLP as the Company’s independent registered public accountants for the current fiscal year, Proposal 6, approval of the 2018 Stock Plan, and Proposal 7, the advisory vote on the compensation of our named executive officers, an affirmative vote of holders of a majority of the votes cast by holders of shares present, in person or represented by proxy, and entitled to vote on each such matter is required for approval. Abstentions and broker non-votes are not considered votes cast for Proposals 2, 6, and 7 and, therefore, will not have any effect on the outcome of such Proposals.

For Proposals 3, 4 and 5, votes on the Certificate Amendments, an affirmative vote of not less than 75% of the outstanding shares entitled to vote as of the record date is required for approval of each such Proposal. Abstentions and broker non-votes will have the same effect as if you voted against Proposals 3, 4 and 5.

All properly executed proxies returned in time to be counted at the annual meeting will be voted by the named proxies at the annual meeting. Where a choice has been specified on the proxy with respect to the foregoing matters, the shares represented by the proxy will be voted in accordance with the specifications. If you return a validly executed proxy card without indicating how your shares should be voted on a matter, your proxies will be voted FOR election of the director nominees, FOR ratification of the appointment of our independent registered public accountants, FOR each of the Certificate Amendments, FOR approval of the 2018 Stock Plan and FOR the approval, on an advisory basis, of the compensation of our named executive officers.

Aside from the election of directors, the ratification of the appointment of the independent registered public accountants, the approval of the Certificate Amendments, the approval of the 2018 Stock Plan and the advisory vote on the compensation of our named executive officers, the board of directors knows of no other matters to be presented at the annual meeting. If any other matter should be presented at the annual meeting upon which a vote properly may be taken, shares represented by all proxy cards received by the board of directors will be voted with respect thereto at the discretion of the persons named as proxies.

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON MAY 23, 2018. THE PROXY STATEMENT AND ANNUAL REPORT TO STOCKHOLDERS ARE AVAILABLE AT [www.edocumentview.com/IRBT](http://www.edocumentview.com/IRBT).**

**PROPOSAL 1**  
**ELECTION OF DIRECTORS**

**Nominees**

Our board of directors currently consists of eight members. Our amended and restated certificate of incorporation currently divides the board of directors into three classes. One class is elected each year for a term of three years. The board of directors, upon the recommendation of the nominating and corporate governance committee, has nominated Colin M. Angle and Deborah G. Ellinger, and recommended that each be elected to the board of directors as a Class I director, each to hold office until the annual meeting of stockholders to be held in the year 2021 or until his or her successor has been duly elected and qualified or until his or her earlier death, resignation or removal. Mr. Angle, Dr. Chwang and Ms. Ellinger are currently Class I directors whose terms are set to expire at this annual meeting. Dr. Chwang is retiring from the board following the expiration of his term at the 2018 annual meeting. Each of Mr. Angle and Ms. Ellinger has consented to being named in this proxy statement and has agreed to serve if elected. The board of directors is also composed of (i) two Class II directors (Mohamad Ali and Michael Bell) whose terms are currently set to expire upon the election and qualification of directors at the annual meeting of stockholders to be held in 2019, and (ii) three Class III directors (Andrew Miller, Elisha Finney and Michelle V. Stacy) whose terms are currently set to expire upon the election and qualification of directors at the annual meeting of stockholders to be held in 2020. If Proposal 4 is approved by the stockholders, each of Mr. Angle and Ms. Ellinger, along with all other directors, will stand for election at the 2019 annual meeting.

The board of directors knows of no reason why any of the nominees named in this proxy statement would be unable or for good cause will not serve, but if any nominee should for any reason be unable to serve or for good cause will not serve, the board of directors reserves the right to nominate substitute nominees for election prior to the annual meeting, in which case the Company will file an amendment to this proxy statement disclosing the identity of such substitute nominees and related information and the proxies will be voted for such substitute nominees. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the nominees named below.

## Recommendation of the Board

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS  
THAT YOU VOTE “FOR” ELECTION OF THE NOMINEES LISTED BELOW.**

The following table sets forth our nominees to be elected at the annual meeting and continuing directors, the positions with us currently held by each nominee and director, the year each nominee’s or director’s current term is currently set to expire and each nominee’s and director’s current class:

Nominee’s or Director’s Name	Position(s) with the Company	Year Current Term Will Expire	Current Class of Director
<b>Nominees for Class I Directors:</b>			
Colin M. Angle	Chairman of the Board, Chief Executive Officer and Director	2018	I
Deborah G. Ellinger	Lead Independent Director	2018	I
<b>Continuing Directors:</b>			
Mohamad Ali	Director	2019	II
Michael Bell	Director	2019	II
Andrew Miller	Director	2020	III
Elisha Finney	Director	2020	III
Michelle V. Stacy	Director	2020	III

## DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth the director nominees to be elected at the annual meeting, the directors and the executive officers of the Company, their ages immediately prior to the annual meeting, and the positions currently held by each such person with the Company:

Name	Age	Position
Colin M. Angle(4)	50	Chairman of the Board, Chief Executive Officer and Director
Deborah G. Ellinger(3)	59	Lead Independent Director
Mohamad Ali(1)(4)	47	Director
Michael Bell(1)(2)	51	Director
Ronald Chwang, Ph.D.(3)(4)(5)	51	Director
Andrew Miller(2)(3)	57	Director
Elisha Finney(1)(2)	56	Director
Michelle V. Stacy(1)(4)	63	Director
Alison Dean	53	Executive Vice President, Chief Financial Officer, Treasurer and Principal Accounting Officer
Christian Cerda	48	Chief Operating Officer
Russell J. Campanello	62	Executive Vice President, Human Resources and Corporate Communications
Glen D. Weinstein	47	Executive Vice President, Chief Legal Officer

(1) Member of compensation and talent committee

(2) Member of audit committee

(3) Member of nominating and corporate governance committee

(4) Member of strategy and finance committee

(5) Dr. Chwang will be retiring from the board of directors and all committees thereof and is therefore not standing for re-election at this annual meeting

**Colin M. Angle**, a co-founder of iRobot, has served as chairman of the board since October 2008, as chief executive officer since June 1997, and prior to that, as our president since November 1992. He has served as a director since October 1992. As a co-founder and chief executive officer, Mr. Angle provides a critical contribution to the board of directors with his detailed knowledge of the Company, our employees, our client base, our prospects, the strategic marketplace and our competitors. Mr. Angle previously worked at the National Aeronautical and Space Administration's Jet Propulsion Laboratory where he participated in the design of the behavior controlled rovers that led to Sojourner exploring Mars in 1997. He holds a B.S. in Electrical Engineering and an M.S. in Computer Science, both from MIT.

**Deborah G. Ellinger** has served as a director since November 2011. She brings extensive experience in international retail and consumer products from her experience as a former president and chief executive officer of several consumer goods and retail companies. She was the president and CEO of Ideal Image, a chain of 130 medical spas providing non-surgical cosmetic procedures across the US and Canada, from 2016 until her retirement in March 2018; chairman and chief executive officer of The Princeton Review, a company which assists students globally in test preparation and tutoring, from 2012 to 2014; president of Restoration Hardware, a luxury home furnishings retailer, from 2008 to 2009; and chief executive officer of Wellness Pet Food, a natural pet-food company, from 2004 to 2008. Ms. Ellinger led each of those companies while they were owned by two private equity firms, and three of the four transitioned to new ownership, yielding three to seven times return on capital to investors. Previously, she served as an executive vice president at CVS Pharmacy, a senior vice president at Staples and a partner at The Boston Consulting Group, and began her career with Mellon Financial Corporation. Ms. Ellinger also serves on the board of The Commonwealth Institute, a nonprofit, and is a former

director of board of Interpublic Group, The Princeton Review, Sealy Corporation, National Life Group, and several private companies. Her assignments have taken her all over the world. She has lived and worked in Europe, Asia and America. Ms. Ellinger is qualified as a Barrister-at-Law in London, as a member of the Inner Temple. She holds an M.A. and B.A. in Law and Mathematics from the University of Cambridge, England.

**Mohamad Ali** has served as a director since August 2015 and brings extensive experience with capital allocation in technology companies, as well as strategic software development, including cloud infrastructure and data analytics. He has served as the president, chief executive officer and director of Carbonite, Inc. from 2014 to present. Mr. Ali has successfully led Carbonite's continued growth, serving the ever-evolving technology needs of small and mid-size businesses and consumers. Boston-based Carbonite provides cloud and hybrid backup and recovery solutions for home and business. Previously, Mr. Ali served as chief strategy officer at Hewlett-Packard, a manufacturer of computers and enterprise products, from 2012 to 2014 and president of Avaya Global Services, an enterprise communications company. He also served in senior leadership roles at IBM Corporation, a multinational technology and consulting company, where he acquired numerous companies to build IBM's analytics and big data business. In addition to serving on the board of directors of Carbonite, Mr. Ali is also a director of Oxfam America and Massachusetts Technology Leadership Council and previously served on the Board of Directors of City National Corporation and City National Bank. He was named to Boston Business Journal's 2008 "40 Under 40" list, and recognized by Massachusetts High Tech magazine as a 2011 All-Star. Mr. Ali holds a B.S. and an M.S. in Electrical Engineering, both from Stanford University.

**Michael Bell** has served as a director since March 2016 and brings significant expertise in the Internet of Things from his work at Silver Spring Networks, Inc., Intel Corporation, Apple, Inc., and Palm, Inc. He was the chief executive officer and president of Silver Spring Networks, a leading networking platform and solutions provider for smart energy networks, from September 2015 until his retirement in January 2018. Previously, from 2010 to 2015 he held various roles at Intel Corporation, a multinational technology corporation specializing in the production of semiconductor chips, including Corporate Vice President New Devices Group, Corporate VP Mobile and Communications Group and Corporate Vice President Ultra Mobility Group. He was head of Product Development at Palm, Inc. from 2007 to 2010. He worked at Apple, Inc. from 1991 to 2007 and played significant roles in development of Apple iPhone and Apple TV products, serving as Vice President, CPU Software from 2002 to 2007. He holds a B.S. in Mechanical Engineering from the University of Pennsylvania.

**Ronald Chwang, Ph.D.** has served as a director since November 1998 and brings extensive experience in technology, manufacturing, supply chain, business development and Asian operations. Since January 2005, he has been the chairman and president of iD Ventures America, LLC (formerly known as Acer Technology Ventures, LLC) part of the iD SoftCapital Group, a venture investment and management consulting service group. He was the chief executive officer of Acer America from 1992 until 1997, growing it to over \$1 Billion in revenues, and then became chairman and president of Acer Technology Ventures until 2004, managing high-tech venture investment activities in North America. Previously, he was president of two Acer business groups in Taiwan, from 1986 to 1991. Dr. Chwang holds a B.Eng. (with honors) in Electrical Engineering from McGill University and a Ph.D. in Electrical Engineering from the University of Southern California. Dr. Chwang will retire from the board following the expiration of his term at the 2018 annual meeting after nearly twenty years of service on our board.

**Andrew Miller** has served as a director since September 2016 and brings critical financial leadership as well as software, cloud infrastructure and Internet of Things (IoT) experience to iRobot as the company continues to grow its consumer business globally and focus on the connected home. Mr. Miller has served as executive vice president and chief financial officer of PTC, a provider of software technology platforms and solutions, since early 2015. At PTC, he is responsible for global finance, tax and treasury, investor relations, information technology, pricing, corporate real estate, and customer administration. From 2008 to 2015, Mr. Miller served as chief financial officer of Cepheid, a high-growth molecular diagnostics company. While at Cepheid, he built



world-class finance and information technology teams and a nationally recognized investor relations program. Mr. Miller has also served in financial leadership roles at Autodesk, MarketFirst Software, Cadence Design Systems, and Silicon Graphics. He is a former director of United Online. Mr. Miller holds a B.S. in Commerce with an emphasis in Accounting from Santa Clara University and was a CPA.

**Elisha Finney** has served as a director since January 2017. Ms. Finney brings more than 25 years of financial and technology-related expertise to iRobot as the company focuses on expanding internationally, scaling its connected product line and maximizing value for its shareholders. Until her retirement in May 2017, Ms. Finney served as executive vice president and CFO of Varian Medical Systems, a leading developer of radiation oncology treatments and software, where she served in various management roles since 1999. Her management responsibilities at Varian Medical Systems included corporate accounting; corporate communications and investor relations; internal financial and compliance audit; risk management; tax and treasury, and information technology. She also serves on the board of directors at Cutera, ICU Medical, Mettler-Toledo, and NanoString. She previously served as a board member at Altera Corporation, Thoratec and Laserscope. She holds a B.A. in Risk Management and Insurance from the University of Georgia and an M.B.A. in Finance from Golden Gate University where she received the 1992 “Outstanding Graduate of the Masters Programs in Finance” Award. Ms. Finney was the 2015 UGA Terry College of Business Distinguished Alumni of the Year and the recipient of Silicon Valley Business Journal’s 2013 “Women of Influence” Award.

**Michelle V. Stacy** has served as a director since August 2014. As the former president of Keurig, Inc. and former vice president and general manager with Gillette/Procter & Gamble Co., Ms. Stacy brings to the board of directors a wealth of experience leading consumer businesses and building global brands. During her five-year tenure at Keurig Inc., a division of Keurig Green Mountain, Inc., from 2008 to 2013, the company’s revenue grew from \$493 million in 2008 to \$4.3 billion for 2013. Ms. Stacy is a director of Coravin, Inc., Flex Pharma, Inc., a former director of Young Innovations Inc., Tervis Inc, and the French Cultural Center, a nonprofit. She is a professional speaker on leadership, innovation and growth. She holds a B.S. from Dartmouth College and an M.S. in Management from J.L. Kellogg Graduate School of Management — Northwestern University, and is bilingual in French and English.

## Executive Officers

**Alison Dean** has served as our executive vice president, chief financial officer, treasurer and principal accounting officer since April 2013. Ms. Dean previously served as our senior vice president, corporate finance from February 2010 until March 2013. From March 2007 until February 2010, Ms. Dean served as our vice president, financial controls & analysis. From August 2005 until March 2007, Ms. Dean served as our vice president, financial planning & analysis. From 1995 to August 2005, Ms. Dean served in a number of positions at 3Com Corporation, including vice president and corporate controller from 2004 to 2005 and vice president of finance — worldwide sales from 2003 to 2004. Ms. Dean holds a B.A. in Business Economics from Brown University and an M.B.A. from Boston University.

**Christian Cerda** has served as our chief operating officer since May 2016. Mr. Cerda previously served as executive vice president of our Home Robot Business Unit from February 2015 until May 2016, and its senior vice president and general manager since May 2013. He has direct responsibility over global sales, marketing and product management and leads Global Commercial and Supply Chain Operations, overseeing manufacturing and supply chain. Prior to iRobot, he was general manager and vice president of Sales and Marketing from April 2010 to March 2013 at Whirlpool Corporation, a multinational manufacturer of home appliances, where he was responsible for sales, marketing, brand communications, product development and operations. Previously, he served in senior positions at The Boston Consulting Group and Procter & Gamble Co. Mr. Cerda holds a B.S. in Computer Engineering from Universidad Simon Bolivar and an M.S. in Business Administration with distinction from the Northwestern University Kellogg Graduate School of Management.

**Russell J. Campanello** has served as our executive vice president, human resources and corporate communications since February 2014. Mr. Campanello previously served as our senior vice president, human resources and corporate communications from July 2013 until February 2014. From November 2010 until July 2013, Mr. Campanello served as our senior vice president, human resources. Prior to joining iRobot, Mr. Campanello served as senior vice president, human resources and administration at Phase Forward, Inc. from April 2008 until September 2010. Mr. Campanello previously served as senior vice president of human resources and marketing at Keane, Inc., a business process and information technology consulting firm, from September 2003 to October 2007. Prior to Keane, Mr. Campanello served as chief people officer at NerveWire, Inc. from August 2000 to February 2003. Prior to NerveWire, he served as senior vice president, human resources at Genzyme Corp. from November 1997 to July 2000. Earlier in his career, Mr. Campanello spent nine years as vice president of human resources at Lotus Development Corporation. He holds a B.S. in Business Administration from the University of Massachusetts.

**Glen D. Weinstein** has served as our executive vice president and chief legal officer since August 2012. Mr. Weinstein previously served as our general counsel from July 2000 to August 2012 and as senior vice president from January 2005 to August 2012. Since March 2004, he has also served as our secretary. Prior to joining iRobot, Mr. Weinstein was with Covington & Burling LLP, a law firm in Washington, D.C. Mr. Weinstein holds a B.S. in Mechanical Engineering from MIT and a J.D. from the University of Virginia School of Law.

Our executive officers are elected by the board of directors on an annual basis and serve until their successors have been duly elected and qualified or until their earlier death, resignation or removal.



## CORPORATE GOVERNANCE AND BOARD MATTERS

### Board Leadership Structure

Mr. Angle serves as our chief executive officer and chairman of the board. The board of directors believes that having our chief executive officer as chairman of the board facilitates the board of directors' decision-making process because Mr. Angle has first-hand knowledge of our operations and the major issues facing us. This also enables Mr. Angle to act as the key link between the board of directors and other members of management. To assure effective independent oversight, our by-laws provide that the independent members of our board of directors will designate a lead independent director if the chairman of the board is not an independent director, as discussed further in "Executive Sessions of Independent Directors" below.

### Independence of Members of the Board of Directors

The board of directors has determined that Dr. Chwang, Mses. Ellinger, Finney and Stacy, and Messrs. Ali, Bell, and Miller are independent within the meaning of the director independence standards of The Nasdaq Stock Market ("NASDAQ") and the SEC. Furthermore, the board of directors has determined that each member of each of the committees of the board of directors is independent within the meaning of the director independence standards of NASDAQ and the SEC, save Mr. Angle who serves on the strategy and finance committee and is our chief executive officer.

### Executive Sessions of Independent Directors

Executive sessions of the independent directors are held during each regularly scheduled in-person meeting of the board of directors. Executive sessions do not include any of our non-independent directors and are chaired by a lead independent director who is appointed annually by the board of directors from our independent directors. Ms. Ellinger currently serves as the lead independent director. In this role, Ms. Ellinger serves as chairperson of the independent director sessions. The independent directors of the board of directors met in executive session four (4) times in 2017.

### Role of Lead Independent Director

The lead independent director works to ensure that "all voices are heard" within the boardroom and proactively spends considerable time with the chief executive officer, and other executive officers, to understand the Company's vision and strategy and works to focus the board of directors on areas aligned with the Company's vision and strategy. In addition to acting as the chairperson of the independent director sessions, the lead independent director assists the board in assuring effective corporate governance. The lead independent director's specific duties include:

- providing the chairman of the board with input as to preparation of agendas for meetings;
- advising the chairman of the board as to the quality, quantity and timeliness of the flow of information from the Company's management that is necessary for the independent directors to effectively and responsibly perform their duties;
- coordinating and developing the agenda for the executive sessions of the independent directors;
- acting as principal liaison between the independent directors and the chairman of the board on critical issues;
- acting as a spokesperson for the independent directors able to talk with major investors and stockholders on topics of overall governance;
- evaluating, along with the members of the compensation and talent committee, the chief executive officer's performance and meeting with the chief executive officer to discuss such evaluation; and
- acting as chairperson of the board in the absence of the chairman of the board or a vacancy in the position of chairman of the board.

## **The Board of Directors' Role in Risk Oversight**

The board of directors oversees our risk management process. This oversight is primarily accomplished through the board of directors' committees and management's reporting processes, including receiving regular reports from members of senior management on areas of material risk to the Company, including operational, financial, legal and regulatory, and strategic and reputational risks. The audit committee focuses on risk related to accounting, internal controls, and financial and tax reporting. The audit committee also assesses economic and business risks and monitors compliance with ethical standards. The compensation and talent committee identifies and oversees risks associated with our executive compensation policies and practices, and the nominating and corporate governance committee identifies and oversees risks associated with director independence, related party transactions and the implementation of corporate governance policies. The strategy and finance committee oversees currency risk management policies and risks related to other treasury and tax policies.

## **Policies Governing Director Nominations**

### ***Director Qualifications***

The nominating and corporate governance committee of the board of directors is responsible for reviewing with the board of directors from time to time the appropriate qualities, skills and characteristics desired of members of the board of directors in the context of the needs of the business and current make-up of the board of directors. This assessment includes consideration of the following minimum qualifications that the nominating and corporate governance committee believes must be met by all directors:

- nominees must have experience at a strategic or policy making level in a business, government, non-profit or academic organization of high standing;
- nominees must be highly accomplished in their respective fields, with superior credentials and recognition;
- nominees must be well regarded in the community and shall have a long-term reputation for the highest ethical and moral standards;
- nominees must have sufficient time and availability to devote to the affairs of the Company, particularly in light of the number of boards on which the nominee may serve;
- nominees must be free of conflicts of interest and potential conflicts of interest, in particular with relationships with other boards; and
- nominees must, to the extent such nominee serves or has previously served on other boards, demonstrate a history of actively contributing at board meetings.

We do not have a formal board diversity policy. However, pursuant to the Policy Governing Director Qualifications and Nominations, as part of its evaluation of potential director candidates and in addition to other standards the nominating and corporate governance committee may deem appropriate from time to time for the overall structure and composition of the board of directors, the nominating and corporate governance committee may consider whether each candidate, if elected, assists in achieving a mix of board members that represent a diversity of background and experience. Accordingly, the board of directors seeks members from diverse professional backgrounds who combine a broad spectrum of relevant industry and strategic experience and expertise that, in concert, offer us and our stockholders diversity of opinion and insight in the areas most important to us and our corporate mission. In addition, nominees for director are selected to have complementary, rather than overlapping, skill sets. All candidates for director nominee must have time available to devote to the activities of the board of directors. The nominating and corporate governance committee also considers the independence of candidates for director nominee, including the appearance of any conflict in serving as a director. Candidates for director nominee who do not meet all of these criteria may still be considered for nomination to the board of directors, if the nominating and corporate governance committee believes that the candidate will make an exceptional contribution to us and our stockholders.

### ***Process for Identifying and Evaluating Director Nominees***

The board of directors delegates the initial selection and nomination process to the nominating and corporate governance committee, with the expectation that other members of the board of directors, and of management, will be requested to take part in the process as appropriate.

Generally, the nominating and corporate governance committee identifies candidates for director nominee in consultation with management, through the use of search firms or other advisors, through the recommendations submitted by stockholders or through such other methods as the nominating and corporate governance committee deems to be helpful to identify candidates. Once candidates have been identified, the nominating and corporate governance committee confirms that the candidates meet all of the minimum qualifications for director nominees established by the nominating and corporate governance committee. The nominating and corporate governance committee may gather information about the candidates through interviews, detailed questionnaires, comprehensive background checks or any other means that the nominating and corporate governance committee deems to be helpful in the evaluation process. The nominating and corporate governance committee then meets as a group to discuss and evaluate the qualities and skills of each candidate, both on an individual basis and taking into account the overall composition and needs of the board of directors. Based on the results of the evaluation process, the nominating and corporate governance committee recommends candidates for the board of directors' approval as director nominees for election to the board of directors. The nominating and corporate governance committee also recommends candidates to the board of directors for appointment to the committees of the board of directors. Once appropriate candidates have been identified, the entire board of directors votes on the candidates, as the selection of board nominees is a responsibility of the entire board of directors.

### ***Procedures for Recommendation of Director Nominees by Stockholders***

The nominating and corporate governance committee will consider director nominee candidates who are recommended by our stockholders. Stockholders, in submitting recommendations to the nominating and corporate governance committee for director nominee candidates, shall follow the following procedures:

The nominating and corporate governance committee must receive any such recommendation for nomination not earlier than the close of business on the 120th day prior to the first anniversary of the date of the proxy statement delivered to stockholders in connection with the preceding year's annual meeting.

All recommendations for nomination must be in writing and include the following:

- Name and address of the stockholder making the recommendation;
- A representation that the stockholder is a record holder of the Company's securities, or if the stockholder is not a record holder, evidence of ownership;
- Name, age, business and residential address, educational background, current principal occupation or employment, and principal occupation or employment for the preceding five full fiscal years of the individual recommended for consideration as a director nominee;
- A description of the qualifications and background of the proposed director nominee which addresses the minimum qualifications, actual or potential conflicts of interest, and other criteria for board membership approved by the board of directors from time to time and set forth in the Company's Policy Governing Director Qualifications and Nominations;
- A description of all arrangements or understandings between the stockholder and the proposed director nominee;
- The consent of the proposed director nominee (i) to be named in the proxy statement for the annual meeting and (ii) to serve as a director if elected at such annual meeting; and

- Any other information regarding the proposed director nominee that is required to be included in the proxy statement.

Nominations must be sent to the attention of our secretary by U.S. mail (including courier or expedited delivery service) to:

iRobot Corporation  
8 Crosby Drive  
Bedford, Massachusetts 01730  
Attn: Secretary of iRobot Corporation

Our Secretary will promptly forward any such nominations to the nominating and corporate governance committee.

In addition, our by-laws permit eligible stockholders, or groups of stockholders, owning continuously for at least three years shares of the Company's stock representing an aggregate of at least 3% of the Company's outstanding shares, to nominate and include in the Company's proxy materials director nominees constituting up to two or 25%, whichever is greater, of the board of directors, provided that the stockholders and nominees satisfy the requirements in our by-laws. Written notice of stockholder nominees to the board of directors must be received not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the proceeding year's annual meeting. For details on the Company's proxy access procedures, please refer to our by-laws.

### **Policy Governing Security Holder Communications with the Board of Directors**

The board of directors provides to every security holder the ability to communicate with the board of directors as a whole and with individual directors on the board of directors through an established process for security holder communications as follows:

For communications directed to the board of directors as a whole, security holders may send such communications to the attention of the chairman of the board of directors by U.S. mail (including courier or expedited delivery service) to:

iRobot Corporation  
8 Crosby Drive  
Bedford, Massachusetts 01730  
Attn: Chairman of the Board, c/o Secretary

For security holder communications directed to an individual director in his or her capacity as a member of the board of directors, security holders may send such communications to the attention of the individual director by U.S. mail (including courier or expedited delivery service) to:

iRobot Corporation  
8 Crosby Drive  
Bedford, Massachusetts 01730  
Attn: [Name of the director], c/o Secretary

We will forward any such security holder communication to the chairman of the board, as a representative of the board of directors, or to the director to whom the communication is addressed. We will forward such communications by certified U.S. mail to an address specified by each director and the chairman of the board for such purposes or by secure electronic transmission.



### **Policy Governing Director Attendance at Annual Meetings of Stockholders**

Our policy is to schedule a regular meeting of the board of directors on the same date as our annual meeting of stockholders and, accordingly, directors are encouraged to be present at our stockholder meetings. The ten board members who were directors at the time of the annual meeting of stockholders held in 2017, attended the meeting.

### **Board of Directors Evaluation Program**

The board of directors performs annual self-evaluations of its composition and performance, including evaluations of its standing committees and individual evaluations for each director. In addition, each of the standing committees of the board of directors conducts its own self-evaluation, which is reported to the board of directors. The board of directors retains the authority to engage its own advisors and consultants.

For more corporate governance information, you are invited to access the Corporate Governance section of our website available at <http://www.irobot.com>.

### **Code of Business Conduct and Ethics**

We have adopted a “code of ethics,” as defined by regulations promulgated under the Securities Act of 1933, as amended, and the Exchange Act, that applies to all of our directors and employees worldwide, including our principal executive officer, principal financial officer, principal accounting officer and controller, or persons performing similar functions. A current copy of the Code of Business Conduct and Ethics is available at the Corporate Governance section of our website at <http://www.irobot.com>. A copy of the Code of Business Conduct and Ethics may also be obtained, free of charge, from us upon a request directed to: iRobot Corporation, 8 Crosby Drive, Bedford, Massachusetts 01730, Attention: Investor Relations. We intend to disclose any amendment to or waiver of a provision of the Code of Business Conduct and Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, by posting such information on its website available at <http://www.irobot.com> and/or in our public filings with the SEC.

### **Human Rights Policy**

We have adopted a Human Rights Policy. Respect for human rights is an essential value for our company and for the communities in which we operate. We are committed to ensuring that our employees and individuals in the communities affected by our activities are treated with dignity and respect. We believe that following these principles helps our employees and our business thrive as we develop new and exciting technologies for the smart home.

For more corporate governance information, you are invited to access the Corporate Governance section of our website available at <http://www.irobot.com>.

## THE BOARD OF DIRECTORS AND ITS COMMITTEES

### Board of Directors

The board of directors met eleven (11) times during the fiscal year ended December 30, 2017, and took action by unanimous written consent two (2) times. Each of the directors attended at least 75% of the aggregate of the total number of meetings of the board of directors and the total number of meetings of all committees of the board of directors on which they served during fiscal 2017. The board of directors has the following standing committees: audit committee; compensation and talent committee; nominating and corporate governance committee; and strategy and finance committee, each of which operates pursuant to a separate charter that has been approved by the board of directors. A current copy of each charter is available at the Corporate Governance section of our website at <http://www.irobot.com>. Each committee reviews the appropriateness of its charter at least annually. Each committee retains the authority to engage its own advisors and consultants. The composition and responsibilities of each committee are summarized below.

### Audit Committee

The audit committee of the board of directors currently consists of Messrs. Miller and Bell and Ms. Finney, each of whom is an independent director within the meaning of the director independence standards of NASDAQ and the SEC, including Rule 10A-3(b)(1) under the Exchange Act, as amended, or the Exchange Act. In addition, the board of directors has determined that each of Messrs. Miller and Bell and Ms. Finney, are financially literate and that Messrs. Miller and Bell and Ms. Finney each qualifies as an “audit committee financial expert” under the rules of the SEC. Mr. Miller serves as the chairman of the audit committee.

The audit committee met eight (8) times during the fiscal year ended December 30, 2017. The audit committee operates under a written charter adopted by the board of directors, a current copy of which is available at the Corporate Governance section of our website at <http://www.irobot.com>.

As described more fully in its charter, the audit committee oversees the integrity of our financial statements, our accounting and financial reporting processes, our internal controls over financial reporting, our internal and external audit functions and the safeguarding of our assets. In fulfilling its role, the audit committee responsibilities include:

- appointing, approving the compensation of, and assessing the independence of our independent registered public accounting firm;
- pre-approving auditing and permissible non-audit services (including certain tax compliance, planning and advice services), and the terms of such services, to be provided by our independent registered public accounting firm;
- reviewing and discussing with management and the independent registered public accounting firm our annual and quarterly financial statements and related disclosures;
- coordinating the oversight and reviewing the adequacy of our internal control over financial reporting;
- overseeing the performance of our internal auditors and internal audit functions, including reviewing the annual internal audit risk assessment as well as the scope of, and overall plans for, the annual internal audit program;
- establishing policies and procedures for the receipt and retention of accounting related complaints and concerns;
- reviewing and discussing with management risk assessments and risk management, including cyber security;
- overseeing the development of business continuity plans;

- overseeing our compliance with certain legal and regulatory requirements including, but not limited to, the Foreign Corrupt Practices Act;
- preparing the audit committee report required by SEC rules to be included in our annual proxy statement;
- reviewing certain relationships and related transactions; and
- such other matters as the committee deems appropriate.

For additional information concerning the audit committee, see the “Report of the Audit Committee of the Board of Directors.”

### Compensation and Talent Committee

The compensation and talent committee of the board of directors currently consists of Messrs. Bell and Ali, and Mses. Finney and Stacy, each of whom is an independent director within the meaning of the director independence standards of NASDAQ, a non-employee director as defined in Rule 16b-3 of the Exchange Act, and an outside director pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”). Mr. Bell serves as the chairman of the compensation and talent committee. The compensation and talent committee’s responsibilities include:

- annually reviewing and approving corporate goals and objectives relevant to compensation of our chief executive officer and other executive officers;
- evaluating the performance of our chief executive officer in light of such corporate goals and objectives and determining the compensation of our chief executive officer and other executive officers;
- overseeing and administering our compensation, welfare, benefit and pension plans and similar plans;
- reviewing and making recommendations to the board of directors with respect to director compensation;
- reviewing and making recommendations to the board of directors with respect to succession planning for senior management;
- retaining and approving the compensation of any compensation advisers; and
- evaluating the independence of any such compensation advisers.

The compensation and talent committee met five (5) times and took action by unanimous written consent four (4) times during the fiscal year ended December 30, 2017. The compensation and talent committee operates under a written charter adopted by the board of directors, a current copy of which is available at the Corporate Governance section of our website at <http://www.irobot.com>.

### Nominating and Corporate Governance Committee

The nominating and corporate governance committee of the board of directors currently consists of Ms. Ellinger, Mr. Miller, and Dr. Chwang, each of whom is an independent director within the meaning of the director independence standards of NASDAQ and applicable rules of the SEC. Ms. Ellinger serves as the chairman of the nominating and corporate governance committee. The nominating and corporate governance committee’s responsibilities include:

- developing and recommending to the board criteria for board and committee membership;
- establishing procedures for identifying and evaluating director candidates including nominees recommended by stockholders;
- identifying individuals qualified to become board members;
- recommending to the board the persons to be nominated for election as directors and to each of the board’s committees;

- developing and recommending to the board a code of business conduct and ethics and a set of corporate governance guidelines; and
- overseeing the evaluation of the board and management.

The nominating and corporate governance committee met six (6) times during the fiscal year ended December 30, 2017. The nominating and corporate governance committee operates under a written charter adopted by the board of directors, a current copy of which is available at the Corporate Governance section of our website at <http://www.irobot.com>.

### **Strategy and Finance Committee**

Messrs. Ali and Angle, Dr. Chwang and Ms. Stacy currently serve as members of our strategy and finance committee. Mr. Ali serves as the chairman of the strategy and finance committee. The responsibilities of the strategy and finance committee include:

- reviewing periodically with management the Company's strategic objectives and their translation into stockholder value creation;
- reviewing with management on a regular basis contemplated transactional opportunities that support the Company's strategic business objectives;
- reviewing with and, when appropriate, making recommendations to the board of directors regarding the Company's capital allocation objectives, strategies and plans;
- reviewing the Company's capital allocation process annually and significant capital programs periodically;
- reviewing and making recommendations to the board of directors regarding the Company's authorization to repurchase its common stock; approving any actions taken under each such plan, and monitoring actual repurchases under the repurchase authorization;
- reviewing and discussing with management the Company's annual and long-term business and financial plans, including the financial impacts of these plans; and as part of its review of the Company's annual and long-term business and financial plans, reporting to the board of directors concerning its review of such plans and the financial and business assumptions underlying the Company's financial projections and budgets; and
- reviewing the Company's annual operating plan, and reviewing with management the significant projects, research and development programs or other investments.

The strategy and finance committee met four (4) times during the fiscal year ended December 30, 2017. The strategy and finance committee operates under a written charter adopted by the board of directors, a current copy of which is available at the Corporate Governance section of our website at <http://www.irobot.com>.

### **Compensation and Talent Committee Interlocks and Insider Participation**

During 2017, Mses. Finney and Stacy, and Messrs. Ali and Bell served as members of the compensation and talent committee. No member of the compensation and talent committee was an employee or former employee of us or any of our subsidiaries, or had any relationship with us requiring disclosure herein.

During the last year, no executive officer of the Company served as: (i) a member of the compensation and talent committee (or other committee of the board of directors performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served on our compensation and talent committee; (ii) a director of another entity, one of whose executive officers served on our compensation and talent committee; or (iii) a member of the compensation and talent committee (or other committee of the board of directors performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served as a director of the Company.





## REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

*No portion of this audit committee report shall be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended (the "Securities Act"), or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), through any general statement incorporating by reference in its entirety the proxy statement in which this report appears, except to the extent that the Company specifically incorporates this report or a portion of it by reference. In addition, this report shall not be deemed filed under either the Securities Act or the Exchange Act.*

This report is submitted by the audit committee of the board of directors. The audit committee currently consists of Andrew Miller, Michael Bell and Elisha Finney. None of the members of the audit committee is an officer or employee of the Company, and the board of directors has determined that each member of the audit committee meets the independence requirements promulgated by NASDAQ and the SEC, including Rule 10A-3(b)(1) under the Exchange Act. Each of Messrs. Miller and Bell and Ms. Finney is an "audit committee financial expert" as is currently defined under SEC rules. The audit committee operates under a written charter adopted by the board of directors.

The audit committee oversees the Company's accounting and financial reporting processes on behalf of the board of directors. The meetings of the audit committee are designed to facilitate and encourage communication among the audit committee, Company management, the independent registered public accounting firm and the Company's internal audit function. The Company's management has the primary responsibility for the financial statements, for maintaining effective internal control over financial reporting, and for assessing the effectiveness of internal control over financial reporting. In fulfilling its oversight responsibilities, the audit committee has reviewed and discussed with management the Company's consolidated financial statements for the fiscal quarters and full year ended December 30, 2017, including a discussion of, among other things, the quarterly and annual earnings press releases, the quality of the Company's accounting principles, the reasonableness of significant estimates and judgments, and the clarity of disclosures in the Company's financial statements.

The audit committee ensures that the Company establishes and appropriately resources a professional internal auditing function and that there are no unjustified restrictions or limitations imposed on that function. In addition to reviewing and approving the annual internal audit plan and overseeing other internal audit activities, the audit committee regularly reviews and discusses the results of internal audit reports.

The audit committee also reviewed with PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, the results of their audit and discussed matters required to be discussed by the Auditing Standard No. 1301, Communications with Audit Committees, as adopted by the Public Company Accounting Oversight Board, other standards of the Public Company Accounting Oversight Board, rules of the SEC and other applicable regulations. The audit committee has reviewed permitted services under rules of the SEC as currently in effect and discussed with PricewaterhouseCoopers LLP their independence from management and the Company, including the matters in the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the audit committee concerning independence, and has considered and discussed the compatibility of non-audit services provided by PricewaterhouseCoopers LLP with that firm's independence. For each engagement, Company management provided the audit committee with information about the services and fees, sufficiently detailed to allow the audit committee to make an informed judgment about the nature and scope of the services and the potential for the services to impair the independence of the independent registered public accounting firm. After the end of each fiscal year, Company management provides the audit committee with a summary of actual fees incurred with the independent registered public accounting firm.

The audit committee meets with the independent registered public accounting firm, with and without management present, to discuss the results of their examinations; their evaluations of the Company's internal

control, including internal control over financial reporting; and the overall quality of the Company's financial reporting. Additionally, the audit committee meets in separate executive sessions with the Company's chief financial officer and the head of internal audit.

In accordance with SEC rules and PricewaterhouseCoopers LLP policies, lead and concurring audit partners are subject to rotation requirements that limit the number of consecutive years an individual partner may provide services to our Company to a maximum of five years. The selection of the lead audit partner pursuant to this rotation policy involves a meeting between the candidate for the role and the chair of the audit committee, as well as with the full audit committee and members of management.

The audit committee has also evaluated the performance of PricewaterhouseCoopers LLP, including, among other things, the length of time the firm has been engaged; its familiarity with our operations and businesses, accounting policies and practices, and our internal controls over financial reporting; and the appropriateness of fees paid to PricewaterhouseCoopers LLP for audit and non-audit services in 2017, on an absolute basis and as compared to the scope of prior year audits. Information about PricewaterhouseCoopers LLP's fees for 2017 is discussed below in this proxy statement under "*Proposal 2 - Ratification of Appointment of Independent Registered Public Accountants.*" Based on its evaluation, the audit committee has retained PricewaterhouseCoopers LLP to serve as the Company's independent registered public accounting firm for the 2018 fiscal year.

Based on its review of the financial statements and the aforementioned discussions, the audit committee concluded that it would be reasonable to recommend, and on that basis, did recommend, to the board of directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 30, 2017, which was filed with the SEC on February 16, 2018.

Respectfully submitted by the Audit Committee,

Andrew Miller (chairman)  
Michael Bell  
Elisha Finney

## REPORT OF THE COMPENSATION AND TALENT COMMITTEE OF THE BOARD OF DIRECTORS

*No portion of this compensation and talent committee report shall be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended (the “Securities Act”), or the Securities Exchange Act of 1934, as amended (the “Exchange Act”), through any general statement incorporating by reference in its entirety the proxy statement in which this report appears, except to the extent that the Company specifically incorporates this report or a portion of it by reference. In addition, this report shall not be deemed filed under either the Securities Act or the Exchange Act.*

The compensation and talent committee of the board of directors, which is comprised solely of independent directors within the meaning of applicable rules of The NASDAQ Stock Market, Inc., outside directors within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended, and non-employee directors within the meaning of Rule 16b-3 under the Exchange Act, is responsible for developing executive compensation policies and advising the board of directors with respect to such policies and administering the Company’s cash incentive and equity incentive plans. The compensation and talent committee sets performance goals and objectives for the chief executive officer and the other executive officers, evaluates their performance with respect to those goals and sets their compensation based upon the evaluation of their performance. In evaluating executive officer pay, the compensation and talent committee retains the services of a compensation consultant and considers recommendations from the chief executive officer with respect to goals and compensation of the other executive officers. The compensation and talent committee assesses the information it receives in accordance with its business judgment. The compensation and talent committee also periodically reviews director compensation. All decisions with respect to executive and director compensation are approved by the compensation and talent committee. All decisions regarding chief executive officer and director compensation are reviewed and ratified by the full board. Messrs. Bell and Ali, and Mses. Finney and Stacy, and are the current members of the compensation and talent committee.

The compensation and talent committee has reviewed and discussed the Compensation Discussion and Analysis (the “CD&A”) for the year ended December 30, 2017 with management. In reliance on the reviews and discussions referred to above, the compensation and talent committee recommended to the board of directors, and the board of directors has approved, that the CD&A be included in this proxy statement and incorporated by reference in our Annual Report on Form 10-K for the year ended December 30, 2017, which was filed with the SEC on February 16, 2018.

Respectfully submitted by the Compensation and Talent Committee,

Michael Bell (chairman)  
Mohamad Ali  
Elisha Finney  
Michelle Stacy

## COMPENSATION AND OTHER INFORMATION CONCERNING EXECUTIVE OFFICERS AND DIRECTORS

### Compensation Discussion and Analysis

#### *Overview*

Our compensation philosophy is based on a desire to balance retention of executive talent with pay for performance incentive compensation which is designed to reward our named executive officers for our financial and operating performance. We believe the compensation of our named executive officers should align our executives' interests with those of our stockholders and focus executive behavior on the achievement of both near-term corporate targets as well as long-term business objectives and strategies. It is the responsibility of the compensation and talent committee of our board of directors to administer our compensation practices to ensure they are competitive and include incentives designed to appropriately drive our performance through specific financial and strategic objectives. Our compensation and talent committee annually reviews and approves elements of executive compensation, including chief executive officers and executive officer base salaries, cash incentives and equity awards.

Our performance as a company in 2017 was very strong. In our first full year as a solely consumer-focused business, we delivered full year revenue of \$883.9 million, which represented an increase of 34% from full year revenue in 2016, and earnings per share of \$1.77 in 2017 compared with \$1.48 for full year 2016.

Our compensation and talent committee, in conjunction with management, evaluates our overall executive compensation program each year. As a result of this ongoing review, we made a number of changes in our long-term incentive plan for 2017, which included increasing the percentage of PSUs and removing the use of stock options. We also adjusted the design of our PSU plan so performance of the entire plan is measured at the end of a three-year performance period, eliminating the interim one-year cumulative goals as well as the catch-up provision, and we added an opportunity to earn above and below target based on actual performance achievement at the end of the three-year performance period. For our 2018 long-term incentive plan, we shifted the payout metric from operating income as a percentage of revenue to three-year cumulative operating income in dollars. We believe our compensation philosophies and objectives, as described below, have aligned executive compensation with Company performance.

#### *Objectives of Our Compensation Program*

Our compensation programs for our executive officers are designed to achieve the following objectives:

- Provide competitive compensation that attracts, motivates and retains the best talent and the highest caliber executives to help us to achieve our strategic objectives;
- Connect a significant portion of the total potential compensation paid to executives to our annual financial performance;
- Align management's interest with the interests of stockholders through long-term equity incentives; and
- Provide management with performance goals directly linked to our longer-term plan for growth and profit.

We believe the compensation of our named executive officers should reflect their success as a management team, rather than as individuals, in attaining key operating objectives, such as Adjusted EBITDA, operating income as a percentage of revenue and revenue in dollars. We define Adjusted EBITDA as earnings before interest, taxes, depreciation and amortization, merger, acquisition and divestiture expenses, net intellectual property litigation expense, restructuring expense and non-cash stock compensation as shown in Exhibit A of this proxy.



We also believe that the compensation of our named executive officers should not be based on the short-term performance of our stock, whether favorable or unfavorable, but rather that the price of our stock will, in the long-term, reflect our operating performance, and ultimately, the management of the Company.

### *Methodologies for Establishing Executive Compensation*

The compensation and talent committee, which is comprised entirely of independent directors, reviews the compensation packages for our named executive officers, including an analysis of all elements of compensation separately and in the aggregate. In determining the appropriate compensation levels for our chief executive officer, the compensation and talent committee meets with only itself and the executive vice president, human resources and corporate communications. With respect to the compensation levels of all other named executive officers, the compensation and talent committee meets with our chief executive officer and, as needed, our executive vice president, human resources and corporate communications. Our chief executive officer annually reviews the performance of each of the other named executive officers with the compensation and talent committee.

The compensation and talent committee has engaged Pearl Meyer & Partners, LLC (“Pearl Meyer”), as an independent compensation consultant to work with them in addition to our human resources department and the chief executive officer to assist them in developing the compensation program and recommendations regarding base salary levels, target incentive awards, performance goals for incentive compensation and equity awards for named executive officers. In conjunction with the annual performance review of each named executive officer the compensation and talent committee carefully considers the recommendations of the chief executive officer with respect to the other executive officers when setting base salary, bonus payments under the prior year’s incentive compensation plan, and target amounts and performance goals for the current year’s incentive compensation plan. In addition, the compensation and talent committee similarly determines the size and structure of equity incentive awards, if any, for each named executive officer.

Moreover, the compensation and talent committee considers the results of the advisory vote on named executive officer compensation, or the “say on pay” vote, that is currently held each year at our annual meeting of stockholders.

At the May 2017 annual meeting of stockholders, the Company held its annual say on pay vote. The results of the say on pay vote held in May 2017 were as follows:

For	18,468,528	96.77%
Against	517,855	2.71%
Abstain	99,368	0.52%

The results of the say on pay vote are advisory and not binding on the Company, the board of directors or the compensation and talent committee. The board of directors and the compensation and talent committee, however, value the opinions of our stockholders and take the results of the say on pay vote into account when making decisions regarding the compensation of our named executive officers. Over the past few years, we have met directly with many of our largest stockholders and listened to their feedback related to our executive compensation programs.

As part of ongoing efforts to be responsive to the concerns of our investors regarding our executive compensation programs and to reward outstanding operational and financial performance, the compensation and talent committee will, in consultation with Pearl Meyer, continue to consider changes to our compensation programs as appropriate in response to input from stockholders and evolving factors such as the business environment and competition for talent. Additionally, the compensation and talent committee will continue to consider the outcome of our say on pay votes, regulatory changes and emerging best practices when making future compensation decisions for our named executive officers.

Our compensation plans are developed, in part, by utilizing publicly available compensation data and subscription compensation survey data for national and regional companies in the technology and consumer technology industries. We believe that the practices of this group of companies provide us with appropriate compensation benchmarks, because these companies have similar business models and tend to compete with us to attract executives and other employees. For benchmarking executive compensation, we typically review the compensation data for companies with revenues, numbers of employees, market capitalizations and levels of research & development investment similar to our profile. Beginning with fiscal year 2017, we have removed defense oriented companies from our compensation survey data as a result of our divestment of our defense and security business unit and aligned with companies in comparable industries that focus on smart-tech and high-tech products and in the consumer technology industry.

### ***Compensation Consultant***

As the independent compensation consultant, Pearl Meyer provides the compensation and talent committee with advice on a broad range of executive compensation matters. The scope of its services includes the following:

- Apprising the compensation and talent committee of compensation-related trends and developments in the marketplace;
- Informing the compensation and talent committee of regulatory developments relating to executive compensation practices;
- Assessing the composition of the peer companies used for comparative purposes;
- Identifying potential changes to the executive compensation program to maintain competitiveness and ensure consistency with business strategies, good governance practices and alignment with stockholder interests; and
- Reviewing the Compensation Discussion & Analysis section of the Company's proxy statement.

The compensation and talent committee has assessed the independence of Pearl Meyer pursuant to SEC rules and concluded that no conflict of interest exists that would prevent Pearl Meyer from independently advising the compensation and talent committee. The Company did not engage Pearl Meyer for any other consulting work in fiscal 2017.

### ***Compensation Comparisons***

Developing a peer group for compensation comparison purposes is not an easy task for the Company. We do not have any "true" robotic comparator companies that are publicly-traded, stand-alone, U.S.-based and size-appropriate. We believe our mix of technology, smart technology/connected devices, and technology/consumer products peer group firms is appropriate for compensation and performance comparison purposes, but our peer group firms differ substantially from the peer groups used by some proxy advisory firms. These organizations tend to compare us to companies in the consumer durables industry such as home builders, retailers and furniture distributors/manufacturers (i.e., companies with little to no technology attributes to their respective products). These differences in peer group firms used to determine alignment of pay and performance result in substantial differences in Company performance and how compensation is valued and delivered to executives. Technology, smart technology/connected devices and technology/consumer products companies perform and pay differently from home builders, retailers and furniture distributors/manufacturers. Additionally, recruitment efforts at companies focused on technology, smart technology/connected devices and technology/consumer products are largely focused on robotics/technology experts/industry leaders and individuals with engineering backgrounds. The compensation and talent committee takes all of these unique dynamics into account annually when reviewing our peer group firms and compensation practices.



The following selection criteria, developed in conjunction with the compensation and talent committee, which are thoroughly reviewed and adjusted (as needed), were used to develop the comparative peer group used in assessing the competitiveness of our executive compensation program and in helping to develop fiscal 2017 compensation actions:

- Companies with revenues within a similar range and generally similar market capitalization;
- Companies within comparable industries that focus on smart-tech and high-tech products (e.g., consumer durables, consumer services, aerospace, capital goods, electronics equipment, information technology, instruments and components, computers and peripherals, networking equipment and computer hardware);
- Companies with highly-engineered products and complex networked technologies with multiple industry applications;
- Technology companies whose products contain both hardware and software components, in particular cloud-connected devices, smart monitors, networked devices and consumer wearables; and
- Companies with moderate to high sales growth and opportunity.
- Other secondary criteria also considered include:
  - Companies classified as “disruptive innovation;”
  - Companies with products with brand recognition and/or disposable income “luxury” goods; and
  - Companies with low to moderate margins and moderate levels of research and development expense that indicate similar business models and financial strategy.

Our peer group for 2017 consisted of the following 14 companies:

3D Systems Corporation	Nautilus Inc.
FARO Technologies, Inc.	Netgear, Inc.
Fitbit Inc.	Novanta Inc
GoPro, Inc.	Plantronics, Inc.
Harmonic Inc.	Tivo, Inc.
InvenSense, Inc.	Trimble Inc
Logitech International S.A.	Universal Electronics, Inc.

These 14 companies, at the time of the analysis, had median annual revenues of \$645 million and a median market capitalization of \$1,350 million.

The compensation and talent committee reviews all components of compensation for named executive officers. In accordance with its charter, the compensation and talent committee also, among other responsibilities, administers our incentive compensation plan, and reviews management’s recommendations on company-wide compensation programs and practices. In setting compensation levels for our executive officers in fiscal 2017, the compensation and talent committee considered many factors in addition to the benchmarking described above, including, but not limited to:

- the scope and strategic impact of the executive officer’s responsibilities;
- our past business performance, and future expectations;
- our long-term goals and strategies;
- the performance and experience of each individual;
- past compensation levels of each individual and of the named executive officers as a group;
- relative levels of pay among the executive officers;
- the amount of each component of compensation in the context of the executive officer’s total compensation and other benefits;

- the evaluations and recommendations of the chief executive officer by the board of directors, and evaluations and recommendations of the other named executive officers by the chief executive officer; and
- the competitiveness of the compensation packages relative to the selected benchmarks as highlighted by the independent compensation consultant's analysis.

The compensation and talent committee determines compensation for our chief executive officer using the same factors it uses for other executive officers, while placing greater emphasis on performance-based opportunities through long-term equity and short-term cash incentive compensation, which we believe better aligns our chief executive officer's interests with our success and the interests of our stockholders. In assessing the compensation paid to our chief executive officer, the compensation and talent committee relies on both information from our selected benchmarks and its judgment with respect to the factors described above.

### *Elements of Compensation*

Our executive compensation program in 2017 consisted of three primary elements: base salary, annual cash incentives, and long-term equity awards, in the form of time-based restricted stock units and PSUs. All of our executive officers also are eligible for certain benefits offered to employees generally, including life, health, disability and dental insurance, as well as participation in our 401(k) plan and employee stock purchase plan. We have also entered into executive agreements with our executive officers that provide for certain severance benefits upon termination of employment, including a termination in connection with a change in control of the Company.

#### *Base Salary*

In 2017, the compensation and talent committee believes our executive officers, including our chief executive officer, were paid salaries in line with their qualifications, experience and responsibilities. Salaries are structured so they are within the range of salaries paid by the peer companies reviewed by the compensation and talent committee in high-technology industries, including consumer electronics and smart technologies. We generally aim to set base salaries for each of our executives above the market median in the relevant industries and also take into consideration many additional factors (described below) that we believe enable us to attract, motivate and retain our leadership team in an extremely competitive environment. Salaries are reviewed on an annual basis.

The compensation and talent committee reviewed the base salaries for each of our executive officers, taking into account an assessment of the individual's responsibilities, experience, individual performance and contribution to our performance, and also generally takes into account the competitive environment for attracting and retaining executives consistent with our business needs. With respect to each of our executive officers, our chief executive officer provided a detailed evaluation and recommendation related to base salary adjustments, if any (excluding for himself).

We believe that the base salaries of our named executive officers, which range from 12% to 25% as a percentage of total compensation, are set at an appropriate level to align our incentive compensation mix with our compensation philosophy.





In February 2017, and as part of the annual review process while taking into account the considerations discussed above, the compensation and talent committee made no base salary adjustments other than for Mr. Cerda, who received a base salary increase as part of the annual review process, as noted in the table below. For 2018, base salaries of our named executives were reviewed by the compensation and talent committee and it was determined not to make any adjustments to our named executive officers' base salaries other than for Mr. Angle and Ms. Dean, as noted in the table below.

	2016 Base Salary	% Increase	2017 Base Salary	% Increase	2018 Base Salary
Colin M. Angle	\$700,000	—	\$700,000	7.1%	\$750,000
Alison Dean	\$460,000	—	\$460,000	3.3%	\$475,000
Christian Cerda	\$425,000	5.9%	\$450,000	—	\$450,000
Russell J. Campanello	\$350,000	—	\$350,000	—	\$350,000
Glen D. Weinstein	\$380,000	—	\$380,000	—	\$380,000

#### Cash Incentive Compensation

The compensation and talent committee believes that short-term cash incentive compensation for executive officers should be contingent upon successful achievement of significant financial and business objectives and implementation of our business strategy. For our named executive officers, including our chief executive officer, the payment of cash incentive awards is based on an evaluation of achievement against predetermined Company financial and operational metrics in accordance with our Senior Executive Incentive Compensation Plan adopted by the compensation and talent committee. For each named executive officer, 100% of his or her target cash incentive compensation in 2017 was tied to key Company financial and operating performance measures. Cash incentive opportunities for named executive officers are generally targeted above the market median for performance at target and are scaled appropriately below and above target based on actual performance achievement similar to cash incentives provided to officers in our peer group of companies reviewed by the compensation and talent committee in the consumer technology industry and companies that focus on smart and high-tech products. The actual amount of the cash incentives paid to the named executive officers, however, is subject to the compensation and talent committee's determination of our performance in general and the achievement of specific pre-established goals.

For fiscal 2017, the threshold, target and maximum bonus award opportunities under our Senior Executive Incentive Compensation Plan for each of our named executive officers, as a percentage of base salary are set forth in the table below. These target bonus amounts were set at levels the compensation and talent committee determined were appropriate to achieve our business plan, which involved growing the Company in a profitable, cost-effective way.

	Incentive Bonus Award Opportunity Payout Scale (% of base salary)		
	Threshold (12.5% of target opportunity)	Target (100%)	Maximum (200% of target opportunity)
	(1)		(2)
Colin M. Angle	12.50%	100.00%	200.00%
Alison Dean	9.38%	75.00%	150.00%
Christian Cerda	9.38%	75.00%	150.00%
Russell J. Campanello	7.50%	60.00%	120.00%
Glen D. Weinstein	7.50%	60.00%	120.00%

- (1) Cash incentive payments are made only if the Company has achieved a specified Adjusted EBITDA hurdle, excluding cash incentive compensation expense.
- (2) This reflects the maximum incentive cash payout levels established under our Senior Executive Incentive Compensation Plan for 2017 based on the specific goals established for fiscal 2017.

The following tables summarize the 2017 performance measures, associated weightings and goals for each of the named executive officers under the Senior Executive Incentive Compensation Plan, including actual performance achievement. As discussed previously, the payout opportunity ranges from 12.5% of the target incentive opportunity for achieving threshold level of performance to 200% of the target incentive opportunity for achieving maximum level of performance.

Metric	Weightings	Performance Goal			2017 Actual Performance	Actual Percentage Earned (as % of target)
		Threshold	Target (100%)	Maximum		
\$ in millions						
Adjusted EBITDA, excluding cash incentive compensation expense	50%	\$99.7	\$117.3	\$156.0	\$146.0	86%
Company Revenue	50%	\$735.1	\$816.8	\$980.2	\$883.9	71%
<b>Total Payout (as a % of Target)</b>						<b>157%</b>

\* Actual percentage earned (as % of target) is relative to the weightings of both metrics which is 50% respectively

The compensation and talent committee chose this mix of financial targets for cash incentive compensation because it believes that executive officers should be focused on a small set of critical, team-based financial and operating metrics that reinforce the executive's role and impact and company business strategy. Also, the compensation and talent committee established a hurdle where the available total incentive compensation payout for the entire employee base - including the named executive officers - would be reduced on a dollar-for-dollar basis if Adjusted EBITDA, excluding cash incentive compensation expense, fell below \$99.7 million (the threshold for Adjusted EBITDA shown in the table above).

Based on our achievement of the performance metrics set forth above, the following cash awards were made to the named executive officers for performance in fiscal 2017 pursuant to our Senior Executive Incentive Compensation Plan:

	Incentive Bonus Award		
	Original Target Incentive Opportunity	Achievement	ICP Earned & Paid
Colin M. Angle	\$700,000	157%	\$1,099,001
Alison Dean	\$345,000	157%	\$541,650
Christian Cerda	\$337,500	157%	\$529,875
Russell J. Campanello	\$210,000	157%	\$329,700
Glen D. Weinstein	\$228,000	157%	\$357,960

### Long-Term Incentives

#### Overview

In 2017, executive officers were eligible to receive a mix of time-based restricted stock units and PSUs that are intended to promote success by aligning employee financial interests with long-term stockholder value. Long-term incentives are awarded based on various factors primarily relating to the responsibilities of the individual officer or employee, his or her past performance, anticipated future contributions, prior grants, the pool of available shares and Company performance. In general, our compensation and talent committee bases its decisions to grant long-term incentives on recommendations of our chief executive officer and the compensation and talent committee's analysis of peer group and industry compensation information, with the intention of



keeping the executives' overall compensation at a competitive level with the comparator companies reviewed by the compensation and talent committee in consumer technology and smart and high-tech industries.

While historically we used a mix of 50% restricted stock units, 25% PSU's, and 25% stock options. Starting in 2017, we adjusted our mix of equity awards to named-executive officers such that named executive officers receive 50% of their total equity awards in the form of time-based restricted stock units and 50% of their equity awards in the form of PSUs. We also adjusted the design of our PSU plan so performance is measured at the end of a three-year performance period, eliminating the interim one-year cumulative goals, and we added an opportunity to earn above and below target based on actual performance achievement at the end of the three-year performance period. These changes were implemented based on feedback from our investors.

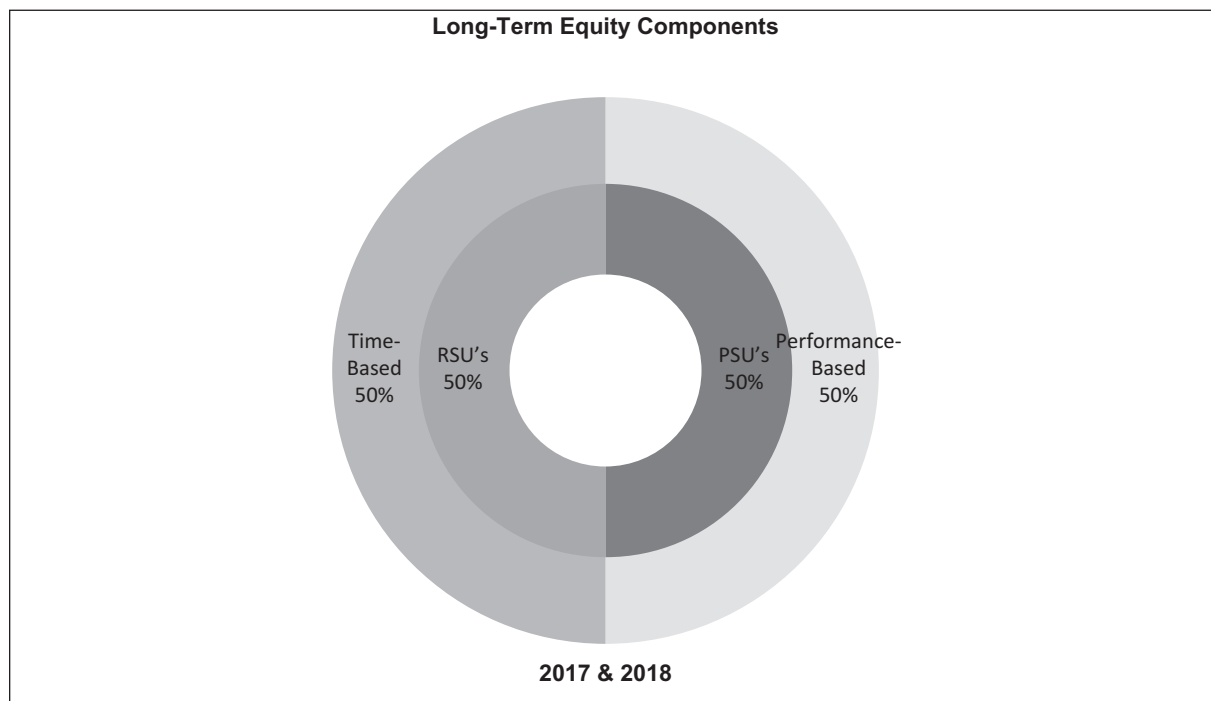
The compensation and talent committee believes a mix in our long-term equity awards between restricted stock units and PSUs aligns the incentives of our executives with the interests of our stockholders and the long-term performance of the Company by directly tying a significant portion of the value that may be realized from our equity compensation to the performance of the Company.

Both time-based and performance-based restricted stock units are typically granted in March and vest in equal annual installments over four years. Annual awards are sized relative to Company and individual performance for the prior year. Granting our annual awards using the prior year's performance to size our awards may result in a disconnect in our awards relative to our performance in the year of grant.

During fiscal 2017, our compensation and talent committee approved the time-based restricted stock unit and PSU awards set forth in the table below to each of our named executive officers. The payout opportunity on the PSUs ranges from 50% of the target opportunity for achieving threshold level of performance to 200% of the target opportunity for achieving maximum level of performance. The number of PSUs actually earned will be determined at the end of the three-year performance period by measuring the Company's actual 2017 to 2019 cumulative financial performance against the target performance.

	Grant Date Fair Value (\$)	Restricted Stock Units (#)	PSUs (# at Threshold) (50% of Target)	PSUs (# at Target)	PSUs (# at Maximum) (200% of Target)
Colin M. Angle	4,153,559	36,225	18,112	36,225	72,450
Alison Dean	1,433,250	12,500	6,250	12,500	25,000
Christian Cerda	1,384,520	12,075	6,037	12,075	24,150
Russell J. Campanello	742,424	6,475	3,237	6,475	12,950
Glen D. Weinstein	891,482	7,775	3,887	7,775	15,550

The following chart depicts the mix of the components of our annual long-term incentive (“LTI”) program for 2017 & 2018:



### Performance Share Units

The Company’s and the compensation and talent committee’s overall goals for selecting metrics for the PSU component of the long-term incentive program include:

- Alignment with business strategy;
- Alignment with stockholder interest in improving long-term business fundamentals;
- Correlation with total stockholder return; and
- Complementary to our short-term incentive metrics.

The compensation and talent committee also determined that operating income as a percentage of revenue (with a threshold requirement for a minimum amount of revenue) continued to be the optimal initial metric for our PSU component. We believe operating income percent is an excellent measure of the underlying profitability of the enterprise and it has historical correlation with total stockholder return. Operating income as a percentage of revenue is also a regularly reported GAAP financial measure, is understood by our investor base, and can be reasonably forecasted over the relevant performance period. We believe operating income as a percentage of revenue in our long-term incentives coupled with the revenue component of our short-term incentives provides strong focus on, and balance between, important short- and long-term business drivers. Moreover, operating income as a percentage of revenue tends to reflect the performance of our executive team as opposed to macro-economic factors or industry-wide trends beyond the control of our team. All financial goals for each of the outstanding three-year PSU plans are established at the beginning of the three-year performance period.

PSUs granted in 2017 and 2018 will be earned and vest at the end of the three-year performance period based upon performance over the entire three-year period. In addition, our named executive officers will have the opportunity to earn below or above the target number of RSUs granted if performance is above a threshold level



but below target or above target level. These changes made in 2017 are aligned with our peer group of companies reviewed by the compensation and talent committee in the technology and robotics industries.

For the PSUs granted in 2015 and 2016, the number of shares actually earned at the end of the three-year period could range from 0% to 100% of the target number of PSUs granted based on the Company's performance against three-year operating income and revenue goals. In addition, while all vesting of earned PSUs occurs on the third anniversary of the date of grant, achievement of intermediate targets for the three-year period allows PSUs to be deemed earned but not yet vested for the intermediate periods. Achievement of the cumulative target will allow all shares subject to the PSUs to be earned regardless of the achievement of the intermediate annual targets. Unvested awards are not eligible to receive any dividends or voting rights until the point at which any shares are earned and vested. Under this plan, participants can only earn awards at 100% of target or at 0% of target (for performance below 100% of target) for each year as there is no scaled award opportunity above target under our long-term incentive plans issued in the years 2015 and 2016.

The following table outlines the revenue threshold and target operating income percent for the three-year performance goals for the PSU plan for the 2015 through 2017 cycle. No more than 100% of the PSUs granted can be earned.

2015 - 2017 PSU Performance Cycle	Revenue (in millions)		Operating Income Percent		Actual Payout Level Achieved
	Threshold	Actual Performance Achieved	Target	Actual Performance Achieved	
2015	\$624	\$617	9.0%	9.8%	0%
2016	\$635	\$661	9.0%	8.7%	0%
2017	\$724	\$827(1)	9.5%	11.3%(1)	100%
Cumulative	\$1,983	\$2,104	9.2%	10%	100%
Corresponding Payout			100.0%		

- (1) 2017 actual results are adjusted to exclude the impact of the Company's 2017 acquisitions of its distributors in Japan and Western Europe.

For 2015, one-third of the awarded PSUs were deemed earned if the Company achieved a revenue threshold of \$624 million and a minimum 9.0% operating income as a percentage of revenue. In 2015, the Company achieved \$617 million in revenue and 9.8% in operating income as a percentage of revenue. Because the revenue threshold was not achieved, no portion of the PSUs awarded under the 2015 long-term incentive plan for the 2015 through 2017 plan cycle with respect to 2015 performance were earned. For 2016, one-third of the awarded PSUs were deemed earned if the Company achieved a revenue threshold of \$635 million and a minimum 9.0% operating income as a percentage of revenue. In 2016, the Company achieved \$661 million in revenue and 8.7% in operating income as a percentage of revenue. While the Company did achieve \$661 million in revenue, it did not achieve the necessary operating income as a percentage of revenue in 2016. Accordingly, no portion of the PSUs awarded under the 2015 long-term incentive plan for the 2015 through 2017 plan cycle with respect to 2016 performance were earned. For 2017, one-third of the awarded PSUs were deemed earned if the Company achieved a revenue threshold of \$724 million and a minimum 9.5% operating income as a percentage of revenue. For 2017, the company achieved \$827 million in revenue, and 11.3% in operating income as a percentage of revenue. Accordingly, one-third of the total number of PSUs awarded were earned. In addition, the Company met the cumulative three-year targets for the three-year performance cycle; therefore, all of the PSUs under the 2015 long-term incentive plan were deemed earned and vested.

Specifically, the named-executive officers earned the following PSUs with respect to the 2015 through 2017 long-term incentive plan cycle:

	2015-2017 PSUs At Target & Earned				
	PSUs At Target	2015 Earned PSUs	2016 Earned PSUs	2017 Earned PSUs	Total PSUs Earned
Colin M. Angle	19,400	0	0	19,400	19,400
Alison Dean	7,142	0	0	7,142	7,142
Christian Cerda	8,542	0	0	8,542	8,542
Russell J. Campanello	3,883	0	0	3,883	3,883
Glen D. Weinstein	3,883	0	0	3,883	3,883

The following table outlines the threshold and target three-year performance goals for the PSU plan for the 2016 through 2018 cycle. No more than 100% of the PSUs granted can be earned.

2016 - 2018 PSU Performance Cycle	Revenue (in millions)		Operating Income Percent		Actual Payout Level Achieved
	Threshold	Actual Performance Achieved	Target	Actual Performance Achieved	
2016	\$635	\$661	8.0%	8.7%	100%
2017	\$724	\$827(1)	9.8%	11.3%(1)	100%
2018	\$833	—	10.5%	—	—
Cumulative	\$2,191	—	9.5%	—	—
Corresponding Payout			100.0%		

- (1) 2017 actual results are adjusted to exclude the impact of the Company's 2017 acquisitions of its distributors in Japan and Western Europe.

For 2016, one-third of the awarded PSUs were deemed earned if the Company achieved a revenue threshold of \$635 million and a minimum 8.0% operating income as a percentage of revenue. In 2016, the Company achieved \$661 million in revenue and 8.7% in operating income as a percentage of revenue. Accordingly, one-third of the total number of PSUs awarded were earned, but have not yet vested. For 2017, one-third of the awarded PSUs were deemed earned if the Company achieved a revenue threshold of \$724 million and a minimum 9.8% operating income as a percentage of revenue. In 2017, the Company achieved \$827 million in revenue and 11.3% in operating income as a percentage of revenue. Accordingly, one-third of the total number of PSUs awarded were earned, but have not yet vested. Specifically, the named-executive officers earned the following PSUs with respect to the 2016 through 2018 long-term incentive plan cycle:

	2016-2018 PSUs At Target & Earned				
	PSUs At Target	2016 Earned PSUs	2017 Earned PSUs	2018 Earned PSUs	Total PSUs Earned to Date
Colin M. Angle	24,867	8,289	8,289	—	16,578
Alison Dean	9,592	3,197	3,197	—	6,394
Christian Cerda	11,133	3,711	3,711	—	7,422
Russell J. Campanello	4,308	1,436	1,436	—	2,872
Glen D. Weinstein	5,857	1,952	1,952	—	3,904



For the PSUs granted in 2017, the number of shares 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 three-year cumulative operating income and revenue goals. All financial goals for the three-year cumulative PSU plans were established at the beginning of the three-year performance period. The following table outlines the revenue threshold and target operating income percent for the three-year cumulative performance goals for the PSU plan for the 2017 through 2019 cycle. Actual performance achieved will exclude the impact of the 2017 acquisition of the Company's distributor in Western Europe.

2017 - 2019 PSU Performance Cycle	Revenue (in millions)		Operating Income Percent			Actual Performance Achieved	Actual Payout Level Achieved
	Threshold	Actual Performance Achieved	Threshold	Target Range	Maximum		
Cumulative	\$2,384	—	8.2%	9.7% - 10/7%	12.2%	—	—

#### Corresponding Payout

Under this plan, if the revenue threshold is attained, the below chart illustrates the payout range for operating income percent attainment. In order to earn shares a threshold performance level of 80% of operating income percent must be achieved. To earn 100% of shares operating income percent must achieve a target range between 95% to 105%. Achievement above 105% would earn more than 100% of shares up to a maximum of 200% of shares at 120% attainment.

	2017-2019 PSUs At Threshold, Target & Maximum			
	PSUs At Threshold	PSUs At Target	PSUs Maximum	Total PSUs Earned to Date
Colin M. Angle	18,112	36,225	72,450	—
Alison Dean	6,250	12,500	25,000	—
Christian Cerda	6,037	12,075	24,150	—
Russell J. Campanello	3,237	6,475	12,950	—
Glen D. Weinstein	3,887	7,775	15,550	—

#### LTI Changes for 2018

In addition to the changes we made in 2017, starting in 2018, we have removed revenue as a performance metric in the PSU plan design and changed the payout metric from three-year cumulative operating income as a percentage of annual revenue to three-year cumulative operating income in dollars.

#### Other Benefits and Perquisites

We also have various broad-based employee benefit plans. Our executive officers participate in these plans on the same terms as other eligible employees, subject to any legal limits on the amounts that may be contributed by or paid to executive officers under these plans. We offer a 401(k) plan, which allows our U.S. employees an opportunity to invest in a wide array of funds on a pre-tax basis. The Company matches up to 3% of eligible pay (\$0.50 on each dollar an employee contributes up to a maximum of 6%). In 2017, we established an employee stock purchase plan for the benefit of all of our U.S., UK and Canadian based employees. We do not provide pension arrangements or post-retirement health coverage for our named executive officers or other employees. We also maintain insurance and other benefit plans for our employees. We offer no perquisites to our executive officers that are not otherwise available to all of our employees.

#### Stock Ownership Guidelines

We maintain equity ownership guidelines to further align the interests of our senior management and directors with those of our stockholders. Under the guidelines, executives are expected to hold common stock in

an amount ranging from two times base salary for our senior executives to six times base salary for our chief executive officer. Our directors are also expected to hold common stock in an amount equal to six times their current board retainer fee.

For purposes of these guidelines, stock ownership includes shares for which the executive or director has direct or indirect ownership or control, including stock and in-the-money vested stock options, but does not include unvested restricted stock units or unvested stock options. Executives and directors are expected to meet their ownership guidelines within five years of becoming subject to the guidelines. All executives and directors are currently meeting or are working to achieve these guidelines within the five-year time period.

#### *Hedging/Pledging Policy*

Since 2005, we have had a written insider trading policy that prohibits holding Company securities as collateral in a margin account, any hedging transactions and prohibits pledging of Company securities as collateral for a loan unless the pledge has been approved by the compensation and talent committee of the board of directors. To date, no such approval has been requested or given.

#### *Executive Agreements*

We have entered into executive agreements with each of our named executive officers. The executive agreements provide for severance payments equal to 50% of such officer's annual base salary at the highest annualized rate in effect during the one-year period immediately prior to termination, payable in six equal monthly installments, as well as monthly premium payments for continued health, dental and vision benefits for up to six months following termination, in the event that we terminate his or her employment other than for cause, as defined in the executive agreements. In addition, these executive agreements provide that if we experience a change in control, as defined in the executive agreements, and the employment of such officer is terminated by the Company without cause at any time within the period beginning on the date that is 45 days prior to the date of the public announcement of the execution of a definitive agreement for a change in control and ending on the first anniversary of the effective date of the change in control, or if such officer terminates his or her employment for good reason, as defined in the executive agreements, during the one-year period following the change in control, then all unvested equity held by such officer becomes fully-vested and immediately exercisable and such officer is entitled to severance payments equal to 200% of his or her annual base salary, at the highest annualized rate in effect during the period immediately prior to the effective date of the change in control and the date of termination of employment, and 200% of such officer's highest target cash incentive with respect to the year prior to the year in which the change in control occurred and ending in the year in which the officer's employment is terminated, each payable in 24 equal monthly installments, as well as monthly premium payments for continued health, dental and vision benefits for up to 24 months following termination. Receipt of the severance payments and benefits under the executive agreements is subject to the executive officer's execution of a separation agreement, including a general release of claims, in a form and of a scope reasonably acceptable to the Company and compliance with any noncompetition, inventions and/or nondisclosure obligations owed to the Company. There are no tax gross-up payable under the executive agreements or otherwise.

#### *Clawback Policy*

In 2015, the Company adopted a clawback policy that provides the board of directors discretion to reduce the amount of future compensation (both cash and equity) payable to an executive of the Company for excess proceeds from incentive compensation received by such executive due to a material restatement of financial statements. The clawback period is the three-year period following the filing of any such restated financial statements with the SEC.



### *Tax Deductibility of Executive Compensation*

The new tax law signed into law December 22, 2017 made a number of significant changes to Section 162(m) of the Code. Section 162(m) of the Code generally places a \$1 million limit on the amount of compensation a company can deduct in any one year for certain executive officers. While we consider tax deductibility as one factor in determining executive compensation, the compensation and talent committee also looks at other factors in making its decisions, as noted above, and retains the flexibility to award compensation that it determines to be consistent with the goals of our executive compensation program even if the awards are not deductible by us for tax purposes. The exemption from Section 162(m)'s deduction limit for performance-based compensation has been repealed, effective for taxable years beginning after December 31, 2017, such that compensation paid to our named executive officers and certain other individuals in excess of \$1 million will not be deductible unless it qualifies for the limited transition relief applicable to certain arrangements in place as of November 2, 2017.

Despite our efforts to structure certain performance-based awards in a manner intended to be exempt from Section 162(m) and therefore not subject to its deduction limits, because of ambiguities and uncertainties as to the application and interpretation of Section 162(m) and the regulations issued thereunder, including the uncertain scope of the transition relief under the legislation repealing the performance-based compensation exemption from the deduction limit, no assurance can be given that compensation intended to satisfy the requirements for exemption from Section 162(m) in fact will. Further, we reserve the right to modify compensation that was initially intended to be exempt from Section 162(m) if we determine that such modifications are consistent with our business needs. We believe that shareholder interests are best served if its discretion and flexibility in awarding compensation is not restricted, even though some compensation awards may result in non-deductible compensation expenses.

### ***Risk Oversight of Compensation Programs***

The compensation and talent committee annually reviews and determined that our compensation program for executive officers is not structured to be reasonably likely to present a material adverse risk to us based on the following factors:

- Our compensation program for executive officers is designed to provide a balanced mix of cash and equity and annual and longer-term incentives, including compensation based on the achievement of performance targets.
- The base salary portion of compensation is designed to provide a steady income regardless of our stock price performance so executives do not feel pressured to focus primarily on stock price performance to the detriment of other important business metrics.
- Our time-based restricted stock unit grants generally vest over four years.
- Our PSUs vest only after the achievement of significant long-term metrics designed to drive the long-term interests of our stockholders.
- PSU awards align the interests of our executive officers with the success of our business strategy.
- Maximum payout levels for cash and equity incentives are capped.

Our stock ownership guidelines align the interests of our executive officers with those of our stockholders.

### **Compensation Consultant Independence**

Pursuant to its charter, the compensation and talent committee has the sole authority to retain, terminate, obtain advice from, oversee and compensate its outside advisors, including its compensation consultant.

The compensation and talent committee retained Pearl Meyer as its independent executive compensation consultant for 2017. Pearl Meyer reports directly to the compensation and talent committee, and the

compensation and talent committee may replace Pearl Meyer or hire additional consultants at any time. Pearl Meyer attends meetings of the compensation and talent committee, as requested, and communicates with the chairman of the compensation and talent committee between meetings; however, the committee makes all decisions regarding the compensation of the Company's executive officers.

Pearl Meyer provides various executive compensation services to the compensation and talent committee with respect to our executive officers and other key employees at the compensation and talent committee's request. The services Pearl Meyer provides include advising the compensation and talent committee on the principal aspects of the executive compensation program and evolving best practices, and providing market information and analysis regarding the competitiveness of our program design and awards in relationship to our performance.

The compensation and talent committee reviews the services provided by its outside consultants and believes Pearl Meyer is independent in providing executive compensation consulting services. The compensation and talent committee conducted a specific review of its relationship with Pearl Meyer, and determined Pearl Meyer's work for the compensation and talent committee did not raise any conflicts of interest, consistent with the guidance provided under the Dodd-Frank Act and by the SEC and NASDAQ. In making this determination, the compensation and talent committee noted the following:

- Pearl Meyer did not provide any services to us or our management other than service to the compensation and talent committee (including compensation benchmarking for our senior leadership team), and its services were limited to executive compensation consulting;
- Fees paid by us to Pearl Meyer represented less than 1.0% of Pearl Meyer's total revenue for the period January 2017 through December 2017;
- Pearl Meyer maintains a Conflicts Policy and an Insider Trading Policy which were provided to the compensation and talent committee with specific policies and procedures designed to ensure independence;
- None of the Pearl Meyer consultants on our account had any business or personal relationship with our compensation and talent committee members;
- None of the Pearl Meyer consultants on our account had any business or personal relationship with our executive officers; and
- None of the Pearl Meyer consultants on our account directly own shares of our stock.

The compensation and talent committee continues to monitor the independence of its compensation consultant on a periodic basis.



## Executive Compensation Summary

The following table sets forth summary compensation information for our chief executive officer, chief financial officer and the three other most highly compensated executive officers:

**SUMMARY COMPENSATION TABLE — 2017**

Name and Principal Position	Year	Salary \$(1)	Stock Awards \$(2)	Option Awards \$(2)	Non-Equity Incentive Plan Compensation \$(3)	All Other Compensation \$(4)	Total (\$)
<b>Colin M. Angle</b>	2017	700,000	4,153,559	—	1,099,001	8,782	5,961,343
Chairman, Chief Executive Officer and Director	2016	696,154	2,472,244	807,409	910,000	7,950	4,893,757
	2015	684,135	1,996,260	646,548	465,750	7,950	3,800,643
<b>Alison Dean</b>							
Executive Vice President, Chief Financial Officer, Treasurer and Principal Accounting Officer	2017	460,000	1,433,250	—	541,650	8,100	2,443,000
	2016	455,385	953,604	311,552	448,500	7,950	2,176,991
	2015	433,654	734,878	238,003	222,525	7,950	1,637,010
<b>Christian Cerda</b>	2017	446,154	1,384,520	—	529,875	8,100	2,368,649
Chief Operating Officer	2016	419,808	1,151,228	377,732	378,220	7,950	2,334,938
	2015	400,000	878,938	284,498	165,600	7,950	1,736,986
<b>Russell J. Campanello</b>	2017	350,000	742,424	—	329,700	8,100	1,430,224
Executive Vice President, Human Resources and Corporate Communications	2016	348,462	428,335	140,033	273,000	7,950	1,197,780
	2015	344,231	399,595	129,411	140,760	7,950	1,021,947
<b>Glen D. Weinstein</b>	2017	380,000	891,482	—	357,960	8,100	1,637,542
Executive Vice President and Chief Legal Officer	2016	377,693	583,496	190,824	296,400	7,950	1,456,365
	2015	369,481	399,595	129,411	151,110	7,950	1,057,547

- (1) Represents salary earned in the fiscal years presented, which covered 52 weeks for fiscal year 2017 and 2016 and 53 weeks for fiscal year 2015.
- (2) Represents the aggregate grant date fair value for stock and option awards granted in the fiscal years ended December 30, 2017, December 31, 2016 and January 2, 2016, as applicable, in accordance with Financial Accounting Standards Board, Accounting Standards Codification Topic 718 (“ASC Topic 718”) disregarding any estimates of forfeitures. See the information appearing in note 13 to our consolidated financial statements included as part of our Annual Report on Form 10-K for the fiscal year ended December 30, 2017 for certain assumptions made in the valuation of stock and option awards.
- (3) Represents amounts paid in 2018, 2017 and 2016, respectively under the Company’s Senior Executive Incentive Compensation Plan for performance in the fiscal years ended December 30, 2017, December 31, 2016 and January 2, 2016, as applicable.
- (4) Includes 401(k) matching contributions for each of our named executive officers. Excludes medical, group life insurance and certain other benefits received by the named executive officers that are available generally to all of our salaried employees. For Colin M. Angle, the amount reported for 2017 also includes of the incremental cost to the Company of a Roomba Vacuum cleaner received by him.

## 2017 Pay Ratio

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Company is required to disclose the median of the annual total compensation of our employees (excluding our chief executive officer), the annual total compensation of our principal executive officer, Chairman of the Board and chief executive officer, Colin M. Angle, and the ratio of these two amounts.

The Company selected December 30, 2017, the last day of our most recently-completed fiscal year, as the date upon which the median employee was identified. As of this date the Company employed 764 employees globally, excluding 77 individuals that became employees as a result of the April 2017 acquisition of Sales On Demand Corporation and 92 individuals that became employees as a result of the October 2017 acquisition of Robopolis. The Company included all of our other full-time employees, part-time employees and interns, excluding the chief executive officer, in our analysis to identify the median employee. The Company did not elect to make any other exclusions as permitted under the SEC de minimis rule.

A Consistently Applied Compensation Measure was used to identify the median employee based on the sum of base pay/regular wages, overtime, bonus, commissions and equity grant date fair value. The Company elected to include bonus payments and equity awards given the broad participation rates in these programs across the employee population. Annualized salary rates for full-time employees and hourly pay rates and actual hours worked were used as reasonable estimates of salary/wages.

Using the compiled data, the Company determined that the 2017 annual total compensation of our median employee as of December 30, 2017 was \$134,822 And Mr. Angle's annual total compensation for 2017 was \$5,961,343, both of which were calculated in accordance with Item 402(c) of Regulation S-K. The ratio of these amounts was 44:1.

## Grants of Plan-Based Awards in 2017

The following table sets forth, for each of the named executive officers, information about grants of plan-based awards during fiscal year 2017:

### GRANTS OF PLAN-BASED AWARDS — 2017

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards(2)			All Other Stock Awards: Number of Shares of Stock or Units (#)(3)	Grant Date Fair Value of Stock and Option Awards (\$)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)		
Colin M. Angle	—	87,500	700,000	1,400,000	—	—	—	—	
	3/10/2017	—	—	—	—	—	—	36,225	2,076,779
	3/10/2017	—	—	—	18,112	36,225	72,450	—	2,076,779
Alison Dean	—	43,125	345,000	690,000	—	—	—	—	
	3/10/2017	—	—	—	—	—	—	12,500	716,625
	3/10/2017	—	—	—	6,250	12,500	25,000	—	716,225
Christian Cerda	—	42,188	337,500	675,000	—	—	—	—	
	3/10/2017	—	—	—	—	—	—	12,075	692,260
	3/10/2017	—	—	—	6,037	12,075	24,150	—	692,260
Russell J. Campanello	—	26,250	210,000	420,000	—	—	—	—	
	3/10/2017	—	—	—	—	—	—	6,475	371,212
	3/10/2017	—	—	—	3,237	6,475	12,950	—	371,212
Glen D. Weinstein	—	28,500	228,000	456,000	—	—	—	—	
	3/11/2017	—	—	—	—	—	—	7,775	445,741
	3/11/2017	—	—	—	3,887	7,775	15,550	—	445,741

- (1) This reflects the threshold, target and maximum incentive cash payout levels established under our Senior Executive Incentive Compensation Plan. The actual amounts paid for fiscal year 2017 are disclosed in the “Non-Equity Incentive Plan Compensation” column of the Summary Compensation Table.
- (2) This reflects the threshold, target and maximum equity incentive payout levels associated with PSUs made pursuant to our 2015 Stock Plan, which amounts will be payable in shares of our common stock, if the performance metrics are achieved under the terms of the awards.
- (3) All stock awards were made pursuant to the 2015 Stock Plan.

## Outstanding Equity Awards at Fiscal Year End

The following table sets forth, for each of the named executive officers, information about unexercised option awards and other unvested equity awards that were held as of December 30, 2017.

### OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END — 2017

Name	Grant Date	Option Awards				Stock Awards			
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable (1)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(3)	Market Value of Shares or Units of Stock That Have Not Vested \$(4)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(5)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested \$(4)
Colin M. Angle	3/9/2012	40,825	—	\$26.59	3/9/2019	—	—	—	—
	3/8/2013	36,175	—	\$22.86	3/8/2020	—	—	—	—
	3/7/2014	14,508	967	\$43.35	3/7/2021	6,775	519,643	—	—
	6/6/2014	18,469	1,231	\$35.43	6/6/2021	—	—	—	—
	3/6/2015	15,977	7,261	\$34.30	3/6/2022	38,800	2,975,960	—	—
	6/5/2015	14,595	8,755	\$32.38	6/5/2022	—	—	—	—
	3/11/2016	15,756	20,257	\$33.14	3/11/2023	53,877	4,132,366	8,289	635,766
	6/10/2016	11,607	19,343	\$37.62	6/10/2023	—	—	—	—
3/10/2017	—	—	\$ —	—	36,225	2,778,458	18,112	1,389,190	
Alison Dean	3/7/2014	318	319	\$43.35	3/7/2021	2,233	171,271	—	—
	6/6/2014	406	406	\$35.43	6/6/2021	—	—	—	—
	3/6/2015	534	2,671	\$34.30	3/6/2022	14,283	1,095,506	—	—
	6/5/2015	537	3,225	\$32.38	6/5/2022	—	—	—	—
	3/11/2016	868	7,812	\$33.14	3/11/2023	20,781	1,593,903	3,198	245,287
	6/10/2016	747	7,468	\$37.62	6/10/2023	—	—	—	—
	3/10/2017	—	—	\$ —	—	12,500	958,750	6,250	479,375
Russell J. Campanello	3/9/2012	5,500	—	\$26.59	3/9/2019	—	—	—	—
	3/8/2013	6,450	—	\$22.86	3/8/2020	—	—	—	—
	3/7/2014	4,617	308	\$43.35	3/7/2021	2,154	165,212	—	—
	6/6/2014	5,883	392	\$35.43	6/6/2021	—	—	—	—
	3/6/2015	3,198	1,452	\$34.30	3/6/2022	7,766	595,652	—	—
	6/5/2015	2,923	1,752	\$32.38	6/5/2022	—	—	—	—
	3/11/2016	2,730	3,508	\$33.14	3/11/2023	9,334	715,918	1,436	110,141
	6/10/2016	2,016	3,359	\$37.62	6/10/2023	—	—	—	—
	3/10/2017	—	—	\$ —	—	6,475	496,633	3,237	248,278
Christian Cerda	3/7/2014	2,966	197	\$43.35	3/7/2021	2,081	159,613	—	—
	6/6/2014	3,774	251	\$35.43	6/6/2021	—	—	—	—
	3/6/2015	7,030	3,195	\$34.30	3/6/2022	17,083	1,310,266	—	—
	6/5/2015	6,423	3,852	\$32.38	6/5/2022	—	—	—	—
	3/11/2016	4,961	6,377	\$33.14	3/11/2023	16,972	1,301,752	2,611	200,264
	6/10/2016	5,485	9,140	\$37.62	6/10/2023	7,150	548,405	1,100	84,370
	9/9/2016	1,493	3,282	\$39.09	9/9/2023	—	—	—	—
	3/10/2017	—	—	\$ —	—	12,075	926,153	6,037	463,038
Glen D. Weinstein	3/7/2014	2,637	176	\$43.35	3/7/2021	1,233	94,571	—	—
	6/6/2014	3,352	223	\$35.43	6/6/2021	—	—	—	—
	3/6/2015	3,198	1,452	\$34.30	3/6/2022	7,766	595,652	—	—
	6/5/2015	2,923	1,752	\$32.38	6/5/2022	—	—	—	—
	3/11/2016	3,719	4,781	\$33.14	3/11/2023	12,716	975,317	1,953	149,795
	6/10/2016	2,748	4,577	\$37.62	6/10/2023	—	—	—	—
	3/10/2017	—	—	\$ —	—	7,775	596,343	3,887	298,133



- (1) Except as otherwise noted, stock option grants vest over a four-year period, at a rate of twenty-five percent (25%) on the first anniversary of the grant date, and the remainder in equal quarterly installments thereafter.
- (2) Stock options granted on June 6, 2014 vest at a rate of twenty-five percent (25%) on March 7, 2015, and the remainder in equal quarterly installments over the following three-year period.
- (3) Restricted stock unit awards vest over a four-year period, at a rate of twenty-five percent (25%) on each anniversary of the grant date.
- (4) Amounts disclosed in this column were calculated based on the closing price of our common stock on December 29, 2017, the last business date of the fiscal year ended December 30, 2017.
- (5) PSU awards for plan years 2015 and 2016 are earned over a three-year period and vest at the end of such three-year period, dependent on achievement of pre-established performance goals and objectives. For plan year 2017 PSUs will be earned and vest at the end of a three-year cumulative period. For additional information on the PSU awards, see the section above entitled “Compensation Discussion and Analysis — Elements of Compensation — Long-Term Incentives.”

### Option Exercises and Stock Vested

The following table sets forth, for each of the named executive officers, information with respect to the exercise of stock options and the vesting of restricted stock unit awards and PSUs during the year ended December 30, 2017.

#### OPTION EXERCISES AND STOCK VESTED — 2017

Name	Option Awards		Stock Awards	
	Shares Acquired on Exercise(#)	Value Realized on Exercise(\$) (1)	Number of Shares Acquired on Vesting(#)	Value Realized on Vesting(\$) (2)
Colin M. Angle	45,200	2,105,335	59,021	3,328,096
Alison Dean	54,827	3,231,633	21,042	1,344,567
Christian Cerda	60,000	4,629,120	19,419	1,167,656
Russell J. Campanello	10,000	604,700	13,515	760,810
Glen D. Weinstein	18,837	1,364,667	11,536	650,685

- (1) Amounts disclosed in this column were calculated based on the difference between the fair market value of our common stock on the date of exercise and the exercise price of the options in accordance with regulations promulgated under the Exchange Act.
- (2) Amounts disclosed in this column were calculated based on the fair market value of the shares on the date of settlement following vesting.

### Potential Benefits Upon Termination or Change in Control

#### *Severance and Change in Control Arrangements in General*

The Company has entered into executive agreements with each of the named executive officers, the terms of which are described in the “Compensation Discussion and Analysis” section above.

### *Cash Payments and/or Acceleration of Vesting Following Certain Termination Events*

Assuming the employment of our named executive officers was terminated without cause (not in connection with a change in control) on December 30, 2017, our named executive officers would be entitled to cash payments in the amounts set forth opposite their names in the table below, subject to any deferrals required under Section 409A of the Code.

Name	Base Salary (\$)	Continuation of Health Plan Premium Payments (\$)	Total (\$)
Colin M. Angle	350,000	13,526	363,526
Alison Dean	230,000	12,069	242,069
Christian Cerda	225,000	13,526	238,526
Russell J. Campanello	175,000	13,526	188,526
Glen D. Weinstein	190,000	12,069	202,069

Assuming the employment of our named executive officers was terminated by the Company without cause during the period beginning on the date that is 45 days prior to the date of the public announcement of the execution of a definitive agreement for a change in control and ending on the first anniversary of the effective date of the change in control, or such officers resigned with good reason during the one-year period following a change in control and that such termination or resignation occurred on December 30, 2017, our named executive officers would be entitled to cash payments in the amounts set forth opposite their names in the below table, subject to any delay in payment required under Section 409A of the Code, and acceleration of vesting as set forth in the table below. The total amount payable to each executive officer may be subject to reduction in certain circumstances if the amount would cause the executive officer to incur an excise tax under Section 4999 of the Code. The following table provides the market value (that is, the value based upon our stock price on December 29, 2017, minus the exercise price, if any) of stock options and restricted stock units that would become exercisable or vested as a result of these acceleration events as of December 30, 2017.

Name	Base Salary (\$)	Bonus (\$)	Continuation of Health Plan Premium Payments (\$)	Market Value of Stock Options (\$)	Market Value of Restricted Stock and Restricted Stock Units (\$)	Total (\$)
Colin M. Angle	1,400,000	1,400,000	54,104	2,417,260	7,746,913	12,918,277
Alison Dean	920,000	690,000	48,276	915,717	2,781,219	5,355,212
Christian Cerda	900,000	675,000	54,104	1,081,527	3,021,750	5,732,381
Russell J. Campanello	700,000	420,000	54,104	449,741	1,455,306	3,079,151
Glen D. Weinstein	760,000	456,000	48,276	541,416	1,664,620	3,470,312





## Director Compensation

In connection with our efforts to attract and retain highly-qualified individuals to serve on our board of directors, we maintain a cash and equity compensation policy for our non-employee members of our board of directors. In fiscal year 2017, each non-employee member of our board of directors was entitled to the following cash compensation:

Annual retainer for Board membership	\$ 50,000
Annual retainer for lead independent director	\$ 20,000
Audit Committee	
Annual retainer for committee membership	\$ 10,000
Additional retainer for committee chair	\$ 10,000
Compensation and Talent Committee	
Annual retainer for committee membership	\$ 7,500
Additional retainer for committee chair	\$ 7,500
Nominating and Corporate Governance Committee	
Annual retainer for committee membership	\$ 5,000
Additional retainer for committee chair	\$ 5,000
Strategy and Finance Committee	
Annual retainer for committee membership	\$ 7,500
Additional retainer for committee chair	—

Pursuant to our Non-employee Directors' Deferred Compensation Program, each non-employee director may elect in advance to defer the receipt of these cash fees. During the deferral period, the cash fees will be deemed invested in stock units. The deferred compensation will be settled in shares of our common stock upon the termination of service of the director or such other time as may have been previously elected by the director. The shares will be issued from our 2015 Stock Plan or a subsequent stock option and incentive plan approved by our stockholders.

In 2017, each of our non-employee members of our board of directors was entitled to the following equity compensation:

Upon initial election to the board of directors, a non-employee director receives a one-time grant of restricted stock units having a fair market value of \$220,000, measured at the end of the tenth week of the fiscal quarter in which the director was elected, which vests over a four-year period at a rate of twenty-five percent (25%) on each of the first four anniversaries of the grant date.

Beginning in the second quarter of 2017, at the end of the tenth week of the fiscal quarter in which our annual meeting of stockholders occurs, each re-elected non-employee director receives a grant of restricted stock units having a fair market value of \$130,000, which vests on the first anniversary of such grant.

All of our directors are reimbursed for reasonable out-of-pocket expenses incurred in attending meetings of the board of directors.

The following table provides compensation information for the fiscal year ended December 30, 2017 for each non-employee member of our board of directors. No member of our board of directors receives any additional compensation for services rendered as a member of our board of directors.

## DIRECTOR COMPENSATION TABLE — 2017

Name	Fees Earned or Paid in Cash (\$)	Stock Awards \$(5)	Total (\$)
Mohamad Ali (1)	65,000	129,970	194,970
Michael Bell	71,250	129,970	201,220
Ronald Chwang, Ph.D. (2)	62,500	129,970	192,470
Gail Deegan (3)	37,500	—	37,500
Deborah G. Ellinger	80,000	129,970	209,970
Andrea Geisser (3)	37,500	—	37,500
Elisha Finney (4)	65,625	349,945	415,570
Andrew Miller	70,000	129,970	199,970
Michelle V. Stacy	65,000	129,970	194,970

- (1) Mr. Ali deferred all of his 2017 cash compensation pursuant to our Non-employee Directors' Deferred Compensation Program under which he received stock units in lieu of cash.
- (2) Dr. Chwang will retire from the board following the expiration of his term at the 2018 annual meeting.
- (3) Ms. Deegan and Mr. Geisser stepped down from the board of directors at the 2017 annual meeting of stockholders and as a result were not eligible to receive a stock award in 2017.
- (4) Ms. Finney was elected to the board of directors in January 2017 and received a stock award in connection with her election.
- (5) Represents the grant date fair value of restricted stock units awarded in the fiscal year ended December 30, 2017 in accordance with ASC Topic 718 disregarding any estimates of forfeitures. The grant date fair value is the fair market value of our common stock on the date of grant multiplied by the number of shares of common stock underlying such restricted stock unit award.

The non-employee members of our board of directors who held such position on December 30, 2017 held the following aggregate number of unvested restricted stock units as of such date:

Name	Number of Unvested Restricted Stock Units
Mohamad Ali	5,068
Michael Bell	5,739
Ronald Chwang, Ph.D.	1,354
Deborah G. Ellinger	1,354
Elisha Finney	5,191
Andrew Miller	4,171
Michelle V. Stacy	3,006

### Transactions with Related Persons

Mr. Miller has served as a member of our board of directors since September 2017, and currently serves as the Chief Financial Officer of PTC Inc. ("PTC"), which provides engineering software and cloud services to the Company. In fiscal year 2017, the Company paid to PTC approximately \$529,274 in respect of these services.

Other than the payments to PTC described above and the compensation agreements and other arrangements which are described in the “Compensation Discussion and Analysis” section of this proxy statement, in 2017, there was no transaction or series of similar transactions to which we were or will be a party in which the amount involved exceeded or will exceed \$120,000 and in which any director, executive officer, holder of five percent or more of any class of our capital stock or any member of their immediate family had or will have a direct or indirect material interest.

Our board of directors has adopted a written related party transaction approval policy, which sets forth our policies and procedures for the review, approval or ratification of any transaction required to be reported in our filings with the SEC. Our policy with regard to related party transactions is that all related party transactions are to be reviewed by our general counsel, who will determine whether the contemplated transaction or arrangement requires the approval of the board of directors, the nominating and corporate governance committee, both or neither.

## PROPOSAL 2

### RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

The audit committee of the board of directors has retained the firm of PricewaterhouseCoopers LLP (“PwC”), independent registered public accountants, to serve as independent registered public accountants for our 2018 fiscal year. PwC has served as our independent registered public accounting firm since 1999. The Company is asking stockholders to ratify the selection by the audit committee of the board of directors of PwC as our independent auditors for the 2018 fiscal year. Although ratification by the stockholders is not required by law, the board of directors has determined that it is desirable to request approval of this selection by the stockholders as a matter of good corporate governance. In the event the stockholders fail to ratify the appointment of PwC, the audit committee will consider this factor when making any determinations regarding PwC.

#### Independence and Quality

As provided in the audit committee charter, the audit committee is directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditors for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the company. Each year, the audit committee considers whether to retain PwC and whether such service continues to be in the best interests of the Company and our stockholders. Among other things, the audit committee considers:

- the quality and scope of the audit;
- the independence of PwC;
- the performance of the lead engagement partner, the number of people staffed on the engagement team, and the quality of the engagement team, including the quality of the audit committee’s ongoing communications with and the capability and expertise of the team;
- PwC’s tenure as our independent auditor and its familiarity with our global operations and business, accounting policies and practices, and internal controls over financial reporting; and
- external data relating to audit quality and performance, including recent PCAOB inspection reports available for PwC.

Based on this evaluation, the members of the audit committee and the board of directors believe that PwC is independent and that it is in the best interests of the Company and our stockholders to retain PwC to serve as our independent auditors for the fiscal year 2018.

The audit committee is also responsible for selecting the lead engagement partner. The rules of the Securities and Exchange Commission (the “SEC”) and PwC’s policies require mandatory rotation of the lead engagement partner every five years. In 2015, the audit committee selected a new lead engagement partner to begin in the 2016 fiscal year. During 2015, the audit committee, including the chair of the audit committee, were directly involved in the selection of the new lead engagement partner. The process for selecting a new lead engagement partner was fulsome and allowed for thoughtful consideration of multiple candidates, each of whom met a list of specified criteria. The process included discussions between the chair of the audit committee and PwC as to all of the final candidates under consideration for the position, meetings with the full audit committee and management, and robust interviews with the final candidates.

#### Pre-Approval of Audit and Non-audit Services

The audit committee of the board of directors has implemented procedures under our audit committee pre-approval policy for audit and non-audit services (the “Pre-Approval Policy”) to ensure that all audit and permitted non-audit services to be provided to us have been pre-approved by the audit committee. Specifically, the audit committee pre-approves the use of PwC for specified audit and non-audit services, within approved



monetary limits. If a proposed service has not been pre-approved pursuant to the Pre-Approval Policy, then it must be specifically pre-approved by the audit committee before it may be provided by PwC. Any pre-approved services exceeding the pre-approved monetary limits require specific approval by the audit committee. For additional information concerning the audit committee and its activities with PwC, see “The Board of Directors and Its Committees” and “Report of the Audit Committee of the Board of Directors.”

Representatives of PwC attended all of the standard audit committee meetings in 2017. We expect that a representative of PwC will attend the annual meeting, and the representative will have an opportunity to make a statement if he or she so desires. The representative will also be available to respond to appropriate questions from stockholders.

### **PricewaterhouseCoopers LLP Fees**

The following table shows the aggregate fees for professional services rendered by PwC to us during the fiscal years ended December 30, 2017 and December 31, 2016.

	<b>2017</b>	<b>2016</b>
Audit Fees	\$ 1,793,395	\$ 1,099,304
Audit-Related Fees	0	177,876
Tax Fees	939,087	548,558
All Other Fees	5,698	3,394
<b>Total</b>	<b>\$ 2,768,180</b>	<b>\$ 1,829,132</b>

#### ***Audit Fees***

Audit Fees for both years consist of fees for professional services associated with the annual consolidated financial statements audit, statutory filings, consents and assistance with and review of documents filed with the SEC.

#### ***Audit-Related Fees***

Consists of fees associated with services related to review of accounting for significant transactions and other services that were reasonably related to the performance of audits or reviews of our financial statements and were not reported above under “Audit Fees.”

#### ***Tax Fees***

Tax Fees consist of fees for professional services rendered for assistance with federal, state, local and international tax planning and compliance.

#### ***All Other Fees***

All other fees include licenses to technical accounting research software and fees associated with services to perform an assessment of compliance with global privacy laws. The audit committee has determined that the provision of services described above to us by PwC is compatible with maintaining their independence.

### **Recommendation of the Board**

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU  
VOTE “FOR” THE RATIFICATION OF PRICEWATERHOUSECOOPERS LLP  
AS IROBOT’S INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS FOR 2018.**

### PROPOSAL 3

#### APPROVAL OF AMENDMENTS TO OUR AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO ELIMINATE SUPERMAJORITY VOTING REQUIREMENTS

At our 2014 annual meeting of stockholders, our stockholders voted to request that our board of directors take the steps necessary so that each voting requirement in our existing amended and restated certificate of incorporation (the “Existing Certificate”) and by-laws that calls for a greater than a simple majority vote be eliminated and replaced by a majority voting standard.

In 2015, our nominating and corporate governance committee and our board of directors determined it was appropriate to propose the amendments described below, and included the proposal described below in our proxy statement for the 2015 annual meeting. Despite receiving the affirmative votes of holders of 58% of the outstanding shares at the 2015 annual meeting, the proposal failed to receive the affirmative vote of holders of 75% of the outstanding shares, which is the required threshold for approval of the proposal.

In 2016, our nominating and corporate governance committee and our board of directors again determined it was appropriate to propose the amendments described below, and included the proposal described below in our proxy statement for the 2016 annual meeting. Despite receiving the affirmative votes of holders of over 68% of the outstanding shares at the 2016 annual meeting, the proposal failed to receive the affirmative vote of holders of 75% of the outstanding shares, which is the required threshold for approval of the proposal.

In 2017, our nominating and corporate governance committee and our board of directors again determined it was appropriate to propose the amendments described below, and included the proposal described below in our proxy statement for the 2017 annual meeting. Despite receiving the affirmative votes of holders of over 69% of the outstanding shares at the 2017 annual meeting, the proposal failed to receive the affirmative vote of holders of 75% of the outstanding shares, which is the required threshold for approval of the proposal.

Our board of directors continues to believe that the amendments described below are in the best interests of the Company’s stockholders, and, in light of the strong support received at the 2015, 2016 and 2017 annual meetings, our board of directors has unanimously adopted a resolution approving and declaring the advisability of the below amendments to our Existing Certificate, which change the voting provisions in the Existing Certificate as follows:

**Removal of Directors; Article VI, Section 5** - Currently, the approval of the holders of 75% or more of the shares of the Company entitled to vote at an election of directors is required to remove a director from office prior to the expiration of his or her term with cause. If this proposal is approved, stockholders will have the ability to remove a director from office prior to the expiration of his or her term with cause and the affirmative vote of a majority of the shares of the Company entitled to vote at an election of directors, which is the lowest allowable vote threshold under Delaware law; provided, however, that if Proposal 4 is approved by stockholders, the ability to remove will be without cause.

**By-law Amendments; Article VIII, Section 2** - Currently, the Existing Certificate allows stockholders to amend or repeal our by-laws if at least 75% of the shares of the Company entitled to vote on such matter vote in favor of the amendment or repeal. If this proposal is approved, stockholders will have the ability to amend our by-laws with the affirmative vote of a majority of the shares cast and entitled to vote on such matter (with “abstentions,” “broker non-votes,” and “withheld” votes not counted as a vote either “for” or “against” such amendment or repeal).

**Amendments to Certain Provisions of the Certificate of Incorporation; Article IX** - Currently, the approval of at least 75% of the shares of the Company entitled to vote on such matter is required to amend or repeal



Articles V, VI, VII, VIII or IX of the Existing Certificate, which address, among other things, actions by written consent of stockholders, special meetings of stockholders requirements and procedures for electing and removing board members and filling vacancies, limitation of liability of directors, by-law amendments, and amendments of the Existing Certificate. If this proposal is approved, the threshold approval for stockholders to amend or repeal these provisions will be a vote of the majority of the outstanding shares of the Company entitled to vote on such amendment or repeal, which is the lowest allowable vote threshold under Delaware law.

This description of the proposed amendments to our Existing Certificate is a summary and is qualified by the full text of the proposed amendments to our Existing Certificate, which is attached to this proxy statement as Annex A and is marked to show the changes described above.

To be approved, the proposed amendments to our Existing Certificate require an affirmative vote of holders of 75% of the outstanding shares entitled to vote on the record date. If approved, the proposed amendments to our Existing Certificate will become effective upon the filing of an amended and restated certificate of incorporation with the Secretary of State of the State of Delaware, which we would do promptly after the annual meeting.

If this proposal is approved by the stockholders, we will make conforming amendments to our by-laws to require the vote of a majority of the shares cast for the amendment or repeal of our by-laws.

#### **Recommendation of the Board**

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE “FOR” APPROVAL OF AMENDMENTS TO OUR AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO ELIMINATE SUPERMAJORITY VOTING REQUIREMENTS.**

## PROPOSAL 4

### APPROVAL OF AMENDMENTS TO OUR AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO DECLASSIFY THE BOARD OF DIRECTORS

At our 2015 annual meeting of stockholders, our stockholders voted to request that our board of directors take the steps necessary to reorganize the board of directors into one class with each director subject to election each year. As part of the request, our stockholders proposed that the Company would have the option to phase such declassification in over three years.

In 2016, our board of directors, after carefully considering the advantages and disadvantage of reorganizing the board of directors into one class with each director subject to election each year, unanimously adopted a resolution approving and declaring the advisability of amendments to our Existing Certificate that would declassify our board of directors over a three-year period and provide for the annual election of all of our directors commencing at the 2017 annual meeting, subject to obtaining approval of such amendments by our stockholders at the 2016 annual meeting.

Despite receiving the affirmative votes of holders of over 68% of the outstanding shares at the 2016 annual meeting, the proposal failed to receive the affirmative vote of holders of 75% of the outstanding shares, which is the required threshold for approval of the proposal.

In 2017, our board of directors, after further careful consideration, unanimously adopted a resolution approving and declaring the advisability of amendments to our Existing Certificate that would immediately declassify our board of directors and provide for the annual election of all of our directors commencing at the 2018 annual meeting, subject to obtaining approval of such amendments by our stockholders at the 2017 annual meeting.

Despite receiving the affirmative votes of holders of over 69% of the outstanding shares at the 2017 annual meeting, the proposal failed to receive the affirmative vote of holders of 75% of the outstanding shares, which is the required threshold for approval of the proposal.

Our board of directors continues to believe that the amendments described below are in the best interests of the Company's stockholders, and, in light of the strong support received at both the 2016 and 2017 annual meetings, our board of directors has unanimously adopted a resolution approving and declaring the advisability of the below amendments to our Existing Certificate, to declassify the board. After careful review and consideration, our board of directors has determined that it is in the best interests of the Company's stockholders to, upon approval by the Company's stockholders, declassify our board of directors and provide for annual election of all of our directors commencing at the 2019 annual meeting. If this Proposal 4 is approved by the stockholders, the terms for all directors will end at the 2019 annual meeting, and commencing with the 2019 annual meeting, all directors will be elected for one-year terms at each subsequent annual meeting. If this Proposal 4 is approved, any director appointed by the board of directors as a result of a newly created directorship or to fill a vacancy would hold office until the next occurring annual meeting.

Article VI, Section 3 of our Existing Certificate currently provides that our directors are divided into three classes, with each class serving a three-year term. Under the proposed amendments to our Existing Certificate in this Proposal 4, Article VI, Section 3 of the Existing Certificate would be amended to eliminate the classified board structure. If the proposed amendments are approved, commencing with the 2019 annual meeting of stockholders, all directors will stand for election for one-year terms expiring at the next succeeding annual meeting of stockholders. In all cases, each director will hold office until his or her successor is duly elected and qualified or until his or her earlier resignation or removal. Any director appointed to the board of directors to fill a vacancy following the 2019 annual meeting of stockholders will hold office for a term expiring at the next annual meeting of stockholders following such appointment. Corresponding changes related to the declassification of the board would be made to Article VI, Section 4 of the Existing Certificate pertaining to vacancies on the board of directors. Article VI, Section 5 of the Existing Certificate, which currently provides



that directors may be removed by stockholders only for cause, would also be amended to allow for removal of directors without cause. If the stockholders do not approve this Proposal 4, our board of directors will remain classified and our directors will continue to be subject to the classifications set forth in our Existing Certificate.

This description of the proposed amendments to our Existing Certificate is a summary and is qualified by the full text of the proposed amendments to our Existing Certificate, which is attached to this proxy statement as Annex A and is marked to show the changes described above.

To be approved, the proposed amendments to our Existing Certificate require an affirmative vote of holders of 75% of the outstanding shares entitled to vote on the record date. If approved, the proposed amendments to our Existing Certificate will become effective upon the filing of an amended and restated certificate of incorporation with the Secretary of State of the State of Delaware, which we would do promptly after the annual meeting.

### **Recommendation of the Board**

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE “FOR” THE APPROVAL OF AMENDMENTS TO OUR AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO DECLASSIFY THE BOARD OF DIRECTORS.**

## PROPOSAL 5

### APPROVAL OF AMENDMENT TO OUR AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO ELIMINATE THE PROHIBITION ON STOCKHOLDERS' ABILITY TO CALL A SPECIAL MEETING

Our Existing Certificate and our by-laws provide that special meetings of the stockholders may be called only by the affirmative vote of a majority of the board of directors.

As part of our board of directors' ongoing review of corporate governance practices, the board of directors has reviewed and considered the advantages and disadvantages of permitting stockholders to call special meetings. Stockholder-called special meetings may divert management's time away from the Company's day-to-day operations and involve significant organization, distribution, legal and other costs, which may ultimately be counter to the best interest of the Company's stockholders as a whole. The board of directors also recognizes that the ability to call special meetings would allow stockholders to convene to vote on matters outside of the annual meeting that are important to the Company's growth and success. As a result, our board of directors believes that stockholders, or groups of stockholders, owning at least 25% of the Company's outstanding common stock (the "Requisite Threshold") should have the ability to call special meetings.

In 2017, our board of directors unanimously adopted a resolution approving and declaring the advisability of an amendment to our Existing Certificate to eliminate the prohibition on stockholders' ability to call a special meeting, subject to obtaining approval of such amendments by our stockholders at the 2017 annual meeting, and unanimously approved, subject to stockholder approval of this proposal, amendments to our by-laws to establish the requirements and procedures for stockholders to call special meetings.

Despite receiving the affirmative votes of holders of over 69% of the outstanding shares at the 2017 annual meeting, the proposal failed to receive the affirmative vote of holders of 75% of the outstanding shares, which is the required threshold for approval of the proposal. Our board of directors has again unanimously adopted a resolution approving and declaring the advisability of an amendment to our Existing Certificate to remove the first sentence of Article V, Section 2, which provides that special meetings may only be called by the affirmative vote of a majority of the board of directors. Our board of directors believes that this amendment is in the best interests of the Company's stockholders. Our board of directors has unanimously approved, subject to stockholder approval of this proposal, amendments to our by-laws to establish the requirements and procedures for stockholders to call special meetings (the "By-law Amendment"). The By-law Amendment provides that stockholders, or groups of stockholders, holding the Requisite Threshold may direct the Company's Secretary to call special meetings. The By-law Amendment will become effective only upon approval of this proposal.

The above description of the proposed amendment to our Existing Certificate is a summary and is qualified by the full text of the proposed amendment to our Existing Certificate, which is attached to this proxy statement as Annex A and is marked to show the changes described above.

To be approved, the proposed amendment to our Existing Certificate requires an affirmative vote of holders of 75% of the outstanding shares entitled to vote on the record date. If approved, the proposed amendment to our Existing Certificate will become effective upon the filing of an amended and restated certificate of incorporation with the Secretary of State of the State of Delaware, which we would do promptly after the annual meeting.

#### Recommendation of the Board

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" APPROVAL OF AN AMENDMENT TO OUR AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO ELIMINATE THE PROHIBITION ON STOCKHOLDERS' ABILITY TO CALL A SPECIAL MEETING.**

## PROPOSAL 6

### APPROVAL OF THE IROBOT CORPORATION 2018 STOCK OPTION AND INCENTIVE PLAN

#### Proposal

The board of directors believes that stock-based incentive awards can play an important role in the success of the Company by encouraging and enabling the employees, officers, non-employee directors and consultants of the Company and its subsidiaries upon whose judgment, initiative and efforts the Company largely depends for the successful conduct of its business to acquire a proprietary interest in the Company. The board of directors believes that providing such persons with a direct stake in the Company assures a closer identification of the interests of such individuals with those of the Company and its stockholders, thereby stimulating their efforts on the Company's behalf and strengthening their desire to remain with the Company.

On March 26, 2018, the board of directors adopted, subject to stockholder approval, the 2018 Stock Plan. The 2018 Stock Plan is designed to enhance the flexibility to grant equity awards to our officers, employees, non-employee directors and consultants and to ensure that we can continue to grant equity awards to eligible recipients at levels determined to be appropriate by the board of directors and/or the compensation and talent committee. A copy of the 2018 Stock Plan is attached as Annex B to this proxy statement and is incorporated herein by reference.

If our 2018 Stock Plan is approved, we intend to discontinue granting awards under our 2015 Stock Plan.

As of December 30, 2017, there were stock options to acquire 712,954 shares of common stock outstanding under our equity compensation plans, with a weighted average exercise price of \$34.34 and a weighted average remaining term of 4.27 years. In addition, as of December 30, 2017, there were 938,453 unvested full value awards with time-based vesting and 242,061 unvested full value awards with performance vesting outstanding at target under our equity compensation plans. Other than the foregoing, no awards under our equity compensation plans were outstanding as of December 30, 2017.

#### Summary of Material Features of the 2018 Stock Plan

The material features of the 2018 Stock Plan are:

- The maximum number of shares of common stock to be issued under the 2018 Stock Plan is 1,750,000;
- The award of stock options (both incentive and non-qualified options), stock appreciation rights, restricted stock, restricted stock units, unrestricted stock, cash-based awards, and dividend equivalent rights and is permitted;
- Shares tendered or held back for taxes will not be added back to the reserved pool under the 2018 Stock Plan. Upon the exercise of a stock appreciation right that is settled in shares of common stock, the full number of shares underlying the award will be charged to the reserved pool. Additionally, shares we reacquire on the open market will not be added to the reserved pool under the 2018 Stock Plan;
- Stock options and stock appreciation rights will not be repriced in any manner without stockholder approval;
- The value of all awards awarded under the 2018 Stock Plan and all other cash compensation paid by us to any non-employee director in any calendar year may not exceed \$750,000 and no more than 50,000 shares of common stock may be issued pursuant to awards under the 2018 Stock Plan to non-employee directors in any calendar year;
- Minimum vesting of one year required for all equity awards, other than a limited number of excepted awards under the 2018 Plan;

- Any dividends or dividend equivalents payable with respect to any equity award are subject to the same vesting provisions as the underlying award;
- Any material amendment to the 2018 Stock Plan is subject to approval by our stockholders; and
- The term of the 2018 Stock Plan will expire on May 23, 2028.

Based solely on the closing price of our common stock as reported by NASDAQ on March 28, 2018 and the maximum number of shares that would have been available for awards as of such date under the 2018 Stock Plan, the maximum aggregate market value of the common stock that could potentially be issued under the 2018 Stock Plan is \$110,407,500. The shares of common stock underlying any awards that are forfeited, canceled or otherwise terminated, other than by exercise, under the 2018 Stock Plan or the 2015 Stock Plan will be added back to the shares of common stock available for issuance under the 2018 Stock Plan. Shares tendered or held back upon exercise of a stock option or settlement of an award under the 2018 Stock Plan to cover the exercise price or tax withholding and (ii) shares subject to a stock appreciation right that are not issued in connection with the stock settlement of the stock appreciation right upon exercise thereof, will not be added back to the shares of common stock available for issuance under the 2018 Stock Plan. In addition, shares of common stock repurchased on the open market will not be added back to the shares of common stock available for issuance under the 2018 Stock Plan.

### Rationale for Share Increase

The 2018 Stock Plan is critical to our ongoing effort to build stockholder value. Equity incentive awards are an important component of our executive and non-executive employees' compensation. Our compensation and talent committee and the board of directors believe that we must continue to offer a competitive equity compensation program in order to attract, retain and motivate the talented and qualified employees necessary for our continued growth and success.

We manage our long-term stockholder dilution by limiting the number of equity incentive awards granted annually. The compensation and talent committee carefully monitors our annual net burn rate, total dilution and equity expense in order to maximize stockholder value by granting only the number of equity incentive awards that it believes are necessary and appropriate to attract, reward and retain our employees. Our compensation philosophy reflects broad-based eligibility for equity incentive awards for high performing employees. By doing so, we link the interests of those employees with those of our stockholders and motivate our employees to act as owners of the business.

### Burn rate

The following table sets forth information regarding historical awards granted and earned for the 2015 through 2017 fiscal year period, and the corresponding burn rate, which is defined as the number of shares subject to equity-based awards granted in a year divided by the weighted average number of shares of common stock outstanding for that year, for each of the last three fiscal years:

Share Element	2015	2016	2017
Stock Options Granted	323,104	314,770	10,975
Time-Based Full-Value Awards Granted	505,277	458,237	396,164
Performance Based Full-Value Awards Granted	71,133	82,085	105,650
<b>Total Awards Granted</b>	<b>899,514</b>	<b>855,092</b>	<b>512,789</b>
Weighted average common shares outstanding during the fiscal year	29,549,859	27,698,127	27,611,325
<b>Annual Burn Rate</b>	<b>3.04%</b>	<b>3.09%</b>	<b>1.86%</b>
<b>Three-Year Average Burn Rate</b>		<b>2.66%</b>	



Our compensation and talent committee determined the size of reserved pool under the 2018 Stock Plan based on projected equity awards to anticipated new hires, projected annual equity awards to existing employees and an assessment of the magnitude of increase that our institutional investors and the firms that advise them would likely find acceptable. We anticipate that if our request to increase the share reserve is approved by our stockholders, it will be sufficient to provide equity incentives to attract, retain, and motivate employees for a period of three years or less following the effective date of the 2018 Stock Plan.

### Summary of the 2018 Stock Plan

The following description of certain features of the 2018 Stock Plan is intended to be a summary only. The summary is qualified in its entirety by the full text of the 2018 Stock Plan, which is attached hereto as Annex B.

*Administration.* The 2018 Stock Plan will be administered by the compensation and talent committee. The compensation and talent committee has full power to select, from among the individuals eligible for awards, the individuals to whom awards will be granted, to make any combination of awards to participants, and to determine the specific terms and conditions of each award, subject to the provisions of the 2018 Stock Plan. The compensation and talent committee may delegate to our chief executive officer or another executive officer or a committee comprised of the chief executive officer and another officer or officers of the Company the authority to grant awards to employees who are not subject to the reporting and other provisions of Section 16 of the Exchange Act and not members of the delegated committee, subject to certain limitations and guidelines.

*Eligibility; Plan Limits.* All full-time and part-time officers, employees, non-employee directors and consultants are eligible to participate in the 2018 Stock Plan, subject to the discretion of the administrator. As of March 26, 2018, approximately 958 individuals would have been eligible to participate in the 2018 Stock Plan had it been effective on such date, which includes five executive officers, 946 employees who are not executive officers, six non-employee directors and one consultant. There are certain limits on the number of awards that may be granted under the 2018 Stock Plan. For example, no more than 1,750,000 shares of common stock may be granted in the form of incentive stock options.

*Director Compensation Limit.* The 2018 Stock Plan provides that the value of all awards awarded under the 2018 Stock Plan and all other cash compensation paid by the Company to any non-employee director in any calendar year shall not exceed \$750,000 and no more than 50,000 shares of common stock may be issued pursuant to awards under the 2018 Stock Plan to any non-employee director in any calendar year.

*Minimum Vesting Period.* The minimum vesting period for each equity award granted under the 2018 Stock Plan must be at least one year, provided (1) that up to 5% of the shares authorized for issuance under the 2018 Plan may be utilized for unrestricted stock awards or other equity awards with a minimum vesting period of less than one year and (2) annual awards to non-employee directors that occur in connection with the Company's annual meeting of stockholders may vest on the date of the Company's next annual meeting of stockholders but in no event shall the vesting period for such awards be less than 50 weeks. In addition, the Administrator may grant equity awards that vest within one year (i) if such awards are granted as substitute awards in replacement of other awards (or awards previously granted by an entity being acquired (or assets of which are being acquired)) that were scheduled to vest within one year or (ii) if such awards are being granted in connection with an elective deferral of cash compensation that, absent a deferral election, otherwise would have been paid to the grantee within the one year.

*Stock Options.* The 2018 Stock Plan permits the granting of (1) options to purchase common stock intended to qualify as incentive stock options under Section 422 of the Code and (2) options that do not so qualify. Options granted under the 2018 Stock Plan will be non-qualified options if they fail to qualify as incentive options or exceed the annual limit on incentive stock options. Incentive stock options may only be granted to employees of the Company and its subsidiaries. Non-qualified options may be granted to any persons

eligible to receive incentive options and to non-employee directors and consultants. The option exercise price of each option will be determined by the Compensation Committee but may not be less than 100% of the fair market value of the common stock on the date of grant. Fair market value for this purpose will be the last reported sale price of the shares of common stock on NASDAQ on the date immediately preceding the grant date. The exercise price of an option may not be reduced after the date of the option grant, other than to appropriately reflect changes in our capital structure.

The term of each option will be fixed by the Compensation Committee and may not exceed ten years from the date of grant. The Compensation Committee will determine at what time or times each option may be exercised. Options may be made exercisable in installments and the exercisability of options may be accelerated by the Compensation Committee. In general, unless otherwise permitted by the compensation and talent committee, no option granted under the 2018 Stock Plan is transferable by the optionee other than by will or by the laws of descent and distribution or pursuant to a domestic relations order, and options may be exercised during the optionee's lifetime only by the optionee, or by the optionee's legal representative or guardian in the case of the optionee's incapacity.

Upon exercise of options, the option exercise price must be paid in full either in cash, by certified or bank check or other instrument acceptable to the compensation and talent committee or by delivery (or attestation to the ownership) of shares of common stock that are beneficially owned by the optionee and that are not subject to risk of forfeiture. Subject to applicable law, the exercise price may also be delivered to the Company by a broker pursuant to irrevocable instructions to the broker from the optionee. In addition, the compensation and talent committee may permit non-qualified options to be exercised using a net exercise feature which reduces the number of shares issued to the optionee by the number of shares with a fair market value equal to the exercise price.

To qualify as incentive options, options must meet additional federal tax requirements, including a \$100,000 limit on the value of shares subject to incentive options that first become exercisable by a participant in any one calendar year.

*Stock Appreciation Rights.* The compensation and talent committee may award stock appreciation rights subject to such conditions and restrictions as the compensation and talent committee may determine. Stock appreciation rights entitle the recipient to cash or shares of common stock equal to the value of the appreciation in the stock price over the exercise price. The exercise price is the fair market value of the common stock on the date of grant. The term of a stock appreciation right may not exceed ten years.

*Restricted Stock.* The compensation and talent committee may award shares of common stock to participants subject to such conditions and restrictions as the compensation and talent committee may determine. These conditions and restrictions may include the achievement of certain performance goals and/or continued employment with us through a specified restricted period. During the vesting period, restricted stock awards may be credited with dividend equivalent rights (but dividend equivalents payable with respect to restricted stock awards shall not be paid unless and until the applicable performance goals are attained and/or the continued employment periods are completed).

*Restricted Stock Units.* The compensation and talent committee may award restricted stock units to participants. Restricted stock units are ultimately payable in the form of cash or shares of common stock subject to such conditions and restrictions as the compensation and talent committee may determine. These conditions and restrictions may include the achievement of certain performance goals and/or continued employment with the Company through a specified vesting period. In the compensation and talent committee's sole discretion, it may permit a participant to make an advance election to receive a portion of his or her future cash compensation otherwise due in the form of a restricted stock unit award, subject to the participant's compliance with the



procedures established by the Compensation Committee and requirements of Section 409A of the Code. During the deferral period, the deferred stock awards may be credited with dividend equivalent rights.

*Unrestricted Stock Awards.* The compensation and talent committee may also grant shares of common stock which are free from any restrictions under the 2018 Stock Plan. Unrestricted stock may be granted to any participant in recognition of past services or other valid consideration and may be issued in lieu of cash compensation due to such participant.

*Dividend Equivalent Rights.* The compensation and talent committee may grant dividend equivalent rights to participants, which entitle the recipient to receive credits for dividends that would be paid if the recipient had held specified shares of common stock. Dividend equivalent rights granted as a component of another award (other than a stock option or stock appreciation right) may be paid only if the related award becomes vested. Dividend equivalent rights may not be granted as a component of a stock option or stock appreciation right award. Dividend equivalent rights may be settled in cash, shares of common stock or a combination thereof, in a single installment or installments, as specified in the award.

*Cash-Based Awards.* The compensation and talent committee may grant cash bonuses under the 2018 Stock Plan to participants. The cash bonuses may be subject to the achievement of certain performance goals.

*Change of Control Provisions.* The 2018 Stock Plan provides that upon the effectiveness of a “sale event,” as defined in the 2018 Stock Plan, all awards will terminate in connection with a sale event unless they are assumed, substituted, or continued by the successor entity. To the extent the parties to the sale event do not provide for awards under the 2018 Stock Plan to be assumed, substituted or continued by the successor entity, awards of stock options and stock appreciation rights will become exercisable prior to their termination. In addition, the Company may make or provide for payment, in cash or in kind, to participants holding options and stock appreciation rights equal to the difference between the per share cash consideration and the exercise price of the options or stock appreciation rights. The compensation and talent committee shall also have the option to make or provide for a payment, in cash or in kind, to grantees holding other awards in an amount equal to the per share cash consideration multiplied by the number of vested shares under such awards. Unless otherwise determined by our board of directors, any repurchase rights or other rights of the Company that relate to an award will continue to apply to consideration (including cash) that has been substituted, assumed, amended or paid in connection with a sale event.

*Adjustments for Stock Dividends, Stock Splits, Etc.* The 2018 Stock Plan requires the compensation and talent committee to make appropriate adjustments to the number of shares of common stock that are subject to the 2018 Stock Plan, to certain limits in the 2018 Stock Plan, and to any outstanding awards to reflect stock dividends, stock splits, extraordinary cash dividends and similar events.

*Tax Withholding.* Participants in the 2018 Stock Plan are responsible for the payment of any federal, state or local taxes that the Company is required by law to withhold upon the exercise of options or stock appreciation rights or vesting of other awards. Subject to approval by the compensation and talent committee, participants may elect to have their tax withholding obligations satisfied by authorizing the Company to withhold shares of common stock to be issued pursuant to exercise or vesting. The compensation and talent committee may also require awards to be subject to mandatory share withholding up to the required withholding amount.

*Amendments and Termination.* The board of directors may at any time amend or discontinue the 2018 Stock Plan and the compensation and talent committee may at any time amend or cancel any outstanding award for the purpose of satisfying changes in the law or for any other lawful purpose. However, no such action may adversely affect any rights under any outstanding award without the holder’s consent. To the extent required under the rules of NASDAQ, any amendments that materially change the terms of the 2018 Stock Plan will be

subject to approval by our stockholders. Amendments shall also be subject to approval by our stockholders if and to the extent determined by the compensation and talent committee to be required by the Code to preserve the qualified status of incentive options.

*Effective Date of Plan.* The 2018 Stock Plan was approved by our board of directors on March 26, 2018. Awards of incentive options may be granted under the 2018 Stock Plan until March 25, 2028. No other awards may be granted under the 2018 Stock Plan after the date that is ten years from the date of stockholder approval.

## New Plan Benefits

Because the grant of awards under the 2018 Stock Plan is within the discretion of the compensation and talent committee, the Company cannot determine the dollar value or number of shares of common stock that will in the future be received by or allocated to any participant in the 2018 Stock Plan. Accordingly, in lieu of providing information regarding benefits that will be received under the 2018 Stock Plan, the following table provides information concerning the benefits that were received by the following persons and groups during 2017: each named executive officer; all current executive officers, as a group; all current directors who are not executive officers, as a group; and all current employees who are not executive officers, as a group.

Name and Position	Options		Stock Awards	
	Average Exercise Price (\$)	Number of Awards (#)	Dollar Value (\$)(1)	Number of Awards (#)
<b>Colin M. Angle</b> , <i>Chairman, Chief Executive Officer and Director</i>			4,153,558	72,450
<b>Alison Dean</b> , <i>Executive Vice President, Chief Financial Officer, Treasurer and Principal Accounting Officer</i>			1,433,250	25,000
<b>Christian Cerda</b> , <i>Chief Operating Officer</i>			1,384,520	24,150
<b>Russell J. Campanello</b> , <i>Executive Vice President, Human Resources and Corporate Communications</i>			742,424	12,950
<b>Glen D. Weinstein</b> , <i>Executive Vice President and Chief Legal Officer</i>			891,482	15,550
All current executive officers, as a group			8,605,234(3)	150,100
All current directors who are not executive officers, as a group			1,129,768(3)	13,315
All current employees who are not executive officers, as a group	57.33(2)	10,975	25,096,689(3)	338,399

- (1) The valuation of stock awards is based on the grant date fair value computed in accordance with ASC Topic 718 disregarding any estimates of forfeitures. The grant date fair value is the fair market value of our common stock on the date of grant multiplied by the number of shares of common stock underlying such stock award.
- (2) Represents the weighted average exercise price for the group.
- (3) Represents the aggregate grant date fair value for the group.



## Tax Aspects Under the Code

The following is a summary of the principal federal income tax consequences of certain transactions under the 2018 Stock Plan. It does not describe all federal tax consequences under the 2018 Stock Plan, nor does it describe state or local tax consequences.

*Incentive Options.* No taxable income is generally realized by the optionee upon the grant or exercise of an incentive option. If shares of common stock issued to an optionee pursuant to the exercise of an incentive option are sold or transferred after two years from the date of grant and after one year from the date of exercise, then (i) upon sale of such shares, any amount realized in excess of the option price (the amount paid for the shares) will be taxed to the optionee as a long-term capital gain, and any loss sustained will be a long-term capital loss, and (ii) the Company will not be entitled to any deduction for federal income tax purposes. The exercise of an incentive option will give rise to an item of tax preference that may result in alternative minimum tax liability for the optionee.

If shares of common stock acquired upon the exercise of an incentive option are disposed of prior to the expiration of the two-year and one-year holding periods described above (a “disqualifying disposition”), generally (i) the optionee will realize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of the shares of common stock at exercise (or, if less, the amount realized on a sale of such shares of common stock) over the option price thereof, and (ii) we will be entitled to deduct such amount. Special rules will apply where all or a portion of the exercise price of the incentive option is paid by tendering shares of common stock.

If an incentive option is exercised at a time when it no longer qualifies for the tax treatment described above, the option is treated as a non-qualified option. Generally, an incentive option will not be eligible for the tax treatment described above if it is exercised more than three months following termination of employment (or one year in the case of termination of employment by reason of disability). In the case of termination of employment by reason of death, the three-month rule does not apply.

*Non-Qualified Options.* No income is realized by the optionee at the time a non-qualified option is granted. Generally (i) at exercise, ordinary income is realized by the optionee in an amount equal to the difference between the option price and the fair market value of the shares of common stock on the date of exercise, and we receive a tax deduction for the same amount, and (ii) at disposition, appreciation or depreciation after the date of exercise is treated as either short-term or long-term capital gain or loss depending on how long the shares of common stock have been held. Special rules will apply where all or a portion of the exercise price of the non-qualified option is paid by tendering shares of common stock. Upon exercise, the optionee will also be subject to Social Security taxes on the excess of the fair market value over the exercise price of the option.

*Other Awards.* The Company generally will be entitled to a tax deduction in connection with other awards under the 2018 Stock Plan in an amount equal to the ordinary income realized by the participant at the time the participant recognizes such income. Participants typically are subject to income tax and recognize such tax at the time that an award is exercised, vests or becomes non-forfeitable, unless the award provides for a further deferral.

*Parachute Payments.* The vesting of any portion of an award that is accelerated due to the occurrence of a change in control (such as a sale event) may cause a portion of the payments with respect to such accelerated awards to be treated as “parachute payments” as defined in the Code. Any such parachute payments may be non-deductible to the Company, in whole or in part, and may subject the recipient to a non-deductible 20% federal excise tax on all or a portion of such payment (in addition to other taxes ordinarily payable).

*Limitation on Deductions.* Under Section 162(m) of the Code, the Company’s deduction for awards under the 2018 Stock Plan may be limited to the extent that any “covered employee” (as defined in Section 162(m) of the Code) receives compensation in excess of \$1 million a year.

## Equity Compensation Plan Information

The following table provides information as of December 30, 2017 regarding shares of common stock that may be issued under our equity compensation plans, consisting of the Amended and Restated 2004 Stock Option and Incentive Plan, the 2005 Stock Option and Incentive Plan, as amended, the Evolution Robotics, Inc. 2007 Stock Plan, and the 2015 Stock Plan.

Plan Category	Number of securities to be issued upon exercise of outstanding options, units and rights (a)	Weighted average exercise price of outstanding options, units and rights (b)	Number of securities remaining available for future issuance under equity compensation plan (excluding securities referenced in column (a))(c)
Equity compensation plans approved by security holders	1,989,469(1)	\$34.72	590,655(2)
Equity compensation plans not approved by security holders	9,099(3)	\$ 4.65	—
<b>Total</b>	<b>1,999,568(4)</b>	<b>\$34.34</b>	<b>590,655</b>

- (1) Includes 703,855 shares of common stock issuable upon the exercise of outstanding options, 938,453 shares of common stock issuable upon the vesting of restricted stock units, and 347,161 shares of common stock issuable upon the vesting of PSUs at maximum.
- (2) As of December 30, 2017, there were no shares available for grants under the Amended and Restated 2004 Stock Option and Incentive Plan, our 2005 Stock Option and Incentive Plan, as amended, and the Evolution Robotics, Inc. 2007 Stock Plan, and 590,655 shares available under the 2015 Stock Plan. In connection with the adoption of the 2015 Stock Plan in 2015, the board of directors determined that no further shares would be granted under any previous Plans.
- (3) Represents shares issued pursuant to the Evolution Robotics, Inc. 2007 Stock Plan, acquired by the Company as part of the acquisition of Evolution Robotics, Inc., on October 1, 2012.
- (4) Includes 712,954 shares of common stock issuable upon the exercise of outstanding options.

## Recommendation of the Board

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE “FOR” THE APPROVAL OF THE IROBOT CORPORATION 2018 STOCK OPTION AND INCENTIVE PLAN**

**PROPOSAL 7****ADVISORY VOTE TO APPROVE THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS**

At our 2017 annual meeting of stockholders, our stockholders voted, on a non-binding, advisory basis, for the Company to hold future, non-binding advisory votes on the compensation of our named executive officers on an annual basis. In accordance with the advisory vote by our stockholders, we hold a non-binding, advisory vote on the compensation of our named executive officers every year.

The following proposal, commonly known as a “say on pay” proposal, gives our stockholders the opportunity to vote to approve, on an advisory basis, the compensation of our named executive officers. This vote is not intended to address any specific item of compensation or the compensation of any particular officer, but rather the overall compensation of our named executive officers and our compensation philosophy, policies and practices, as discussed in this proxy statement. Accordingly, we are asking our stockholders to vote “FOR” the following resolution at our annual meeting of stockholders:

“RESOLVED, that the Company’s stockholders approve, on an advisory basis, the compensation of the Company’s named executive officers, as disclosed in this proxy statement, including the Compensation Discussion and Analysis, compensation tables and narrative discussion.”

Before you vote, we recommend that you read the Compensation Discussion and Analysis and Executive Compensation Summary sections of this proxy statement for additional details on the Company’s executive compensation programs and philosophy.

This vote is advisory, and therefore not binding on the Company, the compensation and talent committee or our board of directors. However, our board of directors and our compensation and talent committee value the opinions of our stockholders and intend to take into account the outcome of the vote when considering future compensation decisions for our named executive officers.

**Recommendation of the Board**

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE “FOR” THE APPROVAL, ON AN ADVISORY BASIS, OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS AS DISCLOSED IN THIS PROXY STATEMENT.**

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding beneficial ownership of the Company's common stock as of March 9, 2018: (i) by each person who is known by the Company to beneficially own more than 5% of the outstanding shares of common stock; (ii) by each director or nominee of the Company; (iii) by each named executive officer of the Company; and (iv) by all directors and executive officers of the Company as a group. Unless otherwise noted below, the address of each person listed on the table is c/o iRobot Corporation, 8 Crosby Drive, Bedford, Massachusetts 01730.

Name of Beneficial Owner	Shares Beneficially Owned(1)	Percentage of Shares Beneficially Owned(2)
BlackRock, Inc.(3) 55 East 52 <sup>nd</sup> St. New York, NY 10055	3,778,273	13.48%
The Vanguard Group, Inc.(4) 100 Vanguard Boulevard Malvern, PA 19355	3,211,936	11.46%
Colin M. Angle(5)	608,387	2.17%
Alison Dean(6)	64,750	*
Christian Cerda(7)	75,419	*
Russell J. Campanello(8)	101,278	*
Glen D. Weinstein(9)	77,056	*
Mohamad Ali	9,052	*
Michael Bell	4,385	*
Ronald Chwang(10)	11,276	*
Deborah G. Ellinger	16,504	*
Elisha Finney(11)	960	*
Andrew Miller	499	*
Michelle V. Stacy	14,276	*
All executive officers, directors and nominees as a group (12 individuals)	983,842	3.51%

- \* Represents less than 1% of the outstanding common stock.
- (1) Beneficial ownership is determined in accordance with the rules of the SEC and includes voting and investment power with respect to shares. Unless otherwise indicated below, to the knowledge of the Company, all persons listed below have sole voting and investment power with respect to their shares of common stock, except to the extent authority is shared by spouses under applicable law. Pursuant to the rules of the SEC, the number of shares of common stock deemed outstanding includes (i) shares issuable pursuant to options held by the respective person or group that are currently exercisable or may be exercised within 60 days of March 9, 2018 and (ii) shares issuable pursuant to restricted stock units held by the respective person or group that vest within 60 days of March 9, 2018.
  - (2) Applicable percentage of ownership as of March 9, 2018 is based upon 28,029,771 shares of common stock outstanding.
  - (3) BlackRock Inc. has sole voting power with respect to 3,709,058 shares and sole dispositive power with respect to 3,778,273 shares. The address of BlackRock Inc. is 55 East 52nd Street, New York, NY 10055. This information has been obtained from a Schedule 13G/A filed by BlackRock Inc. with the SEC on January 23, 2018.

- (4) The Vanguard Group, Inc. has sole voting power with respect to 51,753 shares, shared voting power with respect to 6,200 shares, sole dispositive power with respect to 3,156,083 shares and shared dispositive power with respect to 55,853 shares. Vanguard Fiduciary Trust Company (“VFTC”), a wholly-owned subsidiary of The Vanguard Group, Inc., is the beneficial owner of 49,653 shares as a result of its serving as investment manager of collective trust accounts. Vanguard Investments Australia, Ltd. (“VIA”), a wholly-owned subsidiary of The Vanguard Group, Inc., is the beneficial owner of 8,300 shares as a result of its serving as investment manager of Australian investment offerings. The address of each reporting entity is 100 Vanguard Boulevard, Malvern, PA 19355. This information has been obtained from a Schedule 13G/A filed by The Vanguard Group, Inc. with the SEC on February 9, 2018.
- (5) Includes 177,207 shares issuable upon exercise of stock options and 21,490 shares issuable upon vesting of restricted stock units.
- (6) Includes 6,822 shares issuable upon exercise of stock options and 7,921 shares issuable upon vesting of restricted stock units.
- (7) Includes 35,782 shares issuable upon exercise of stock options and 6,936 shares issuable upon vesting of restricted stock units.
- (8) Includes 35,325 shares issuable upon exercise of stock options and 3,773 shares issuable upon vesting of restricted stock units.
- (9) Includes 20,546 shares issuable upon exercise of stock options and 4,882 shares issuable upon vesting of restricted stock units.
- (10) Includes 79,210 shares held in a trust for the benefit of certain of Dr. Chwang’s family members. As co-trustees of the family trust, shares voting and dispositive power over the shares held by the trust with Dr. Chwang’s spouse.
- (11) Includes 960 shares issuable upon vesting of restricted stock units.

## OTHER MATTERS

The board of directors knows of no other matters to be brought before the annual meeting. If any other matters are properly brought before the annual meeting, the persons appointed in the accompanying proxy intend to vote the shares represented thereby in accordance with their best judgment on such matters, under applicable laws.

## STOCKHOLDER PROPOSALS

Proposals of stockholders intended for inclusion in the proxy statement to be furnished to all stockholders entitled to vote at our 2019 annual meeting of stockholders, pursuant to Rule 14a-8 promulgated under the Exchange Act by the Securities and Exchange Commission, must be received at the Company's principal executive offices not later than December 11, 2018. Stockholders who meet the applicable eligibility requirements under the proxy access provision of our by-laws and wish to include nominees for our board of directors in the Company's proxy statement for the 2019 annual meeting, or stockholders who wish to make a proposal at the 2019 annual meeting (other than a proposal made pursuant to Rule 14a-8 or pursuant to the proxy access provision of our by-laws), must in each case notify us between January 23, 2019 and February 22, 2019. If a stockholder who wishes to present a proposal fails to notify us by February 22, 2019 and such proposal is brought before the 2019 annual meeting, then under the Securities and Exchange Commission's proxy rules, the proxies solicited by management with respect to the 2019 annual meeting will confer discretionary voting authority with respect to the stockholder's proposal on the persons selected by management to vote the proxies. If a stockholder makes a timely notification, the proxies may still exercise discretionary voting authority under circumstances consistent with the SEC's proxy rules. In order to curtail controversy as to the date on which we received a proposal, it is suggested that proponents submit their proposals by Certified Mail, Return Receipt Requested, to iRobot Corporation, 8 Crosby Drive, Bedford, Massachusetts 01730, Attention: Secretary.

## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors, executive officers and persons who own more than ten percent of a registered class of our equity securities to file reports of ownership and changes in ownership with the SEC. Such persons are required by regulations of the SEC to furnish us with copies of all such filings. Based solely on our review of copies of such filings we believe that all such persons complied on a timely basis with all Section 16(a) filing requirements during the fiscal year ended December 30, 2017, except that Messrs. Angle, Cerda, Campanello and Weinstein and Ms. Dean and Finney each did not timely file a Form 4 with respect to one transaction.

## EXPENSES AND SOLICITATION

The Company will pay all costs of soliciting these proxies. In addition, some of our officers and employees may solicit proxies by telephone or in person. We will reimburse brokers for the expenses they incur in forwarding the proxy materials to you. The Company has retained Georgeson LLC to assist us with the solicitation of proxies for a fee not to exceed \$11,000, plus reimbursement for out-of-pocket expenses.

## Exhibit A

iRobot Corporation  
Adjusted EBITDA Reconciliation to GAAP  
(unaudited, in thousands)

	For the twelve months ended	
	December 30, 2017	December 31, 2016
Net income	\$ 50,964	\$ 41,939
Interest income, net	(1,649)	(934)
Income tax expense	25,402	19,422
Depreciation	12,284	9,974
Amortization	13,215	3,632
EBITDA	100,216	74,033
Stock-based compensation expense	19,751	15,995
Net merger, acquisition and divestiture expense	3,109	1,848
Gain on business acquisition	(2,243)	—
Net intellectual property litigation expense	5,068	665
Restructuring expense	—	1,857
Adjusted EBITDA	\$ 125,901	\$ 94,398
<b>Adjusted EBITDA as a % of revenue</b>	<b>14.2%</b>	<b>14.3%</b>

#### Use of Non-GAAP Financial Measures

In evaluating its business, iRobot considers and uses Adjusted EBITDA as a supplemental measure of its operating performance. The Company defines Adjusted EBITDA as earnings before interest, taxes, depreciation, amortization, stock-based compensation expense, net merger, acquisition and divestiture expense, gain on business acquisition, net intellectual property litigation expense, and restructuring expense. The Company also presents Adjusted EBITDA because it believes it is frequently used by securities analysts, investors and other interested parties as a measure of financial performance.

The term Adjusted EBITDA is not defined under U.S. generally accepted accounting principles, or U.S. GAAP, and is not a measure of operating income, operating performance or liquidity presented in accordance with U.S. GAAP. Adjusted EBITDA has limitations as an analytical tool, and when assessing the Company's operating performance, investors should not consider Adjusted EBITDA in isolation, or as a substitute for net income (loss) or other consolidated income statement data prepared in accordance with U.S. GAAP. Among other things, Adjusted EBITDA does not reflect the Company's actual cash expenditures. Other companies may calculate similar measures differently than iRobot, limiting their usefulness as comparative tools. iRobot compensates for these limitations by relying primarily on its GAAP results and using Adjusted EBITDA only supplementally.

ANNEX A

**PROPOSED AMENDMENTS TO OUR CERTIFICATE OF INCORPORATION**

The following are proposed changes to our amended and restated certificate of incorporation as described in Proposals 3, 4 and 5. The text indicated by underline will be added, and the text indicated by strike-through will be deleted.

\*\*\*\*\*

**AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
IROBOT CORPORATION**

iRobot Corporation, a corporation organized and existing under the laws of the State of Delaware (the “Corporation”), hereby certifies as follows:

1. The name of the Corporation is iRobot Corporation. The date of the filing of its original Certificate of Incorporation with the Secretary of State of the State of Delaware was December 20, 2000 (the “Original Certificate”). The name under which the Corporation filed the Original Certificate was iRobot Corporation.
2. This Amended and Restated Certificate of Incorporation (the “Certificate”) amends, restates and integrates the provisions of the Amended and Restated Certificate of Incorporation that was filed with the Secretary of State of the State of Delaware on ~~October 26~~November 15, 2005 (the “Amended and Restated Certificate”), and was duly adopted in accordance with the provisions of Sections 242 and 245 of the Delaware General Corporation Law (the “DGCL”).
3. The text of the Amended and Restated Certificate is hereby amended and restated in its entirety to provide as herein set forth in full.

ARTICLE I

The name of the Corporation is iRobot Corporation.

ARTICLE II

The address of the Corporation’s registered office in the State of Delaware is c/o Corporation Service Company, 2711 Centerville Road, Suite 400, City of Wilmington 19808, County of New Castle. The name of its registered agent at such address is Corporation Service Company.

ARTICLE III

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the DGCL.



## ARTICLE IV

### CAPITAL STOCK

The total number of shares of capital stock which the Corporation shall have authority to issue is One Hundred Five Million (105,000,000) shares, of which (i) One Hundred Million (100,000,000) shares shall be a class designated as common stock, par value \$0.01 per share (the “Common Stock”), and (ii) Five Million (5,000,000) shares shall be a class designated as undesignated preferred stock, par value \$0.01 per share (the “Undesignated Preferred Stock”).

The number of authorized shares of the class of Common Stock and Undesignated Preferred Stock may from time to time be increased or decreased (but not below the number of shares outstanding) by the affirmative vote of the holders of a majority of the outstanding shares of Common Stock entitled to vote, without a vote of the holders of the Undesignated Preferred Stock (except as otherwise provided in any certificate of designations of any series of Undesignated Preferred Stock).

The powers, preferences and rights of, and the qualifications, limitations and restrictions upon, each class or series of stock shall be determined in accordance with, or as set forth below in, this Article IV.

#### A. COMMON STOCK

Subject to all the rights, powers and preferences of the Undesignated Preferred Stock and except as provided by law or in this Article IV (or in any certificate of designations of any series of Undesignated Preferred Stock):

(a) the holders of the Common Stock shall have the exclusive right to vote for the election of directors of the Corporation (the “Directors”) and on all other matters requiring stockholder action, each outstanding share entitling the holder thereof to one vote on each matter properly submitted to the stockholders of the Corporation for their vote; provided, however, that, except as otherwise required by law, holders of Common Stock, as such, shall not be entitled to vote on any amendment to this Certificate (or on any amendment to a certificate of designations of any series of Undesignated Preferred Stock) that alters or changes the powers, preferences, rights or other terms of one or more outstanding series of Undesignated Preferred Stock if the holders of such affected series are entitled to vote, either separately or together with the holders of one or more other such series, on such amendment pursuant to this Certificate (or pursuant to a certificate of designations of any series of Undesignated Preferred Stock) or pursuant to the DGCL;

(b) dividends may be declared and paid or set apart for payment upon the Common Stock out of any assets or funds of the Corporation legally available for the payment of dividends, but only when and as declared by the Board or any authorized committee thereof; and

(c) upon the voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the net assets of the Corporation shall be distributed pro rata to the holders of the Common Stock.

#### B. UNDESIGNATED PREFERRED STOCK

The Board of Directors or any authorized committee thereof is expressly authorized, to the fullest extent permitted by law, to provide for the issuance of the shares of Undesignated Preferred Stock in one or more series of such stock, and by filing a certificate pursuant to applicable law of the State of Delaware, to establish or change from time to time the number of shares of each such series, and to fix the designations, powers, including voting powers, full or limited, or no voting powers, preferences and the relative, participating, optional or other special rights of the shares of each series and any qualifications, limitations and restrictions thereof.

## ARTICLE V

### STOCKHOLDER ACTION

1. Action without Meeting. Except as otherwise provided herein, any action required or permitted to be taken by the stockholders of the Corporation at any annual or special meeting of stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders and may not be taken or effected by a written consent of stockholders in lieu thereof.

2. Special Meetings. ~~Except as otherwise required by statute and subject to the rights, if any, of the holders of any series of Undesignated Preferred Stock, special meetings of the stockholders of the Corporation may be called only by the Board of Directors acting pursuant to a resolution approved by the affirmative vote of a majority of the Directors then in office. Only those matters set forth in the notice of the special meeting may be considered or acted upon at a special meeting of stockholders of the Corporation.~~

## ARTICLE VI

### DIRECTORS

1. General. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors except as otherwise provided herein or required by law.

2. Election of Directors. Election of Directors need not be by written ballot unless the By-laws of the Corporation (the "By-laws") shall so provide.

3. Number of Directors; Term of Office. The number of Directors of the Corporation shall be fixed solely and exclusively by resolution duly adopted from time to time by the Board of Directors.

~~The Directors, other than those who may be elected by the holders of any series of Undesignated Preferred Stock, shall be classified, with respect to the term for which they severally hold office, into three classes, as nearly equal in number as reasonably possible. The initial Class I Directors of the Corporation shall be Colin M. Angle and Ronald Chwang; the initial Class II Directors of the Corporation shall be Helen Greiner, George C. McNamee and Peter Meekin; and the initial Class III Directors of the Corporation shall be Rodney A. Brooks, Andrea Geisser and Jacques S. Gansler. The initial Class I Directors shall serve for a term expiring at the annual meeting of stockholders to be held in 2006, the initial Class II Directors shall serve for a term expiring at the annual meeting of stockholders to be held in 2007, and the initial Class III Directors shall serve for a term expiring at the annual meeting of stockholders to be held in 2008. At each annual meeting of stockholders, Directors elected to succeed those Directors whose terms expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election. **Subject to the rights, if any, of the holders of any series of Undesignated Preferred Stock, at the annual meeting of stockholders of the Corporation that is held in calendar year 2019 and at each annual meeting of stockholders of the Corporation thereafter, all Directors shall be elected to hold office for a one-year term expiring at the next annual meeting of stockholders of the Corporation.** Notwithstanding the foregoing, the Directors elected to each class shall hold office until their successors are duly elected and qualified or until their earlier resignation, death or removal.~~

Notwithstanding the foregoing, whenever, pursuant to the provisions of Article IV of this Certificate, the holders of any one or more series of Undesignated Preferred Stock shall have the right, voting separately as a series or together with holders of other such series, to elect Directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of this Certificate and any certificate of designations applicable thereto.

4. Vacancies. Subject to the rights, if any, of the holders of any series of Undesignated Preferred Stock to elect Directors and to fill vacancies in the Board of Directors relating thereto, any and all vacancies in the Board of Directors, however occurring, including, without limitation, by reason of an increase in size of the Board of Directors, or the death, resignation, disqualification or removal of a Director, shall be filled solely and exclusively by the affirmative vote of a majority of the remaining Directors then in office, even if less than a quorum of the Board of Directors, and not by the stockholders. Any Director appointed in accordance with the preceding sentence shall hold office **for a term expiring at the next annual meeting of stockholders of the Corporation held after such appointment** ~~for the remainder of the full term of the class of Directors in which the new directorship was created or the vacancy occurred and until such Director's successor shall have been duly elected and qualified or until his or her earlier resignation, death or removal. Subject to the rights, if any, of the holders of any series of Undesignated Preferred Stock to elect Directors, when the number of Directors is increased or decreased, the Board of Directors shall, subject to Article VI.3 hereof, determine the class or classes to which the increased or decreased number of Directors shall be apportioned; provided, however, that no decrease in the number of Directors shall shorten the term of any incumbent Director.~~ In the event of a vacancy in the Board of Directors, the remaining Directors, except as otherwise provided by law, shall exercise the powers of the full Board of Directors until the vacancy is filled.

5. Removal. Subject to the rights, if any, of any series of Undesignated Preferred Stock to elect Directors and to remove any Director whom the holders of any such stock have the right to elect, any Director (including persons elected by Directors to fill vacancies in the Board of Directors) may be removed from office ~~(i) only with~~ **without** cause ~~and (ii) only~~ by the affirmative vote of the holders of ~~75% or more~~ **majority** of the shares then entitled to vote at an election of Directors. At least forty-five (45) days prior to any meeting of stockholders at which it is proposed that any Director be removed from office, written notice of such proposed removal ~~and the alleged grounds thereof~~ shall be sent to the Director whose removal will be considered at the meeting.

## ARTICLE VII

### LIMITATION OF LIABILITY

A Director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a Director, except for liability (a) for any breach of the Director's duty of loyalty to the Corporation or its stockholders, (b) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (c) under Section 174 of the DGCL or (d) for any transaction from which the Director derived an improper personal benefit. If the DGCL is amended after the effective date of this Certificate to authorize corporate action further eliminating or limiting the personal liability of Directors, then the liability of a Director of the Corporation shall be eliminated or limited to the fullest extent permitted by the DGCL, as so amended.

Any repeal or modification of this Article VII by either of (i) the stockholders of the Corporation or (ii) an amendment to the DGCL, shall not adversely affect any right or protection existing at the time of such repeal or modification with respect to any acts or omissions occurring before such repeal or modification of a person serving as a Director at the time of such repeal or modification.

## ARTICLE VIII

### AMENDMENT OF BY-LAWS

1. Amendment by Directors. Except as otherwise provided by law, the By-laws of the Corporation may be amended or repealed by the Board of Directors by the affirmative vote of a majority of the Directors then in office.

2. Amendment by Stockholders. The By-laws of the Corporation may be amended or repealed at any annual meeting of stockholders, or special meeting of stockholders called for such purpose as provided in the By-laws, by the affirmative vote of ~~at least 75%~~ **the majority** of the ~~outstanding shares~~ **votes cast by the stockholders** entitled to vote on such amendment or repeal, voting together as a single class **(with “abstentions”, “broker non-votes” and “withheld” votes not counted as a vote either “for” or “against” such amendment or repeal)**; provided, however, that if the Board of Directors recommends that stockholders approve such amendment or repeal at such meeting of stockholders, such amendment or repeal shall only require the affirmative vote of the majority of the outstanding shares entitled to vote on such amendment or repeal, voting together as a single class.

## ARTICLE IX

### AMENDMENT OF CERTIFICATE OF INCORPORATION

The Corporation reserves the right to amend or repeal this Certificate in the manner now or hereafter prescribed by statute and this Certificate, and all rights conferred upon stockholders herein are granted subject to this reservation. Whenever any vote of the holders of voting stock is required to amend or repeal any provision of this Certificate, and in addition to any other vote of holders of voting stock that is required by this Certificate or by law, such amendment or repeal shall require the affirmative vote of the majority of the outstanding shares entitled to vote on such amendment or repeal, and the affirmative vote of the majority of the outstanding shares of each class entitled to vote thereon as a class, at a duly constituted meeting of stockholders called expressly for such purpose; ~~provided, however, that the affirmative vote of not less than 75% of the outstanding shares entitled to vote on such amendment or repeal, and the affirmative vote of not less than 75% of the outstanding shares of each class entitled to vote thereon as a class, shall be required to amend or repeal any provision of Article V, Article VI, Article VII, Article VIII or Article IX of this Certificate.~~

## ANNEX B

### IROBOT CORPORATION 2018 STOCK OPTION AND INCENTIVE PLAN

#### SECTION 1. GENERAL PURPOSE OF THE PLAN; DEFINITIONS

The name of the plan is the iRobot Corporation 2018 Stock Option and Incentive Plan (the “Plan”). The purpose of the Plan is to encourage and enable the officers, employees, Non-Employee Directors and Consultants of iRobot Corporation (the “Company”) and its Subsidiaries upon whose judgment, initiative and efforts the Company largely depends for the successful conduct of its businesses to acquire a proprietary interest in the Company. It is anticipated that providing such persons with a direct stake in the Company’s welfare will assure a closer identification of their interests with those of the Company and its stockholders, thereby stimulating their efforts on the Company’s behalf and strengthening their desire to remain with the Company.

The following terms shall be defined as set forth below:

“*Act*” means the Securities Act of 1933, as amended, and the rules and regulations thereunder.

“*Administrator*” means either the Board or the compensation committee of the Board or a similar committee which is comprised of not less than two Non-Employee Directors who are independent.

“*Award*” or “*Awards*,” except where referring to a particular category of grant under the Plan, shall include Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock Awards, Restricted Stock Units, Unrestricted Stock Awards, Cash-Based Awards, and Dividend Equivalent Rights.

“*Award Certificate*” means a written or electronic document setting forth the terms and provisions applicable to an Award granted under the Plan. Each Award Certificate is subject to the terms and conditions of the Plan.

“*Board*” means the Board of Directors of the Company.

“*Cash-Based Award*” means an Award entitling the recipient to receive a cash-denominated payment.

“*Code*” means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.

“*Consultant*” means any natural person that provides bona fide services to the Company within the meaning of Form S-8 promulgated under the Securities Act, and provided, further, that a Consultant will include only those persons to whom the issuance of Shares may be registered under Form S-8 promulgated under the Securities Act.

“*Dividend Equivalent Right*” means an Award entitling the grantee to receive credits based on cash dividends that would have been paid on the shares of Stock specified in the Dividend Equivalent Right (or other award to which it relates) if such shares had been issued to and held by the grantee.

“*Effective Date*” means the date on which the Plan becomes effective as set forth in Section 19.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

“*Fair Market Value*” of the Stock on any given date means the fair market value of the Stock determined in good faith by the Administrator; provided, however, that if the Stock is admitted to quotation on the National Association of Securities Dealers Automated Quotation System (“NASDAQ”), NASDAQ Global Market, The New York Stock Exchange or another national securities exchange, the determination shall be made by reference to the Stock’s closing price on such exchange. If there is no closing price for such date, the determination shall be made by reference to the last date preceding such date for which there is a closing price.

“*Incentive Stock Option*” means any Stock Option designated and qualified as an “incentive stock option” as defined in Section 422 of the Code.

“*Minimum Vesting Period*” means the one-year period following the date of grant of an Award.

“*Non-Employee Director*” means a member of the Board who is not also an employee of the Company or any Subsidiary.

“*Non-Qualified Stock Option*” means any Stock Option that is not an Incentive Stock Option.

“*Option*” or “*Stock Option*” means any option to purchase shares of Stock granted pursuant to Section 5.

“*Restricted Shares*” means the shares of Stock underlying a Restricted Stock Award that remain subject to a risk of forfeiture or the Company’s right of repurchase.

“*Restricted Stock Award*” means an Award of Restricted Shares subject to such restrictions and conditions as the Administrator may determine at the time of grant.

“*Restricted Stock Units*” means an Award of stock units subject to such restrictions and conditions as the Administrator may determine at the time of grant.

“*Sale Event*” means the consummation of (i) the sale of all or substantially all of the assets of the Company on a consolidated basis to an unrelated person or entity, (ii) a merger, reorganization or consolidation pursuant to which the holders of the Company’s outstanding voting power and outstanding stock immediately prior to such transaction do not own a majority of the outstanding voting power and outstanding stock or other equity interests of the resulting or successor entity (or its ultimate parent, if applicable) immediately upon completion of such transaction, (iii) the sale of all of the Stock of the Company to an unrelated person, entity or group thereof acting in concert, or (iv) any other transaction in which the owners of the Company’s outstanding voting power immediately prior to such transaction do not own at least a majority of the outstanding voting power of the Company or any successor entity immediately upon completion of the transaction other than as a result of the acquisition of securities directly from the Company.

“*Sale Price*” means the value as determined by the Administrator of the consideration payable, or otherwise to be received by stockholders, per share of Stock pursuant to a Sale Event.

“*Section 409A*” means Section 409A of the Code and the regulations and other guidance promulgated thereunder.

“*Service Relationship*” means any relationship as an employee, director, or Consultant of the Company or any Subsidiary or any successor entity (e.g., a Service Relationship shall be deemed to continue without interruption in the event an individual’s status changes from full-time employee to part-time employee or Consultant).

“*Stock*” means the Common Stock, par value \$0.01 per share, of the Company, subject to adjustments pursuant to Section 3.

“*Stock Appreciation Right*” means an Award entitling the recipient to receive shares of Stock (or cash, to the extent explicitly provided for in the applicable Award Certificate) having a value equal to the excess of the Fair Market Value of the Stock on the date of exercise over the exercise price of the Stock Appreciation Right multiplied by the number of shares of Stock with respect to which the Stock Appreciation Right shall have been exercised.

“*Subsidiary*” means any corporation or other entity (other than the Company) in which the Company has at least a 50 percent interest, either directly or indirectly.

“*Ten Percent Owner*” means an employee who owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than ten percent of the combined voting power of all classes of stock of the Company or any parent or subsidiary corporation.

“*Unrestricted Stock Award*” means an Award of shares of Stock free of any restrictions.

## SECTION 2. ADMINISTRATION OF PLAN; ADMINISTRATOR AUTHORITY TO SELECT GRANTEES AND DETERMINE AWARDS

- (a) Administration of Plan. The Plan shall be administered by the Administrator.
- (b) Powers of Administrator. The Administrator shall have the power and authority to grant Awards consistent with the terms of the Plan, including the power and authority:
  - (i) to select the individuals to whom Awards may from time to time be granted;
  - (ii) to determine the time or times of grant, and the extent, if any, of Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock Awards, Restricted Stock Units, Unrestricted Stock Awards, Cash-Based Awards, and Dividend Equivalent Rights, or any combination of the foregoing, granted to any one or more grantees;
  - (iii) to determine the number of shares of Stock to be covered by any Award;
  - (iv) to determine and modify from time to time the terms and conditions, including restrictions, not inconsistent with the terms of the Plan, of any Award, which terms and conditions may differ among individual Awards and grantees, and to approve the forms of Award Certificates;
  - (v) to accelerate at any time the exercisability or vesting of all or any portion of any Award in circumstances involving the grantee’s death, disability, retirement or termination of employment or a change in control (including a Sale Event);
  - (vi) subject to the provisions of Section 5(c), to extend at any time the period in which Stock Options may be exercised; and
  - (vii) at any time to adopt, alter and repeal such rules, guidelines and practices for administration of the Plan and for its own acts and proceedings as it shall deem advisable; to interpret the terms and provisions of the Plan and any Award (including related written instruments); to make all determinations it deems advisable for the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan.

All decisions and interpretations of the Administrator shall be binding on all persons, including the Company and Plan grantees.

- (c) Delegation of Authority to Grant Awards. Subject to applicable law, the Administrator, in its discretion, may delegate to the Chief Executive Officer or another executive officer of the Company or a committee comprised of the Chief Executive Officer and another officer or officers of the Company all or part of the Administrator's authority and duties with respect to the granting of Awards to individuals who are (i) not subject to the reporting and other provisions of Section 16 of the Exchange Act and (ii) not members of the delegated committee. Any such delegation by the Administrator shall include a limitation as to the amount of Stock underlying Awards that may be granted during the period of the delegation and shall contain guidelines as to the determination of the exercise price and the vesting criteria. The Administrator may revoke or amend the terms of a delegation at any time but such action shall not invalidate any prior actions of the Administrator's delegate or delegates that were consistent with the terms of the Plan.
- (d) Minimum Vesting Period. The vesting period for each Award granted under the Plan must be at least equal to the Minimum Vesting Period; provided, however, that (i) nothing in this Section 2(d) shall limit the Administrator's authority to accelerate the vesting of Awards as set forth in Section 2(b)(v) above; (ii) notwithstanding the foregoing, up to 5% of the shares of Stock authorized for issuance under the Plan may be utilized for Unrestricted Stock Awards or other Awards with a vesting period that is less than the Minimum Vesting Period (each such Award, an "Excepted Award"); and (iii) notwithstanding the foregoing, annual Awards to Non-Employee Directors that occur in connection with the Company's annual meeting of stockholders may vest on the date of the Company's next annual meeting of stockholders; provided, however, that in no event will the vesting period for any such award be less than 50 weeks. Notwithstanding the foregoing, in addition to Excepted Awards, the Administrator may grant Awards that vest (or permit previously granted Awards to vest) within the Minimum Vesting Period (i) if such Awards are granted as substitute Awards in replacement of other Awards (or awards previously granted by an entity being acquired (or assets of which are being acquired)) that were scheduled to vest within the Minimum Vesting Period or (ii) if such Awards are being granted in connection with an elective deferral of cash compensation that, absent a deferral election, otherwise would have been paid to the grantee within the Minimum Vesting Period.
- (e) Award Certificate. Awards under the Plan shall be evidenced by Award Certificates that set forth the terms, conditions and limitations for each Award which may include, without limitation, the term of an Award and the provisions applicable in the event employment or Service Relationship terminates.
- (f) Indemnification. Neither the Board nor the Administrator, nor any member of either or any delegate thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with the Plan, and the members of the Board and the Administrator (and any delegate thereof) shall be entitled in all cases to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including, without limitation, reasonable attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under the Company's articles or bylaws or any directors' and officers' liability insurance coverage which may be in effect from time to time and/or any indemnification agreement between such individual and the Company.
- (g) Foreign Award Recipients. Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws in other countries in which the Company and its Subsidiaries operate or have employees or other individuals eligible for Awards, the Administrator, in its sole discretion, shall have the power and authority to: (i) determine which Subsidiaries shall be covered by the Plan; (ii) determine which individuals outside the United States are eligible to participate in the Plan; (iii) modify the terms and conditions of any Award granted to individuals outside the United States to comply with applicable foreign laws; (iv) establish subplans and modify exercise procedures and other terms and procedures, to the extent the Administrator determines such actions to be necessary



or advisable (and such subplans and/or modifications shall be attached to this Plan as appendices); provided, however, that no such subplans and/or modifications shall increase the share limitations contained in Section 3(a) hereof; and (v) take any action, before or after an Award is made, that the Administrator determines to be necessary or advisable to obtain approval or comply with any local governmental regulatory exemptions or approvals. Notwithstanding the foregoing, the Administrator may not take any actions hereunder, and no Awards shall be granted, that would violate the Exchange Act or any other applicable United States securities law, the Code, or any other applicable United States governing statute or law.

### SECTION 3. STOCK ISSUABLE UNDER THE PLAN; MERGERS; SUBSTITUTION

- (a) Stock Issuable. The maximum number of shares of Stock reserved and available for issuance under the Plan shall be 1,750,000 shares, subject to adjustment as provided in this Section 3. For purposes of this limitation, the shares of Stock underlying any awards under the Plan or the Company's 2015 Stock Option and Incentive Plan that are forfeited, canceled or otherwise terminated (other than by exercise) shall be added back to the shares of Stock available for issuance under the Plan. Notwithstanding the foregoing, the following shares shall not be added to the shares authorized for grant under the Plan: (i) shares tendered or held back upon exercise of an Option or settlement of an Award to cover the exercise price or tax withholding, and (ii) shares subject to a Stock Appreciation Right that are not issued in connection with the stock settlement of the Stock Appreciation Right upon exercise thereof. In the event the Company repurchases shares of Stock on the open market, such shares shall not be added to the shares of Stock available for issuance under the Plan. Subject to such overall limitations, shares of Stock may be issued up to such maximum number pursuant to any type or types of Award; provided, however, that no more than 1,750,000 shares of the Stock may be issued in the form of Incentive Stock Options. The shares available for issuance under the Plan may be authorized but unissued shares of Stock or shares of Stock reacquired by the Company.
- (b) Maximum Awards to Non-Employee Directors. Notwithstanding anything to the contrary in this Plan, (i) the value of all Awards awarded under this Plan and all other cash compensation paid by the Company to any Non-Employee Director in any calendar year shall not exceed \$750,000 and (ii) no more than 50,000 shares of Stock may be issued pursuant to Awards to Non-Employee Directors in any calendar year. For the purpose of this limitation, the value of any Award shall be its grant date fair value, as determined in accordance with ASC 718 or successor provision but excluding the impact of estimated forfeitures related to service-based vesting provisions.
- (c) Changes in Stock. Subject to Section 3(d) hereof, if, as a result of any reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar change in the Company's capital stock, the outstanding shares of Stock are increased or decreased or are exchanged for a different number or kind of shares or other securities of the Company, or additional shares or new or different shares or other securities of the Company or other non-cash assets are distributed with respect to such shares of Stock or other securities, or, if, as a result of any merger or consolidation, sale of all or substantially all of the assets of the Company, the outstanding shares of Stock are converted into or exchanged for securities of the Company or any successor entity (or a parent or subsidiary thereof), the Administrator shall make an appropriate or proportionate adjustment in (i) the maximum number of shares reserved for issuance under the Plan, including the maximum number of shares that may be issued in the form of Incentive Stock Options, (ii) the number and kind of shares or other securities subject to any then outstanding Awards under the Plan, (iii) the repurchase price, if any, per share subject to each outstanding Restricted Stock Award, and (iv) the exercise price for each share subject to any then outstanding Stock Options and Stock Appreciation Rights under the Plan, without changing the aggregate exercise price (i.e., the exercise price multiplied by the number of Stock Options and Stock Appreciation Rights) as to which such Stock Options and Stock Appreciation Rights remain exercisable. The Administrator

shall also make equitable or proportionate adjustments in the number of shares subject to outstanding Awards and the exercise price and the terms of outstanding Awards to take into consideration cash dividends paid other than in the ordinary course or any other extraordinary corporate event. The adjustment by the Administrator shall be final, binding and conclusive. No fractional shares of Stock shall be issued under the Plan resulting from any such adjustment, but the Administrator in its discretion may make a cash payment in lieu of fractional shares.

- (d) Mergers and Other Transactions. In the case of and subject to the consummation of a Sale Event, the parties thereto may cause the assumption or continuation of Awards theretofore granted by the successor entity, or the substitution of such Awards with new Awards of the successor entity or parent thereof, with appropriate adjustment as to the number and kind of shares and, if appropriate, the per share exercise prices, as such parties shall agree. To the extent the parties to such Sale Event do not provide for the assumption, continuation or substitution of Awards, upon the effective time of the Sale Event, the Plan and all outstanding Awards granted hereunder shall terminate. In the event of such termination, (i) the Company shall have the option (in its sole discretion) to make or provide for a cash payment to the grantees holding Awards, in exchange for the cancellation thereof, in an amount equal to the difference between (A) the Sale Price multiplied by the number of shares of Stock subject to such outstanding Awards (to the extent then vested or, in the case of Options and Stock Appreciation Rights, exercisable at prices not in excess of the Sale Price) and (B) if applicable, the aggregate exercise price (if any) of such outstanding Awards; or (ii) each grantee shall be permitted, within a specified period of time prior to the consummation of the Sale Event as determined by the Administrator, to exercise all outstanding Options and Stock Appreciation Rights (to the extent then exercisable) held by such grantee, but in such case the Board shall first accelerate the exercisability of such Options and Stock Appreciation Rights prior to termination. Unless otherwise determined by the Board (on the same basis or on different bases as the Board shall specify), any repurchase rights or other rights of the Company that relate to an Option, Stock Appreciation Right or other Award shall continue to apply to consideration, including cash, that has been substituted, assumed, amended or paid for a Stock Option, Stock Appreciation Right or other Award pursuant to this paragraph. The Company may hold in escrow all or any portion of any such consideration in order to effectuate any continuing restrictions.

#### SECTION 4. ELIGIBILITY

Grantees under the Plan will be such full or part-time officers and other employees, Non-Employee Directors and Consultants of the Company and its Subsidiaries as are selected from time to time by the Administrator in its sole discretion.

#### SECTION 5. STOCK OPTIONS

- (a) Award of Stock Options. The Administrator may grant Stock Options under the Plan. Any Stock Option granted under the Plan shall be in such form as the Administrator may from time to time approve.

Stock Options granted under the Plan may be either Incentive Stock Options or Non-Qualified Stock Options. Incentive Stock Options may be granted only to employees of the Company or any Subsidiary that is a “subsidiary corporation” within the meaning of Section 424(f) of the Code. To the extent that any Option does not qualify as an Incentive Stock Option, it shall be deemed a Non-Qualified Stock Option.

Stock Options granted pursuant to this Section 5 shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Administrator shall deem desirable. If the Administrator so determines, Stock Options may be granted in lieu of cash compensation at the optionee’s election, subject to such terms and conditions as the Administrator may establish.

- (b) Exercise Price. The exercise price per share for the Stock covered by a Stock Option granted pursuant to this Section 5 shall be determined by the Administrator at the time of grant but shall not be less than 100 percent of the Fair Market Value on the date of grant. In the case of an Incentive Stock Option that is granted to a Ten Percent Owner, the option price of such Incentive Stock Option shall be not less than 110 percent of the Fair Market Value on the grant date. Notwithstanding the foregoing, Stock Options may be granted with an exercise price per share that is less than 100 percent of the Fair Market Value on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code.
- (c) Option Term. The term of each Stock Option shall be fixed by the Administrator, but no Stock Option shall be exercisable more than ten years after the date the Stock Option is granted. In the case of an Incentive Stock Option that is granted to a Ten Percent Owner, the term of such Stock Option shall be no more than five years from the date of grant.
- (d) Exercisability; Rights of a Stockholder. Stock Options shall become exercisable at such time or times, whether or not in installments, as shall be determined by the Administrator at or after the grant date. Subject to Section 2(b)(v), the Administrator may at any time accelerate the exercisability of all or any portion of any Stock Option. An optionee shall have the rights of a stockholder only as to shares acquired upon the exercise of a Stock Option and not as to unexercised Stock Options.
- (e) Method of Exercise. Stock Options may be exercised in whole or in part, by giving written or electronic notice of exercise to the Company, specifying the number of shares to be purchased. Payment of the purchase price may be made by one or more of the following methods except to the extent otherwise provided in the Option Award Certificate:
- (i) In cash, by certified or bank check or other instrument acceptable to the Administrator;
  - (ii) Through the delivery (or attestation to the ownership following such procedures as the Company may prescribe) of shares of Stock that are not then subject to restrictions under any Company plan. Such surrendered shares shall be valued at Fair Market Value on the exercise date;
  - (iii) By the optionee delivering to the Company a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company cash or a check payable and acceptable to the Company for the purchase price; provided that in the event the optionee chooses to pay the purchase price as so provided, the optionee and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Company shall prescribe as a condition of such payment procedure; or
  - (iv) With respect to Stock Options that are not Incentive Stock Options, by a “net exercise” arrangement pursuant to which the Company will reduce the number of shares of Stock issuable upon exercise by the largest whole number of shares with a Fair Market Value that does not exceed the aggregate exercise price.

Payment instruments will be received subject to collection. The transfer to the optionee on the records of the Company or of the transfer agent of the shares of Stock to be purchased pursuant to the exercise of a Stock Option will be contingent upon receipt from the optionee (or a purchaser acting in his stead in accordance with the provisions of the Stock Option) by the Company of the full purchase price for such shares and the fulfillment of any other requirements contained in the Option Award Certificate or applicable provisions of laws (including the satisfaction of any withholding taxes that the Company is obligated to withhold with respect to the optionee). In the event an optionee chooses to pay the purchase price by previously-owned shares of Stock through the attestation method, the number of shares of Stock transferred to the optionee upon the exercise of the Stock Option shall be net of the number of attested shares. In the event that the Company establishes, for itself or using the services of a third party, an automated system for the exercise of Stock Options, such as a system using an internet website or interactive voice response, then the paperless exercise of Stock Options may be permitted through the use of such an automated system.

- (f) Annual Limit on Incentive Stock Options. To the extent required for “incentive stock option” treatment under Section 422 of the Code, the aggregate Fair Market Value (determined as of the time of grant) of the shares of Stock with respect to which Incentive Stock Options granted under this Plan and any other plan of the Company or its parent and subsidiary corporations become exercisable for the first time by an optionee during any calendar year shall not exceed \$100,000. To the extent that any Stock Option exceeds this limit, it shall constitute a Non-Qualified Stock Option.

#### SECTION 6. STOCK APPRECIATION RIGHTS

- (a) Award of Stock Appreciation Rights. The Administrator may grant Stock Appreciation Rights under the Plan. A Stock Appreciation Right is an Award entitling the recipient to receive shares of Stock (or cash, to the extent explicitly provided for in the applicable Award Certificate) having a value equal to the excess of the Fair Market Value of a share of Stock on the date of exercise over the exercise price of the Stock Appreciation Right multiplied by the number of shares of Stock with respect to which the Stock Appreciation Right shall have been exercised.
- (b) Exercise Price of Stock Appreciation Rights. The exercise price of a Stock Appreciation Right shall not be less than 100 percent of the Fair Market Value of the Stock on the date of grant.
- (c) Grant and Exercise of Stock Appreciation Rights. Stock Appreciation Rights may be granted by the Administrator independently of any Stock Option granted pursuant to Section 5 of the Plan.
- (d) Terms and Conditions of Stock Appreciation Rights. Stock Appreciation Rights shall be subject to such terms and conditions as shall be determined from time to time by the Administrator. The term of a Stock Appreciation Right may not exceed ten years.

#### SECTION 7. RESTRICTED STOCK AWARDS

- (a) Nature of Restricted Stock Awards. The Administrator may grant Restricted Stock Awards under the Plan. A Restricted Stock Award is any Award of Restricted Shares subject to such restrictions and conditions as the Administrator may determine at the time of grant. Conditions may be based on continuing employment (or other Service Relationship) and/or achievement of pre-established performance goals and objectives.
- (b) Rights as a Stockholder. Upon the grant of the Restricted Stock Award and payment of any applicable purchase price, a grantee shall have the rights of a stockholder with respect to the voting of the Restricted Shares and receipt of dividends; provided that dividends shall accrue, but not be paid, on Restricted Stock Awards subject to either time-based or performance-based vesting criteria until the applicable vesting provisions lapse. Unless the Administrator shall otherwise determine, (i) uncertificated Restricted Shares shall be accompanied by a notation on the records of the Company or the transfer agent to the effect that they are subject to forfeiture until such Restricted Shares are vested as provided in Section 7(d) below, and (ii) certificated Restricted Shares shall remain in the possession of the Company until such Restricted Shares are vested as provided in Section 7(d) below, and the grantee shall be required, as a condition of the grant, to deliver to the Company such instruments of transfer as the Administrator may prescribe.
- (c) Restrictions. Restricted Shares may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein or in the Restricted Stock Award Certificate. Except as may otherwise be provided by the Administrator either in the Award Certificate or, subject to Section 16 below, in writing after the Award is issued, if a grantee’s employment (or other Service Relationship) with the Company and its Subsidiaries terminates for any reason, any Restricted Shares that have not vested at the time of termination shall automatically and without any requirement of notice to such grantee from or other action by or on behalf of, the Company be deemed to have been reacquired by the Company at its original purchase price (if any)

from such grantee or such grantee's legal representative simultaneously with such termination of employment (or other Service Relationship), and thereafter shall cease to represent any ownership of the Company by the grantee or rights of the grantee as a stockholder. Following such deemed reacquisition of Restricted Shares that are represented by physical certificates, a grantee shall surrender such certificates to the Company upon request without consideration.

- (d) Vesting of Restricted Shares. The Administrator at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which the non-transferability of the Restricted Shares and the Company's right of repurchase or forfeiture shall lapse. Subsequent to such date or dates and/or the attainment of such pre-established performance goals, objectives and other conditions, the shares on which all restrictions have lapsed shall no longer be Restricted Shares and shall be deemed "vested."

#### SECTION 8. RESTRICTED STOCK UNITS

- (a) Nature of Restricted Stock Units. The Administrator may grant Restricted Stock Units under the Plan. A Restricted Stock Unit is an Award of stock units that may be settled in shares of Stock (or cash, to the extent explicitly provided for in the Award Certificate) upon the satisfaction of such restrictions and conditions at the time of grant. Conditions may be based on continuing employment (or other Service Relationship) and/or achievement of pre-established performance goals and objectives. The terms and conditions of each such Award shall be determined by the Administrator, and such terms and conditions may differ among individual Awards and grantees. Except in the case of Restricted Stock Units with a deferred settlement date that complies with Section 409A, at the end of the vesting period, the Restricted Stock Units, to the extent vested, shall be settled in the form of shares of Stock. Restricted Stock Units with deferred settlement dates are subject to Section 409A and shall contain such additional terms and conditions as the Administrator shall determine in its sole discretion in order to comply with the requirements of Section 409A.
- (b) Election to Receive Restricted Stock Units in Lieu of Compensation. The Administrator may, in its sole discretion, permit a grantee to elect to receive a portion of future cash compensation otherwise due to such grantee in the form of an award of Restricted Stock Units. Any such election shall be made in writing and shall be delivered to the Company no later than the date specified by the Administrator and in accordance with Section 409A and such other rules and procedures established by the Administrator. Any such future cash compensation that the grantee elects to defer shall be converted to a fixed number of Restricted Stock Units based on the Fair Market Value of Stock on the date the compensation would otherwise have been paid to the grantee if such payment had not been deferred as provided herein. The Administrator shall have the sole right to determine whether and under what circumstances to permit such elections and to impose such limitations and other terms and conditions thereon as the Administrator deems appropriate. Any Restricted Stock Units that are elected to be received in lieu of cash compensation shall be fully vested, unless otherwise provided in the Award Certificate.
- (c) Rights as a Stockholder. A grantee shall have the rights as a stockholder only as to shares of Stock acquired by the grantee upon settlement of Restricted Stock Units; provided, however, that the grantee may be credited with Dividend Equivalent Rights with respect to the stock units underlying his Restricted Stock Units, subject to the provisions of Section 11 and such terms and conditions as the Administrator may determine.
- (d) Termination. Except as may otherwise be provided by the Administrator either in the Award Certificate or, subject to Section 16 below, in writing after the Award is issued, a grantee's right in all Restricted Stock Units that have not vested shall automatically terminate upon the grantee's termination of employment (or other Service Relationship) with the Company and its Subsidiaries for any reason.

## SECTION 9. UNRESTRICTED STOCK AWARDS

Grant or Sale of Unrestricted Stock. The Administrator may grant (or sell at par value or such higher purchase price determined by the Administrator) an Unrestricted Stock Award under the Plan. An Unrestricted Stock Award is an Award pursuant to which the grantee may receive shares of Stock free of any restrictions under the Plan. Unrestricted Stock Awards may be granted in respect of past services or other valid consideration, or in lieu of cash compensation due to such grantee.

## SECTION 10. CASH-BASED AWARDS

Grant of Cash-Based Awards. The Administrator may grant Cash-Based Awards under the Plan. A Cash-Based Award is an Award that entitles the grantee to a payment in cash upon the attainment of specified performance goals. The Administrator shall determine the maximum duration of the Cash-Based Award, the amount of cash to which the Cash-Based Award pertains, the conditions upon which the Cash-Based Award shall become vested or payable, and such other provisions as the Administrator shall determine. Each Cash-Based Award shall specify a cash-denominated payment amount, formula or payment ranges as determined by the Administrator. Payment, if any, with respect to a Cash-Based Award shall be made in accordance with the terms of the Award and may be made in cash.

## SECTION 11. DIVIDEND EQUIVALENT RIGHTS

- (a) Dividend Equivalent Rights. The Administrator may grant Dividend Equivalent Rights under the Plan. A Dividend Equivalent Right is an Award entitling the grantee to receive credits based on cash dividends that would have been paid on the shares of Stock specified in the Dividend Equivalent Right (or other Award to which it relates) if such shares had been issued to the grantee. A Dividend Equivalent Right may be granted hereunder to any grantee as a component of an award of Restricted Stock Units or as a freestanding award. Dividend Equivalent Rights may not be granted as a component of a Stock Option award or Stock Appreciation Right award. The terms and conditions of Dividend Equivalent Rights shall be specified in the Award Certificate. Dividend equivalents credited to the holder of a Dividend Equivalent Right may be paid currently or may be deemed to be reinvested in additional shares of Stock, which may thereafter accrue additional equivalents. Any such reinvestment shall be at Fair Market Value on the date of reinvestment or such other price as may then apply under a dividend reinvestment plan sponsored by the Company, if any. Dividend Equivalent Rights may be settled in cash or shares of Stock or a combination thereof, in a single installment or installments. A Dividend Equivalent Right granted as a component of an Award of Restricted Stock Units shall provide that such Dividend Equivalent Right shall be settled only upon settlement or payment of, or lapse of restrictions on, such other Award, and that such Dividend Equivalent Right shall expire or be forfeited or annulled under the same conditions as such other Award.
- (b) Termination. Except as may otherwise be provided by the Administrator either in the Award Certificate or, subject to Section 16 below, in writing after the Award is issued, a grantee's rights in all Dividend Equivalent Rights shall automatically terminate upon the grantee's termination of employment (or other Service Relationship) with the Company and its Subsidiaries for any reason.

## SECTION 12. TRANSFERABILITY OF AWARDS

- (a) Transferability. Except as provided in Section 12(b) below, during a grantee's lifetime, his or her Awards shall be exercisable only by the grantee, or by the grantee's legal representative or guardian in the event of the grantee's incapacity. No Awards shall be sold, assigned, transferred or otherwise encumbered or disposed of by a grantee other than by will or by the laws of descent and distribution or pursuant to a domestic relations order. No Awards shall be subject, in whole or in part, to attachment, execution, or levy of any kind, and any purported transfer in violation hereof shall be null and void.

- (b) Administrator Action. Notwithstanding Section 12(a), the Administrator, in its discretion, may provide either in the Award Certificate regarding a given Award or by subsequent written approval that the grantee (who is an employee or director) may transfer his or her Non-Qualified Stock Options to his or her immediate family members, to trusts for the benefit of such family members, or to partnerships in which such family members are the only partners, provided that the transferee agrees in writing with the Company to be bound by all of the terms and conditions of this Plan and the applicable Award. In no event may an Award be transferred by a grantee for value.
- (c) Family Member. For purposes of Section 12(b), “family member” shall mean a grantee’s child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the grantee’s household (other than a tenant of the grantee), a trust in which these persons (or the grantee) have more than 50 percent of the beneficial interest, a foundation in which these persons (or the grantee) control the management of assets, and any other entity in which these persons (or the grantee) own more than 50 percent of the voting interests.
- (d) Designation of Beneficiary. To the extent permitted by the Company, each grantee to whom an Award has been made under the Plan may designate a beneficiary or beneficiaries to exercise any Award or receive any payment under any Award payable on or after the grantee’s death; provided, however, that in no event may a grantee designate a third party financial institution as a beneficiary to exercise any Award or receive any payment under any Award. Any such designation shall be on a form provided for that purpose by the Administrator and shall not be effective until received by the Administrator. If no beneficiary has been designated by a deceased grantee, or if the designated beneficiaries have predeceased the grantee, the beneficiary shall be the grantee’s estate.

#### SECTION 13. TAX WITHHOLDING

- (a) Payment by Grantee. Each grantee shall, no later than the date as of which the value of an Award or of any Stock or other amounts received thereunder first becomes includable in the gross income of the grantee for Federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Administrator regarding payment of, any Federal, state, or local taxes of any kind required by law to be withheld by the Company with respect to such income. The Company and its Subsidiaries shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the grantee or direct that the proceeds from a sale of Stock on behalf of the grantee be paid over to the Company to satisfy any such tax withholding obligations. The Company’s obligation to deliver evidence of book entry (or stock certificates) to any grantee is subject to and conditioned on tax withholding obligations being satisfied by the grantee.
- (b) Payment in Stock. In the discretion of the Administrator, the Company’s required tax withholding obligation may be satisfied, in whole or in part, by authorizing the Company to withhold from shares of Stock to be issued pursuant to any Award a number of shares with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due; provided, however, that the amount withheld does not exceed the maximum statutory tax rate or such lesser amount as is necessary to avoid adverse accounting treatment or as determined by the Administrator. The Administrator may also require Awards to be subject to mandatory share withholding up to the required withholding amount. For purposes of share withholding, the Fair Market Value of withheld shares shall be determined in the same manner as the value of Stock includible in income of the Participants. The required tax withholding obligation may also be satisfied, in whole or in part, by an arrangement whereby a certain number of shares of Stock issued pursuant to any Award are immediately sold and proceeds from such sale are remitted to the Company in an amount that would satisfy the withholding amount due.

#### SECTION 14. SECTION 409A AWARDS

To the extent that any Award is determined to constitute “nonqualified deferred compensation” within the meaning of Section 409A (a “409A Award”), the Award shall be subject to such additional rules and requirements as specified by the Administrator from time to time in order to comply with Section 409A. In this regard, if any amount under a 409A Award is payable upon a “separation from service” (within the meaning of Section 409A) to a grantee who is then considered a “specified employee” (within the meaning of Section 409A), then no such payment shall be made prior to the date that is the earlier of (i) six months and one day after the grantee’s separation from service, or (ii) the grantee’s death, but only to the extent such delay is necessary to prevent such payment from being subject to interest, penalties and/or additional tax imposed pursuant to Section 409A. Further, the settlement of any 409A Award may not be accelerated except to the extent permitted by Section 409A.

#### SECTION 15. TERMINATION OF SERVICE RELATIONSHIP, TRANSFER, LEAVE OF ABSENCE, ETC.

- (a) **Termination of Service Relationship.** If the grantee’s employment or other Service Relationship is with a Subsidiary and such Subsidiary ceases to be a Subsidiary, the grantee shall be deemed to have terminated his or her Service Relationship for purposes of the Plan.
- (b) For purposes of the Plan, the following events shall not be deemed a termination of employment or other Service Relationship:
  - (i) a transfer to the employment or service of the Company from a Subsidiary or from the Company to a Subsidiary, or from one Subsidiary to another; or
  - (ii) an approved leave of absence for military service or sickness, or for any other purpose approved by the Company, if the employee’s right to re-employment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Administrator otherwise so provides in writing.

#### SECTION 16. AMENDMENTS AND TERMINATION

The Board may, at any time, amend or discontinue the Plan and the Administrator may, at any time, amend or cancel any outstanding Award for the purpose of satisfying changes in law or for any other lawful purpose, but no such action shall adversely affect rights under any outstanding Award without the holder’s consent. Except as provided in Section 3(c) or 3(d), without prior stockholder approval, (a) in no event may the Administrator exercise its discretion to reduce the exercise price of outstanding Stock Options or Stock Appreciation Rights or (b) effect repricing of Stock Options or Stock Appreciation Rights through cancellation and re-grants or cancellation of Stock Options or Stock Appreciation Rights in exchange for cash or other Awards. To the extent required under the rules of any securities exchange or market system on which the Stock is listed, to the extent determined by the Administrator to be required by the Code to ensure that Incentive Stock Options granted under the Plan are qualified under Section 422 of the Code, Plan amendments shall be subject to approval by the Company stockholders entitled to vote at a meeting of stockholders. Nothing in this Section 16 shall limit the Administrator’s authority to take any action permitted pursuant to Section 3(c) or 3(d).

#### SECTION 17. STATUS OF PLAN

With respect to the portion of any Award that has not been exercised and any payments in cash, Stock or other consideration not received by a grantee, a grantee shall have no rights greater than those of a general creditor of the Company unless the Administrator shall otherwise expressly determine in connection with any Award or Awards. In its sole discretion, the Administrator may authorize the creation of trusts or other



arrangements to meet the Company's obligations to deliver Stock or make payments with respect to Awards hereunder, provided that the existence of such trusts or other arrangements is consistent with the foregoing sentence.

#### SECTION 18. GENERAL PROVISIONS

- (a) No Distribution. The Administrator may require each person acquiring Stock pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to distribution thereof.
- (b) Issuance of Stock. To the extent certificated, stock certificates to grantees under this Plan shall be deemed delivered for all purposes when the Company or a stock transfer agent of the Company shall have mailed such certificates in the United States mail, addressed to the grantee, at the grantee's last known address on file with the Company. Uncertificated Stock shall be deemed delivered for all purposes when the Company or a Stock transfer agent of the Company shall have given to the grantee by electronic mail (with proof of receipt) or by United States mail, addressed to the grantee, at the grantee's last known address on file with the Company, notice of issuance and recorded the issuance in its records (which may include electronic "book entry" records). Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any evidence of book entry or certificates evidencing shares of Stock pursuant to the exercise or settlement of any Award, unless and until the Administrator has determined, with advice of counsel (to the extent the Administrator deems such advice necessary or advisable), that the issuance and delivery is in compliance with all applicable laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the shares of Stock are listed, quoted or traded. Any Stock issued pursuant to the Plan shall be subject to any stop-transfer orders and other restrictions as the Administrator deems necessary or advisable to comply with federal, state or foreign jurisdiction, securities or other laws, rules and quotation system on which the Stock is listed, quoted or traded. The Administrator may place legends on any Stock certificate or notations on any book entry to reference restrictions applicable to the Stock. In addition to the terms and conditions provided herein, the Administrator may require that an individual make such reasonable covenants, agreements, and representations as the Administrator, in its discretion, deems necessary or advisable in order to comply with any such laws, regulations, or requirements. The Administrator shall have the right to require any individual to comply with any timing or other restrictions with respect to the settlement or exercise of any Award, including a window-period limitation, as may be imposed in the discretion of the Administrator.
- (c) Stockholder Rights. Until Stock is deemed delivered in accordance with Section 18(b), no right to vote or receive dividends or any other rights of a stockholder will exist with respect to shares of Stock to be issued in connection with an Award, notwithstanding the exercise of a Stock Option or any other action by the grantee with respect to an Award.
- (d) Other Compensation Arrangements; No Employment Rights. Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, including trusts, and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of this Plan and the grant of Awards do not confer upon any employee any right to continued employment (or other Service Relationship) with the Company or any Subsidiary.
- (e) Trading Policy Restrictions. Option exercises and other Awards under the Plan shall be subject to the Company's insider trading policies and procedures, as in effect from time to time.
- (f) Clawback Policy. Awards under the Plan shall be subject to the Company's clawback policy, as in effect from time to time.
- (g) Awards Granted Under Prior Plans. Notwithstanding anything herein to the contrary, equity awards granted under the Company's prior equity incentive plans, including, without limitation the 2015

Plan, the iRobot Corporation Amended and Restated 2004 Stock Option and Incentive Plan, the iRobot Corporation 2005 Stock Option and Incentive Plan, as amended, and the Evolution Robotics 2007 Stock Plan (collectively, the “Prior Plans”), shall continue to be governed by the terms and conditions of the Prior Plan under which such awards were granted

SECTION 19. EFFECTIVE DATE OF PLAN

This Plan shall become effective upon stockholder approval in accordance with applicable state law, the Company’s bylaws and articles of incorporation, and applicable stock exchange rules. No grants of Stock Options and other Awards may be made hereunder after the tenth anniversary of the Effective Date and no grants of Incentive Stock Options may be made hereunder after the tenth anniversary of the date the Plan is approved by the Board.

SECTION 20. GOVERNING LAW

This Plan and all Awards and actions taken thereunder shall be governed by, and construed in accordance with, the laws of the State of Delaware, applied without regard to conflict of law principles.

DATE APPROVED BY BOARD OF DIRECTORS:

DATE APPROVED BY STOCKHOLDERS:

**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**

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

**8 Crosby Drive, Bedford, MA**

*(Address of principal executive offices)*

**77-0259 335**

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

**01730**

*(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):

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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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**iROBOT CORPORATION**  
**ANNUAL REPORT ON FORM 10-K**  
**Year Ended December 30, 2017**  
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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 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.

*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. 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.

### ***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.

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.

### **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](http://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](http://www.sec.gov).

## **ITEM 1A. RISK FACTORS**

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

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

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

- generate sufficient revenue and gross margin to maintain profitability;
- acquire and maintain market share in our consumer 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.

***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 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 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.

***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, 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 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;
- 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

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 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.

## 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.

	<u>High</u>	<u>Low</u>
<b>Fiscal 2016:</b>		
First quarter	\$ 36.00	\$ 28.02
Second quarter	\$ 39.00	\$ 33.90
Third quarter	\$ 44.67	\$ 34.27
Fourth quarter	\$ 60.86	\$ 42.06
<b>Fiscal 2017:</b>		
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.

**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 30, 2017	December 31, 2016	January 2, 2016	December 27, 2014	December 28, 2013
(In thousands, except earnings per share amounts)					
<b>Consolidated Statements of Income:</b>					
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
<b>Net Income Per Share Data:</b>					
Basic	\$ 1.85	\$ 1.51	\$ 1.49	\$ 1.28	\$ 0.97
Diluted	\$ 1.77	\$ 1.48	\$ 1.47	\$ 1.25	\$ 0.94
<b>Shares Used In Per Common Share Calculations:</b>					
Basic	27,611	27,698	29,550	29,485	28,495
Diluted	28,753	28,292	30,107	30,210	29,354
<b>Consolidated Balance Sheet Data:</b>					
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.*

## **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. 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 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 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.



## Overview of Results of Operations

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

	Fiscal Year Ended		
	December 30, 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 30, 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

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				
	December 30, 2017	December 31, 2016	January 2, 2016	\$ Change 2017 vs. 2016	\$ Change 2016 vs. 2015
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 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				
	December 30, 2017	December 31, 2016	January 2, 2016	\$ Change 2017 vs. 2016	\$ Change 2016 vs. 2015
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.

### **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%		

*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			\$ Change 2017 vs. 2016	\$ Change 2016 vs. 2015
	December 30, 2017	December 31, 2016	January 2, 2016		
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.

The following table shows total general and administrative 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		
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			\$ Change 2017 vs. 2016	\$ Change 2016 vs. 2015
	December 30, 2017	December 31, 2016	January 2, 2016		
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			\$ Change 2017 vs. 2016	\$ Change 2016 vs. 2015
	December 30, 2017	December 31, 2016	January 2, 2016		
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 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			\$ Change 2017 vs. 2016	\$ Change 2016 vs. 2015
	December 30, 2017	December 31, 2016	January 2, 2016		
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.

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 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				
	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years	Total
(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.

### 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.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of  
iRobot Corporation:

### *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.

***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.

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

	December 30, 2017	December 31, 2016
(In thousands)		
<b>ASSETS</b>		
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
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
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

**iROBOT CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

	Fiscal Year Ended		
	December 30, 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 30, 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



**iROBOT CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Fiscal Year Ended		
	December 30, 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)
<b>Total comprehensive income</b>	<b>\$ 53,107</b>	<b>\$ 42,024</b>	<b>\$ 44,045</b>

See accompanying Notes to Consolidated Financial Statements

**iROBOT CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Stockholders' Equity
	Shares	Value				
	(In thousands, except share data)					
<b>Balance at December 27, 2014</b>	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
<b>Balance at January 2, 2016</b>	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
<b>Balance at December 31, 2016</b>	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
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
<b>Balance at December 30, 2017</b>	27,945,144	\$ 279	\$ 190,067	\$ 277,989	\$ 1,992	\$ 470,327

See accompanying Notes to Consolidated Financial Statements

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

	Fiscal Year Ended		
	December 30, 2017	December 31, 2016	January 2, 2016
(In thousands)			
<b>Cash flows from operating activities:</b>			
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
<b>Cash flows from investing activities:</b>			
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)
<b>Cash flows from financing activities:</b>			
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
<b>Supplemental disclosure of cash flow information</b>			
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

**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.

## iROBOT CORPORATION

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

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, 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

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

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.

***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.

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

Activity related to accounts receivable allowances was as follows:

	Fiscal Year Ended		
	December 30, 2017	December 31, 2016	January 2, 2016
(In thousands)			
<b><i>Allowance for product returns</i></b>			
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	<u>\$ 42,693</u>	<u>\$ 27,673</u>	<u>\$ 25,992</u>
<b><i>Allowance for discounts and promotions</i></b>			
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	<u>\$ 58,211</u>	<u>\$ 22,108</u>	<u>\$ 23,005</u>
<b><i>Allowance for price protection</i></b>			
Balance at beginning of period	\$ 1,550	\$ —	\$ —
Acquired balance	—	—	—
Provision	3,215	1,550	—
Deduction	(1,617)	—	—
Other adjustments	—	—	—
Balance at end of period	<u>\$ 3,148</u>	<u>\$ 1,550</u>	<u>\$ —</u>
<b><i>Allowance for doubtful accounts</i></b>			
Balance at beginning of period	\$ 29	\$ 33	\$ 67
Acquired balance	248	—	—
Provision	1	—	—
Deduction	(2)	(4)	(34)
Other adjustments	—	—	—
Balance at end of period	<u>\$ 276</u>	<u>\$ 29</u>	<u>\$ 33</u>

***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

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

Company records estimated warranty costs, based on historical experience by product, at the time revenue is recognized. 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



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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.

***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***

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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.

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

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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
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

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

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

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 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

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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.

### **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
<b>Total assets</b>	<b><u>214,322</u></b>
Accounts payable	(29,391)
Accrued expenses	(3,376)
Deferred tax liabilities	(10,833)
Other liabilities	(645)
<b>Total liabilities assumed</b>	<b><u>(44,245)</u></b>
Net assets acquired	<b><u>\$ 170,077</u></b>

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

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

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.

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.

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
	<u>\$ 106,932</u>	<u>\$ 50,578</u>

#### **6. Property and Equipment**



Property and equipment consists of the following at:

	December 30, 2017	December 31, 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
	<u>99,667</u>	<u>70,779</u>
Less: accumulated depreciation	55,088	43,247
	<u>\$ 44,579</u>	<u>\$ 27,532</u>

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	<u>\$ 121,440</u>

- (1) In April 2016, the Company completed the sale of its defense and security business unit and therefore the goodwill 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
Tradenname	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	<u>\$ 72,629</u>	<u>\$ 27,917</u>	<u>\$ 44,712</u>	<u>\$ 27,000</u>	<u>\$ 14,793</u>	<u>\$ 12,207</u>

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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:

	<b>(In thousands)</b>
2018	\$ 19,767
2019	13,188
2020	1,950
2021	1,714
2022	1,489
Thereafter	6,604
<b>Total</b>	<b>\$ 44,712</b>

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

**8. Accrued Expenses**

Accrued expenses consist of the following at:

	December 30, 2017	December 31, 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
	<u>\$ 73,647</u>	<u>\$ 40,869</u>

**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.

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)		
<b>Derivatives not designated as hedging instruments:</b>		
Foreign currency option contracts	Other current assets	\$ — \$ 180
Foreign currency forward contracts	Other current assets	413 —
Foreign currency forward contracts	Accrued expenses	221 43
<b>Derivatives designated as cash flow hedges:</b>		
Foreign currency forward contracts	Other current assets	\$ 488 \$ —
Foreign currency forward contracts	Other assets	116 —
Foreign currency forward contracts	Accrued expenses	279 —

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

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	Other income, net	\$ (444)	\$ 29

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)		Gain (loss) recognized in income (3)			
	Fiscal year ended		Fiscal year ended				Fiscal year ended	
	December 30, 2017	December 31, 2016	Classification	December 30, 2017	December 31, 2016	Classification	December 30, 2017	December 31, 2016
Foreign currency forward contracts	\$ 584	\$ —	Revenue	\$ 320	\$ —	Other income, net	\$ (5)	\$ —
			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)		
<b>Assets:</b>			
Money market funds	\$ 3,165	\$ —	\$ —
Corporate and government bonds	—	37,225	—
Derivative instruments (Note 10)	—	1,017	—
<b>Total assets measured at fair value</b>	<b>\$ 3,165</b>	<b>\$ 38,242</b>	<b>\$ —</b>
<b>Liabilities:</b>			
Derivative instruments (Note 10)	\$ —	\$ 500	\$ —
<b>Total liabilities measured at fair value</b>	<b>\$ —</b>	<b>\$ 500</b>	<b>\$ —</b>

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)		
<b>Assets:</b>			
Money market funds	\$ 156,980	\$ —	\$ —
Corporate and government bonds	—	39,930	—
Derivative instruments (Note 10)	—	180	—
<b>Total assets measured at fair value</b>	<b>\$ 156,980</b>	<b>\$ 40,110</b>	<b>\$ —</b>
<b>Liabilities:</b>			
Derivative instruments (Note 10)	\$ —	\$ 43	\$ —
<b>Total liabilities measured at fair value</b>	<b>\$ —</b>	<b>\$ 43</b>	<b>\$ —</b>

(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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

only one of the three plans under which new awards may currently be granted. Under the 2015 Plan, which became effective May 20, 2015, 3,100,000 shares were initially reserved for issuance in the form of incentive stock options, non-qualified stock options, stock appreciation rights, deferred stock awards, restricted stock units, unrestricted stock awards, cash-based awards, performance share awards and dividend equivalent rights. Stock awards returned to the Plans, with the exception of those issued under the 2007 Plan, as a result of their expiration, cancellation or termination are automatically made available for issuance under the 2015 Plan. Eligibility for incentive stock options is limited to those individuals whose employment status would qualify them for the tax treatment associated with incentive stock options in accordance with the Internal Revenue Code of 1986, as amended. 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.

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

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%

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:

<u>Range of Exercise Prices</u>	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
<b>\$ 3.54 - \$58.55</b>	<b>712,954</b>	<b>4.27 years</b>	<b>\$ 34.34</b>	<b>399,163</b>	<b>\$ 32.10</b>

***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.



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

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

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:

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	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.

**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:

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

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

***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.

***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:

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	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.

**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

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

The components of income tax expense were as follows:

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

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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**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 30, 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
	<u>\$ 25,402</u>	<u>\$ 19,422</u>	<u>\$ 18,841</u>

The components of net deferred tax assets were as follows:

	December 30, 2017	December 31, 2016
	(In thousands)	
	<b>Deferred tax assets</b>	
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	<u>35,984</u>	<u>35,830</u>
<b>Deferred tax liabilities</b>		
Intangible assets	13,419	4,530
Other	573	715
Gross deferred tax liabilities	<u>13,992</u>	<u>5,245</u>
Net deferred tax assets	<u>\$ 21,992</u>	<u>\$ 30,585</u>

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,

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

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, 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.

**iROBOT CORPORATION**

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

*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).

**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 30, 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 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.

## **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.

**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:

<b>Exhibit Number</b>	<b>Description</b>
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)
- 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)
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- 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

**ITEM 16. FORM 10-K SUMMARY**

Not applicable.

## 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.

<u>Signature</u>	<u>Title(s)</u>
<u>/s/ COLIN M. ANGLE</u> Colin M. Angle	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ ALISON DEAN</u> Alison Dean	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)
<u>/s/ MOHAMAD ALI</u> Mohamad Ali	Director
<u>/s/ MICHAEL BELL</u> Michael Bell	Director
<u>/s/ RONALD CHWANG</u> Ronald Chwang	Director
<u>/s/ DEBORAH G. ELLINGER</u> Deborah G. Ellinger	Director
<u>/s/ ELISHA FINNEY</u> Elisha Finney	Director

/s/ ANDREW MILLER

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Andrew Miller

Director

/s/ MICHELLE V. STACY

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Michelle V. Stacy

Director



## EXHIBIT INDEX

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

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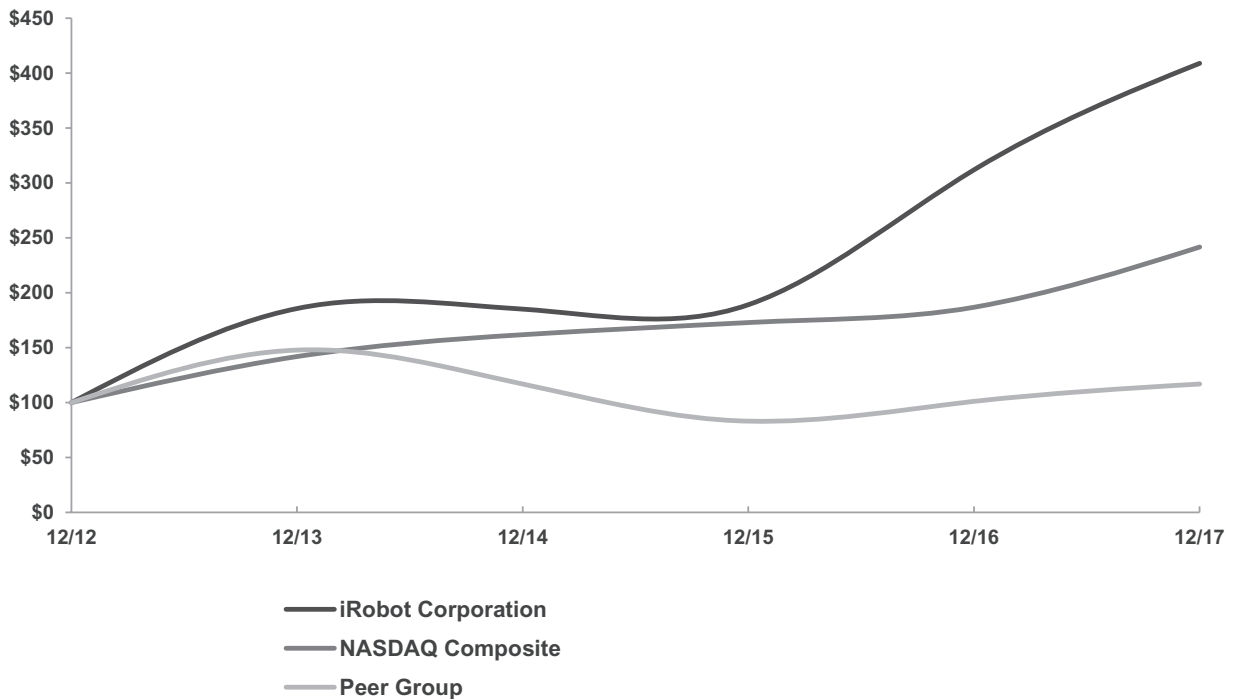
(1) Incorporated by reference herein to the exhibits to the Company's Registration Statement on Form S-1 (File No. 333-126907)

\* Filed herewith

The graph below matches the cumulative 5-Year total return of holders of iRobot Corporation's common stock with the cumulative total returns of the NASDAQ Composite index and a customized peer group of fourteen companies that includes: 3d Systems Corp, Dolby Laboratories Inc., Faro Technologies Inc., Fitbit Inc., GoPro Inc., Harmonic Inc., Logitech International Sa, Nautilus Inc., Netgear Inc., Novanta Inc., Plantronics Inc., TiVo Corp, Trimble Inc. and Universal Electronics Inc. The graph assumes that the value of the investment in our common stock, in each index, and in the peer group (including reinvestment of dividends) was \$100 on 12/31/2012 and tracks it through 12/31/2017.

### COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

Among iRobot Corporation, the NASDAQ Composite Index,  
and a Peer Group



\*\$100 invested on 12/31/12 in stock or index, including reinvestment of dividends.  
Fiscal year ending December 31.

	12/12	12/13	12/14	12/15	12/16	12/17
<b>iRobot Corporation</b>	<b>100.00</b>	<b>185.54</b>	<b>185.27</b>	<b>188.90</b>	<b>311.90</b>	<b>409.29</b>
<b>NASDAQ Composite</b>	<b>100.00</b>	<b>141.63</b>	<b>162.09</b>	<b>173.33</b>	<b>187.19</b>	<b>242.29</b>
<b>Peer Group</b>	<b>100.00</b>	<b>147.82</b>	<b>116.56</b>	<b>82.73</b>	<b>100.80</b>	<b>117.43</b>

*The stock price performance included in this graph is not necessarily indicative of future stock price performance.*

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**Corporate Office**

8 Crosby Drive  
Bedford, Massachusetts 01730  
Phone: 781.430.3000  
Fax: 781.430.3001

**Transfer Agent**

Computershare Trust  
Company, Inc.  
350 Indiana Street  
Suite 750  
Golden, Colorado 80401  
Phone: 303.262.0600

**Legal Counsel**

Goodwin Procter LLP  
100 Northern Avenue  
Boston, Massachusetts 02110  
Phone: 617.570.1000

**Independent Registered  
Public Accounting Firm**

PricewaterhouseCoopers LLP  
101 Seaport Boulevard  
Boston, Massachusetts 02110  
Phone: 617.530.5000

**Common Stock Information**

Our common stock is traded on the Nasdaq  
National Market under the symbol IRBT.

**Investor Information**

Elise P. Caffrey  
SVP, Investor Relations

A copy of our financial reports, stock  
quotes, news releases, SEC filings, as  
well as information on our products is  
available in the Investor Relations section of  
[www.irobot.com](http://www.irobot.com)

**Board Members**

Colin M. Angle  
Co-founder, Chairman of the Board and Chief  
Executive Officer

Mohamad Ali  
Director, Strategy and Finance Committee Chair

Michael Bell  
Director, Compensation and Talent Committee Chair

Dr. Ronald Chwang  
Director

Deborah G. Ellinger  
Lead Independent Director, Nominating and  
Corporate Governance Committee Chair

Elisha Finney  
Director

Andrew Miller  
Director, Audit Committee Chair

Michelle Stacy  
Director

**Executive Team**

Colin M. Angle  
Chief Executive Officer

Alison Dean  
Executive Vice President, Chief Financial Officer  
and Treasurer

Christian Cerda  
Chief Operating Officer

Russell Campanello  
Executive Vice President, Human Resources and  
Corporate Communications

Glen D. Weinstein  
Executive Vice President, Chief Legal Officer

Tim Saeger  
Executive Vice President, Engineering

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**iRobot Mission**

**Empowering People To Do More**



**Corporate Headquarters**

8 Crosby Drive  
Bedford, MA 01730  
USA

Phone: 781.430.3000  
Fax: 781.430.3001

[www.irobot.com](http://www.irobot.com)  
[info@irobot.com](mailto:info@irobot.com)