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, 2023

OR

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

Commission file no. 001-36414

iROBOT CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**77-0259335**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

8 Crosby Drive
Bedford, MA 01730
(Address of principal executive offices, including zip code)

(781) 430-3000
(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	IRBT	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 every Interactive Data File required to be submitted 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 such files). Yes ☑ No ☐

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.

Large accelerated filer	☑	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☑

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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 $1.2 billion based on the last reported sale of the Common Stock on The Nasdaq Global Select Market on July 1, 2023, the last business day of the registrant's most recently completed second fiscal quarter.

As of January 26, 2024, there were 27,964,564 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, 2023. Portions of such Proxy Statement are incorporated by reference into Part III of this Form 10-K.

iROBOT CORPORATION

ANNUAL REPORT ON FORM 10-K
Year Ended December 30, 2023

TABLE OF CONTENTS

		Page
	Part I	
Item 1.	Business	3
Item 1A.	Risk Factors	11
Item 1B.	Unresolved Staff Comments	26
Item 1C.	Cybersecurity	26
Item 2.	Properties	27
Item 3.	Legal Proceedings	27
Item 4.	Mine Safety Disclosures	27
	Part II	
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	28
Item 6.	Reserved	29
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	30
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	48
Item 8.	Financial Statements and Supplementary Data	50
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	84
Item 9A.	Controls and Procedures	84
Item 9B.	Other Information	84
Item 9C.	Disclosure Regarding Foreign Jurisdictions That Prevent Inspections	84
	Part III	
Item 10.	Directors, Executive Officers and Corporate Governance	85
Item 11.	Executive Compensation	85
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	85
Item 13.	Certain Relationships and Related Transactions, and Directors Independence	85
Item 14.	Principal Accounting Fees and Services	85
	Part IV	
Item 15.	Exhibits and Financial Statement Schedules	86
Item 16.	Form 10-K Summary	89

PART I

ITEM 1. *BUSINESS*

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 Exchange Act, and are subject to the "safe harbor" created by those sections. All statements other than statements of historical facts contained in this Annual Report on Form 10-K, including, but not limited to, statements regarding our future results of operations and financial position, business strategy, plans and objectives of management for future operations, new product sales, plans for product development and offerings, launches and manufacturing, ability to address consumer needs, expansion of our addressable market and connected consumer base, factors for differentiation of our products, our consumer robots, our competition, our strategy, our market position, market acceptance of our products, 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 credit and letter of credit facilities, seasonal factors, the impact of promotional activity and tariffs, efforts to refine value proposition and related results, efforts to mitigate supply chain challenges, plans for the production of robots, strategic alliances, product integration plans, liquidity and the impact of cost-control measures and cost savings related to such activities, and implementation of our operational restructuring plan are 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 and negative forms of such terms. 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 and we urge you to consider the risks and uncertainties in evaluating our forward-looking statements. Also, these forward-looking statements speak only as of the date of this Annual Report on Form 10-K, and we undertake no obligation to update our forward-looking statements to reflect events or circumstances occurring after the date of this Annual Report on Form 10-K, except as required by law. We caution readers not to place undue reliance upon any such forward-looking statements.

iRobot and its stylized logo, Roomba, Roomba Combo, Clean Base, iRobot OS, iRobot Genius Home Intelligence, NorthStar, Create, Clean Map, iAdapt, Home Base, Looj, Braava, Braava jet, AeroForce, AllergenLock, Better Together, PerfectEdge, P.O.O.P. Pet Owner Official Promise, Corners. Edges. And the Details in Between., Imprint, Mirra, Root, Terra, vSLAM and Virtual Wall are trademarks of iRobot Corporation (together with its subsidiaries, "iRobot", the "Company", "we", "us" or "our").

Overview

iRobot is a leading global consumer robot company that designs and builds robots that empower people to do more. With over 30 years of artificial intelligence ("AI") and advanced robotics experience, we are focused on building thoughtful robots and developing intelligent home innovations that help make life better for millions of people around the world. iRobot's portfolio of home robots and smart home devices features proprietary technologies for the connected home and advanced concepts in cleaning, mapping and navigation, human-robot interaction and physical solutions. Leveraging this portfolio, we plan to add new capabilities and expand our offerings to help consumers make their homes easier to maintain, more efficient, more secure and healthier places to live.

Since our founding in 1990, we have developed the expertise necessary to design, build, sell and support durable, high-performance and cost-effective robots through the close integration of software, electronics and hardware. Following the introduction of the Roomba robotic vacuum cleaner ("RVC") in 2002, we have sold over 50 million consumer robots worldwide to become a global, market-leading consumer robotics innovator with a strong presence in a number of major geographic regions worldwide. Our core technologies serve as reusable building blocks that we adapt and expand to create next-generation robotic platforms. We believe that this approach accelerates the time to market while also reducing the costs, time and other risks associated with product development. These capabilities are amplified by iRobot OS. The software intelligence of iRobot OS powers our portfolio of connected robotic floorcare products, enabling an expanding range of new features and thoughtful digital experiences that improve overall cleaning performance, personalization and control. By leveraging our considerable expertise and ongoing investment in AI, home understanding and machine vision technologies, iRobot OS provides consumers with greater control over where, when and how our robots work, simple integration with other smart home devices, thoughtful recommendations to further enhance the cleaning experience, and the ability to share and transfer home knowledge across multiple iRobot robots. We believe that the capabilities within iRobot OS will help support our long-term vision of building out a larger ecosystem that encompasses a broader range of robots. We believe that our significant expertise in robot design, engineering, and smart home technologies and targeted focus on understanding and addressing consumer needs, positions us well to expand our total addressable market and capitalize on the anticipated growth in a wider range of robots.

Termination of Merger Agreement

As previously disclosed, on August 4, 2022, we entered into an Agreement and Plan of Merger (the "Original Merger Agreement") with Amazon.com, Inc., a Delaware corporation ("Parent" or "Amazon"), and Martin Merger Sub, Inc., a Delaware corporation and an indirect wholly owned subsidiary of Amazon ("Merger Sub"), providing for, among other things, the merger of Merger Sub with and into iRobot, iRobot surviving the merger as a wholly owned subsidiary of Parent (the "Merger", and, together with the other transactions contemplated by the Merger Agreement (as defined below), the "Transactions"). On July 24, 2023, we, Amazon and Merger Sub entered into an amendment to the Original Merger Agreement (the "Amendment", and the Original Merger Agreement, as amended and supplemented by the Amendment, the "Merger Agreement"). The Amendment adjusted the merger consideration to reflect the incurrence of the Term Loan.

On January 28, 2024, we and Amazon mutually agreed to terminate the Merger Agreement and entered into a mutual termination agreement effective as of such date (the "Termination Agreement"). The termination of the Merger Agreement was approved by our Board of Directors. In accordance with the terms of the Termination Agreement, Amazon made a cash payment to us in the previously agreed amount of $94.0 million (the "Parent Termination Fee") on January 29, 2024. As a result of the termination of the Merger Agreement and receipt of the Parent Termination Fee of $94.0 million from Amazon, we made a payment of $18.8 million for professional fees incurred in connection with the Transactions. In accordance with the terms of the Credit Agreement, we applied $35.0 million to repay of a portion of the Term Loan. The remaining $40.0 million of the Parent Termination Fee will be set aside in a restricted account to be used for future repayments of the Term Loan subject to limited rights to utilize such amounts for the purchase of inventory.

2023 Financial Performance

Our total revenue for fiscal 2023 was $890.6 million, declining 24.7% from revenue of $1,183.4 million in fiscal 2022. Geographically, domestic revenue declined by $186.6 million, or 30.3%, and international revenue declined by $106.2 million, or 18.7%. Continuing from 2022, our revenue performance was impacted by lower orders from retailers and distributors largely resulting from a decline in consumer sentiment and resultant spending. The overall market conditions continued to be challenging and we saw increased competition in EMEA, Japan and the U.S. throughout 2023. In recent years, with increased competition in the floorcare segment, we have conceded some market share to the competitive entrants. In 2023, we focused on managing our cash and executing on our near-term robotic floorcare roadmaps, while working to obtain necessary regulatory approvals to complete the Transactions with Amazon. To achieve our goals for the year and set us up for success, we continued to implement a variety of measures to reduce spending, including workforce reductions. During the third quarter of 2022, we reduced our workforce and terminated approximately 100 employees. During the first quarter of fiscal 2023, we further reduced our workforce by approximately 85 employees. We ended 2023 with 1,113 employees, a total reduction of 325 employees since the second quarter of fiscal 2022. In addition to the reduction of our headcount, we signed two additional sublease agreements in the second quarter of fiscal 2023 to sublease portions of our headquarters. During 2023, we also scaled back working media and other demand-generation activities, limited investment in non-robotic product categories and engaged in minimal new hiring. These actions contributed to a total reduction of $130.2 million in operating expenses for fiscal 2023 as compared to the prior fiscal year. During 2023, we continued to carefully manage our inventory to a level that better aligns with current run rates and seasonality of the business. As of December 30, 2023, our inventory balance was $152.5 million, a reduction of $132.8 million from the end of fiscal 2022. To improve our liquidity, we entered into a $200.0 million Term Loan in July 2023 to fund our ongoing operations.

Strategy & 2023 Highlights

Our strategy has important near-term and long-term elements, each designed to drive sustainable, profitable growth. In the near-term, we are focused on stabilizing our company following the termination of the Merger with Amazon. Key to this stabilization effort is the near-term implementation of an operational restructuring plan to more closely align our cost structure with near-term revenue expectations and drive profitability, including through the following financial and strategic initiatives:

- achieving gross margin improvements through the execution of agreements with joint design and contract manufacturing partners on more beneficial terms that provide significant reductions in cost of goods sold;
- reducing research and development expense through increased offshoring of non-core engineering functions to lower-cost regions;
- centralizing global marketing activities and consolidating agency expenditures to reduce sales and marketing expenses while seeking efficiencies in demand generation activities to drive sales more cost effectively;
- evaluating and streamlining our global entity structure to eliminate unnecessary real estate expenditures, legal entity costs, and find efficiencies in operations; and
- focusing our product roadmap on core value drivers within robotic floorcare.

These near-term changes are designed to return us to profitability and ensure the liquidity necessary to fund long-term strategic growth initiatives.

In the longer-term, we believe that a continued focus on innovation is necessary to maintain leadership in the robotic floorcare category. We typically deliver new, high-value functionality and features in our newest products. We also focus on cost-optimizing our innovations in ways that extend those capabilities across our portfolio. In addition to continuing to advance beautifully designed, high-performance hardware platforms, our investments in research and development also support ongoing advances in iRobot OS by leveraging our extensive AI, home understanding and machine vision capabilities. We believe that software intelligence will be increasingly critical for differentiating our floorcare robots and other home innovations. Customer demand for more 2-in-1 robotic cleaners continues to grow, and during 2023, we delivered several important new innovations centered around 2-in-1 robotic cleaners while also taking steps to protect our innovations, including: (i) we launched two upgrades to iRobot OS, delivering new features and digital experiences across our entire portfolio of WiFi-connected floor cleaning robots; and (ii) in September 2023, we introduced the Roomba Combo i5+, Roomba Combo j5+, Roomba j9+ and Roomba Combo j9+, our most powerful and intelligent robot.

In addition to our commitment to driving innovation in robotic floorcare, our strategy requires that we continue to invest in ensuring that our customers have the best possible experience with our products and that they use our products consistently. We believe that a highly satisfied iRobot customer is more likely to recommend our products to others and purchase more products and accessories directly from us over the course of their ownership. Accordingly, we plan to invest in features and functionality aimed at elevating the iRobot experience as well as in our customer care organization. We will continue to take steps to further enhance our customer care capabilities and will continue to focus on improving our customer satisfaction.

In the longer-term, we believe that our focus on innovation – including developing and protecting key robotic technologies and maintaining key talent in robotics – will allow the development over time of new products not only within robotic floorcare but also in other robotic categories.

Technology

Since the Roomba's introduction in 2002, we have continuously pursued innovation and introduced a wide range of powerful features and functionality that have been favorably received by customers, helped extend our consumer robot technology and category leadership, and have further expanded our product portfolio. Over the past several years, we have focused on research and development initiatives that elevate the iRobot experience by combining beautifully designed, high-performance hardware with thoughtful intelligence. We believe that this approach enables us to advance overall cleaning efficacy and performance, increase autonomy of our products, and enable personalized control over how, when and where our robots clean. We believe that our products will continue to be increasingly differentiated by their software intelligence and are investing in our iRobot OS accordingly. By leveraging our robust connectivity and cloud infrastructure through Amazon Web Services and the ever-increasing processing power in our robots, we have built a Home Knowledge Cloud that can quickly and cost-effectively support over-the-air delivery of new digital features and enhanced functionality for customers globally. This infrastructure also allows us to collect valuable performance data that helps us identify and remedy product performance issues, improve the effectiveness of our support teams, and inform our short-term and long-term product roadmaps.

Our development roadmaps are shaped by our product management teams, interactions between customers and our support teams, a wide range of consumer studies and surveys, as well as analysis of extensive performance data of our robots in the field as discussed above. We believe that iRobot OS will continue to play a key role in our ability to deliver new features and functionality in our floor cleaning robots and other home innovations. We also plan to continue leveraging recent and ongoing investments in a range of technologies and interfaces, including artificial intelligence, home understanding and machine vision, that further improve cleaning efficacy, make our products easier to use and perform better, increase the trust that the user places in our products to successfully complete their missions, and tightly integrate our products into the lifestyles of our users.

Products & Services

We sell various products designed to empower people to do more in and around their homes. We believe our home floor cleaning robots deliver compelling and unique value to customers by providing a better way to clean that frees people from repetitive, time consuming home cleaning tasks. To ensure the continued adoption of our robots, we plan to continue to invest in the digital, data and physical products necessary to further improve the robots' cleaning efficacy, deliver the requisite intelligence to successfully complete missions without requiring user intervention, and offer personalized control over cleaning so that the robots fit seamlessly into the lifestyle of their owners.

Our products and services consist of the following offerings:

Home Maintenance Products: Floorcare Robots

- *Roomba Combo* - The Roomba Combo was first introduced in late 2022 and performs both mopping and vacuuming. During 2022, we launched the Roomba Combo j7+ while in September 2023, we introduced the Roomba Combo i5+, Roomba Combo j5+, Roomba j9+ and Roomba Combo j9+, our most powerful and intelligent robot. We also introduced thoughtful iRobot OS features Dirt Detective and SmartScrub, our latest differentiating cleaning automation features.

- *Roomba* – We currently offer multiple Roomba floor vacuuming robots at various price points based upon features and performance characteristics. Our WiFi-connected Roomba robots are powered by iRobot OS, which leverages our considerable expertise and ongoing investment in AI, home understanding and machine vision technologies to provide consumers with greater control over our products, simple integration with other smart home devices, provide recommendations to further enhance the cleaning experience and the ability to share and transfer home knowledge across multiple robots. To help ensure that our Roomba robots perform optimally, we also sell Roomba accessories and consumables, including the Clean Base® Automatic Dirt Disposal, replacement dirt disposal bags for the Clean Base, filters, brushes and batteries.
- *Braava* – We currently offer the Braava family of automatic floor mopping robots designed exclusively for hard-surface floors. Our WiFi-connected Braava robots are also powered by iRobot OS. To help ensure that our Braava robots perform optimally, we also sell Braava accessories and consumables, including cleaning solution, washable and disposable mopping pads, replacement tanks and batteries.
- *Services* – We offer extended warranties for our floorcare robots, including an option to cover accidental damage in the U.S.

Sales and Distribution Channels

We sell our robotic floorcare products through distributor and retail sales channels, as well as the online store on our website and through our Home App. For fiscal 2023, 2022 and 2021, sales to non-U.S. customers accounted for 51.9%, 48.0%, and 51.8% of total revenue, respectively. For fiscal 2023, 2022 and 2021, we generated 24.0%, 22.6% and 21.8% of total revenue, respectively, from one of our retailers.

In the United States, Canada, Japan and across much of Europe, we sell our consumer products primarily through a network of retailers. To support these retailers, we maintain in-house sales, marketing and product management teams. Certain smaller retail operations in these regions are supported by distributors to whom we sell our products directly. 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 products. Complementing our retail and distributor networks is a growing direct-to-consumer sales channel. For fiscal 2023, 2022 and 2021, direct sales to consumers accounted for 20.4%, 16.4% and 12.0% of total revenue, respectively.

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. Our support activities are focused on helping customers enjoy our products and optimize their performance by resolving technical issues or repairing our products. With Wi-Fi connectivity implemented across the vast majority of our floor cleaning robots, we can provide customer support directly via the iRobot HOME App, and our customer service representatives can use video chat tools and access robot performance information remotely to identify relevant issues and behaviors to more efficiently and effectively troubleshoot and address customer questions and concerns. In addition, this connectivity enables us to provide direct marketing material, and deliver new features and enhanced functionality to robots in the field.

Due to the modular nature of our products, our support teams are often able to help customers remediate issues themselves, augmented by iRobot-certified technicians who perform repairs if a timely resolution cannot be achieved. In our effort to provide highly responsive support, customers use a variety of channels to contact our customer care teams, spanning our websites, email, social media and telephone, which now includes a convenient call back feature to help reduce wait times. We believe that providing subscribers of our robots-as-a-service offerings with dedicated support staff is another important differentiator to help us drive adoption of these services, enabling us to elevate the utility of our floorcare robots, increase overall customer satisfaction and maximize ongoing retention.

Marketing and Brand

We market our consumer robots to end-user customers through our extensive network of retail partners with the support of our sales and marketing teams as well as in collaborations with in-country distributors. In addition, we sell directly to consumers through our e-commerce channels around the world and continually improve the buying experience on our website and Home App. For consumers seeking information about our products, the iRobot website showcases our brand, allows consumers to learn more about our products, including the latest product innovations, and enables direct-to-consumer sales. The website also plays an important after-sales role for owners seeking spare parts and accessories, as well as for trouble-shooting possible issues and contacting customer support.

Our marketing strategy is to drive consumer awareness of and interest in iRobot's product portfolio and convert this interest into sales via our retail and direct-to-consumer channels. Our sales and marketing expenses represented 22.6%, 24.8%

and 18.5% of our total revenue in fiscal 2023, 2022 and 2021, respectively. We expect to continue to invest in national advertising across a range of media, direct marketing and public relations to drive consumer demand and further build brand awareness.

Marketing highlights in 2023 included introduction of thoughtful iRobot OS features Dirt Detective and SmartScrub, our latest cleaning automation features. We also supported the successful introduction of the Roomba Combo i5+, Roomba Combo j5+, Roomba j9+ and Roomba Combo j9+. Related to these specific initiatives, we have continued to fund critical marketing, advertising and public relations efforts to build demand generation in ways that amplify the iRobot and applicable product brands, generate consumer interest in our products and perpetuate customer word-of-mouth, to encourage repeat purchases by existing customers and inspire new customers to buy our products. Since we anticipate that market conditions will remain challenging into 2024, we plan to carefully align working media and other demand-generation activities with anticipated revenue while limiting marketing investment in non-robotic product categories during fiscal 2024.

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 and associated technologies.

Manufacturing a new product requires a close relationship between our product designers, our operations teams and the contract manufacturer, as well as a range of component and raw materials suppliers as appropriate. 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. Once a new product has been introduced, we focus on executing a multi-year plan to improve its profitability through a combination of higher production volume and cost-optimization initiatives. To help us efficiently and effectively fulfill orders from retailers and consumers around the globe, we work closely with third-party logistics partners as well as a range of oceanic and air freight transportation providers.

Under our agreements with our contract manufacturers, the manufacturers supply us with specified quantities of products that align with demand forecasts that we establish based upon historical trends and analysis from our sales and product management functions. We believe that we have taken steps to diversify our manufacturing so that overall volumes are relatively well balanced across our multiple contract manufacturers in multiple geographies and a substantial majority of volume is dual sourced. Given the significant changes in market conditions and consumer demand in recent years, we move forward with the operational flexibility to manufacture between approximately 1,000 robots a day and 40,000 robots a day in 2023. As a result, we believe we are well positioned to further reduce year-end 2024 inventory levels, optimize production levels across multiple contract manufacturers and geographies, meet demand for peak seasons and respond quickly to ever-changing market conditions. We outsource the manufacturing of our consumer products to multiple contract manufacturers with plants in Southern China and Malaysia, and we expect further expansion in Asia in early 2024.

During 2023, we made important progress to address the supply chain challenges that impacted our business in the prior year. More specifically, to further leverage our production volumes, we consolidated production lines, where appropriate, to drive cost efficiencies in manufacturing and transportation. In addition, we carefully managed transportation costs, reworked existing inventory and worked closely with our account teams and retailers to manage inventory levels. We also continued our efforts to scale manufacturing capacity in Malaysia and optimize production among our contract manufacturers in China and Malaysia. We believe that production in Malaysia and further expansion in Asia in early 2024 will help us reduce our prospective exposure to current U.S. tariffs which are expected to be reinstated beginning in May 2024 and help mitigate the geopolitical risks associated with concentrating production solely in China. We expect to continue to benefit in supply continuity and resiliency through our dual sourcing initiatives in component qualification and design modularity. We also expect to further rely on our contract manufacturers' mature supply chain and their expertise in design-for-manufacturing and flexibility in components. We plan to take advantage of opportunities to source components and, in some cases, nearly complete robot designs from third-parties.

Research and Development

Our research and development team develops new software and hardware products, as well as improves and enhances our existing software to address customer demands and emerging trends. We believe that our future success depends upon our ability to continue to develop new products and product accessories, and enhance and develop new applications for our existing products. For fiscal 2023, 2022 and 2021, our research and development expenses were $144.1 million, $166.5 million and $161.3 million, or 16.2%, 14.1% and 10.3% of revenue, respectively. As we look beyond 2023, we will focus our product roadmap on core value drivers and pause all work related to non-floorcare innovations, including air purification, robotic lawn mowing and education. We also intend to offshore non-core engineering functions to lower-cost regions. We will continue our investment in research and development to respond to and anticipate customer needs, and to enable us to introduce new products in the floorcare category that will continue to address our existing market sectors. We plan to continue to invest in software intelligence, higher-value robotics, computer vision, machine learning and complex mechanical design to improve the core functionality of our robots.

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

Competition

The market for robots, including floor cleaning robots, is highly competitive, rapidly evolving and subject to changing technologies, shifting customer needs and expectations, with an increasing number of competitor companies and products. As the performance, functionality and features of our floor cleaning robots have advanced, we believe that consumers are increasingly willing to consider our products as replacements for their traditional vacuum cleaners and wet floor cleaning products. Over the past two years, floor cleaning robots that consolidate vacuuming and mopping functionality in a single product ("2-in-1 robots") have become increasingly popular with consumers. A number of established companies have developed robots that compete directly with our product offerings, and many of our competitors have significantly more financial and other resources than we possess. Our robot cleaning competitors include consumer electronics and consumer appliance companies such as Samsung, LG, Panasonic, Xiaomi, Cecotec, Hitachi, Electrolux, Midea and Shark, traditional floor cleaning brands with robotic offerings such as Dyson, Bissell and Hoover, and firms primarily focused on robotic cleaning such as Ecovacs, Roborock, Dreame, Neato and iLife. In addition, a number of these competitors now market 2-in-1 floor cleaning robots. We believe that the principal competitive factors in the market for robots include product features, performance for the intended mission, total cost of system operation and overall perceived value, including maintenance and support, ease of use, integration with existing equipment, quality, reliability, brand and reputation.

Our ability to successfully compete will depend to a great extent upon our ongoing performance in the areas of product development, customer support, and ability to leverage our iRobot OS platform across our products. We remain committed to funding the ongoing enhancement of our products and the development of new robotic floor cleaning robots to deliver cleaning performance, innovative features and functionality, quality and overall value that will appeal to consumers. We plan to complement these investments with various sales, marketing and support activities that we believe are necessary to stimulate customer demand and maintain and improve customer satisfaction.

Intellectual Property

We believe that our continued success depends in large part on our proprietary technology, the technical competence and ability of our employees to continue to innovate. The ownership of intellectual property rights is an important factor in our business. This includes patents, copyrights, trademarks, service marks, trade dress and other forms of intellectual property rights in the United States and a number of foreign countries. We currently hold a significant number of patents and have filed numerous additional patent applications. As of December 30, 2023, we held 556 U.S. patents, more than 1,000 foreign patents, additional design registrations, and have more than 350 patent applications pending worldwide. While our U.S. patents began to expire in 2021, no single intellectual property right is solely responsible for protecting our products. 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. 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, Clean Base, Roomba Combo, NorthStar, Create, Clean Map, iAdapt, Home Base, Looj, Braava, Braava jet, AeroForce, AllergenLock, Better Together, PerfectEdge, Corners. Edges. And the Details in Between., Imprint, Mirra, Root, Terra, vSLAM and Virtual Wall. Our marks iRobot,

Roomba, Braava, Braava jet, Better Together, Root, Clean Map, Imprint, PerfectEdge, Terra, 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. Some of our competitors seek to compete primarily through aggressive pricing and low-cost structures while infringing on our intellectual property.

On October 15, 2019, we initiated a patent infringement lawsuit in federal district court in Massachusetts against SharkNinja Operating LLC and its related entities ("SharkNinja") for infringement of five patents for technology related to robotic vacuum cleaners. In addition, we sought a preliminary injunction against SharkNinja for infringement of three U.S. patents. SharkNinja has in parallel sought declarations of non-infringement of thirteen U.S. patents owned by iRobot. On November 26, 2019, the federal district court in Massachusetts denied iRobot's motion for a preliminary injunction, and the case is currently stayed pending the outcome of one or more appeals from decisions of the U.S. Patent Trial and Appeal Board. On January 28, 2021, we initiated litigation against SharkNinja at the U.S. International Trade Commission ("ITC") as well as in federal district court in Massachusetts based on claims of patent infringement of five additional U.S. patents related to robotic vacuum cleaners. The trial began in January 2022. In October 2022, we received a favorable initial determination in our patent infringement action against SharkNinja at the ITC. The ruling, which found that SharkNinja had infringed valid claims of multiple iRobot asserted patents, recommends that the ITC issue an order barring the importation of various infringing SharkNinja robotic cleaning products.

There is no guarantee that we will prevail on 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. Some of these allegations have resulted in actions filed against iRobot in foreign jurisdictions. 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. Where an action has been filed, we will defend iRobot against the allegations. We cannot assure you that we will not receive further correspondence from these parties, not be subject to additional allegations of infringement from others, and cannot assure you that iRobot will prevail in any ongoing or subsequently filed actions. 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 fiscal 2023, 2022 and 2021, our second-half consumer product revenue represented 55.4%, 53.7% and 57.3% of our annual consumer product revenue, respectively. We have also experienced higher selling and marketing expenses in the second half of the year compared to the first half of the year due to increased marketing campaigns to support seasonal holiday demand. In fiscal 2023, 2022 and 2021, our selling and marketing expense in the second half of the year represented 50.3%, 53.3% and 56.0% of our selling and marketing expense for full fiscal year, respectively. Although our 2023 operating plan incorporated scaled back working media and other demand-generation activities, we continue to expect that the majority of our revenue and selling and marketing expenses will be generated in the second half of any given fiscal year unless or until we successfully introduce new products that have potential to generate stronger sales during the first half of the year.

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, including the General Data Protection Regulation ("GDPR") and California Consumer Privacy Act. In addition, the global nature of our business operations also creates various domestic and foreign regulatory challenges and subjects us to laws and regulations such as the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and similar anti-bribery and anti-corruption laws in other jurisdictions. Our products may be subject to U.S. export controls, including the United States Department of Commerce's Export Administration Regulations, various economic and trade sanctions regulations established by the Treasury Department's Office of Foreign Assets Controls and trade policies and tariffs established by the governments of the United States, China and other jurisdictions where we do business.

The laws in each of these areas - in particular those related to data privacy - are continually changing and evolving in unpredictable ways. New laws and regulations in any of these areas, as well as compliance with these laws (and their derivatives) may have an adverse effect on our business. If we fail to comply with these laws, we may be subject to significant liabilities and other penalties.

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.

Human Capital

As of December 30, 2023, we had 1,113 full-time employees. Approximately 30% 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. To date, we have experienced no work stoppages and believe that we have a good relationship with our employees.

Culture and Work Environment

Over the past three decades, iRobot has created and amplified a unique culture built on fostering invention, discovery and technological exploration in the pursuit of practical and value-add robot products for the next-generation home. iRobot is committed to attracting and retaining the best and brightest talent, leveraging new perspectives, ideas, skills, languages and cultural backgrounds, and providing the resources for individuals to reach their full potential. We have assembled a global team of talented, motivated and unique individuals by providing our people with opportunities to make a tangible impact in helping our company thrive while also advancing their careers. In addition, iRobot's culture is further shaped by a commitment to the future of Science, Technology, Engineering and Math ("STEM") education. This effort spans our educational robots, a range of complementary educational resources and our STEM outreach program, which is focused on engaging and inspiring students of all ages to learn more about robotics. We communicate regularly with our employees around the world and hold periodic virtual town hall meetings and in-person forums when appropriate to help keep employees informed.

Underpinning our culture is an ongoing commitment to ensuring that our employees, customers and suppliers are treated with dignity and respect. We strive to maintain a workplace that is free from violence, harassment, intimidation and other unsafe or disruptive conditions. Our policy is to provide a safe and healthy workplace and comply with applicable safety and health laws and regulations, as well as internal requirements. Additionally, the safety and health of our employees is of paramount importance to us. Since the height of the COVID-19 pandemic, we have implemented or modified a wide range of policies and practices to help support the physical and mental health while maintaining the productivity of our global workforce.

Compensation, Rewards and Benefits

In addition to competitive base salaries, we provide incentive-based compensation programs to reward performance relative to key metrics. We also provide compensation in the form of restricted stock unit grants as well as a competitive time-off policy. We offer comprehensive benefit options, including retirement savings plans, medical insurance, prescription drug benefits, dental insurance, vision insurance, life and disability insurance, health savings accounts, flexible spending accounts, and an employee stock purchase plan, among others.

We are committed to the continued development of our people. We offer opportunities for personal and technical development with programs such as our leadership training, management training, mentoring program and educational assistance. We continue to evolve our approach to attracting and retaining our talent – from having a well-defined process for hiring to continuing to enhance our compensation and benefits packages.

iRobot iDEA (Inclusion, Diversity, Equity & Acceptance)

iRobot is an inclusive organization, seeking out the best and brightest minds to help us meet the global requirements of our business. We are excited to welcome new perspectives, ideas, skills, languages and cultural backgrounds to our global iRobot family.

The iRobot community is built upon the diverse perspectives, beliefs and backgrounds of incredibly talented people from around the world who have all had a hand in shaping who we are as an organization. Strengthening diversity within our global workforce enables iRobot to bring our collective ideas together to invent a future that seamlessly fits the unique, personal and diverse needs of our global consumer base. We have and will continue to take action and hold ourselves accountable to continue to foster equality and diversity on a global scale. Each day we learn from each other, grow and evolve, seeking out new opportunities to strengthen our support for all employees and the communities in which we work. Our efforts to advance diversity and inclusion include programming, partnerships and initiatives that have helped enhance our workplace, strengthen our workforce and positively impact our community.

More Information

Additional information about our efforts to make our company a great place to work, build a career and build an appealing corporate culture that prides itself on diversity and inclusion is available within our 2022 Corporate Social Responsibility report, which is available on our website as well as within the Careers section of our website.

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, Switzerland and the United Kingdom. Our website address is www.irobot.com. We have included our website address as an inactive textual reference only. The information on, or that can be accessed through, our website is not part of, or incorporated by reference into, this Annual Report on Form 10-K. 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, as amended (the "Exchange Act"), are available free of charge through the investor relations page of our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (the "SEC"). Alternatively, these reports may be accessed at the SEC's website at www.sec.gov.

ITEM 1A. *RISK FACTORS*

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

Risks Related to our Business and Industry

We have incurred substantial operating losses in the past year, expect to continue to incur operating losses for the foreseeable future, and may not achieve a return to profitability in the future.

During the most recent fiscal year, we incurred a substantial operating loss of $264.1 million due to the combination of declining orders for our products and significant decreases in our gross margin. While we have taken and will continue to take actions to moderate operating expenses, we cannot guarantee that we will be able to return to profitability through a combination of revenue stabilization and significant gross margin improvement. In addition, our revenue may decline for a number of reasons, including reduced demand for our products, increased competition or macroeconomic conditions, and if our revenue does not grow at a greater rate than our operating expenses, we will not be able to achieve and maintain profitability.

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 and cash provided by operating activities will be sufficient to meet our current and anticipated needs for at least the next twelve months. In the event our future revenue or gross profit does not meet our expectations or our costs are higher than expected, we may eliminate or curtail expenses to further mitigate the impact on working capital. Our future capital requirements will depend on many factors, including our rate of revenue growth or decline, the expansion or contraction 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 continuing market acceptance of our products and services, the overall macroeconomic conditions due to heightened inflation and reduced consumer confidence stemming from unstable geopolitical conditions, including the ongoing Russia-Ukraine and Israel-Hamas

wars. Moreover, to the extent existing cash and cash equivalents and cash from operations are insufficient to fund our future activities, we may need to extend the timing of repayment of or refinance our existing debt or raise additional funds through public or private equity or debt financing. 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.

Our restructuring efforts may not be successful.

In January 2024, we announced an operational restructuring plan to more closely align our cost structure with near-term revenue expectations and drive profitability. A critical component of our operational restructuring plan is the overall reduction of approximately 350 employees, which represents 31% of our global workforce as of December 30, 2023. In August 2022 and February 2023, we started implementing similar restructuring programs to reduce our workforce. The implementation of the restructuring plan, including the impact of workforce reductions and other non-payroll cost savings measures may be disruptive to our operations, result in higher than anticipated restructuring charges, including severance payments, employee benefits and stock-based compensation, and otherwise adversely affect our results of operations and financial condition. Additional risks associated with the continuing impact of the restructuring plan include employee attrition, the ability to hire new employees in the future, diversion of management attention and adverse effects on employee morale. In addition, our ability to complete the restructuring plan and achieve the anticipated benefits from the plan within the expected time frame, or at all, is subject to management's estimates and assumptions and may vary materially from our expectations, including as a result of factors that are beyond our control. If we do not realize the expected benefits of the restructuring plan on a timely basis, or at all, our business, results of operations and financial condition could be adversely affected. Furthermore, following completion of the restructuring plan, our business may not be more efficient or effective than prior to the implementation of the restructuring plan.

Significant reductions in consumer demand has caused, and will likely continue to cause, a decrease in revenue from sales of our products and additional costs reducing both gross margin and operating income.

Reductions in consumer demand for our products have caused a decrease in revenue from sales of our products. If we are not successful in increasing consumer demand, or if macroeconomic conditions impacting consumer demand do not improve, we will continue to experience adverse impacts to our revenue and profitability.

To ensure an adequate inventory supply, we must forecast inventory needs and place orders sufficiently in advance with our suppliers and contract manufacturers, based on our estimates of future demand for specific product SKUs by region. Failure to accurately forecast our needs has resulted, and may continue to result, in manufacturing delays, increased costs, or excess inventory. Our ability to accurately forecast demand could be affected by many factors, including changes in consumer demand for our products, changes in demand for the products of our competitors, unanticipated changes in general market conditions, and the weakening of economic conditions or consumer confidence in future economic conditions. Our failure to accurately forecast consumer demand has resulted, and may continue to result, in excess inventory levels or a shortage of certain product models available for sale. Inventory levels in excess of consumer demand has resulted, and may continue to result, in increased promotional intensity to support the sale of excess inventory, which would cause and has caused our gross margins to suffer.

In addition, we do not have long-term, fixed price contracts with our contract manufacturers. As we reduce production orders with our contract manufacturers to meet demand, we face increased cost of goods sold as both our own manufacturing overhead as well as that of our suppliers is amortized over smaller production levels. In addition, as production decreases, we may not be able to maintain manufacturing relationships with some of our suppliers, which has caused us to exit production at certain contract manufacturers. The process of exiting production at certain contract manufacturers has caused us, and may continue to cause us, to incur additional costs related to unused tooling, components, relocation of materials and fixtures, and unrecouped non-recurring engineering.

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. Our competition includes established, well-known sellers of floor cleaning robots such as Ecovacs, SharkNinja, Samsung, Roborock, Dreame, as well as new market entrants. Many current and potential competitors are larger in size and more broadly diversified with 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 has, and may continue to, further drive down the average selling price in the marketplace for floor cleaning products and impact demand for our products as macroeconomic conditions result in consumers

shifting towards lower-cost alternatives. Moreover, while we believe many customers purchase our floor vacuuming robots as a supplement to, rather than a replacement for, their traditional vacuum cleaners, we also compete with providers of traditional vacuum cleaners.

The global market for robots is highly competitive, rapidly evolving and subject to changing technologies, including the utilization of evolving AI 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, operating efficiency and customer support.

We expect that competition will continue to intensify as additional competitors enter the market and current competitors expand their product lines. Companies competing with us have, and may continue to, 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 has resulted and will continue to 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.

Many of our competitors have demonstrated an ability to rapidly replicate new features and innovations that we have introduced into the market, and therefore are able to offer products with similar capabilities to ours at lower prices. Other competitors have demonstrated the ability to innovate more rapidly than we have, and those innovations – particularly in the development of 2-in-1 robot vacuum cleaners and multi-function docks – have allowed competitors to offer products at premium price points as well as capture significant market share in certain geographic markets. In addition, some of our competitors aggressively discount their products and services in order to gain market share, which has resulted in pricing pressures, reduced profit margins and lost market share. In addition, new products often have lower volumes, lower selling prices or higher costs than products that have been sold for at least a year; any or all of those factors could negatively impact our gross margins and operating results.

We cannot assure you that our products will 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 has caused, and may continue to cause, our revenue and market share to decline, which would negatively impact our results of operations and financial condition.

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 floor cleaning 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 regain and maintain profitability;
- maintain market share in our consumer market;
- attract and retain customers of our 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.

Designing new robotic products is complex and requires significant resources, and our ability to remain competitive requires significant continued investment in tools, processes and talent.

To remain competitive, we must continue to invest in developing tools and processes to improve the speed at which we are able to develop competitive products. Historically, we have made significant investments to develop tools and processes, including designing multiple hardware-based platforms and developing a reusable software architecture for use across those platforms. The development of multiple hardware platforms and a reusable software architecture requires the expenditure of significant resources that may not result in the designed efficiencies. As part of our 2024 operational restructuring plan, we plan to lower research and development expenditures by shifting to greater reliance on our manufacturing partners for lower-value commodity engineering work. Our manufacturing partners' efforts to implement such designs and developments may be unsuccessful and the speed of product development may not improve. Failure to improve the speed of product development, whether through our direct work or through the work of our manufacturing partners, could materially harm our business, results of operations and financial condition. Our inability to reduce the cost to develop new products or product variants has substantially impacted, and may continue to substantially impact, our ability to offer products that compete favorably.

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. 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. Also, increased turnover, particularly on the senior management team, with insufficient development of leadership talent and succession plans, could diminish employee confidence and increase risks for retaining key employees.

In January 2024, Colin Angle stepped down as Chief Executive Officer and chairman of our board of directors and our board of directors appointed Glen Weinstein, our then Executive Vice President and Chief Legal Officer as interim Chief Executive Officer. These changes in our management team could cause retention and morale concerns among current employees, as well as operational risks. If Mr. Weinstein's succession to interim Chief Executive Officer is not managed successfully, including his ability to lead a team that can effectively implement our strategic plans and the restructuring plan, it could disrupt our business, affect our culture, cause employee retention concerns, be viewed negatively by our customers or investors, and affect our financial condition and operational results.

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

To execute our business stabilization plan and return to profitability, 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, data science 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.

In addition, we have experienced increased employee turnover as a result of general market conditions, the impact of reductions in force executed in August 2022 and February 2023, and may experience increased employee turnover as part of the announcement of the termination of the Merger Agreement and anticipated reductions in force in 2024. New hires require significant training and, in most cases, take significant time before they achieve full productivity. New employees may not become as productive as we expect, and we may be unable to hire or retain significant numbers of qualified individuals. Moreover, we may be forced to adjust salaries or other compensation in order to retain key talent. The recent decline in our stock price may impact the actual or perceived value of our equity awards for current employees or new hires, and we may need to grant additional or larger equity awards to offer attractive compensation packages to hire and retain employees. If our retention efforts are not successful or our team member turnover rate continues to increase in the future, our business, results of operations and financial condition could be materially and adversely affected.

Additionally, we cannot be sure that we will be able to attract, retain, and motivate a new CEO or that the compensation costs of doing so will not adversely affect our financial and operating results. Additionally, we may not be able to hire and train a new CEO quickly enough to meet our needs. If we are unable to effectively hire a new CEO, it could disrupt our business, affect our culture, cause retention concerns with respect to our colleagues, and affect our financial condition and operational results.

If we are not successful in expanding our direct-to-consumer sales channel by driving consumer traffic and consumer purchases through our website, our business and results of operations could be harmed.

We are currently investing in our direct-to-consumer sales channel, primarily through our website and mobile app and the technology infrastructure used to support them. Our future growth relies in part on our ability to attract consumers to this channel, which requires significant expenditures in marketing, software development and infrastructure. If we are unable to drive traffic to, and increase sales through, our website and mobile app, our business and results of operations could be harmed. The success of direct-to-consumer sales is subject to risks associated with e-commerce, many of which are outside of our control. In addition, our efforts to carefully manage our cost structure may result in lower levels of investment in our direct-to-consumer infrastructure and systems. Our inability to adequately respond to these risks and uncertainties, successfully fund new infrastructure initiatives or maintain and expand our direct-to-consumer business via our website may have an adverse impact on our results of operations.

Our success depends nearly entirely 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.

We primarily derive our revenue from consumer robot sales. For the foreseeable future, we expect that our revenue will be derived nearly entirely from sales of home floorcare products. Accordingly, our future success depends upon our ability to further penetrate the consumer home floorcare 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.

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

Efforts to expand our product offerings beyond our current markets are limited and those efforts 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. Any new product that we develop may not be introduced in a timely or cost-effective manner, may contain defects, or may not achieve the market acceptance necessary to generate sufficient revenue. Moreover, efforts to expand beyond our existing markets may never result in new products that achieve market acceptance, create additional revenue or become profitable.

As a result of the restructuring plan, we have re-focused our product roadmap on our core robotic floorcare business and paused work related to non-floorcare innovations, including air purification, robotic lawn mowing and education, which could result in lost revenue opportunities and profitability from sales of such products. Because of our current fiscal constraints, our ability to support investments in non-floorcare innovations are limited, and this lack of investment in the near-term could allow other companies to develop more competitive products to our non-floorcare innovations, which could impact our ability to compete against such products if we decide to invest in such innovations in the future.

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, digital and print advertising, and social media, as well as increased promotional activities, to acquire new customers, and we expect to continue to spend significant amounts to increase awareness of our consumer robot products. For fiscal 2023, 2022 and 2021, sales and marketing expenses were $201.7 million, $293.3 million, and $289.8 million, respectively, representing approximately 22.6%, 24.8% and 18.5%, 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 our 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.

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 increases. 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.

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 determine 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. We have concluded that a valuation allowance on our U.S. net deferred tax assets continues to be appropriate. In addition, valuation allowances were established in certain foreign jurisdictions during fiscal 2023 considering cumulative taxable losses in recent years and uncertainty with respect to future taxable income. As of December 30, 2023, we had net deferred tax assets of $8.1 million. 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 periods. Our results of operations would be impacted negatively if we determine that an additional valuation allowance is required in a future reporting period.

If our goodwill or long-lived assets become impaired, our operating results could be negatively impacted.

Our goodwill and long-lived assets, including intangible assets, are susceptible to valuation adjustments as a result of changes in various factors or conditions. We assess the potential impairment of goodwill on an annual basis. Whenever events or changes in circumstances indicate that the carrying value may not be recoverable, we will be required to assess the potential impairment of goodwill and other intangible assets. Factors that could trigger an impairment of such assets include the following:

- changes in our organization or management reporting structure that could result in additional reporting units, which may require alternative methods of estimating fair values or greater disaggregation or aggregation in our analysis by reporting unit;
- significant under performance relative to historical or projected future operating results;
- significant changes in the strategy for our overall business;
- significant negative industry or economic trends;
- significant decline in our stock price for a sustained period; and
- our market capitalization declining to below net book value.

As a result of the termination of the Merger Agreement and the restructuring plan disclosed in January 2024, we will perform an impairment assessment of goodwill and other long-lived assets in connection with our preparation of the financial results for the first quarter of 2024.

Future adverse changes in these or other unforeseeable factors could result in additional impairment charges that would impact our results of operations and financial position in the reporting period identified.

Our senior secured term loan credit facility provides our lenders with a first-priority lien against substantially all of our assets, and contains financial covenants and other restrictions on our actions that may limit our operational flexibility or otherwise adversely affect our results of operations.

We are party to the Credit Agreement which contains customary negative covenants that limit our and our subsidiaries' ability to, among other things, grant or incur liens, incur additional indebtedness, make certain restricted investments or payments, including payment of dividends on our capital stock and payments on certain permitted indebtedness, enter into certain mergers and acquisitions or engage in certain asset sales, subject in each case to certain exceptions. We are also required to comply with a minimum core assets test. The Credit Agreement also includes certain restrictions on the use of a portion of the Parent Termination Fee payment received by us from Amazon.com, Inc., which the remaining amount thereof (after giving effect to certain periods for such amounts to be used for inventory in limited circumstances and upon satisfying certain conditions) will ultimately be required to be used to prepay a portion of the loan under the Credit Agreement. The terms of our outstanding debt may restrict our current and future operations and could adversely affect our ability to finance our future operations or capital needs or to execute business strategies in the manner desired. In addition, complying with the covenants may make it more difficult for us to successfully execute our business strategy, invest in our growth strategy, and compete against companies who are not subject to such restrictions.

A failure by us to comply with the covenants or payment requirements specified in the Credit Agreement could result in an event of default under the Credit Agreement, which may result in the termination of the Credit Agreement and acceleration of repayment obligations with respect to any outstanding loans. In addition, the lenders would have the right to proceed against the collateral in which we granted a security interest to them, which consists of substantially all our assets. If our outstanding debt were to be accelerated, we may not have sufficient cash or be able to borrow sufficient funds to refinance the debt or sell sufficient assets to repay the debt, which could materially and adversely affect our cash flows, business, results of operations, and financial condition. Further, the terms of any new or additional financing may be on terms that are more restrictive or less desirable to us.

Our financial results could fluctuate substantially due to the accounting for the Term Loan that we measure at fair value.

We have elected to account for the Term Loan under ASC 825 "Financial Instruments." ASC 825 allows companies to account for certain financial assets and financial liabilities at fair value, with the change in fair value recognized in net income (loss) in each reporting period. The data used for the measurement must reflect assumptions that market participants would use in pricing the asset or liability. There is no current observable market for this debt instrument and, as such, we determine the fair value of the debt instrument using a discounted cash flow model. The valuation model uses various inputs, including the amount and timing of cash flows, expected interest rate and discount rate. Changes in the inputs for this valuation model may have a material impact on the estimated fair value of the debt instrument accounted for under the fair value option. The debt instrument accounted for under the fair value option may have a substantial effect on our balance sheet and statement of operations from quarter to quarter and it is difficult to predict the effect on our future financial results, since valuation of the debt instrument accounted for under the fair value option is based on factors largely outside of our control. The effects may cause our financial results to fluctuate materially, which may cause our stock price to decline. See Note 5 to our consolidated financial statements, *Fair Value Measurements,* for more information regarding the valuation of our outstanding debt.

Risks Related to our Dependence on Third Parties and Distribution Channels

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

We depend on a limited number of manufacturers, employing a dual-source strategy to mitigate potential manufacturing disruptions, and we have safety stock strategies for low-volume products that are not dual sourced. The majority of our contract manufacturing for our robots is currently located in China and we added additional manufacturing capacity in Malaysia in late 2019, with further expansion in Asia in early 2024. . These manufacturers manage the supply chain for all of the raw materials and provide all facilities and labor required to manufacture our products. In addition, as part of our 2024 operational restructuring plan, we plan to shift certain lower-value commodity engineering work to our manufacturing partners. If these companies were to terminate their arrangements with us or fail to provide the required capacity and quality on a timely basis, there would be a disruption in manufacturing 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.

We are dependent on a limited number of suppliers for various components used in our products, and we may from time to time have sole source suppliers. For fiscal 2023, we purchased 79% of our finished goods from one vendor. The cost, quality and availability of these components are essential to the successful production and sale of our products. We are subject to the risk of, and have already experienced, industry-wide shortages, price fluctuations and long lead times in the supply of these components and other materials. If the supply of these components were to be delayed or constrained, or if one or more of our main suppliers were to go out of business, alternative sources or suppliers may not be available on acceptable terms or at all. In the event that any of our suppliers were to discontinue production of our key product components, developing alternate sources of supply for these components would be time consuming, difficult and costly. In the event we are unable to obtain components in sufficient quantities on a timely basis and on commercially reasonable terms, our ability to sell our products in order to meet market demand would be affected and could materially and adversely affect our brand, image, business prospects, financial condition and operating results.

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;
- risk of increased shipping costs as a result of rebel attacks on commercial ships;

- 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, because our purchase contracts with suppliers are typically denominated in U.S. dollars, changes in currency exchange rates may impact our suppliers who operate in local currency, which may cause our suppliers to seek price concessions on future orders.

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 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.

In addition, our lack of long-term agreements with certain component suppliers has caused us to purchase certain long-lead-time components well in advance of consumer demand. This added inventory increases the strain on our liquidity, as well as the risk of inventory becoming excess and obsolete.

Conflicts with our channel and distribution partners could harm our business and operating results.

The expansion of our direct-to-consumer channel could alienate some of our channel partners and cause a reduction in product sales from these partners. Channel partners may perceive themselves to be at a disadvantage based on the direct-to-consumer sales offered through our website. Due to these and other factors, conflicts in our sales channels could arise and cause channel partners to divert resources away from the promotion and sale of our products. Any of these situations could adversely impact our business and results of operations.

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.

Risks Related to our Legal and Regulatory Environment

Significant developments in U.S. trade policies have had, and we expect will continue to have, a material adverse effect on our business, financial condition and results of operations.

The U.S. government has indicated its intent to alter its approach to international trade policy and in some cases to renegotiate, or potentially terminate, certain existing bilateral or multi-lateral trade agreements and treaties with foreign countries. Effective September 24, 2018, the U.S. government implemented a 10% tariff on certain goods imported from China,

which include the majority of those imported by us. These tariffs were increased to 25% on May 10, 2019 and were slated to further increase to 30% in October 2019 until a last-minute interim deal was reached between the United States and China. Although the United States and China signed a new trade agreement in January 2020, most of the previously-implemented tariffs on goods imported from China remain in place (including the tariffs described above), and uncertainty remains as to the short-term and long-term future of economic relations between the United States and China.

From September 2018 until April 2020, our Roomba products were subject to Section 301 tariffs. On April 24, 2020, we were granted a temporary exclusion from Section 301 List 3 tariffs by the United States Trade Representative ("USTR"). This exclusion, as extended in August 2020, eliminated the 25% tariff on Roomba products until December 31, 2020. From January 1, 2021 to October 11, 2021, the 25% Section 301 tariff again applied to our Roomba products imported from China. Additional exclusions from this tariff were granted by the USTR effective October 12, 2021 through December 31, 2022, and January 1, 2023 through May 31, 2024. Although we have relocated a meaningful portion of our supply chain from China to Malaysia, we again face compression on our margin on products sold and pricing pressures on our products. Any additional or increased tariffs may in the future cause us to further increase prices to our customers which we believe has reduced, and in the future may reduce, demand for our products.

These tariffs, and other governmental action relating to international trade agreements or policies, have directly or indirectly adversely impacted demand for our products, our costs, customers, suppliers, distributors, resellers and/or the U.S. economy or certain sectors thereof and, as a result, have adversely impacted, and we expect will continue to adversely impact, our business, financial condition and results of operations. It remains unclear what the U.S. or foreign governments will or will not do with respect to tariffs, international trade agreements and policies on a short-term or long-term basis. We cannot predict future trade policy, whether exclusions will be reinstated, or the terms of any renegotiated trade agreements and their impacts on our business. The adoption and expansion of trade restrictions, the occurrence of a trade war, or other governmental action related to tariffs or trade agreements or policies has the potential to further adversely impact demand for our products, our costs, our customers, our suppliers, and the U.S. economy, which in turn could further adversely impact our business, financial condition and results of operations.

In response to international trade policy, as well as other risks associated with concentrated manufacturing in China, we relocated a meaningful portion of our supply chain from China to Malaysia. Such relocation activities increase costs and risks associated with establishing new manufacturing facilities.

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 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 fiscal 2023, 2022 and 2021, generated approximately 51.9%, 48.0%, and 51.8%, 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 foreign currency fluctuations may make our products more expensive to our distributors and end customers, which in turn may impact sales directly or the ability or willingness of our 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 only 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 spreading the risk across several 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, product liability, manufacturing, anti-bribery and anti-corruption, and economic or other trade prohibitions or sanctions. In the EU, recent changes to consumer protection laws and regulations have resulted in significant increases in the fines for non-compliance. We may also become subject to new EU laws mandating transparency for users of artificial intelligence systems.

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, 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 United States 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. In addition, our air purifier business subjects us to additional laws and regulations, such as the Federal Food, Drug, and Cosmetic Act, or FD&C Act, the Federal Insecticide, Fungicide and Rodenticide Act, the U.S. Toxic Substances Control Act of 1976, U.S. Department of Energy Efficiency regulations, and various similar state and foreign country laws and regulations related to health and safety and other applicable laws required to manufacture, commercialize, sell or distribute air purification products. In the U.S., certain air purifiers intended for medical use are regulated as medical devices and are subject to regulation by the U.S. Food and Drug Administration, or FDA, under the FD&C Act and its implementing regulations. The FDA regulates, among other things, premarket clearance, establishment registration and device listing, manufacturing, packaging, labeling, servicing, recordkeeping, advertising, promotion, distribution, recalls and field actions, post-marketing monitoring and reporting. In order to commercially distribute certain air purifiers, we will be required to submit a premarket notification, or 510(k), to the FDA and obtain 510(k) clearance.

We are also subject to a variety of laws and regulations regarding information security and privacy. For example, the European Union's ("EU") General Data Protection Regulation ("GDPR") and the California Consumer Privacy Act, or new interpretations of existing laws and regulations, impose significant requirements on how we collect, process and transfer personal data, as well as significant fines for non-compliance. These current and future data privacy laws and regulations may impede our initiatives designed to deliver targeting marketing.

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.

We may incur costs in complying with changing tax laws in the United States and abroad, which could adversely impact our cash flow, financial condition and results of operations.

We are a U.S.-based company subject to taxes in multiple U.S. and foreign tax jurisdictions. Our profits, cash flow and effective tax rate could be adversely affected by changes in the tax rules and regulations in the jurisdictions in which we do business, unanticipated changes in statutory tax rates and changes to our global mix of earnings.

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 Asian markets, and Canada. For fiscal 2023, 2022 and 2021, sales to non-U.S. customers accounted for 51.9%, 48.0%, and 51.8% 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 to customers outside the United States are primarily denominated in Euro and Japanese Yen and fluctuations in the value of foreign currencies relative to the U.S. dollar may make our products more expensive than other products, which could harm our business.

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

If we experience a local or regional disaster or other business continuity problem, such as an earthquake, terrorist attack, pandemic or other natural or man-made disaster, our continued success will depend, in part, on the availability of our personnel, our office facilities, and the proper functioning of our computer, telecommunication and other related systems and operations. As we grow our operations in new geographic regions, the potential for particular types of natural or man-made disasters, political, economic or infrastructure instabilities, or other country- or region-specific business continuity risks increases. For example, the COVID-19 pandemic impacted our supply chain and manufacturers, resulting in a disruption in manufacturing our products as further discussed in the risk factors entitled "*We depend on a limited number of manufacturers, and our reputation and results of operations would be harmed if these manufacturers fail to meet our requirements*" above.

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

The SEC requires companies that use certain minerals and metals, known as conflict minerals, in their products, whether or not these products are manufactured by third parties to research, disclose and report whether or not such minerals originate from the Democratic Republic of Congo and adjoining countries. 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.

Risks related to our Intellectual Property and Technology

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, on October 15, 2019, we initiated a patent infringement lawsuit in federal district court in Massachusetts against SharkNinja Operating LLC and its related entities ("SharkNinja") for infringement of five patents for technology related to robotic vacuum cleaners. In addition, we sought a preliminary injunction against SharkNinja for infringement of three U.S. patents. SharkNinja has in parallel sought declarations of non-infringement of thirteen U.S. patents owned by iRobot. On November 26, 2019, the federal district court in Massachusetts denied iRobot's motion for a preliminary injunction. On January 28, 2021, we initiated litigation against SharkNinja at the U.S. International Trade Commission ("ITC") as well as in federal district court in Massachusetts based on claims of patent infringement of five additional U.S. patents, and on January 5-12, 2022 the ITC held a trial on four of those patents. In March 2023, we received a favorable final determination in our patent infringement action against SharkNinja at the ITC. The ruling, which found that SharkNinja had infringed valid claims of iRobot’s asserted patents, recommends that the ITC issue an order barring the importation of various infringing SharkNinja robotic cleaning products. SharkNinja has appealed this ruling.

There is no guarantee that we will prevail on other patent infringement claims against third parties. We may be required to expend significant resources to monitor and protect our intellectual property rights. The intellectual property ownership and license rights, including copyright, surrounding AI technologies, which we are increasingly building into our products, have not been fully addressed by U.S. courts or other federal, state or foreign laws or regulations, and the use or adoption of AI technologies in our products and services may expose us to copyright infringement or other intellectual property misappropriation claims. 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.

In addition, in the United States certain of our patents have been, and may continue to be, challenged by inter parte review or opposition proceedings. If our patents are subjected to inter parte review or opposition proceedings, we may incur significant costs to defend them. Further, our failure to prevail in any such proceedings could limit the patent protection available for our innovations.

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.

In the past we have faced 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.

In addition, we incorporate open source software into our products, and we may continue to incorporate open source software into our products in the future. Open source software is generally licensed by its authors or other third parties under open source licenses. Some of these licenses contain requirements that we make available source code for modifications or derivative works we create based upon the open source software, and that we license such modifications or derivative works under the terms of a particular open source license or other license granting third parties certain rights of further use. If an author or other third party that distributes open source software that we use or license were to allege that we had not complied

with the conditions of the applicable license, we could be required to incur significant legal expenses defending against those allegations and could be subject to significant damages, enjoined from offering or selling our products that contained the open source software and required to comply with the foregoing conditions. Any of the foregoing could disrupt and harm our business and financial condition.

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, distributed denial-of-service attacks, ransomware, 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. These threats may be increased due to work-from-home policies implemented by us and our customers, suppliers and distributors. 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. Our cyber insurance may not protect against all of the costs and liabilities arising from a cyber attack.

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 operate our business in jurisdictions where intellectual property theft or compromise is common.

Currently, we maintain significant operations in China, where a majority of our products are manufactured. Subject to contractual confidentiality obligations, we are required to share significant product design materials with third-parties necessary for the design and manufacture of our products. We cannot be sure that our data or intellectual property will not be compromised through cyber-intrusion, theft or other means, particularly when the data or intellectual property is held by partners in foreign jurisdictions. Should our intellectual property be compromised, it may be difficult to enforce our rights in China and other foreign jurisdictions in which we operate.

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 floor cleaning robots, 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 EU's GDPR and the California Consumer Privacy Act impose significant 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.

Further, we may be or become subject to data localization laws mandating that data collected in a foreign country be processed and stored only within that country. Russia adopted such a law in 2014, and a similar law became effective in China

in November 2021. If other countries in which we have customers were to adopt a data localization law, we could be required to expand our data storage facilities there or build new ones in order to comply. The expenditure this would require, as well as costs of compliance generally, could harm our financial condition.

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 have and may continue to 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 we receive from third-party suppliers as well as our quality control procedures relating to our 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 use artificial intelligence in our business, and challenges with properly managing its use could result in reputational harm, competitive harm, and legal liability, and adversely affect our results of operations.

We have in the past and may in the future incorporate AI solutions into our products and features, and these applications may continue to become increasingly important in our operations over time. Our competitors or other third parties may incorporate AI into their products more quickly or more successfully than us, which could impair our ability to compete effectively and adversely affect our results of operations. Additionally, if the content, analyses, or recommendations that AI applications assist in producing are or are alleged to be deficient, inaccurate, or biased, our business, financial condition, and results of operations may be adversely affected. AI technologies, including generative AI, may create content that appears correct but is factually inaccurate or flawed, or contains copyrighted or other protected material, and if our customers or others use this content to their detriment, we may be exposed to brand or reputational harm, competitive harm, and/or legal liability. Developing, testing and deploying AI systems may also increase the cost profile of our products due to the nature of the computing costs involved in such systems. In addition, the use of AI applications may result in, cybersecurity incidents that implicate the personal data of end users of such applications. Any such cybersecurity incidents related to our use of AI applications could adversely affect our reputation and results of operations. AI also presents emerging ethical issues and if our use of AI becomes controversial, we may experience brand or reputational harm, competitive harm, increased research and development costs, or legal liability. The rapid evolution of AI, including potential government regulation of AI, require significant resources to develop, test and maintain our products and features to help us implement AI ethically in order to minimize unintended, harmful impact.

Risks Related to Ownership of our Common Stock

The market price of our common stock may fluctuate significantly.

The market price of our common stock has at times experienced substantial price volatility as a result of variations between our actual and anticipated financial results, announcements by us and our competitors, projections or speculation about our business or that of our competitors by the media or investment analysts or uncertainty about current global economic conditions. Recently, our stock price has significantly fluctuated and declined. During the pendency of the Merger, the trading price of our common stock was volatile, has continued to be volatile since the termination of the Merger Agreement, and may fluctuate significantly in the future in response to numerous factors, many of which are outside our control. From August 5, 2022 (the date of the initial announcement of the proposed merger with Amazon) until February 26, 2024, the closing price per share of our common stock ranged from a high of $59.92 to a low of $11.63. The stock market, as a whole, also has experienced extreme price and volume fluctuations that have affected the market price of the common stock of many technology companies in ways that may have been unrelated to such companies’ operating performance. In addition, the market price of our common stock may be, and we believe recently has been, significantly impacted by investors covering large short positions in our common stock. Furthermore, we believe the market price of our common stock should reflect future growth and profitability expectations. If we fail to meet these expectations, the market price of our common stock may significantly decline.

In addition, there are many other factors that may cause the market price of our common stock to fluctuate, including:

- investors that acquired our common stock during the pendency of the Merger may sell their shares of common stock;

- stockholder litigation could be brought against us relating to the termination of the Merger Agreement;
- loss of key personnel;
- actual or anticipated variations in our quarterly operating results, including fluctuations resulting from changes in foreign exchange rates, or the quarterly financial results of companies perceived to be similar to us;
- deterioration and decline in general economic, industry and/or market conditions;
- announcements of technological innovations or new products or services by us or our competitors;
- changes in estimates of our financial results or recommendations by market analysts;
- announcements by us or our competitors of significant projects, contracts, acquisitions, strategic alliances or joint ventures; and
- changes in our capital structure, such as future issuances of securities or the incurrence of additional debt.

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, pandemics, labor disruptions, terrorism, hostile acts 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 and tariffs;
- 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 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.

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

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

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

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

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

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

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None.

ITEM 1C. *CYBERSECURITY*

Cybersecurity Risk Management and Strategy

We recognize the importance of developing, implementing, and maintaining cybersecurity measures designed to safeguard our information systems and protect the confidentiality, integrity, and availability of our data, including customer data. We have strategically integrated cybersecurity risk management into our broader risk management framework, and incorporate cybersecurity considerations into our decision-making processes. iRobot's IT department evaluates and addresses cybersecurity risks in alignment with our risk profile, business objectives, and operational needs. In support of these processes, we employ cybersecurity technologies, including automated tools, designed to monitor, identify, and address cybersecurity risks.

In addition, iRobot's internal audit team facilitates risk assessment activities and manages formal IT general controls, evidence collection, and attestation for SOX compliance. We also engage with a range of external experts, including cybersecurity assessors and consultants to support the evaluation and testing of our risk management systems. These third parties assist with the preparation of threat assessments and penetration tests, and consult on security enhancements.

As part of our cybersecurity risk management program, we also implement risk-based processes to oversee and evaluate third-party vendors. Pursuant to these processes, as appropriate, we conduct security assessments of third-party vendors prior to onboarding, as well as ongoing monitoring of critical third-party vendors.

Although risks from cybersecurity threats have to date not materially affected us, our business strategy, results of operations or financial condition, we have, from time to time, experienced threats to security incidents related to our and our third-party vendors' data and systems. For more information, please see the risk factor entitled *"Cybersecurity risks could adversely affect our business and disrupt our operations"* in Item 1A - Risk Factors.

Governance Related to Cybersecurity Risks

The Board of Directors ("Board") has delegated oversight of the Company's cybersecurity risk management program to the Audit Committee. The Audit Committee is composed of board members with diverse expertise, including in the areas of risk management, technology, and finance. The Audit Committee periodically provides input regarding cybersecurity topics and initiatives, including the results of assessments, and cybersecurity policies.

The Security Director and the Chief Information Officer ("CIO") have primary responsibility for informing the Audit Committee on cybersecurity risks. They provide periodic briefings to the Audit Committee, which may include topics such as updates regarding the cybersecurity threat landscape, the status of ongoing cybersecurity-related initiatives and strategies, and regulatory requirements.

The CIO has primary responsibility for assessing, monitoring and managing our cybersecurity risks, informed by thirty years of experience focusing on cloud, cybersecurity, and privacy in leadership roles at public companies. The Security Director also has thirty years of experience in the software and security industry, with executive positions in product security, security intelligence and data science. In his capacity at iRobot, the Security Director implements and oversees information security processes and regularly informs the Chief Financial Officer and CIO of cybersecurity developments, including potential threats and risk management techniques.

ITEM 2. *PROPERTIES*

Our corporate headquarters are located in Bedford, Massachusetts, where we lease approximately 250,000 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. See Footnote 13 to our consolidated financial statements for a description of certain of our legal proceedings.

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." As of January 26, 2024, there were approximately 27,964,564 shares of our common stock outstanding held by approximately 182 stockholders of record.

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.

Securities Authorized for Issuance Under Equity Compensation Plans

Information about our equity compensation plans is incorporated herein by reference to Item 12 of Part III of this Annual Report on Form 10-K.

ITEM 6. [*RESERVED*]

Not Applicable.

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.

Overview

iRobot is a leading global consumer robot company that designs and builds robots that empower people to do more. With over 30 years of AI and advanced robotics experience, we are focused on building thoughtful robots and developing intelligent home innovations that help make life better for millions of people around the world. iRobot's portfolio of home robots and smart home devices features proprietary technologies for the connected home and advanced concepts in cleaning, mapping and navigation, human-robot interaction and physical solutions. Leveraging this portfolio, we plan to add new capabilities and expand our offerings to help consumers make their homes easier to maintain, more efficient, more secure and healthier places to live.

Since our founding in 1990, we have developed the expertise necessary to design, build, sell and support durable, high-performance and cost-effective robots through the close integration of software, electronics and hardware. Following the introduction of the Roomba robotic vacuum cleaner in 2002, we have sold over 50 million consumer robots worldwide to become a global, market-leading consumer robotics innovator with a strong presence in a number of major geographic regions worldwide. Our core technologies serve as reusable building blocks that we adapt and expand to create next-generation robotic platforms. We believe that this approach accelerates the time to market while also reducing the costs, time and other risks associated with product development. These capabilities are amplified by iRobot OS. The software intelligence of iRobot OS powers our portfolio of connected robotic floorcare products, enabling an expanding range of new features and thoughtful digital experiences that improve overall cleaning performance, personalization and control. By leveraging our considerable expertise and ongoing investment in AI, home understanding and machine vision technologies, iRobot OS provides consumers with greater control over where, when and how our robots work, simple integration with other smart home devices, thoughtful recommendations to further enhance the cleaning experience, and the ability to share and transfer home knowledge across multiple iRobot robots. We believe that the capabilities within iRobot OS will help support our long-term vision of building out a larger ecosystem that encompasses a broader range of robots. We believe that our significant expertise in robot design, engineering, and smart home technologies and targeted focus on understanding and addressing consumer needs, positions us well to expand our total addressable market and capitalize on the anticipated growth in a wider range of robotic and smart home categories. To continue expanding our business globally and increase our profitability in a highly competitive marketplace, we have continued to make progress on each key element of our strategy: innovate, get, keep and grow. Customer demand for more 2-in-1 robotic cleaners from iRobot continues to grow. In September 2023, we introduced the Roomba Combo i5+, Roomba Combo j5+, Roomba j9+ and Roomba Combo j9+, our most powerful and intelligent robot. We also introduced thoughtful iRobot OS features Dirt Detective and SmartScrub, our latest cleaning automation features. In addition, we continued to expand our connected customer base, maintained overall high levels of customer satisfaction and product utilization, and advanced key commercial activities aimed at increasing existing customer revenue, especially through our direct-to-consumer channel.

Our total revenue for fiscal 2023 was $890.6 million, declining 24.7% from revenue of $1,183.4 million in fiscal 2022. Geographically, domestic revenue declined by $186.6 million, or 30.3%, and international revenue declined by $106.2 million, or 18.7%. Continuing from 2022, our revenue performance was impacted by lower orders from retailers and distributors largely resulting from a decline in consumer sentiment and resultant spending. The overall market conditions continued to be challenging and we saw increased competition in EMEA, Japan and the U.S. throughout 2023. In 2023, we focused on managing our cash and executing on our near-term robotic floorcare roadmaps, while working to obtain necessary regulatory approvals to complete the Transactions with Amazon. To achieve our goals for the year and set us up for success, we continued to implement a variety of measures to reduce spending, including workforce reductions. During the third quarter of 2022, we reduced our workforce and terminated approximately 100 employees. During the first quarter of fiscal 2023, we further reduced our workforce by approximately 85 employees. We ended 2023 with 1,113 employees, a total reduction of 325 employees since the second quarter of fiscal 2022. In addition to the reduction of our headcount, we signed two additional sublease agreements in the second quarter of fiscal 2023 to sublease portions of our headquarters. During 2023, we also scaled back working media and other demand-generation activities, limited investment in non-robotic floorcare product categories and engaged in minimal new hiring. These actions contributed to a total reduction of $130.2 million in operating expenses for fiscal 2023 as compared to the prior fiscal year. During 2023, we continued to carefully manage our inventory to a level that better aligns with current run rates and seasonality of the business. As of December 30, 2023, our inventory balance was $152.5 million, a reduction of $132.8 million from the end of fiscal 2022. To improve our liquidity, we entered into a $200.0 million Term Loan in July 2023 to fund our ongoing operations.

In March 2022, the Section 301 List 3 Tariff Exclusion was reinstated, which eliminated the 25% tariff on Roomba products imported from China beginning on October 12, 2021 and continuing until December 31, 2022. This exclusion, which was subsequently extended until September 30, 2023 and then further extended until May 31, 2024, entitled us to a refund of approximately $32.0 million in tariffs paid. During fiscal 2022, we recognized a benefit of $11.7 million from tariff refunds as reduction to cost of product revenue related to tariffs paid on products imported after October 12, 2021 and sold during fiscal 2021. We received $5.2 million and $26.8 million of the tariff cash refund during fiscal 2023 and 2022, respectively.

Term Loan

On July 24, 2023, we entered into a Credit Agreement with a syndicate of lenders providing for a $200.0 million senior secured term loan credit facility. Total proceeds from the Term Loan were $188.2 million, net of $11.8 million of debt issuance costs, which will be used to fund our ongoing operations. The Term Loan matures on July 24, 2026 with additional terms more fully described in Note 9 to our consolidated financial statements.

Merger Agreement

As previously disclosed, on August 4, 2022, we entered into an Agreement and Plan of Merger with Amazon.com, Inc., a Delaware corporation, and Martin Merger Sub, Inc., a Delaware corporation and an indirect wholly owned subsidiary of Amazon, providing for, among other things, the merger of Merger Sub with and into iRobot, with us surviving the merger as a wholly owned subsidiary of Parent. On July 24, 2023, iRobot, Amazon and Merger Sub entered into an amendment to the Original Merger Agreement. The Amendment adjusted the merger consideration to reflect the incurrence of the Term Loan (see Note 9 to our consolidated financial statements).

On January 28, 2024, we and Amazon mutually agreed to terminate the Merger Agreement and entered into a mutual termination agreement effective as of such date. The termination of the Merger Agreement was approved by our Board of Directors. In accordance with the terms of the Termination Agreement, Amazon made a cash payment to us in the previously agreed amount of $94.0 million on January 29, 2024. As a result of the termination of the Merger Agreement and receipt of the Parent Termination Fee of $94.0 million from Amazon, we made a payment of $18.8 million for professional fees incurred in connection with the Transactions. In accordance with the terms of the Credit Agreement, we applied $35.0 million to repay a portion of the Term Loan. The remaining $40.0 million of the Parent Termination Fee will be set aside in a restricted account to be used for future repayments of the Term Loan subject to limited rights of us to utilize such amounts for the purchase of inventory.

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. As used in this Annual Report on Form 10-K, "fiscal 2023" refers to the 52-week fiscal year ending December 30, 2023, "fiscal 2022" refers to the 52-week fiscal year ended December 31, 2022, and "fiscal 2021" refers to the 52-week fiscal year ended January 1, 2022.

Key Financial Metrics and Non-GAAP Financial Measures

In addition to the measures presented in our consolidated financial statements in accordance with GAAP, we use the following key metrics, including non-GAAP financial measures, to evaluate and analyze our core operating performance and trends, and to develop short-term and long-term operational plans. The most directly comparable financial measures to the following non-GAAP metrics calculated under U.S. GAAP are gross profit, gross margin, operating loss and operating margin. In fiscal 2023, 2022 and 2021, we had gross profit of $196.2 million, $350.1 million and $550.3 million, gross margin of 22.0%, 29.6%, and 35.1%, operating loss of ($264.1) million, ($240.4) million, and ($1.1) million and operating margin of (29.7)%, (20.3)% and (0.1)%, respectively. A summary of key metrics and certain non-GAAP financial measures for fiscal 2023, 2022 and 2021, is as follows:

	Fiscal Year Ended		
	December 30, 2023	December 31, 2022	January 1, 2022
	(dollars in thousands, except average gross selling prices) (unaudited, except for total revenue)		
Total Revenue	$ 890,580	$ 1,183,383	$ 1,564,987
Non-GAAP Gross Profit	$ 200,435	$ 348,385	$ 552,573
Non-GAAP Gross Margin	22.5 %	29.4 %	35.3 %
Non-GAAP Operating (Loss) Income*	$ (198,775)	$ (172,594)	$ 24,792
Non-GAAP Operating Margin*	(22.3)%	(14.6)%	1.6 %
Total robot units shipped (in thousands)	3,034	4,182	5,602
Average gross selling prices for robot units	$ 360	$ 337	$ 332

** Beginning in the fourth quarter of 2023, we updated our calculation of non-GAAP financial measures to no longer exclude "IP litigation expense, net." The metrics for each period are presented in accordance with this updated methodology; as a result, the 2022 and 2021 fiscal year measures differ from those previously presented by the amount of IP litigation expense, net recorded in such period.*

Our non-GAAP financial measures reflect adjustments based on the following items. These non-GAAP financial measures should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and the financial results calculated in accordance with GAAP and reconciliations from these results, provided below, should be carefully evaluated.

Amortization of acquired intangible assets: Amortization of acquired intangible assets consists of amortization of intangible assets including completed technology, customer relationships, and reacquired distribution rights acquired in connection with business combinations as well as any non-cash impairment charges associated with intangible assets in connection with our past acquisitions. Amortization charges for our acquisition-related intangible assets are inconsistent in size and are significantly impacted by the timing and valuation of our acquisitions.

Net Merger, Acquisition and Divestiture (Income) Expense: Net merger, acquisition and divestiture (income) expense primarily consists of transaction fees, professional fees, and transition and integration costs directly associated with mergers, acquisitions and divestitures, including with respect to the Merger. It also includes business combination adjustments including adjustments after the measurement period has ended.

Stock-Based Compensation: Stock-based compensation is a non-cash charge relating to stock-based awards.

Tariff Refunds: Our exclusion from Section 301 List 3 tariff was reinstated in March 2022, which temporarily eliminates tariffs on our Roomba products imported from China beginning on October 12, 2021 until December 31, 2022. This temporary exclusion, which was subsequently extended until December 31, 2023, and then further extended until May 31, 2024, entitles us to a refund of all related tariffs previously paid since October 12, 2021. We exclude the refunds for tariff costs expensed during fiscal 2021 from our fiscal 2022 non-GAAP measures because those tariff refunds associated with tariff costs incurred in the past have no impact to our current period earnings.

Restructuring and Other: Restructuring charges are related to one-time actions associated with realigning resources, enhancing operational productivity and efficiency, or improving our cost structure in support of our strategy. Such actions are not reflective of ongoing operations and include costs primarily associated with severance costs, certain professional fees, costs

associated with consolidation of facilities, warehouses and any other leased properties, and other non-recurring costs directly associated with resource realignments tied to strategic initiatives or changes in business conditions.

Gain/Loss on Strategic Investments: Gain/loss on strategic investments includes fair value adjustments, realized gains and losses on the sales of these investments and losses on the impairment of these investments.

Debt issuance costs: Debt issuance costs include various incremental fees and commission paid to third parties in connection with the issuance of debt.

Income tax adjustments: Income tax adjustments include the tax effect of the non-GAAP adjustments, calculated using the appropriate statutory tax rate for each adjustment. We regularly assess the need to record valuation allowances based on non-GAAP profitability and other factors. We also exclude certain tax items, including the impact from stock-based compensation windfalls/shortfalls, that are not reflective of income tax expense incurred as a result of current period earnings. During fiscal 2023, we concluded that, based on the introduction of negative evidence associated with increased expenses expected from the Term Loan issued during 2023, it is no longer more likely than not that the net deferred tax assets are recoverable on a non-GAAP basis. Accordingly, we recorded a valuation allowance as a non-GAAP adjustment during fiscal 2023.

We exclude these items from our non-GAAP measures to facilitate an evaluation of our current operating performance and comparisons to our past operating performance. These items may vary significantly in magnitude or timing and do not necessarily reflect anticipated future operating activities. In addition, we believe that providing these non-GAAP measures affords investors a view of our operating results that may be more easily compared with our peer companies.

The following table reconciles gross profit, operating loss, net (loss) income and net (loss) income per share on a GAAP and non-GAAP basis for fiscal 2023, 2022, and 2021:

	Fiscal Year Ended		
	December 30, 2023	December 31, 2022	January 1, 2022
	(in thousands, except per share amounts)		
GAAP Gross Profit	$ 196,197	$ 350,093	$ 550,299
Amortization of acquired intangible assets	1,166	2,812	1,223
Stock-based compensation	3,160	2,194	1,321
Tariff refunds	—	(11,727)	(270)
Net merger, acquisition and divestiture expense	(262)	462	—
Restructuring and other	174	4,551	—
Non-GAAP Gross Profit	$ 200,435	$ 348,385	$ 552,573
GAAP Gross Margin	22.0 %	29.6 %	35.1 %
Non-GAAP Gross Margin	22.5 %	29.4 %	35.3 %
GAAP Operating Loss	$ (264,080)	$ (240,383)	$ (1,100)
Amortization of acquired intangible assets	6,532	15,361	2,253
Stock-based compensation	36,056	31,905	21,694
Tariff refunds	—	(11,727)	(270)
Net merger, acquisition and divestiture expense	14,562	18,657	2,059
Restructuring and other	8,155	13,593	156
Non-GAAP Operating (Loss) Income*	$ (198,775)	$ (172,594)	$ 24,792
GAAP Operating Margin	(29.7)%	(20.3)%	(0.1)%
Non-GAAP Operating Margin*	(22.3)%	(14.6)%	1.6 %
GAAP Net (Loss) Income	$ (304,710)	$ (286,295)	$ 30,390
Amortization of acquired intangible assets	6,532	15,361	2,253
Stock-based compensation	36,056	31,905	21,694
Tariff refunds	—	(11,727)	(270)
Net merger, acquisition and divestiture expense	14,562	18,657	2,059
Restructuring and other	8,155	13,593	156
Loss (gain) on strategic investments	3,910	19,718	(30,063)
Debt issuance costs	11,837	—	—
Income tax effect	9,611	76,424	(1,969)
Non-GAAP Net (Loss) Income*	$ (214,047)	$ (122,364)	$ 24,250
GAAP Net (Loss) Income Per Diluted Share	$ (11.01)	$ (10.52)	$ 1.08
Dilutive effect of non-GAAP adjustments*	3.28	6.02	(0.22)
Non-GAAP Net (Loss) Income Per Diluted Share*	$ (7.73)	$ (4.50)	$ 0.86

** Beginning in the fourth quarter of 2023, we updated our calculation of non-GAAP financial measures to no longer exclude "IP litigation expense, net." The metrics for each period are presented in accordance with this updated methodology; as a result, the 2022 and 2021 fiscal year measures differ from those previously presented by the amount of IP litigation expense, net recorded in such period.*

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. Our estimates and assumptions are based on historical experience and various other factors that we believe are reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Actual results may differ from our estimates.

The accounting policies, methods and estimates used to prepare our financial statements are described in Note 2, *Summary of Significant Accounting Policies,* of Notes to Consolidated Financial Statements in this Annual Report on Form 10-K. We consider the following accounting policies to be those that are most important to the portrayal of our financial condition and that require a higher degree of judgment:

- revenue recognition;
- goodwill and other long-lived assets;
- fair value of Term Loan; and
- accounting for income taxes.

Revenue Recognition

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. Revenue is allocated to distinct performance obligations and is recognized net of allowances for returns and other credits and incentives. Revenue is recognized only to the extent that it is probable that a significant reversal of revenue will not occur and when collection is considered probable.

Frequently, our contracts with customers contain multiple promised goods or services. Such contracts may include any of the following, the consumer robot, downloadable app, cloud services, potential future unspecified software upgrades, premium customer care and extended warranties. For these contracts, we account for the promises separately as individual performance obligations if they are distinct. Performance obligations are considered distinct if they are both capable of being distinct and distinct within the context of the contract. In determining whether performance obligations meet the criteria for being distinct, we consider a number of factors, such as the degree of interrelation and interdependence between obligations, and whether or not the good or service significantly modifies or transforms another good or service in the contract. Our consumer robots are highly dependent on, and interrelated with, the embedded software and cannot function without the software. As such, the consumer robots are accounted for as a single performance obligation. We have determined that the app, cloud services and potential future unspecified software upgrades represent one performance obligation to the customer to enhance the functionality and interaction with the robot (referred to collectively as "Cloud Services"). Other services and support are considered distinct and therefore are treated as separate performance obligations.

Significant Judgments

Our contracts with customers may contain multiple promises to transfer products and services as described above. Determining whether products and services are considered distinct may require significant judgment.

Determining the standalone selling price ("SSP") for each distinct performance obligation requires judgment. We allocate revenue to all distinct performance obligations based on their relative SSPs. When available, we use observable prices to determine SSPs. When observable prices are not available, SSPs are established that reflect our best estimates of what the selling prices of the performance obligations would be if they were sold regularly on a stand-alone basis. Our process for estimating SSPs without observable prices considers multiple factors that may vary depending upon the facts and circumstances related to each performance obligation including, market data or the estimated cost of providing the products or services.

Determining the revenue recognition period for services requires judgment. The transaction price allocated to the Cloud Services is deferred and recognized on a straight-line basis over the estimated term of the Cloud Services. Other services and support are recognized over their service periods.

Estimating variable consideration such as product returns and sales incentives requires judgment. We provide limited rights of returns for direct-to-consumer sales generated through its online stores and certain resellers and distributors. We record an allowance for product returns based on specific terms and conditions included in the customer agreements or based on historical experience and our expectation of future returns. In addition, we may provide other credits or incentives which are accounted for as variable consideration when estimating the amount of revenue to recognize. Where appropriate, these estimates take into consideration relevant factors such as our historical experience, current contractual requirements, specific known market events and forecasted inventory level in the channels. Returns and credits are estimated at the time of sale and updated at the end of each reporting period as additional information becomes available. We regularly evaluate the adequacy of our estimates for product returns and other credits and incentives. Future market conditions and product transitions may require us to take action to change such programs and related estimates. When the variables used to estimate these reserves change, or if actual results differ significantly from the estimates, we would be required to increase or reduce revenue to reflect the impact.

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 annually during the fourth quarter of each fiscal year 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.

Other long-lived assets primarily consist of property and equipment, operating lease right-of-use assets and intangible assets. 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.

Fair Value of Term Loan

We elected to account for the Term Loan under Accounting Standards Codification ("ASC") No. 825 "Financial Instruments" using the fair value option. In valuing the Term Loan, we utilized the valuation from an independent third-party specialist, which uses a discounted cash flow valuation model. Estimates of the fair value are highly subjective and require judgments regarding significant matters, such as the amount and timing of future cash flows, expected interest rate volatility and the discount rate. Changes in these estimates and assumptions or the relationship between those assumptions impact our valuation as of the valuation date and may have a material impact on the valuation.

Accounting for Income Taxes

We are subject to income taxes in the United States and other foreign jurisdictions. Significant judgment is required in determining our provision for income taxes, and income tax assets and liabilities, including evaluating uncertainties in the application of accounting principles and complex tax laws.

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. Significant management judgment is required in assessing the realizability of our deferred tax assets. In performing this assessment, we consider whether it is more likely than not that some portion or all the deferred tax assets will not be realized. In making this assessment, we consider historical profitability, projected future taxable income, future reversals of existing taxable temporary differences, as well as feasible tax planning strategies in each jurisdiction. Based on our assessment, we have concluded that a valuation allowance on our U.S. net deferred tax assets continues to be appropriate. In addition, valuation allowances were established in certain foreign jurisdictions during fiscal 2023 considering cumulative taxable losses in recent years and uncertainty with respect to future taxable income. We intend to continue maintaining a full valuation allowance on our U.S. and certain foreign deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that, based on technical merits, the position will be sustained upon examination by the tax authorities. The tax benefits of the position recognized in the

financial statements are then measured based on the largest amount of benefit that is greater than 50% likely to be realized upon settlement with a taxing authority. In addition, we recognize interest and penalties related to unrecognized tax benefits as a component of the income tax provision.

Overview of Results of Operations

The following table sets forth our results of operations for the periods shown (in thousands):

	Fiscal Year Ended		
	December 30, 2023	December 31, 2022	January 1, 2022
Revenue	$ 890,580	$ 1,183,383	$ 1,564,987
Cost of revenue:			
Cost of product revenue	693,217	830,478	1,013,465
Amortization of acquired intangible assets	1,166	2,812	1,223
Total cost of revenue	694,383	833,290	1,014,688
Gross profit	196,197	350,093	550,299
Operating expenses:			
Research and development	144,087	166,508	161,331
Selling and marketing	201,676	293,307	289,848
General and administrative	109,148	118,112	99,190
Amortization of acquired intangible assets	5,366	12,549	1,030
Total operating expenses	460,277	590,476	551,399
Operating loss	(264,080)	(240,383)	(1,100)
Other (expense) income, net	(28,975)	(21,300)	29,384
(Loss) income before income taxes	(293,055)	(261,683)	28,284
Income tax expense (benefit)	11,655	24,612	(2,106)
Net (loss) income	$ (304,710)	$ (286,295)	$ 30,390

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

	Fiscal Year Ended		
	December 30, 2023	December 31, 2022	January 1, 2022
Revenue	100.0 %	100.0 %	100.0 %
Cost of revenue:			
Cost of product revenue	77.9	70.2	64.8
Amortization of acquired intangible assets	0.1	0.2	0.1
Total cost of revenue	78.0	70.4	64.9
Gross margin	22.0	29.6	35.1
Operating expenses:			
Research and development	16.2	14.1	10.3
Selling and marketing	22.6	24.8	18.5
General and administrative	12.3	10.0	6.3
Amortization of acquired intangible assets	0.6	1.0	0.1
Total operating expenses	51.7	49.9	35.2
Operating loss	(29.7)	(20.3)	(0.1)
Other (expense) income, net	(3.2)	(1.8)	1.9
(Loss) income before income taxes	(32.9)	(22.1)	1.8
Income tax expense (benefit)	1.3	2.1	(0.1)
Net (loss) income	(34.2)%	(24.2)%	1.9 %

Comparison of Years Ended December 30, 2023, December 31, 2022 and January 1, 2022

Revenue

We primarily derive our revenue from sales of our consumer robots and accessories directly to consumers through online stores and through our Home app and indirectly through retailers and distributors. We recognize revenue upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services.

The following table shows revenue for fiscal 2023, 2022 and 2021 (dollars in thousands):

	Fiscal Year Ended				
	December 30, 2023	December 31, 2022	January 1, 2022	$ Change 2023 vs. 2022	$ Change 2022 vs. 2021
Revenue	$ 890,580	$ 1,183,383	$ 1,564,987	$ (292,803)	$ (381,604)

Year ended December 30, 2023 as compared to the year ended December 31, 2022

Revenue decreased 24.7% to $890.6 million in fiscal 2023 from $1,183.4 million in fiscal 2022. Geographically, in fiscal 2023, domestic revenue decreased $186.6 million, or 30.3%, while international revenue decreased $106.2 million, or 18.7%, which primarily reflected a 21.4% decrease in Japan and 10.8% decrease in EMEA. The decrease in revenue also reflected a 27.5% decrease in total robots shipped, offset by a 6.8% increase in gross average selling price driven by product mix to our premium robots for fiscal 2023, compared to fiscal 2022. The decrease in revenue and robots shipped during fiscal 2023 was impacted by lower orders from retailers and distributors largely resulting from a decline in consumer sentiment, and resultant spending, as well as increased pricing competition in the market.

Year ended December 31, 2022 as compared to the year ended January 1, 2022

Revenue decreased 24.4% to $1,183.4 million in fiscal 2022 from $1,565.0 million in fiscal 2021. Geographically, in fiscal 2022, international revenue decreased $242.5 million, or 29.9%, which primarily reflected a 42.5% decrease in EMEA and 5.9% decrease in Japan, while domestic revenue decreased $139.1 million, or 18.4%. While fiscal 2021 revenue reflected stronger pandemic-driven consumer demand, revenue for fiscal 2022 was impacted by order reductions, delays and cancellations by retailers and distributors in EMEA and North America as macroeconomic trends in these regions deteriorated and consumer spending slowed. These decreases in revenue reflected a 25.3% decrease in total robots shipped, and unfavorable exchange rate changes on Japanese Yen, slightly offset by a 1.5% increase in gross average selling price for fiscal 2022, compared to fiscal 2021. Despite the overall decline in revenue, direct-to-consumer revenue grew 3.4% to $193.7 million due primarily to continued enhancement of our digital marketing capabilities.

Cost of Product Revenue

Cost of product revenue primarily consists of product cost, including costs of our contract manufacturers for production and component product costs, inbound and outbound freight, import duties, tariffs, logistics and fulfillment costs, manufacturing and tooling equipment depreciation, hosting costs, warranty cost and excess and obsolete inventory write-downs. In addition, we include other expenses associated with supply chain logistics including personnel-related expenses We outsource the manufacture of our products to contract manufacturers in southern China and Malaysia. During 2023, we successfully scaled manufacturing capacity in Malaysia. In addition, because our purchase contracts with our contract manufacturers in China and Malaysia are typically denominated in U.S. dollars, changes in currency exchange rates may impact our suppliers and increase our prices.

The following table shows cost of product revenue for fiscal 2023, 2022 and 2021 (dollars in thousands):

	Fiscal Year Ended				
	December 30, 2023	December 31, 2022	January 1, 2022	$ Change 2023 vs. 2022	$ Change 2022 vs. 2021
Cost of product revenue	$ 693,217	$ 830,478	$ 1,013,465	$ (137,261)	$ (182,987)
As a percentage of revenue	77.9 %	70.2 %	64.8 %		

Year ended December 30, 2023 as compared to the year ended December 31, 2022

Cost of product revenue decreased $137.3 million, or 16.5%, to $693.2 million in fiscal 2023, compared to $830.5 million in fiscal 2022. The decrease in cost was primarily driven by the 24.7% decrease in revenue and lower product costs and ocean freight costs on new inventory purchased and sold during the year as we have seen improvements in the industry-wide supply chain environment post-pandemic. The lower costs were offset by higher rework costs on our fiscal 2022 on-hand inventory to fulfill current year orders as we continued to focus on reducing inventory. During fiscal 2023, the cost was also impacted by higher losses related to purchase commitments with our contract manufacturers and higher excess and obsolete inventory write-

downs. The decrease in cost was also offset by the $11.7 million benefit to cost of product revenue related to tariffs expensed in fiscal 2021 during fiscal 2022.

Year ended December 31, 2022 as compared to the year ended January 1, 2022

Cost of product revenue decreased $183.0 million, or 18.1%, to $830.5 million in fiscal 2022, compared to $1,013.5 million in fiscal 2021. The decrease in cost was primarily driven by the 24.4% decrease in revenue, lower Section 301 tariff expense and lower warranty costs in fiscal 2022, compared to fiscal 2021. In March 2022, we were granted a temporary exclusion from Section 301 List 3 tariffs which eliminated the 25% tariff on Roomba products imported from China beginning on October 12, 2021 and continuing until December 31, 2022. The temporary exclusion was subsequently extended until May 31, 2024. As a result of this exclusion, during fiscal 2022, we recorded a net tariff benefit of $8.8 million including approximately $11.7 million benefit recognized to cost of product revenue related to tariffs expensed in prior year, compared to $48.3 million in tariff expense during fiscal 2021. The decrease was offset by higher supply chain cost continuing from the second half of fiscal 2021, a one-time action associated with the consolidation of warehouses of $4.0 million in the U.S., as well as higher logistics costs associated with the elevated inventory levels in fiscal 2022.

Gross Profit

Our gross profit as a percentage of revenue, referred to as our gross margin, varies according to the mix of products sold, the channel mix through which we sell our products, the level of promotional activities, fluctuations of the impacts of our product and material cost saving initiatives, the foreign currency in which our products are sold, and tariff and duty costs imposed by governmental authorities.

The following table shows gross profit for fiscal 2023, 2022 and 2021 (dollars in thousands):

	Fiscal Year Ended				
	December 30, 2023	December 31, 2022	January 1, 2022	$ Change 2023 vs. 2022	$ Change 2022 vs. 2021
Gross profit	$ 196,197	$ 350,093	$ 550,299	$ (153,896)	$ (200,206)
Gross margin	22.0 %	29.6 %	35.1 %		

Year ended December 30, 2023 as compared to the year ended December 31, 2022

Gross profit decreased $153.9 million, or 44.0%, to $196.2 million (22.0% of revenue) in fiscal 2023 from $350.1 million (29.6% of revenue) in fiscal 2022. Gross margin decreased 7.6 percentage points driven by continued increases in promotional and pricing activities, lower leverage on our fixed costs, higher rework costs on our on-hand inventory to fulfill orders as we continued to focus on reducing our inventory from fiscal 2022. The gross margin was also negatively impacted by higher losses related to purchase commitments with our contract manufacturers and higher excess and obsolete inventory write-downs during the year. In addition, during the first quarter of 2022, we recognized an $11.7 million benefit from tariff refunds. The decrease in gross margin is partially offset by lower product costs and ocean freight costs on new inventory purchased and sold during this fiscal year as we have seen improvements in the industry-wide supply chain environment post-pandemic, favorable impact from improved channel mix to our direct-to-consumer channel, as well as reduced people-related costs as a result of the restructuring activities.

On January 29, 2024, following the termination of the Merger Agreement, we announced the implementation of an operational restructuring plan to drive profitability. This plan includes gross margin improvements through a focus on design-to-value and more beneficial terms with our existing and new manufacturing partners. Although we had already begun cost reduction and cash management strategies beginning with our reduction in force in August 2022, our ability to deliver sustainable gross margin improvement will largely depend over time on our ability to drive revenue growth and seasonality of our business.

Year ended December 31, 2022 as compared to the year ended January 1, 2022

Gross profit decreased $200.2 million, or 36.4%, to $350.1 million (29.6% of revenue) in fiscal 2022 from $550.3 million (35.1% of revenue) in fiscal 2021. Gross margin decreased 5.5 percentage points largely due to changes in pricing and higher promotional activity and unfavorable exchange rate changes on Japanese Yen. The decrease was partially offset by lower tariff cost as we were granted temporary exclusion from Section 301 List 3 which eliminates the 25% tariffs on Roomba products imported from China as previously described, and a $11.7 million recognized benefit from tariff refunds during the first quarter of 2022 related to tariffs expensed in fiscal 2021.

Research and Development

Research and development expenses consist primarily of:

- salaries and related costs for our engineers;
- contractors and consulting expenses;

- costs of components and test equipment used for product, tooling and prototype development;
- occupancy and other overhead costs; and
- restructuring charges.

Our research and development team develops new software and hardware products as well as improves and enhances our existing software and hardware products to address customer demands and emerging trends. On January 29, 2024, following the termination of the Merger Agreement, we announced the implementation of an operational restructuring plan to drive profitability. This plan includes a reduction in workforce as well as shifting lower-value commodity engineering work with greater reliance on contract manufacturers. We will continue to invest in software intelligence, higher-value robotics, computer vision, machine learning and complex mechanical design to improve the core functionality of our robots. We are committed to consistently maintaining our high 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 in fiscal 2024, research and development expenses will decrease in absolute dollars and as a percentage of revenue.

The following table shows research and development costs for fiscal 2023, 2022 and 2021 (dollars in thousands):

	Fiscal Year Ended				
	December 30, 2023	December 31, 2022	January 1, 2022	$ Change 2023 vs. 2022	$ Change 2022 vs. 2021
Research and development	$ 144,087	$ 166,508	$ 161,331	$ (22,421)	$ 5,177
As a percentage of revenue	16.2 %	14.1 %	10.3 %		

Year ended December 30, 2023 as compared to the year ended December 31, 2022

Research and development expenses decreased $22.4 million, or 13.5%, to $144.1 million (16.2% of revenue) in fiscal 2023 from $166.5 million (14.1% of revenue) in fiscal 2022. This decrease was primarily due to a $11.2 million decrease in people-related costs associated with lower headcount, a $6.4 million decrease in program-related costs, a $3.7 million decrease in retention bonuses associated with the Merger and a $1.8 million decrease in short-term incentive compensation cost due to underperformance in fiscal 2023. These decreases are partially offset by a $1.9 million increase related to stock-based compensation.

Year ended December 31, 2022 as compared to the year ended January 1, 2022

Research and development expenses increased $5.2 million, or 3.2%, to $166.5 million (14.1% of revenue) in fiscal 2022 from $161.3 million (10.3% of revenue) in fiscal 2021. This increase was primarily due to a $4.2 million increase in people-related costs associated with additional headcount during the first half of 2022, $1.8 million of retention bonuses associated with the Merger and $1.3 million of severance-related costs associated with the August 2022 restructuring, partially offset by a $3.2 million decrease in short-term incentive compensation costs.

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;
- product display expenses;
- customer service costs;
- technology subscription and cloud expenses; and
- restructuring charges.

On January 29, 2024, following the termination of the Merger Agreement, we announced the implementation of an operational restructuring plan to drive profitability. This announced plan includes a reduction in workforce and is designed to target our selling and marketing expenditures to a level consistent with industry standards in the consumer products market by centralizing resources on more limited geographies and consolidate marketing efforts for efficiencies. We anticipate that in fiscal 2024, selling and marketing expenses will decrease in absolute dollars and as a percentage of revenue.

The following table shows selling and marketing costs for fiscal 2023, 2022 and 2021 (dollars in thousands):

	Fiscal Year Ended				
	December 30, 2023	December 31, 2022	January 1, 2022	$ Change 2023 vs. 2022	$ Change 2022 vs. 2021
Selling and marketing	$ 201,676	$ 293,307	$ 289,848	$ (91,631)	$ 3,459
As a percentage of revenue	22.6 %	24.8 %	18.5 %		

Year ended December 30, 2023 as compared to the year ended December 31, 2022

Selling and marketing expenses decreased by $91.6 million, or (31.2)%, to $201.7 million (22.6% of revenue) in fiscal 2023 from $293.3 million (24.8% of revenue) in fiscal 2022. This decrease was primarily attributable to scaled back working media and other demand-generation activities totaling approximately $65.9 million as well as a $16.4 million decrease in people-related costs associated with lower headcount.

Year ended December 31, 2022 as compared to the year ended January 1, 2022

Selling and marketing expenses increased by $3.5 million, or 1.2%, to $293.3 million (24.8% of revenue) in fiscal 2022 from $289.8 million (18.5% of revenue) in fiscal 2021. This increase was primarily driven by $2.5 million severance-related costs associated with the August 2022 restructuring, a $2.4 million increase in people-related costs associated with additional headcount during the first half of 2022 and a $2.2 million increase related to stock-based compensation driven by lower expense in the prior year from our performance-based restricted stock units that are based on certain financial performance targets. In addition, the increase was also attributable to a $1.7 million increase in technology related costs including cloud service and maintenance and support fees, and $1.3 million in retention bonuses associated with the Merger. These increases were partially offset by a $4.2 million decrease from prior year on consulting services costs that supported enhancements of our direct-to-consumer sales channel, digital marketing and e-commerce capabilities, and a $1.5 million decrease on product display related costs.

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;
- occupancy and other overhead costs;
- acquisition-related costs associated with the Merger, including legal fees and retention bonuses; and
- restructuring charges.

The following table shows general and administrative costs for fiscal 2023, 2022 and 2021 (dollars in thousands):

	Fiscal Year Ended				
	December 30, 2023	December 31, 2022	January 1, 2022	$ Change 2023 vs. 2022	$ Change 2022 vs. 2021
General and administrative	$ 109,148	$ 118,112	$ 99,190	$ (8,964)	$ 18,922
As a percentage of revenue	12.3 %	10.0 %	6.3 %		

Year ended December 30, 2023 as compared to the year ended December 31, 2022

General and administrative expenses decreased by $9.0 million, or 7.6%, to $109.1 million (12.3% of revenue) in fiscal 2023 from $118.1 million (10.0% of revenue) in fiscal 2022. This decrease was driven by reductions of $4.5 million in people-related costs associated with lower headcount, $3.8 million in retention bonuses associated with the Merger, $3.5 million in intellectual property litigation costs, $2.0 million related to the allowance for credit losses as well as $1.0 million in short-term incentive compensation costs in fiscal 2023. The decrease was partially offset by a non-cash restructuring charge of $4.6 million associated with subleasing portions of our headquarters. During fiscal 2023 and 2022, we incurred $0.5 million and $4.5 million, respectively, in restructuring charges associated with the August 2022 and February 2023 restructuring plans. During fiscal 2023 and 2022, we incurred $17.8 million and $15.3 million, respectively, in fees associated with the Merger which was terminated in January 2024.

Year ended December 31, 2022 as compared to the year ended January 1, 2022

General and administrative expenses increased by $18.9 million, or 19.1%, to $118.1 million (10.0% of revenue) in fiscal 2022 from $99.2 million (6.3% of revenue) in fiscal 2021. This increase was primarily driven by a $13.9 million increase in acquisition-related costs, including retention bonuses and legal fees, associated with the Merger and a $6.2 million increase related to stock-based compensation driven by lower expense in prior year from our performance-based restricted stock units that are based on certain financial performance targets. The increase was also attributable to $4.5 million in restructuring charges associated with the Facility restructuring as described in Note 2 to the consolidated financial statements and August 2022 restructuring in fiscal 2022, a $3.0 million increase on enterprise software maintenance, support and services cost, and a $2.7 million increase related to the allowance for credit losses. These increases were partially offset by a $10.2 million decrease in legal fees driven by lower intellectual property litigation costs.

Amortization of Acquired 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. 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 following table shows total amortization expense for fiscal 2023, 2022 and 2021 (dollars in thousands):

	Fiscal Year Ended				
	December 30, 2023	December 31, 2022	January 1, 2022	$ Change 2023 vs. 2022	$ Change 2022 vs. 2021
Cost of revenue	$ 1,166	$ 2,812	$ 1,223	$ (1,646)	$ 1,589
Operating expense	5,366	12,549	1,030	(7,183)	11,519
Total amortization expense	$ 6,532	$ 15,361	$ 2,253	$ (8,829)	$ 13,108
As a percentage of revenue	0.7 %	1.3 %	0.1 %		

Amortization of acquired intangible assets during fiscal 2023 and 2022, are primarily related to $4.9 million and $11.1 million, respectively, of recorded impairment loss on acquired intangible assets associated with the acquisition of Aeris Cleantec AG.

Other (expense) income, net

Other (expense) income, net includes interest income, interest expense, foreign currency gains (losses) as well as gains (losses) from strategic investments, debt issuance costs, and adjustments related to the change in fair value of debt. Other (expense) income, net during fiscal 2023, 2022 and 2021 consists of the following (dollars in thousands):

	Fiscal Year Ended		
	December 30, 2023	December 31, 2022	January 1, 2022
Interest income	$ 5,615	$ 1,408	$ 527
Interest expense	(12,857)	(1,875)	(19)
Changes in fair value of Term Loan	(5,904)	—	—
Debt issuance costs	(11,837)	—	—
Gain (loss) on strategic investments	(3,910)	(19,718)	30,063
Other	(82)	(1,115)	(1,187)
Total other (expense) income, net	$ (28,975)	$ (21,300)	$ 29,384
As a percentage of revenue	(3.2)%	(1.8)%	1.9 %

In connection with the Term Loan issued in July 2023, we incurred one-time debt issuance costs of $11.8 million, a non-cash charge due to change in fair value of our Term Loan and higher cash interest expense during fiscal 2023. These increases are offset by higher interest income due to higher yields on our cash and cash equivalents.

Income Tax Provision (Benefit)

The following table shows income tax provision (benefit) for fiscal 2023, 2022 and 2021 (dollars in thousands):

	Fiscal Year Ended				
	December 30, 2023	December 31, 2022	January 1, 2022	$ Change 2023 vs. 2022	$ Change 2022 vs. 2021
Income tax provision (benefit)	$ 11,655	$ 24,612	$ (2,106)	$ (12,957)	$ 26,718
As a percentage of pre-tax income	(4.0)%	(9.4)%	(7.4)%		

Year ended December 30, 2023 as compared to the year ended December 31, 2022

We recorded an income tax provision of $11.7 million and an income tax provision of $24.6 million for fiscal 2023 and fiscal 2022, respectively. The $11.7 million income tax provision for fiscal 2023 resulted in an effective income tax rate of (4.0)%. The $24.6 million income tax provision for fiscal 2022 resulted in an effective income tax rate of (9.4)%.

Our effective income tax rate of (4.0)% for fiscal 2023 differed from the federal statutory tax rate of 21% primarily due to the recording of a full valuation allowance against our U.S. and certain foreign deferred tax assets. We have assessed, on a jurisdictional basis, the realization of our net deferred tax assets, including the ability to carry back net operating losses, the existence of taxable temporary differences, the availability of tax planning strategies and available sources of future taxable income. We have concluded that a valuation allowance on our U.S. net deferred tax assets continues to be appropriate. In addition, valuation allowances were established in certain foreign jurisdictions during fiscal 2023 considering cumulative taxable losses in recent years and uncertainty with respect to future taxable income. A valuation allowance is a non-cash charge, and does not limit our ability to utilize our deferred tax assets, including our ability to utilize tax loss and credit carryforward amounts, against future taxable income. The amount of the deferred tax assets considered realizable, and the associated valuation allowance, could be adjusted in a future period if estimates of future taxable income change or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as projections for future growth.

Year ended December 31, 2022 as compared to the year ended January 1, 2022

We recorded an income tax provision of $24.6 million and an income tax benefit of $2.1 million for fiscal 2022 and fiscal 2021, respectively. The provision for fiscal 2022 resulted in an effective tax rate of (9.4)%. The $2.1 million benefit for fiscal 2021 resulted in an effective income tax rate of (7.4)%.

Our effective income tax rate of (9.4)% for fiscal 2022 differed from the federal statutory tax rate of 21% primarily due to the recording of a full valuation allowance against our U.S. deferred tax assets. During the third quarter of fiscal 2022, we concluded that, based on our evaluation of available positive and negative evidence, it is no longer more likely than not that our net U.S. federal and state deferred tax assets are recoverable. In assessing the realizability of our U.S. deferred tax assets, the key factors used to determine positive and negative evidence included our recent losses resulting in cumulative loss for the three-year period ended December 31, 2022, current macroeconomic trends, and expected future reversals of existing taxable temporary differences. Such objective negative evidence limits our ability to consider other subjective evidence, such as our projections for future growth. Given the weight of objectively verifiable historical cumulative three-year losses from our U.S. operations, we recorded a valuation allowance of $57.5 million in the third quarter of fiscal 2022 as a reserve against our net U.S. federal and state deferred tax assets. As of December 31, 2022, the total valuation allowance relative to our U.S. federal and state deferred tax assets was $94.8 million.

Liquidity and Capital Resources

At December 30, 2023, our cash and cash equivalents were $185.1 million, and we also had restricted cash of $1.0 million and $1.8 million included in other current assets and other assets, respectively. Our working capital, which represents our total current assets less total current liabilities, was $178.3 million as of December 30, 2023, compared to $232.1 million as of December 31, 2022. Cash and cash equivalents held by our foreign subsidiaries totaled $16.4 million as of December 30, 2023. The undistributed earnings of our foreign subsidiaries remain permanently reinvested outside of the United States as of December 30, 2023.

On January 28, 2024, we and Amazon mutually agreed to terminate the Merger Agreement and entered into a mutual termination agreement effective as of such date. In accordance with the terms of the Termination Agreement, Amazon made a cash payment to us in the previously agreed amount of $94.0 million on January 29, 2024. As a result of the termination of the

Merger Agreement and receipt of the Parent Termination Fee of $94.0 million from Amazon, we made a payment of $18.8 million for professional fees incurred in connection with the Transactions. In accordance with the terms of the Credit Agreement, we applied $35.0 million to repay a portion of the Term Loan. The remaining $40.0 million of the proceeds will be set aside in a restricted account to be used for future repayments of the Term Loan subject to our limited right to utilize such amounts for the purchase of inventory.

We manufacture and distribute our products through contract manufacturers and third-party logistics providers. We believe 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, and only invest periodically in leasehold improvements a portion of which is often reimbursed by the landlords of these facilities. Accordingly, our capital spending is generally limited to machinery and tooling, leasehold improvements, business applications software and computer and equipment. During the fiscal years ended December 30, 2023 and December 31, 2022, we spent $2.9 million and $12.3 million, respectively, on capital expenditures.

Our strategy for delivering consumer products to our distributors and retail customers gives us the flexibility to provide container shipments directly from our contract manufacturers in Southern China and Malaysia to our customers or, alternatively, allows our distributors and certain retail customers to take possession of product on a domestic basis. Accordingly, our 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.

Cash used in operating activities

Year ended December 30, 2023

Net cash used in our operations for the fiscal year ended December 30, 2023 was $114.8 million, of which the principal components were our net loss of $304.7 million, partially offset by the non-cash charges of $79.4 million and the cash inflow of $110.6 million from change in working capital. The change in working capital was mainly driven by the reduction in inventory. During 2023, we continued to carefully manage our inventory to a level that better aligns with current run rates and seasonality of our business reducing days in inventory from 95 days at end of fiscal 2022 to 56 days at the end of fiscal 2023. As of December 30, 2023, our inventory balance was $152.5 million, a reduction of $132.8 million from the end of fiscal 2022.

Year ended December 31, 2022

Net cash used in our operations for the fiscal year ended December 31, 2022 was $90.0 million, of which the principal components were our net loss of $286.3 million, partially offset by the non-cash charges of $117.3 million and the cash inflow of $79.0 million from changes in working capital. The change in working capital was driven by net cash inflows of $94.8 million and $49.4 million related to accounts receivable and inventory, respectively, offset by net cash outflows of $73.6 million in accounts payable driven by a decrease in accrued expense and payables primarily due to lower inventory purchases.

Cash (used in) provided by investing activities

Year ended December 30, 2023

Net cash used in investing activities for the fiscal year ended December 30, 2023 was $3.1 million, primarily related to the purchase of machinery and tooling for new products.

Year ended December 31, 2022

Net cash provided by investing activities for the fiscal year ended December 31, 2022 was $2.2 million. During the year ended December 31, 2022, we received $17.7 million from the sales and maturities of our investments while we paid $3.2 million for the purchases of investments. We invested $12.3 million in the purchase of property and equipment, primarily related to machinery and tooling for new products.

Cash provided by financing activities

Year ended December 30, 2023

Net cash provided by financing activities for the fiscal year ended December 30, 2023 was $185.4 million, primarily related to proceeds from the Term Loan of $188.2 million, net of $11.8 million of debt issuance costs.

Year ended December 31, 2022

Net cash provided by financing activities for the fiscal year ended December 31, 2022 was $2.9 million. During the year ended December 31, 2022, we received $4.7 million from employee stock plans and paid $1.8 million upon vesting of restricted stock where 30,023 shares were retained by us to cover employee tax withholdings.

Debt

Term Loan

On July 24, 2023, we entered into a Credit Agreement (the "Credit Agreement") by and among us, as borrower, each lender from time to time party thereto and TCG Senior Funding L.L.C., an affiliate of The Carlyle Group, as administrative agent and collateral agent, providing for a $200.0 million senior secured term loan credit facility (the "Term Loan"). During fiscal 2023, we received total proceeds from the Term Loan of $188.2 million, net of $11.8 million of debt issuance costs. The Term Loan matures on July 24, 2026 with additional terms more fully described in Note 9 to our consolidated financial statements.

Credit Facility

In conjunction with entering into the Term Loan on July 24, 2023, we terminated the $100.0 million secured revolving line of credit which would otherwise have expired in September 2024.

Lines of Credit

As of December 30, 2023, we had letters of credit outstanding of $0.4 million with Bank of America, N.A. The letters of credit were collateralized with a cash deposit.

We have an unsecured guarantee line of credit with Mizuho, Bank Ltd., available to fund import tax payments up to an aggregate outstanding amount of 250.0 million Japanese Yen. As of December 30, 2023, we had no outstanding balance under the guarantee line of credit.

Liquidity

The accompanying audited consolidated financial statements have been prepared assuming that we will continue as a going concern, which contemplates the continuity of operations, realization of assets, and liquidation of liabilities in the normal course of business.

In fiscal 2023, our performance continued to be impacted by lower orders from retailers and distributors largely resulting from a decline in consumer sentiment, and resultant spending, as well as increased pricing competition in the market. During fiscal 2023, our revenue declined 25% from fiscal 2022. The lower revenue has resulted in operating losses of $264.1 million and operating cash outflows of $114.8 million for fiscal 2023. On July 24, 2023, we entered into the $200.0 million Term Loan. Total proceeds from the Term Loan were $188.2 million, net of debt issuance costs, which will be used to fund our ongoing operations. As a result, we ended fiscal 2023 with cash and cash equivalents of $185.1 million compared to $117.9 million as of December 31, 2022.

We have considered and assessed our ability to continue as a going concern for the one year from the date that the audited consolidated financial statements are issued. Our assessment included the preparation of cash flow forecasts taking into account the restructuring actions already implemented in fiscal 2022 and 2023, and maintaining debt covenant compliance. We considered additional actions within our control that we would implement, if necessary, to maintain liquidity and operations in the ordinary course. On January 29, 2024, following the termination of the Merger Agreement, we announced we will implement an operational restructuring plan to more closely align our cost structure with near-term revenue expectations and drive profitability. The 2024 operational restructuring plan is structured to:

- achieve gross margin improvements through a focus on design-to-value and more beneficial terms with our existing and new manufacturing partners;
- lower research and development expenditure by pausing work unrelated to our core floorcare business and shifting to greater reliance on contract manufacturers as it relates to the lower-value commodity engineering work;
- return selling and marketing expenditures to a more normalized level, consistent with industry standards in the consumer products market, by centralizing resources on more limited geographies and consolidate marketing efforts for efficiencies;
- further reduce headcount by approximately 350 employees, which represents approximately 31% of our global workforce as of December 30, 2023. At December 30, 2023, we had 1,113 employees. The already implemented reduction in force during fiscal 2023 and 2022 along with the expected 2024 reduction in force will result in a total reduction of approximately 550 employees since the end of fiscal 2021. In connection with this 2024 workforce reduction, we expect to record restructuring charges of approximately $12 million to $13 million in the first two quarters of 2024 primarily relating to severance packages and related benefits, with the majority of the restructuring charges anticipated in the first quarter of 2024.

In addition to the reduction of our headcount, we signed three sublease agreements during fiscal 2022 and 2023 to sublease portions of our headquarters. We expect these sublease agreements will generate $4.3 million in sublease cash payments in the future over the remaining lease terms. We expect to continue to right size our global real estate footprint

through additional subleasing at our corporate headquarters and the elimination of offices in smaller, underperforming geographies.

Inventory has consumed a significant amount of cash and we continue to manage our inventory level carefully to ensure efficiency in our working capital. As of December 30, 2023, the inventory balance was $152.5 million, or 56 days, a reduction of $132.8 million, from fiscal 2022. We plan to continue to manage our inventory to a level that better aligns with current run rates and seasonality of the business.

We estimate that such actions, together with the proceeds from the Term Loan, will be sufficient to allow us to maintain liquidity and our operations in the ordinary course for at least 12 months from the issuance of these financial statements. While we estimate such actions and loan proceeds will be sufficient to allow us to maintain liquidity and our operations in the ordinary course for at least 12 months from the issuance of these financial statements, there can be no assurance we will generate sufficient future cash flows from operations due to potential factors, including, but not limited to, further inflation, the continued rising interest rates, ongoing recessionary conditions or continued reduced demand for our products due to competition. If we are not successful in increasing demand for our products, or if macroeconomic conditions further constrain consumer demand, we may continue to experience adverse impacts to revenue and profitability. Additional actions within our control to maintain our liquidity and operations include optimizing our production volumes with contract manufacturers by reducing inventory supply forecast for cancellable purchase orders, further reducing discretionary spending in all areas of the business, decreasing working media spending and realigning resources through ongoing attrition without rehiring activity. In addition, we may need additional financing, including public or private equity or debt financing, to execute on our current or future business strategy, and additional financing may not be available or on terms favorable to us.

The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of these uncertainties.

Contractual Obligations

We generally do not enter into binding purchase commitments. Our principal commitments consist of obligations under the Term Loan, leases for office space, inventory related purchase obligations, and minimum contractual obligations. Other obligations consist primarily of subscription services. The following table describes our commitments to settle contractual obligations in cash as of December 30, 2023 (in thousands):

	Payments Due by Period				
	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years	Total
Payments on Term Loan [1]	$ 50,367	$ 275,573	$ —	$ —	$ 325,940
Operating leases [2]	5,172	11,019	10,187	6,734	33,112
Minimum contractual payments	14,250	16,667	1,625	—	32,542
Inventory-related purchase obligations [3]	27,257	—	—	—	27,257
Other obligations	8,235	991	—	—	9,226
Total	$ 105,281	$ 304,250	$ 11,812	$ 6,734	$ 428,077

(1) Payments in Less than 1 Year represent $35.0 million repayment as a result of the termination of the Merger Agreement and cash interest using an effective cash interest rate of 11.95% per annum as of January 31, 2024. Payments in 1 to 3 Years represent principal and estimated minimum guaranteed return on Term Loan using 1.7x.

(2) Operating leases obligations include cash inflows from existing contractual facility subleases through April 2030 as of December 30, 2023.

(3) Includes estimated obligations under purchase orders related to inventory. Excludes purchase orders that can be cancelled without penalty.

As of December 30, 2023, we had outstanding purchase orders aggregating approximately $139.2 million. The purchase orders are typically related to the purchase of inventory and marketing and media spend in the normal course of business. Included in these outstanding purchase orders is $75.2 million related to inventory purchases at our contract manufacturers, of which $27.3 million are not cancellable without penalty.

We utilize contract manufacturers to build our products and some of our accessories. These contract manufacturers manage the supply of components, capacity and resources to build products based on a forecasted production plan, which typically covers a rolling 12-month period. During the normal course of business, and in order to ensure adequate supply, we enter into purchase commitments with contract manufacturers and suppliers. In certain instances, these purchase commitments allow us the option to cancel, reschedule and/or adjust the supply requirements based on our business needs for a period of time before the order is due to be fulfilled. In some instances, these purchase commitments are not cancellable in the event of a change in demand or other circumstances, such as where the contract manufacturer and/or supplier has built products, semi-finished products or procured and/or ordered unique, iRobot-specific designs, and/or specific non-cancellable, non-returnable components based on the provided forecasts. If we cancel all or part of the orders, or materially reduce forecasted orders, in certain circumstances we may be liable to our contract manufacturers and/or suppliers for the cost of the excess components purchased by our contract manufacturers based on the forecasted production plan and the purchase terms of its component suppliers. During fiscal 2023, we paid $14.0 million to our contract manufacturers for such liabilities and recorded as inventory components. In addition, we recognized $10.3 million associated with losses on purchase commitments.

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 British Pounds, Canadian Dollars, Chinese Renminbi, Euros and Japanese Yen. 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 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 contracts, 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 sales in Euros and Japanese Yen. These contracts typically have maturities of 1.5 years or less. At December 30, 2023 and December 31, 2022, we had outstanding cash flow hedges with a total notional value of $114.4 million and $362.9 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 twelve months or less. At December 30, 2023 and December 31, 2022, we had outstanding economic hedges with a total notional value of $252.0 million and $242.0 million, respectively.

At December 30, 2023, assuming all other variables are constant, if the U.S. Dollar weakened or strengthened by 10%, the fair market value of our foreign currency contracts would increase or decrease by approximately $17.1 million.

Interest Rate Sensitivity

The interest expense on the Term Loan will generally fluctuate with movements of interest rates. To date, we have not been exposed, nor do we anticipate being exposed, to material risks due to changes in interest rates. A hypothetical 10% change in interest rates would not have a material impact on our consolidated financial statements.

At December 30, 2023, we had unrestricted cash and cash equivalents of $185.1 million. The unrestricted cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. Some of the securities in which we invest, however, may be subject to market risk. This means 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 have the ability to invest in a variety of securities including, commercial paper, money market funds, debt securities and certificates of deposit. Due to the short-term nature of these investments, we believe 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, 2023, all of our cash and cash equivalents were held in demand deposits and money market funds.

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

iROBOT CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of Independent Registered Public Accounting Firm (PCAOB ID: 238)	51
Consolidated Balance Sheets at December 30, 2023 and December 31, 2022	53
Consolidated Statements of Operations for the Years ended December 30, 2023, December 31, 2022 and January 1, 2022	54
Consolidated Statements of Comprehensive (Loss) Income for the Years ended December 30, 2023, December 31, 2022 January 1, 2022	54
Consolidated Statements of Stockholders' Equity for the Years ended December 30, 2023, December 31, 2022 and January 1, 2022	56
Consolidated Statements of Cash Flows for the Years ended December 30, 2023, December 31, 2022 January 1, 2022	57
Notes to Consolidated Financial Statements	58

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 (the "Company") as of December 30, 2023 and December 31, 2022, and the related consolidated statements of operations, of comprehensive (loss) income, of stockholders' equity and of cash flows for each of the three years in the period ended December 30, 2023, 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, 2023, 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, 2023 and December 31, 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 30, 2023 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, 2023, 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.

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.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or

disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Product Returns

As described in Notes 2 and 3 to the consolidated financial statements, the Company provides limited rights of returns for direct-to-consumer sales generated through its online stores and certain resellers and distributors. The Company records an allowance for product returns based on specific terms and conditions included in the customer agreements or based on historical experience and management's expectation of future returns. Returns and credits are estimated at the time of sale and updated at the end of each reporting period as additional information becomes available. As of December 30, 2023, the Company had reserves for product returns of $24.6 million.

The principal considerations for our determination that performing procedures relating to the allowance for product returns is a critical audit matter are (i) the significant judgment by management in developing the allowance for product returns related to management's expectation of future returns; and (ii) a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence related to the allowance for product returns and management's expectation of future returns.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the revenue recognition process, including the estimation of the allowance for product returns. These procedures also included, among others (i) testing management's process for developing the allowance for product returns, (ii) evaluating the appropriateness of management's approach to calculate the allowance for product returns, (iii) testing the completeness and accuracy of underlying historical sales and returns data used by management to develop the allowance for product returns, and (iv) evaluating the reasonableness of management's expectation of future returns based on historical experience by customer by product.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts
February 27, 2024

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

iROBOT CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)

	December 30, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 185,121	$ 117,949
Accounts receivable, net	79,387	66,025
Inventory	152,469	285,250
Other current assets	48,513	59,076
Total current assets	465,490	528,300
Property and equipment, net	40,395	60,909
Operating lease right-of-use assets	19,642	26,084
Deferred tax assets	8,512	16,248
Goodwill	175,105	167,724
Intangible assets, net	5,044	11,260
Other assets	19,510	24,918
Total assets	$ 733,698	$ 835,443
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 178,318	$ 184,016
Accrued expenses	97,999	98,959
Deferred revenue and customer advances	10,830	13,208
Total current liabilities	287,147	296,183
Term loan	201,501	—
Operating lease liabilities	27,609	33,247
Other long-term liabilities	20,954	30,297
Total long-term liabilities	250,064	63,544
Total liabilities	537,211	359,727
Commitments and contingencies (Note 13)		
Preferred stock, 5,000 shares authorized and none outstanding	—	—
Common stock, $0.01 par value; 100,000 shares authorized; 27,964 and 27,423 shares issued and outstanding, respectively	280	274
Additional paid-in capital	290,755	257,498
(Accumulated deficit) retained earnings	(105,295)	199,415
Accumulated other comprehensive income	10,747	18,529
Total stockholders' equity	196,487	475,716
Total liabilities and stockholders' equity	$ 733,698	$ 835,443

See accompanying Notes to Consolidated Financial Statements

iROBOT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Fiscal Year Ended		
	December 30, 2023	December 31, 2022	January 1, 2022
Revenue	$ 890,580	$ 1,183,383	$ 1,564,987
Cost of revenue:			
Cost of product revenue	693,217	830,478	1,013,465
Amortization of acquired intangible assets	1,166	2,812	1,223
Total cost of revenue	694,383	833,290	1,014,688
Gross profit	196,197	350,093	550,299
Operating expenses:			
Research and development	144,087	166,508	161,331
Selling and marketing	201,676	293,307	289,848
General and administrative	109,148	118,112	99,190
Amortization of acquired intangible assets	5,366	12,549	1,030
Total operating expenses	460,277	590,476	551,399
Operating loss	(264,080)	(240,383)	(1,100)
Other (expense) income, net	(28,975)	(21,300)	29,384
(Loss) income before income taxes	(293,055)	(261,683)	28,284
Income tax expense (benefit)	11,655	24,612	(2,106)
Net (loss) income	$ (304,710)	$ (286,295)	$ 30,390
Net (loss) income per share:			
Basic	$ (11.01)	$ (10.52)	$ 1.10
Diluted	$ (11.01)	$ (10.52)	$ 1.08
Number of shares used in per share calculations:			
Basic	27,676	27,214	27,687
Diluted	27,676	27,214	28,162

See accompanying Notes to Consolidated Financial Statements

iROBOT CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(in thousands)

	Fiscal Year Ended		
	December 30, 2023	December 31, 2022	January 1, 2022
Net (loss) income	$ (304,710)	$ (286,295)	$ 30,390
Other comprehensive (loss) income, net of tax:			
Net foreign currency translation adjustments	9,210	(5,853)	(11,730)
Net unrealized gains on cash flow hedges	2,978	39,578	23,715
Net gains on cash flow hedge reclassified into earnings	(24,373)	(23,286)	(3,398)
Net unrealized losses on marketable securities	—	—	(4)
Change in fair value of term loan due to instrument-specific credit risk	4,403	—	—
Total comprehensive (loss) income	$ (312,492)	$ (275,856)	$ 38,973

See accompanying Notes to Consolidated Financial Statements

iROBOT CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss) ("AOCI")	Stockholders' Equity
	Shares	Value				
Balance at January 2, 2021	28,184	$ 282	$ 205,256	$ 599,389	$ (493)	$ 804,434
Issuance of common stock under employee stock plans	143	1	6,718			6,719
Vesting of restricted stock units	369	3	(3)			—
Stock-based compensation			21,694			21,694
Stock withheld to cover tax withholdings requirements upon restricted stock vesting	(45)	—	(5,161)			(5,161)
Other comprehensive income					8,583	8,583
Directors' deferred compensation			64			64
Stock repurchases	(1,645)	(16)	(5,915)	(144,069)		(150,000)
Net income				30,390		30,390
Balance at January 1, 2022	27,006	$ 270	$ 222,653	$ 485,710	$ 8,090	$ 716,723
Issuance of common stock under employee stock plans	126	1	4,718			4,719
Vesting of restricted stock units	321	3	(3)			—
Stock-based compensation			31,905			31,905
Stock withheld to cover tax withholdings requirements upon restricted stock vesting	(30)	—	(1,775)			(1,775)
Other comprehensive income					10,439	10,439
Net loss				(286,295)		(286,295)
Balance at December 31, 2022	27,423	$ 274	$ 257,498	$ 199,415	$ 18,529	$ 475,716
Issuance of common stock under employee stock plans	9	—	9			9
Vesting of restricted stock units	601	6	(6)			—
Stock-based compensation			36,056			36,056
Stock withheld to cover tax withholdings requirements upon restricted stock vesting	(69)	—	(2,802)			(2,802)
Other comprehensive loss					(7,782)	(7,782)
Net loss				(304,710)		(304,710)
Balance at December 30, 2023	27,964	$ 280	$ 290,755	$ (105,295)	$ 10,747	$ 196,487

See accompanying Notes to Consolidated Financial Statements

iROBOT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Fiscal Year Ended		
	December 30, 2023	December 31, 2022	January 1, 2022
Cash flows from operating activities:			
Net (loss) income	$ (304,710)	$ (286,295)	$ 30,390
Adjustments to reconcile net (loss) income to net cash used in operating activities:			
Depreciation and amortization	32,791	47,869	33,309
Loss (gain) on equity investments	3,910	19,718	(30,063)
Stock-based compensation	36,056	31,905	21,694
Change in fair value of term loan	5,904	—	—
Debt issuance costs expensed under fair value option	11,837	—	—
Deferred income taxes, net	6,563	18,799	(6,934)
Other	(17,694)	(1,003)	5,940
Changes in operating assets and liabilities — (use) source, excluding effects of acquisition			
Accounts receivable	(11,748)	94,750	10,290
Inventory	125,710	49,399	(151,193)
Other assets	13,941	52,029	(19,868)
Accounts payable	(4,604)	(73,598)	82,289
Accrued expenses and other liabilities	(12,749)	(43,594)	(7,824)
Net cash used in operating activities	(114,793)	(90,021)	(31,970)
Cash flows from investing activities:			
Additions of property and equipment	(2,862)	(12,325)	(29,928)
Purchase of investments	(233)	(3,150)	(10,811)
Cash paid for business acquisition, net of cash acquired	—	—	(71,357)
Sales and maturities of investments	—	17,723	63,976
Net cash (used in) provided by investing activities	(3,095)	2,248	(48,120)
Cash flows from financing activities:			
Proceeds from employee stock plans	9	4,719	6,719
Income tax withholding payment associated with restricted stock vesting	(2,802)	(1,775)	(5,161)
Stock repurchases	—	—	(150,000)
Proceeds from term loan	200,000	—	—
Payment of debt issuance costs	(11,837)	—	—
Net cash provided by (used in) financing activities	185,370	2,944	(148,442)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	2,456	1,321	(2,646)
Net increase (decrease) in cash, cash equivalents and restricted cash	69,938	(83,508)	(231,178)
Cash, cash equivalents and restricted cash at beginning of period	117,949	201,457	432,635
Cash, cash equivalents and restricted cash, at end of period	$ 187,887	$ 117,949	$ 201,457
Supplemental disclosure of cash flow information			
Cash paid for income taxes, net of refunds	$ 6,117	$ 8,489	$ 20,375
Cash paid for interest	$ 6,522	$ 1,714	$ —
Cash, cash equivalents and restricted cash, at end of period			
Cash and cash equivalents	$ 185,121	$ 117,949	$ 201,457
Restricted cash, current (included in other current assets)	1,000	—	—
Restricted cash, non-current (included in other assets)	1,766	—	—
Cash, cash equivalents and restricted cash, at end of period	$ 187,887	$ 117,949	$ 201,457

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, builds and sells robots and home innovations that make life better. The Company's portfolio of home robots and smart home devices features proprietary technologies for the connected home and advanced concepts in cleaning, mapping and navigation, human-robot interaction and physical solutions. iRobot's durable and high-performing robots are designed using the close integration of software, electronics and hardware. The Company's revenue is primarily generated from product sales through a variety of distribution channels, including chain stores and other national retailers, through the Company's own website and app, dedicated e-commerce websites, the online arms of traditional retailers and through value-added distributors and resellers worldwide.

Subsequent Events

As previously disclosed, on August 4, 2022, the Company entered into an Agreement and Plan of Merger (the "Original Merger Agreement") with Amazon.com, Inc., a Delaware corporation ("Parent" or "Amazon"), and Martin Merger Sub, Inc., a Delaware corporation and an indirect wholly owned subsidiary of Amazon ("Merger Sub"), providing for, among other things, the merger of Merger Sub with and into iRobot, with the Company surviving the merger as a wholly owned subsidiary of Parent (the "Merger", and, together with the other transactions contemplated by the Merger Agreement (as defined below), (the "Transactions"). On July 24, 2023, iRobot, Amazon and Merger Sub entered into an amendment to the Original Merger Agreement (the "Amendment", and the Original Merger Agreement, as amended and supplemented by the Amendment, the "Merger Agreement"). The Amendment adjusted the merger consideration to reflect the incurrence of the Term Loan (see Note 9, *Debt,* for additional information).

On January 28, 2024, the Company and Amazon mutually agreed to terminate the Merger Agreement and entered into a mutual termination agreement effective as of such date (the "Termination Agreement"). The termination of the Merger Agreement was approved by the Company's Board of Directors. In accordance with the terms of the Termination Agreement, Amazon made a cash payment to the Company in the previously agreed amount of $94.0 million (the "Parent Termination Fee") on January 29, 2024. As a result of the termination of the Merger Agreement and receipt of the Parent Termination Fee of $94.0 million from Amazon, the Company made a payment of $18.8 million for professional fees incurred in connection with the Transactions. In accordance with the terms of the Credit Agreement, the Company applied $35.0 million to repay a portion of the Term Loan. The remaining $40.0 million of the Parent Termination Fee will be set aside in a restricted account to be used for future repayments of the Term Loan subject to limited rights of the Company to utilize such amounts for the purchase of inventory. See Note 9, *Debt*, for additional information.

See Note 17, *Subsequent Events*, for additional events and details.

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. iRobot has prepared the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"). In addition, certain prior year amounts have been reclassified to conform to the current year presentation.

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 (loss) and are recorded in accumulated other comprehensive income (loss), a separate component of stockholders' equity.

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. As used in the Annual Report on Form 10-K, "fiscal 2023" refers to the 52-week fiscal year ending December 30, 2023, "fiscal 2022" refers to the 52-week fiscal year ended December 31, 2022, and "fiscal 2021" refers to the 52-week fiscal year ended January 1, 2022.

Liquidity

The accompanying audited consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the continuity of operations, realization of assets, and liquidation of liabilities in the normal course of business.

In fiscal 2023, the Company's performance continued to be impacted by lower orders from retailers and distributors largely resulting from a decline in consumer sentiment, and resultant spending, as well as increased pricing competition in the market. During fiscal 2023, the Company's revenue declined 25% from fiscal 2022. The lower revenue has resulted in operating losses of $264.1 million and operating cash outflows of $114.8 million for fiscal 2023. On July 24, 2023, the Company entered into the $200.0 million Term Loan. Total proceeds from the Term Loan were $188.2 million, net of debt issuance costs, which will be used to fund the Company's ongoing operations. As a result, the Company ended fiscal 2023 with cash and cash equivalents of $185.1 million compared to $117.9 million as of December 31, 2022.

Management has considered and assessed its ability to continue as a going concern for the one year from the date that the audited consolidated financial statements are issued. Management's assessment included the preparation of cash flow forecasts taking into account the restructuring actions already implemented in fiscal 2022 and 2023, and maintaining debt covenant compliance. Management considered additional actions within its control that it would implement, if necessary, to maintain liquidity and operations in the ordinary course. On January 29, 2024, following the termination of the Merger Agreement, the Company announced it will implement an operational restructuring plan to more closely align its cost structure with near-term revenue expectations and drive profitability. The 2024 operational restructuring plan is structured to:

- achieve gross margin improvements through a focus on design-to-value and more beneficial terms with the Company's existing and new manufacturing partners;
- lower research and development expenditure by pausing work unrelated to the Company's core floorcare business and shifting to greater reliance on contract manufacturers as it relates to the lower-value commodity engineering work;
- return selling and marketing expenditures to a more normalized level, consistent with industry standards in the consumer products market, by centralizing resources on more limited geographies and consolidate marketing efforts for efficiencies;
- further reduce headcount by approximately 350 employees, which represents approximately 31% of the Company's global workforce as of December 30, 2023. At December 30, 2023, the Company had 1,113 employees. The already implemented reduction in force during fiscal 2023 and 2022 along with the expected 2024 reduction in force will result in a total reduction of approximately 550 employees since the end of fiscal 2021. In connection with this 2024 workforce reduction, the Company expects to record restructuring charges of approximately $12 million to $13 million in the first two quarters of 2024 primarily relating to severance packages and related benefits, with the majority of the restructuring charges anticipated in the first quarter of 2024.

In addition to the reduction of its headcount, the Company signed three sublease agreements during fiscal 2022 and 2023 to sublease portions of its headquarters. iRobot expects these sublease agreements will generate $4.3 million in sublease cash payments in the future over the remaining lease terms. The Company expects to continue to right size its global real estate footprint through additional subleasing at its corporate headquarters and the elimination of offices in smaller, underperforming geographies.

Inventory has consumed a significant amount of cash and the Company continues to manage its inventory level carefully to ensure efficiency in its working capital. As of December 30, 2023, the inventory balance was $152.5 million, or 56 days, a reduction of $132.8 million from fiscal 2022. The Company plans to continue to manage its inventory to a level that better aligns with current run rates and seasonality of the business.

Management estimates such actions, together with the proceeds from the Term Loan, will be sufficient to allow it to maintain liquidity and its operations in the ordinary course for at least 12 months from the issuance of these financial statements. While management estimates such actions and loan proceeds will be sufficient to allow it to maintain liquidity and its operations in the ordinary course for at least 12 months from the issuance of these financial statements, there can be no assurance the Company will generate sufficient future cash flows from operations due to potential factors, including, but not limited to, further inflation, the continued rising interest rates, ongoing recessionary conditions or continued reduced demand for the Company's products due to competition. If the Company is not successful in increasing demand for its products, or if macroeconomic conditions further constrain consumer demand, the Company may continue to experience adverse impacts to revenue and profitability. Additional actions within the Company's control to maintain its liquidity and operations include optimizing its production volumes with contract manufacturers by reducing inventory supply forecast for cancellable purchase orders, further reducing discretionary spending in all areas of the business, decreasing working media spending and realigning resources through ongoing attrition without rehiring activity. In addition, the Company may need additional financing,

including public or private equity or debt financing, to execute on its current or future business strategy, and additional financing may not be available or on terms favorable to the Company.

The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of these uncertainties.

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 and revenue and expenses. These estimates and judgments, include but are not limited to, revenue recognition, including variable consideration and other obligations such as sales incentives and product returns; allowance for credit losses; impairment of goodwill and long-lived assets; valuation of non-marketable equity investments; valuation of debt; product warranties; inventory excess and obsolescence; loss contingencies; and accounting for income taxes and related valuation allowances. The Company bases its estimates and assumptions on historical experience, market participant fair value considerations, projected future cash flows, current economic conditions, and various other factors that the Company believes are reasonable under the circumstances. Actual results and outcomes may differ from the Company’s estimates and assumptions.

Cash, Cash Equivalents, and Restricted Cash

The Company considers all highly liquid investments with maturity of three months or less at the time of purchase to be cash and cash equivalents. The Company invests its excess cash primarily in money market funds or demand deposit accounts of major financial institutions. Accordingly, its cash and cash equivalents are subject to minimal market risk. At December 30, 2023 and December 31, 2022, cash and cash equivalents totaled $185.1 million and $117.9 million, respectively. These cash and cash equivalents are carried at cost, which approximates fair value.

The Company's restricted cash balances totaled $2.8 million as of December 30, 2023, $1.0 million of which is included in other current assets on the consolidated balance sheet and is used as collateral deposited for foreign currency exchange derivatives. The remaining $1.8 million is included in other assets on the consolidated balance sheet and is used as collateral for the Company's credit card program and to secure the outstanding letters of credit.

Allowance for Credit Losses

The Company maintains an allowance for credit losses for accounts receivable using an expected loss model that requires the use of forward-looking information to calculate credit loss estimate. The expected loss methodology is developed through consideration of factors including, but not limited to, historical collection experience, current customer credit ratings, customer concentrations, current and future economic and market conditions and age of the receivable. The Company reviews and adjusts the allowance for credit losses on a quarterly basis. Accounts receivable balances are written off against the allowance when the Company determines that the balances are not recoverable. As of December 30, 2023 and December 31, 2022, the Company had an allowance for credit losses of $2.7 million and $4.7 million, respectively. Bad debt expense recorded in general and administrative expenses in the consolidated statements of operations during fiscal 2023 and 2022 was immaterial.

Accounts receivable allowances

Allowance for product returns: The Company records an allowance for product returns based on specific terms and conditions included in the customer agreements or based on historical experience and the Company's expectation of future returns.

Allowance for other credits and incentives: The Company records an allowance related to customer incentives such as discounts, promotions, price protection and other support programs. The allowance is based on specific terms and conditions included in customer agreements, specific programs and sell-through expectations, historical experience and other factors.

Activity related to accounts receivable allowances was as follows (in thousands):

	Fiscal Year Ended		
	December 30, 2023	December 31, 2022	January 1, 2022
Allowance for product returns			
Balance at beginning of period	$ 49,151	$ 56,839	$ 64,343
Provision	25,948	41,969	61,014
Deduction	(50,449)	(49,657)	(68,518)
Balance at end of period	$ 24,650	$ 49,151	$ 56,839
Allowance for other credits and incentives			
Balance at beginning of period	$ 106,519	$ 101,606	$ 142,173
Provision	262,230	269,187	267,821
Deduction	(273,409)	(264,274)	(308,388)
Balance at end of period	$ 95,340	$ 106,519	$ 101,606

Inventory

Inventory primarily consists of finished goods and, to a lesser extent, components, which are purchased from contract manufacturers. Inventory is stated at the lower of cost or net realizable value with cost being determined using the standard cost method, which approximates actual costs determined on the first-in, first-out basis. Inventory costs primarily consist of materials, inbound freight, import duties, and other handling fees. The Company writes down its inventory for estimated obsolescence or excess inventory based upon assumptions around market conditions and estimates of future demand including consideration of product life cycle status, product development plans and current sales levels. Inventory write-downs and losses on purchase commitments are recorded in cost of revenue. During fiscal 2023, the Company recorded adjustments totaling $6.4 million for obsolete or excess inventory. Amounts for fiscal 2022 and 2021 were not significant. Net realizable value is the estimated selling price less estimated costs of completion, disposal and transportation. Adjustments to reduce inventory to net realizable value are recognized in cost of revenue and have not been significant for the periods presented.

Tariff Refunds

In March 2022, the Company was granted a temporary exclusion from Section 301 List 3 tariffs by the United States Trade Representative. This exclusion was subsequently extended until September 30, 2023, and then further extended until May 31, 2024. During fiscal 2022, the Company recognized a benefit of $11.7 million from tariff refunds as a reduction to cost of product revenue related to tariffs paid on products imported after October 12, 2021 and sold during fiscal 2021. The Company received $5.2 million and $26.8 million of the tariff cash refund during fiscal 2023 and 2022, respectively.

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives as follows:

	Estimated Useful Life
Computer and equipment	2-5 years
Furniture and fixtures	5
Machinery and tooling	2-5
Business applications software	3-7
Leasehold improvements	Lesser of economic benefit period or term of lease

Expenditures for additions and improvements that extend the useful lives of property and equipment are capitalized. Repairs, maintenance costs and losses associated with disposals or retirements are charged to expense as incurred.

Capitalization of Cloud Computing Arrangements

The Company incurs costs to implement cloud computing arrangements that are hosted by third-party vendors. Implementation costs incurred during the application development stage are capitalized until the software is ready for its intended use. The costs are then amortized on a straight-line basis over the term of the associated hosting arrangement and are recognized as an operating expense within the consolidated statements of operations. During fiscal 2023 and 2022, the Company recorded amortization expenses of $2.2 million and $1.8 million, respectively, for these implementation costs. Capitalized costs were $5.0 million and $7.3 million as of December 30, 2023 and December 31, 2022, respectively, and are reported as a component of other assets on the Company's consolidated balance sheets.

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 annually during the fourth quarter of each fiscal year 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.

Other long-lived assets primarily consist of property and equipment, operating lease right-of-use assets and intangible assets. 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. There was no impairment of goodwill during fiscal 2023, 2022 and 2021. The Company performed its annual goodwill impairment analysis on October 5, 2023 using an entity valuation which was derived based on the attribution of the agreed-upon purchase price for the Merger, $51.75 per share. However, the Company identified qualitative factors later during the fourth quarter of 2023 which triggered a second impairment assessment. While seeking regulatory approval for the Merger from various governmental entities, in late December 2023, the European Union indicated its intention to issue a Letter of Facts which decreased the probability of the closing of the Merger. The Company then performed a quantitative assessment of goodwill using the market capitalization approach and concluded that the fair value exceeded the carrying value at the triggering event date, which resulted in no impairment to goodwill. In addition, the Company also performed an impairment assessment on its long-lived assets. As a result, during the fourth quarter of 2023, the Company recorded an impairment charge of $4.9 million related to the acquired intangible assets associated with the acquisition of Aeris Cleantec AG ("Aeris"), which is incremental to the impairment charge of $11.1 million recognized during fiscal 2022 on the acquired Aeris intangible assets (see Note 7). During fiscal 2023 and 2022, the Company incurred impairment charges related to the facility restructuring plan discussed within *Restructuring Charges* in Note 2. There was no impairment of long-lived assets during fiscal 2021.

Strategic Investments

The Company holds non-marketable equity securities as part of its strategic investments portfolio. The Company classifies the majority of these securities as equity securities without readily determinable fair values and measures these investments at cost, less any impairment, adjusted for observable price changes in orderly transactions for identical or similar investments of the same issuer. These investments are valued using significant unobservable inputs or data in an inactive market and the valuation requires the Company's judgment due to the absence of market prices and inherent lack of liquidity. The Company monitors non-marketable equity investments for impairment indicators, such as deterioration in the investee's financial condition and business forecasts and lower valuations in recent or proposed financings. The estimated fair value is based on quantitative and qualitative factors including, but not limited to, subsequent financing activities by the investee and projected discounted cash flows. The Company performs an assessment on a quarterly basis to assess whether triggering events for impairment exist and to identify any observable price changes. The Company recorded impairment charges of $3.9 million in both fiscal 2023 and 2022, related to investments in non-marketable equity securities. Changes in fair value of non-marketable equity investments are recorded in other (expense) income, net on the consolidated statements of operations. At December 30, 2023 and December 31, 2022, the Company's equity securities without readily determinable fair values totaled $11.4 million and $15.1 million, respectively, and are included in other assets on the consolidated balance sheets.

Warranty

The Company generally provides a one-year warranty on all of its products except in countries where a two-year warranty is required against defects in materials and workmanship. The Company's standard warranty provides for repair or replacement of the associated products during the warranty period. The Company records estimated warranty costs in cost of product revenue in the period the related revenue is recognized based on historical experience, expectations of future costs to repair or replace including freight and knowledge of specific product failures outside the Company's historical experience. Actual results could differ from these estimates, which could cause increases or decreases to the warranty reserves in future periods.

Financial Instruments and Hedging Activities

The Company utilizes derivative instruments to partially offset its financial risks to foreign exchange risk. The Company does not engage in speculative hedging activity. In order to account for a derivative instrument as a cash flow 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. Cash flow hedge amounts that are included in the assessment of hedge effectiveness are deferred in accumulated other comprehensive income (loss) until the hedged item is recognized in earnings. Deferred gains and losses associated with cash flow hedges are recognized as a component of net sales in the same period as the related revenue is recognized. Absent meeting these criteria, changes in fair value are recognized in other (expense) income, net, in the consolidated statements of operations. The Company may also enter into non-designated foreign currency contracts to offset a portion of the foreign currency exchange gains and losses generated by the remeasurement of certain assets and liabilities denominated in non-functional currencies. Changes in fair value are recognized in other (expense) income, net, in the consolidated statements of operations.

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. A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. These tiers include:

- Level 1 - observable inputs such as quoted prices for identical instruments in active markets;
- Level 2 - 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; and
- Level 3 - inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques, including option pricing and discounted cash flow models. Unobservable inputs used in the models are significant to the fair values of the assets and liabilities.

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 Company issues equity incentive awards in the form of restricted stock units ("RSUs") and performance-based restricted stock units ("PSUs"). The fair value for RSUs is based on the closing share price of the Company's common stock on the date of grant. PSUs are aligned to specified performance targets such as financial metrics or the relative returns of the Company's common stock ("TSRs"). The fair value of PSUs aligned to specified performance metrics is determined based on the number of units expected to vest upon achievement of the performance conditions. The fair value for PSUs aligned to the TSR is based on a Monte Carlo simulation model. The Company recognizes stock-based compensation as an expense on a straight-line basis, over the requisite service period. The Company accounts for forfeitures as they occur, rather than applying an estimated forfeiture rate.

Research and Development

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

Advertising Expense

Advertising costs are expensed as incurred and included in selling and marketing expenses. During the years ended December 30, 2023, December 31, 2022 and January 1, 2022 advertising expense totaled $87.7 million, $146.6 million and $147.2 million, respectively.

Income Taxes

The Company accounts for its income taxes using the asset and liability method, under which the Company recognizes the amount of taxes payable or refundable for the current year. 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. In assessing the recoverability of its deferred tax assets, the Company evaluates all available evidence, both positive and negative, to assess whether it is more likely than not that sufficient future taxable income will be generated to permit use of existing deferred tax assets in each taxpaying jurisdiction. For any deferred tax asset that exceeds the amount for which it is more likely than not that the Company will realize a benefit, the Company establishes a valuation allowance. A valuation allowance was maintained and or established in the U.S. and in certain foreign jurisdictions during fiscal 2022 and fiscal 2023. The Company expects to continue to record a valuation allowance against these assets until sufficient positive evidence exists to support its reversal. As of December 30, 2023 and December 31, 2022, the Company had a valuation allowance of $178.6 million and $99.4 million, respectively.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in the income tax provision.

Concentration of Credit Risk and Significant Customers

Financial instruments which potentially expose the Company to concentrations of credit risk consist of accounts receivable and cash and cash equivalents. Management believes its credit policies are prudent and reflect normal industry terms and business risk. At December 30, 2023 and December 31, 2022, one customer accounted for 17.3% and 16.6%, respectively, of the Company's accounts receivable balance. For the fiscal years ended December 30, 2023, December 31, 2022, and January 1, 2022, there was one customer that accounted for 10% or more of total revenue, representing 24.0%, 22.6% and 21.8%, of the Company's total revenue, respectively.

The Company maintains its cash in bank deposit accounts and money market funds at high quality financial institutions. The individual balances, at times, may exceed federally insured limits. These deposits may be redeemed upon demand, and management believes that the financial institutions that hold the Company's cash and cash equivalents are financially sound and, accordingly, minimal credit risk exists with respect to cash and cash equivalents.

As of December 30, 2023, the financial institutions that accounted for 10% or more of total cash and cash equivalents were as follows:

	December 30, 2023	December 31, 2022
Institution A	58%	91%
Institution B	14%	—%
Institution C	14%	—%
Institution D	14%	—%

Concentration of Supplier

The Company relies on third parties for the supply and manufacture of its products, as well as third-party logistics providers for the distribution of its products. In instances where these parties fail to perform their obligations, the Company may be unable to find alternative suppliers or satisfactorily deliver its products to customers on time, if at all. For the fiscal years ended December 30, 2023, December 31, 2022 and January 1, 2022, approximately 79%, 51% and 45%, respectively, of the Company's finished goods purchased during each year were from one vendor.

Restructuring Charges

In August 2022, the Company initiated a restructuring of its operations designed to realign its cost structure with near-term revenue and cash flow generation, advance key strategy priorities, increase efficiencies and improve its profitability going forward, and reduced its workforce by approximately 100 employees, which represented 8% of the Company's global workforce. As a follow-on action to the August 2022 Restructuring Plan and in anticipation that market conditions would remain challenging in 2023, the Company initiated a new restructuring program at the beginning of February 2023 to further reduce its workforce by approximately 85 employees, which represented 7% of the Company's global workforce as of December 31, 2022. During fiscal 2023 and 2022, the Company recorded restructuring charges of $3.6 million and $5.2 million, respectively, for employee severance and benefit costs in the consolidated statement of operations. As of December 30, 2023, the Company had outstanding restructuring liabilities of approximately $0.7 million. The Company expects the remaining balance to be substantially paid during the first quarter of 2024.

In fiscal 2022, the Company approved a plan to market portions of its headquarters with the intent to reduce its global office footprint ("Facility restructuring"). In December 2022, the Company executed an agreement to sublease a portion of the space. As a result of the execution of the sublease agreement, the subleased space was considered as one asset group and the Company determined that indicators of impairment existed related to the right-of-use asset and property and equipment associated with the subleased space. Accordingly, the Company conducted an impairment test to assess whether the fair value of the asset group was lower than its carrying value. The results of the impairment test indicated that the fair value of the asset group was lower than its carrying value. The Company determined the fair value of the asset group using a discounted cash flow method. The assumptions used in the discounted cash flow analysis included projected sublease income over the sublease term and a discount rate based on the weighted-average cost of capital. In June 2023, the Company executed two additional agreements to sublease portions of its headquarters. The Company identified impairment indicators, conducted a similar impairment test using the same methodology as that used in the December 2022 assessment and concluded that the fair value of the asset group was lower than its carrying value. Based on the results of the Company’s assessment during 2023 and 2022, the Company recognized impairment losses of $4.0 million and $3.4 million, of which $3.0 million and $2.3 million was allocated to the right-of-use asset and $1.0 million and $1.1 million was allocated to property and equipment, respectively. These impairment losses are recorded under general and administrative expenses in the consolidated statements of operations for the fiscal years ended December 30, 2023 and December 31, 2022.

Net (loss) income per share:

Basic (loss) income per share is calculated using the Company's weighted-average outstanding common shares. Diluted (loss) 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 (loss) income per share (in thousands, except per share amounts):

	Fiscal Year Ended		
	December 30, 2023	December 31, 2022	January 1, 2022
Net (loss) income	$ (304,710)	$ (286,295)	$ 30,390
Weighted-average shares outstanding	27,676	27,214	27,687
Dilutive effect of employee stock plans	—	—	475
Diluted weighted-average shares outstanding	27,676	27,214	28,162
Basic (loss) income per share	$ (11.01)	$ (10.52)	$ 1.10
Diluted (loss) income per share	$ (11.01)	$ (10.52)	$ 1.08

Employee stock awards representing approximately 0.8 million, 0.9 million and 0.1 million shares of common stock for the fiscal years ended December 30, 2023, December 31, 2022 and January 1, 2022, respectively, were excluded from the computation of diluted earnings per share as their effect would have been antidilutive.

Recently Adopted Accounting Standards

In October 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2021-08, "Business Combinations - Accounting for Contract Assets and Contract Liabilities from Contracts with Customers." The ASU improves the accounting for acquired revenue contracts with customers by providing specific guidance on recognition of contract asset and liability from revenue contracts in a business combination. The amendments to this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022, with early adoption permitted. The Company adopted the standard in the first quarter of 2023 and the adoption had no impact on the Company's consolidated financial statements.

Recently Issued Accounting Standards

In November 2023, the FASB issued ASU No. 2023-07, "Improvements to Reportable Segment Disclosures." This ASU improves reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. In addition, the amendments enhance interim disclosure requirements, clarify circumstances in which an entity can disclose multiple segment measures of profit or loss, provide new segment disclosure requirements for entities with a single reportable segment, and contain other disclosure requirements. This ASU is effective for annual periods beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is also permitted. Adoption of this ASU should be applied retrospectively to all prior periods presented in the financial statements. The Company is currently evaluating the impact that the adoption of this standard will have on the disclosures included in the notes to the consolidated financial statements for fiscal 2024.

In December 2023, the FASB issued ASU No. 2023-09, "Improvements to Income Tax Disclosures." This ASU requires disaggregated information about a reporting entity's effective tax rate reconciliation as well as additional information on income taxes paid. This ASU is effective on a prospective basis for annual periods beginning after December 15, 2024. Early adoption is also permitted. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements and disclosures for fiscal 2025.

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. Revenue Recognition

The Company primarily derives its revenue from the sale of consumer robots and accessories. The Company sells products directly to consumers through online stores and indirectly through resellers and distributors. Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. Revenue is allocated to distinct performance obligations and is recognized net of allowances for returns and other credits and incentives. Revenue is recognized only to the extent that it is probable that a significant reversal of revenue will not occur and when collection is considered probable. Taxes collected from customers, which are subsequently remitted to governmental authorities, are excluded from revenue. Shipping and handling expenses are considered fulfillment activities and are expensed as incurred.

Frequently, the Company’s contracts with customers contain multiple promised goods or services. Such contracts may include any of the following, the consumer robot, downloadable app, cloud services, accessories on demand, potential future unspecified software upgrades, premium customer care and extended warranties. For these contracts, the Company accounts for the promises separately as individual performance obligations if they are distinct. Performance obligations are considered distinct if they are both capable of being distinct and distinct within the context of the contract. In determining whether performance obligations meet the criteria for being distinct, the Company considers a number of factors, such as the degree of interrelation and interdependence between obligations, and whether or not the good or service significantly modifies or transforms another good or service in the contract. The Company’s consumer robots are highly dependent on, and interrelated with, the embedded software and cannot function without the software. As such, the consumer robots are accounted for as a single performance obligation. The Company has determined that the app, cloud services and potential future unspecified software upgrades represent one performance obligation to the customer to enhance the functionality and interaction with the robot (referred to collectively as "Cloud Services"). Other services and support are considered distinct and therefore are treated as separate performance obligations.

The Company allocates revenue to all distinct performance obligations based on their relative stand-alone selling prices ("SSPs"). When available, the Company uses observable prices to determine SSPs. When observable prices are not available, SSPs are established that reflect the Company’s best estimates of what the selling prices of the performance obligations would be if they were sold regularly on a stand-alone basis. The Company’s process for estimating SSPs without observable prices considers multiple factors that may vary depending upon the facts and circumstances related to each performance obligation including market data or the estimated cost of providing the products or services. The transaction price allocated to the robot is recognized as revenue at a point in time when control is transferred, generally as title and risk of loss pass, and when collection is considered probable. The transaction price allocated to the Cloud Services is deferred and recognized on a straight-line basis over the estimated term of the Cloud Services. Other services and support are recognized over their service periods. For contracts with a duration of greater than one year, the transaction price allocated to performance obligations that are unsatisfied as of December 30, 2023 and December 31, 2022 was $18.4 million and $23.2 million, respectively.

The Company’s products generally carry a one-year or two-year limited warranty that promises customers that delivered products are as specified. The Company does not consider these assurance-type warranties as a separate performance obligation and therefore, the Company accounts for such warranties under ASC 460, "Guarantees." For contracts with the right to upgrade to a new product after a specified period of time, the Company accounts for this trade-in right as a guarantee obligation under ASC 460. The total transaction price is reduced by the full amount of the trade-in right's fair value and the remaining transaction price is allocated between the performance obligations within the contract.

The Company provides limited rights of returns for direct-to-consumer sales generated through its online stores and certain resellers and distributors. The Company records an allowance for product returns based on specific terms and conditions included in the customer agreements or based on historical experience and the Company's expectation of future returns. In addition, the Company may provide other credits or incentives which are accounted for as variable consideration when estimating the amount of revenue to recognize. Where appropriate, these estimates take into consideration relevant factors such as the Company’s historical experience, current contractual requirements, specific known market events and forecasted inventory level in the channels. Overall, these reserves reflect the Company’s best estimates, and the actual amounts of consideration ultimately received may differ from the Company’s estimates. Returns and credits are estimated at the time of sale and updated at the end of each reporting period as additional information becomes available. As of December 30, 2023, the Company had reserves for product returns of $24.6 million and other credits and incentives of $95.3 million. As of December 31, 2022, the Company had reserves for product returns of $49.2 million and other credits and incentives of $106.5 million. The Company regularly evaluates the adequacy of its estimates for product returns and other credits and incentives. Future market conditions and product transitions may require the Company to take action to change such programs and related estimates. When the variables used to estimate these reserves change, or if actual results differ significantly from the estimates, the Company increases or reduces revenue to reflect the impact. During fiscal 2023 and 2022, changes to these estimates related to performance obligations satisfied in prior periods were not material.

Disaggregation of Revenue

The following table provides information about disaggregated revenue by geographical region (in thousands):

	December 30, 2023	December 31, 2022	January 1, 2022
United States	$ 428,531	$ 615,107	$ 754,173
EMEA	241,221	270,451	470,475
Japan	164,699	209,552	222,772
Other	56,129	88,273	117,567
Total revenue	$ 890,580	$ 1,183,383	$ 1,564,987

Contract Balances

The following table provides information about receivables and contract liabilities from contracts with customers (in thousands):

	December 30, 2023	December 31, 2022
Accounts receivable, net	$ 77,112	$ 60,268
Unbilled receivables	3,006	6,569
Contract liabilities	18,702	24,140

The Company invoices customers based upon contractual billing schedules, and accounts receivable are recorded when the right to consideration becomes unconditional. Unbilled receivables represent revenue recognized in excess of billings. Contract liabilities include deferred revenue associated with the Cloud Services and extended warranty plans as well as prepayments received from customers in advance of product shipments. During fiscal 2023 and 2022, the Company recognized $14.5 million and $13.5 million, respectively, of the contract liability balance as revenue upon transfer of the products or services to customers.

4. Leases

The Company's leasing arrangements primarily consist of operating leases for its facilities which include corporate, sales and marketing and research and development offices and equipment under various non-cancelable lease arrangements. The operating leases expire at various dates through 2030. The Company currently has three sublease agreements for space at its headquarters. For leases with terms greater than 12 months, the Company records the related right-of-use asset and lease obligation at the present value of lease payments over the term. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Lease expense is recognized on a straight-line basis over the lease term. The Company's leases typically include rental escalation clauses, renewal options and/or termination options that are factored into the determination of lease payments when appropriate. The Company does not separate lease and non-lease components of contracts and excludes all variable lease payments from the measurement of right-of-use assets and lease liabilities. The Company's variable lease payments generally include usage based nonlease components. The Company's lease agreements do not contain any residual value guarantees or restrictive covenants.

The Company's existing leases do not provide a readily determinable implicit rate. Therefore, the Company estimates its incremental borrowing rate to discount the lease payments. At December 30, 2023, the Company's weighted average discount rate was 4.17%, while the weighted average remaining lease term was 5.95 years.

The components of lease expense were as follows (in thousands):

	December 30, 2023	December 31, 2022	January 1, 2022
Operating lease cost	$ 6,024	$ 6,622	$ 8,510
Variable lease cost	2,582	3,644	3,633
Sublease income	(1,276)	—	—
Right-of-use asset impairment	3,048	2,268	—
Total lease cost	$ 10,378	$ 12,534	$ 12,143

Supplemental cash flow information related to leases was as follows (in thousands):

	December 30, 2023	December 31, 2022	January 1, 2022
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	$ 7,781	$ 8,187	$ 8,762
Right-of-use assets obtained in exchange for lease obligations:			
Operating leases	$ 683	$ —	$ —

Maturities of operating lease liabilities and sublease payments were as follows as of December 30, 2023 (in thousands):

	Operating Lease Payments	Sublease Payments	Net
2024	$ 6,287	$ (1,115)	$ 5,172
2025	6,092	(556)	5,536
2026	6,055	(572)	5,483
2027	5,909	(589)	5,320
2028	5,474	(607)	4,867
Thereafter	7,574	(840)	6,734
Total minimum lease payments	$ 37,391	$ (4,279)	$ 33,112
Less: imputed interest	4,566		
Present value of future minimum lease payments	$ 32,825		
Less: current portion of operating lease liabilities (Note 8)	5,216		
Long-term lease liabilities	$ 27,609		

5. Fair Value Measurements

Fair Value Measurements - Recurring Basis

The Company's financial assets and liabilities measured at fair value on a recurring basis were as follows (in thousands):

	Fair Value Measurements as of December 30, 2023		
	Level 1	Level 2	Level 3
Assets:			
Money market funds	$ 117,652	$ —	$ —
Restricted cash, current (Note 2)	1,000	—	—
Restricted cash, non-current (Note 2)	1,766	—	—
Derivative instruments (Note 10)	—	3,999	—
Total assets measured at fair value	$ 120,418	$ 3,999	$ —
Liabilities:			
Term loan (unpaid principal of $200,000) (Note 9)	$ —	$ —	$ 201,501
Derivative instruments (Note 10)	—	7,643	—
Total liabilities measured at fair value	$ —	$ 7,643	$ 201,501

	Fair Value Measurements as of December 31, 2022		
	Level 1	Level 2	Level 3
Assets:			
Money market funds	$ 79,005	$ —	$ —
Derivative instruments (Note 10)	—	5,619	—
Total assets measured at fair value	$ 79,005	$ 5,619	$ —
Liabilities:			
Derivative instruments (Note 10)	$ —	$ 13,793	$ —
Total liabilities measured at fair value	$ —	$ 13,793	$ —

The following table provides a summary of changes in fair value of our Level 3 instrument for twelve months ended December 30, 2023 (in thousands):

Balance at December 31, 2022	$ —
Term loan (Note 9)	200,000
Change in fair value	1,501
Balance at December 30, 2023	$ 201,501

As discussed further in Note 9 to the consolidated financial statements, the Company elected to recognize the Term Loan under the fair value option. The fair value of the Term Loan as of December 30, 2023 has been determined based on a discounted cash flow model, which represents Level 3 measurements. Estimates of the fair value are highly subjective and require judgements regarding significant matters, such as the amount and timing of future cash flows, expected interest rate volatility and the discount rate. The use of different assumptions could have a material effect on the fair value estimates.

Fair Value Measurements - Nonrecurring Basis

The Company measures the fair value of certain assets on a nonrecurring basis when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. During fiscal 2023 and 2022, in connection with the long-lived assets impairment analysis, certain intangible assets, right-of-use assets and property and equipment were measured and written down to fair value on a nonrecurring basis as a result of impairment. The fair value measurements were determined using a discounted cash flow method with unobservable inputs and were classified within Level 3 of the fair value hierarchy. In fiscal 2023, the Company recognized impairment charges of $4.9 million, $3.0 million and $1.0 million, respectively, related to intangible assets, right-of-use assets and property and equipment on its consolidated statement of operations. The fair value of the remaining intangible assets, right-of-use assets and property and equipment at the time of impairment was zero, $1.5 million and zero, respectively. In fiscal 2022, the Company recognized impairment charges of $11.1 million, $2.3 million and $1.1 million, respectively, related to intangible assets, right-of-use assets and property and equipment on its consolidated statement of operations. The fair value of the remaining intangible assets, right-of-use assets and property and equipment at the time of impairment were $5.5 million, $1.6 million and $0.6 million, respectively. See Note 2, *Summary of Significant Accounting Policies*, and Note 7, *Goodwill and Other Intangible Assets*, for additional information.

The Company's non-marketable equity securities are investments in privately held companies without readily determinable fair values and the carrying value of these non-marketable equity securities are remeasured to fair value based on price changes from observable transactions of identical or similar securities of the same issuer or for impairment. During both fiscal 2023 and 2022, the Company recorded impairment charges of $3.9 million related to investments in non-marketable equity securities and is recorded in other (expense) income, net on the consolidated statement of operations. See Note 2 to the consolidated financial statements, *Summary of Significant Accounting Policies,* for additional information.

6. Property and Equipment

Property and equipment consists of the following (in thousands):

	December 30, 2023	December 31, 2022
Computer and equipment	$ 10,713	$ 12,750
Furniture and fixtures	6,954	7,843
Machinery and tooling	93,387	95,332
Leasehold improvements	26,544	29,594
Business applications software	15,956	16,018
Other	5,734	5,223
Subtotal	159,288	166,760
Less: accumulated depreciation	118,893	105,851
Property and equipment, net	$ 40,395	$ 60,909

As of December 30, 2023 and December 31, 2022, the net book value of capitalized internal-use software costs was $1.4 million and $2.8 million, respectively, which are included within business applications software.

Depreciation expense for the years ended December 30, 2023, December 31, 2022 and January 1, 2022 was $26.3 million, $32.5 million, and $31.1 million, respectively, which included amortization expense of $1.4 million, $2.2 million and $2.3 million, respectively, for capitalized internal-use software.

7. Goodwill and Other Intangible Assets

The following table summarizes the activity in the carrying amount of goodwill and intangible assets for fiscal 2023 and 2022 (in thousands):

	Goodwill	Intangible assets
Balance as of January 1, 2022	$ 173,292	$ 28,410
Purchase accounting adjustments	(583)	—
Amortization	—	(15,361)
Effect of foreign currency translation	(4,985)	(1,789)
Balance as of December 31, 2022	167,724	11,260
Amortization	—	(6,532)
Effect of foreign currency translation	7,381	316
Balance as of December 30, 2023	$ 175,105	$ 5,044

Intangible assets consisted of the following (in thousands):

	December 30, 2023			December 31, 2022		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Completed technology	$ 26,900	$ 26,900	$ —	$ 33,909	$ 28,383	$ 5,526
Tradename	100	100	—	100	100	—
Customer relationships	10,121	5,077	5,044	10,104	4,370	5,734
Reacquired distribution rights	30,684	30,684	—	29,915	29,915	—
Non-competition agreements	254	254	—	245	245	—
Total	$ 68,059	$ 63,015	$ 5,044	$ 74,273	$ 63,013	$ 11,260

Amortization expense related to acquired intangible assets was $6.5 million, $15.4 million and $2.3 million for the fiscal years ended December 30, 2023, December 31, 2022 and January 1, 2022, respectively.

During fiscal 2023 and 2022, the Company evaluated its long-lived assets, including intangible assets, for indicators of impairment. As a result, the Company determined indicators of impairment existed for the asset group associated with the

Company's acquisition of Aeris, including reduction of the asset group's forecasts as well as its negative operating cash flows and operating losses. The Company concluded the fair value of the asset group associated with the Company's acquisition of Aeris was below its carrying value. Therefore, the Company recorded $4.9 million and $11.1 million impairment losses on these intangible assets in fiscal 2023 and 2022, respectively. These impairment losses are recorded in amortization of acquired intangible assets under operating expenses on the consolidated statements of operations.

The estimated future amortization expense related to current intangible assets in each of the five succeeding fiscal years is expected to be as follows (in thousands):

	Operating Expenses
2024	$ 707
2025	707
2026	707
2027	707
2028	707
Thereafter	1,509
Total	$ 5,044

8. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	December 30, 2023	December 31, 2022
Accrued warranty	$ 24,625	$ 27,379
Accrued compensation and benefits	15,487	22,158
Accrued returns and sales incentives	12,897	1,312
Accrued taxes payable	8,927	12,753
Derivative liability	7,276	7,310
Accrued manufacturing and logistics cost	5,462	970
Current portion of operating lease liabilities	5,216	5,415
Accrued merger related liabilities	4,721	10,895
Accrued interest	4,498	—
Accrued other	8,890	10,767
	$ 97,999	$ 98,959

9. Debt

Term Loan

On July 24, 2023, the Company entered into a Credit Agreement (the "Credit Agreement") by and among the Company, as borrower, each lender from time to time party thereto and TCG Senior Funding L.L.C., an affiliate of The Carlyle Group, as administrative agent and collateral agent, providing for a $200.0 million senior secured term loan credit facility (the "Term Loan"). Total proceeds from the Term Loan were $188.2 million, net of $11.8 million of debt issuance costs. The Term Loan matures on July 24, 2026.

The Term Loan bears interest at a rate per annum equal to, at the Company's option, (i) a rate based on term SOFR plus a credit spread adjustment plus a 9.00% spread or (ii) a rate based on the base rate plus a rate adjustment plus an 8.00% spread. A portion of each spread equal to 2.5% is paid-in-kind by capitalizing such portion into principal of the Term Loan. In the event of repayment, prepayment or acceleration of all or any portion of the Term Loan, the Company is required to pay to the lenders an additional amount which represents a minimum guaranteed return on the Term Loan that ranges between 1.30x and 1.75x of the principal in accordance with the provisions within the Credit Agreement. The minimum guaranteed return range is based on the date on which it is paid. The Credit Agreement provides for mandatory prepayments of borrowings under certain circumstances, including non-ordinary course asset sales and incurrence of other indebtedness, subject to customary exceptions.

The Credit Agreement contains customary affirmative covenants, including financial statement reporting requirements and delivery of compliance certificates. The Credit Agreement also contains customary negative covenants that limit the Company's and its subsidiaries' ability to, among other things, grant or incur liens, incur additional indebtedness, make certain restricted investments or payments, including payment of dividends on its capital stock and payments on certain permitted indebtedness, enter into certain mergers and acquisitions or engage in certain asset sales, subject in each case to certain exceptions. In addition, the Credit Agreement contains a financial covenant that the Company will not permit its consolidated core assets (comprising cash, accounts receivable and inventory), measured on the last day of each fiscal month, to be less than $250.0 million which amount is subject to increase or decrease upon certain triggers related to the payment or non-payment of any termination fees under the Merger Agreement (or fees in lieu of such termination fees) and the occurrence or non-occurrence of the Merger. As of December 30, 2023, the Company was in compliance with the covenants under the Term Loan.

As a result of the termination of the Merger Agreement and receipt of the Parent Termination Fee of $94.0 million from Amazon on January 29, 2024, $35.0 million of such Parent Termination Fee was used immediately to repay a portion of the Term Loan, and $40.0 million of the Parent Termination Fee will be set aside in a restricted account to be used for future repayments of the Term Loan subject to limited rights of the Company to utilize such amounts for the purchase of inventory in the third quarters of 2024 and 2025. The $35.0 million repayment was applied to the principal, interest and the 1.4x minimum guaranteed return, reducing the principal balance of the loan to $175.8 million. With the termination of the Merger Agreement and the $35.0 million repayment, the applicable minimum guaranteed return now ranges between 1.4x and 1.7x of the principal and the consolidated core assets financial covenant is reduced to $200.0 million. To access the $40.0 million of restricted cash for inventory purchases, the Company must certify to its lenders that the Company has proforma consolidated core assets of $275.0 million and no default or event of default under the Credit Agreement.

The Credit Agreement also contains customary events of default (subject to certain exceptions, thresholds and grace periods), such as the failure to pay obligations when due, breach of certain covenants, including the financial covenant, cross-default or cross-acceleration of certain indebtedness, bankruptcy-related defaults, judgment defaults, and the occurrence of certain change of control events involving the Company. The occurrence of an event of default may result in the termination of the Credit Agreement and acceleration of repayment obligations with respect to any outstanding loans or letters of credit under the Term Loan.

The obligations under the Term Loan are guaranteed by the Company and certain of its subsidiaries located in the United States, United Kingdom and Japan. The Company is also required to add additional subsidiaries to guarantee the obligations under the Term Loan as a result of the termination of the Merger Agreement. In addition, the obligations under the Term Loan are secured by a first priority lien on substantially all tangible and intangible property of the Company and the guarantors and pledges of the equity of certain subsidiaries, in each case subject to certain exceptions, limitations and exclusions from the collateral.

Upon issuance, the Company elected to account for the Term Loan under the fair value option. The primary reason for electing the fair value option is for simplification and cost-benefit considerations of accounting for the Term Loan at fair value in its entirety versus bifurcation of the embedded features. The fair value of the Term Loan was determined using a discounted cash flow model which represents Level 3 measurements. The significant assumptions used in the discounted cash flow model include the amount and timing of future cash flows, expected interest rate volatility and the discount rate.

Under the fair value election, debt issuance costs are expensed as incurred, and debt liability is subsequently valued at fair market value, including interest paid-in-kind, during each reporting period until its settlement. During the fiscal 2023, the Company incurred debt issuance costs of $11.8 million, which are reflected in other expense, net, in the consolidated statement of operations.

The Company's outstanding debt as of December 30, 2023 was as follows (in thousands):

	Classification	December 30, 2023
Term Loan at fair value at issuance		$ 200,000
Change in fair value of term loan due to instrument-specific credit risk	Other comprehensive income (loss)	(4,403)
Remaining changes in fair value	Other (expense) income, net	5,904
Term Loan at fair value as of December 30, 2023		$ 201,501

During fiscal 2023, the Company recorded $10.6 million of interest expense in other (expense) income, net on the consolidated statement of operations related to the quarterly cash interest, $4.5 million of which is unpaid and included in accrued expenses on the consolidated balance sheet as of December 30, 2023.

Credit Facility

In conjunction with the Term Loan on July 24, 2023, the Company terminated its prior $100.0 million secured revolving line of credit which would otherwise have expired in September 2024.

Lines of Credit

The Company has a cash collateralized line for letters of credit with Bank of America, N.A. As of December 30, 2023, the Company had letters of credit outstanding of $0.4 million.

The Company has an unsecured guarantee line of credit with Mizuho, Bank Ltd., available to fund import tax payments up to an aggregate outstanding amount of 250.0 million Japanese Yen. As of December 30, 2023, the Company had no outstanding balance under the guarantee line of credit.

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 British Pound, Canadian Dollar, Euro and Japanese Yen. The Company enters into derivative instruments that are designated as cash flow hedges to reduce its exposure to foreign currency exchange risk in sales. These contracts have historically has a maturity of three years or less. At December 30, 2023 and December 31, 2022, the Company had outstanding cash flow hedges with a total notional value of $114.4 million and $362.9 million, respectively. The outstanding contracts have average maturities of 1 year or less.

The Company also enters into economic hedges that are not designated as hedges from an accounting standpoint to reduce foreign currency exchange risk related to short term trade receivables and payables. These contracts typically have maturities of twelve months or less. As of December 30, 2023 and December 31, 2022, the Company had outstanding foreign currency economic hedges with a total notional value of $252.0 million and $242.0 million, respectively.

During the first quarter of 2023, the Company terminated foreign currency forward contracts with a notional value of $151.7 million, resulting in a net cash payment of $2.5 million which was recognized within cash used in operating activities in the consolidated statement of cash flows. During fiscal 2022, the appreciation of the U.S. dollar resulted in the Company's foreign currency forward contracts being substantially in-the-money. Given the increased cash value of the hedges and the Company's overall desire to strengthen its cash position, the Company terminated the contracts during the third quarter of 2022, resulting in cash proceeds of $51.7 million which were recognized within cash used in operating activities in the consolidated statement of cash flows. Amounts previously recorded in AOCI were frozen at the time of termination, and will be recognized in earnings when the original forecasted transaction occurs. In conjunction with the termination of the existing contracts, the Company entered into new foreign currency forward contracts with the same notional values and value dates.

The fair values of derivative instruments were as follows (in thousands):

		Fair Value	
	Classification	December 30, 2023	December 31, 2022
Derivatives not designated as hedging instruments:			
Foreign currency forward contracts	Other current assets	$ 2,929	$ 4,288
Foreign currency forward contracts	Accrued expenses	4,586	3,249
Derivatives designated as cash flow hedges:			
Foreign currency forward contracts	Other current assets	$ 1,070	$ —
Foreign currency forward contracts	Other assets	—	1,331
Foreign currency forward contracts	Accrued expenses	2,690	4,061
Foreign currency forward contracts	Long-term liabilities	367	6,483

(Loss) gain associated with derivative instruments not designated as hedging instruments were as follows (in thousands):

		Fiscal year ended		
	Classification	December 30, 2023	December 31, 2022	January 1, 2022
(Loss) gain recognized in income	Other (expense) income, net	$ (121)	$ 2,951	$ (9,779)

The following tables reflect the effect of derivatives designated as cash flow hedging for the years ended (in thousands):

	Gain recognized in OCI on Derivative (1)		
	Fiscal year ended		
	December 30, 2023	December 31, 2022	January 1, 2022
Foreign currency forward contracts	$ 2,978	$ 43,735	$ 31,363

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

	Gain recognized in earnings on cash flow hedging instruments		
	December 30, 2023	December 31, 2022	January 1, 2022
	Revenue	Revenue	Revenue
Consolidated statements of operations in which the effects of cash flow hedging instruments are recorded	$ 890,580	$ 1,183,383	$ 1,564,987
Gain on cash flow hedging relationships:			
Foreign currency forward contracts:			
Amount of gain reclassified from AOCI into earnings	$ 24,373	$ 27,285	$ 4,493

11. 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 as of December 30, 2023 and December 31, 2022.

Common Stock

Common stockholders are entitled to one vote for each share held and to receive dividends if and when declared by the Company's 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

In fiscal 2021, the Company repurchased a total of 1,645,172 shares of its common stock, totaling $150.0 million, under the stock repurchase program approved by the Company's Board of Directors.

12. Stock-Based Compensation

The Company has awards and options outstanding under three stock incentive plans: the 2005 Stock Option and Incentive Plan (the "2005 Plan"), the 2015 Stock Option and Incentive Plan (the "2015 Plan") and the 2018 Stock Option and Incentive Plan (the "2018 Plan" and together with the 2005 Plan and the 2015 Plan, the "Plans"). The 2018 Plan is the only one of the three plans under which new awards may currently be granted. Under the 2018 Plan, which became effective on May 23, 2018, 1,750,000 shares were initially reserved for issuance in the form 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. On May 21, 2020, the stockholders approved an amendment to the 2018 Plan to increase the number of aggregate shares authorized for issuance to 2,495,000 shares, an increase of 745,000 shares. On May 27, 2022, the stockholders approved an amendment to the 2018 Plan to increase the number of aggregate shares authorized for issuance to 3,395,000 shares, an increase of 900,000 shares. Stock awards returned to the Plans, with the exception of those issued under the 2005 Plan, as a result of their expiration, cancellation or termination are automatically made available for issuance under the 2018 Plan. As of December 30, 2023, there were 822,528 shares available for future grant under the 2018 Plan. The Company recognized $36.1 million, $31.9 million and $21.7 million of stock-based compensation expense during the fiscal years ended December 30, 2023, December 31, 2022, and January 1, 2022, respectively.

Stock-based compensation breaks down by expense classification as follows (in thousands):

	Fiscal Year Ended		
	December 30, 2023	December 31, 2022	January 1, 2022
Cost of revenue	$ 3,160	$ 2,194	$ 1,321
Research and development	12,391	10,473	9,542
Selling and marketing	5,843	6,358	4,190
General and administrative	14,662	12,880	6,641
Total	$ 36,056	$ 31,905	$ 21,694

Time-based Restricted Stock Units

Time-based restricted stock units entitle the holder to a specific number of shares of common stock upon vesting, typically over a three or four year period. As of December 30, 2023, the unamortized compensation costs associated with restricted stock units was $55.3 million with a weighted-average remaining recognition period of 1.96 years.

The following table summarizes the time-based restricted stock unit activity for fiscal 2023, 2022 and 2021:

	Number of Shares Underlying Restricted Stock	Weighted Average Grant Date Fair Value
Outstanding at January 2, 2021	894,033	$ 68.97
Granted	523,496	88.73
Vested	(314,427)	71.36
Forfeited	(99,886)	75.82
Outstanding at January 1, 2022	1,003,216	77.85
Granted	638,554	54.26
Vested	(321,443)	78.10
Forfeited	(187,227)	73.45
Outstanding at December 31, 2022	1,133,100	65.21
Granted	1,001,090	42.10
Vested	(567,696)	61.99
Forfeited	(212,895)	61.24
Outstanding at December 30, 2023	1,353,599	$ 50.09

The aggregate intrinsic value of outstanding time-based restricted stock units at December 30, 2023 was $52.4 million based on the Company's closing stock price on December 30, 2023 of $38.70, with a weighted average remaining contractual term of 1.01 years.

Performance-Based Restricted Stock Units

The Company grants performance-based restricted stock units ("PSUs") to certain of its employees that vest on the satisfaction of service and performance or market conditions. The performance conditions are based on certain financial performance targets at the end of a three year performance period, and therefore awards generally cliff vest at the end of a three year performance period. The market conditions are based on the relative TSRs compared to a certain index for each performance period, and therefore awards vest at the end of each performance period. The number of shares actually vested may range from 0% to 200% of the target number of PSUs granted based on the actual achievement of the conditions.

The unamortized fair value as of December 30, 2023 associated with performance based restricted stock units was $1.4 million with a weighted-average remaining recognition period of 0.51 years.

The following table summarizes the performance-based restricted stock unit activity for fiscal 2023, 2022 and 2021:

	Number of Shares Underlying PSU	Weighted Average Grant Date Fair Value
Outstanding at January 2, 2021	229,652	$ 66.41
Granted	134,127	94.74
Vested	(55,503)	68.41
Forfeited	(23,154)	71.68
Outstanding at January 1, 2022	285,122	78.92
Granted	153,676	57.94
Vested	—	—
Forfeited	(71,616)	97.31
Outstanding at December 31, 2022	367,182	66.55
Granted	—	—
Vested	(32,669)	49.30
Forfeited	(180,620)	54.07
Outstanding at December 30, 2023	153,893	$ 84.87

The aggregate intrinsic value of outstanding PSUs was $6.0 million based on the Company's closing stock price on December 30, 2023 of $38.70 with a weighted average remaining contractual term of 0.51 years.

13. 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.

Commitments to Suppliers

The Company utilizes contract manufacturers to build its products and some of its accessories. These contract manufacturers manage the supply of components, capacity and resources to build products based on a forecasted production plan, which typically covers a rolling 12-month period. During the normal course of business, and in order to ensure adequate supply, the Company enters into purchase commitments with contract manufacturers and suppliers. In certain instances, these purchase commitments allow the Company the option to cancel, reschedule and/or adjust the supply requirements based on its business needs for a period of time before the order is due to be fulfilled. In some instances, these purchase commitments are not cancellable in the event of a change in demand or other circumstances, such as where the contract manufacturer and/or supplier has built products, semi-finished products or procured and/or ordered unique, iRobot-specific designs, and/or specific non-cancellable, non-returnable components based on the provided forecasts. If the Company cancels all or part of the orders, or materially reduces forecasted orders, in certain circumstances the Company may be liable to its contract manufacturers and/or suppliers for the cost of the excess components purchased by its contract manufacturers based on the forecasted production plan and the purchase terms of its component suppliers. During fiscal 2023, the Company paid $14.0 million to its contract manufacturers for such liabilities and recorded as inventory components. In addition, the Company recognized $10.3 million associated with losses on purchase commitments.

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 had no liabilities recorded for these agreements as of December 30, 2023 and December 31, 2022, respectively.

Warranty

The Company provides warranties on most products and has established a reserve for warranty obligations 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 (in thousands):

	Fiscal Year Ended		
	December 30, 2023	December 31, 2022	January 1, 2022
Balance at beginning of period	$ 27,379	$ 32,019	$ 24,392
Provision	18,706	22,155	42,430
Warranty claims	(21,460)	(26,795)	(34,803)
Balance at end of period	$ 24,625	$ 27,379	$ 32,019

Merger Contingencies

As previously disclosed, on August 4, 2022, the Company entered into the Original Merger Agreement with Amazon, subject to the terms of which Amazon had agreed to acquire the Company. On July 24, 2023, the Company entered into the Amendment which amended the Original Merger Agreement. On January 28, 2024, the Company and Amazon mutually agreed to terminate the Merger Agreement and entered into the Termination Agreement effective as of such date. As of December 30, 2023, the Company expected to incur professional fees and expenses of approximately $27.0 million in connection with the Transactions. As a result of the termination of the Merger Agreement, the Company paid $18.8 million in professional fees and expenses in the first quarter of 2024.

14. Employee Benefits

The Company sponsors a retirement plan under Section 401(k) of the Internal Revenue Code (the "Retirement Plan"). Eligible US 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 $3.3 million, $3.9 million and $3.8 million for the plan years ended December 30, 2023, December 31, 2022 and January 1, 2022, 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 is entitled up to a maximum of three percent of his or her eligible annual payroll.

15. Income Taxes

(Loss) income before income taxes was as follows (in thousands):

	Fiscal Year Ended		
	December 30, 2023	December 31, 2022	January 1, 2022
Domestic	$ (269,764)	$ (238,685)	$ 8,880
Foreign	(23,291)	(22,998)	19,404
(Loss) income before income taxes	$ (293,055)	$ (261,683)	$ 28,284

The components of income tax expense (benefit) were as follows (in thousands):

	Fiscal Year Ended		
	December 30, 2023	December 31, 2022	January 1, 2022
Current			
Federal	$ 6,416	$ (1,738)	$ 1,045
State	(955)	743	441
Foreign	1,071	7,118	7,019
Total current income tax provision	$ 6,532	$ 6,123	$ 8,505
Deferred			
Federal	$ (643)	$ 18,991	$ (8,286)
State	64	10,652	(690)
Foreign	5,702	(11,154)	(1,635)
Total deferred income tax provision (benefit)	5,123	18,489	(10,611)
Total income tax provision (benefit)	$ 11,655	$ 24,612	$ (2,106)

The reconciliation of statutory federal income tax to the income tax expense (benefit) is as follows (in thousands):

	Fiscal Year Ended		
	December 30, 2023	December 31, 2022	January 1, 2022
Statutory federal income tax	$ (61,542)	$ (54,953)	$ 5,940
State taxes (net of federal benefit)	(8,255)	(6,314)	389
Federal and state credits	(8,268)	(9,473)	(7,620)
Excess tax expenses (benefits) from stock-based compensation	3,220	1,813	(4,160)
Foreign-derived intangible income	—	(1,364)	(3,253)
Executive compensation	1,053	541	1,706
Foreign tax rate differential	1,046	1,416	264
Change in valuation allowance	78,727	91,905	4,691
Non-deductible transaction costs	3,654	2,711	—
Other	2,020	(1,670)	(63)
	$ 11,655	$ 24,612	$ (2,106)

The components of net deferred tax assets were as follows (in thousands):

	December 30, 2023	December 31, 2022
Deferred tax assets:		
Tax credits and net operating loss carryforwards	$ 93,302	$ 28,240
Capitalized research and development	49,684	48,348
Revenue reserves	14,949	23,049
Accruals and other liabilities	15,589	11,448
Operating lease liabilities	7,785	8,511
Stock-based compensation	4,196	4,868
Interest Expense Limitation	3,312	—
Other	7,530	7,032
Total deferred tax assets	196,347	131,496
Valuation allowance	(178,568)	(99,444)
Total deferred tax assets, net of valuation allowance	17,779	32,052
Deferred tax liabilities:		
Intangible assets	1,635	2,597
Operating lease right-of-use assets	4,592	7,862
Other	3,407	6,276
Total deferred tax liabilities	9,634	16,735
Net deferred tax assets	$ 8,145	$ 15,317

The Company has assessed, on a jurisdictional basis, the realization of its net deferred tax assets, including the ability to carry back net operating losses, the existence of taxable temporary differences, the availability of tax planning strategies and available sources of future taxable income. The Company has concluded that a valuation allowance on its U.S. net deferred tax assets continues to be appropriate. In addition, valuation allowances were established in certain foreign jurisdictions during fiscal 2023 considering cumulative taxable losses in recent years and uncertainty with respect to future taxable income. The change in valuation allowance for all of fiscal 2023 was $79.1 million. As of December 30, 2023, and December 31, 2022, the Company had a valuation allowance of $178.6 million and $99.4 million, respectively. A valuation allowance is a non-cash charge, and does not limit the Company's ability to utilize its deferred tax assets, including its ability to utilize tax loss and credit carryforward amounts, against future taxable income. The amount of the deferred tax assets considered realizable, and the associated valuation allowance, could be adjusted in a future period if estimates of future taxable income change or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as projections for future growth.

As of December 30, 2023, the Company has gross federal net operating loss carryforwards of $214.0 million with an indefinite life and foreign net operating loss carryforwards of $44.5 million. As of December 30, 2023, the Company has federal research and development tax credit carryforwards of $12.3 million and state research and development tax credit carryforwards of $20.3 million, which will expire beginning in 2043 and 2031, respectively. 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.

The following table summarized the activity related to the Company's gross unrecognized tax benefits excluding interest and penalties (in thousands):

	Fiscal Year Ended		
	December 30, 2023	December 31, 2022	January 1, 2022
Balance at beginning of period	$ 9,606	$ 9,842	$ 8,559
Increase for tax positions related to the current year	539	1,117	914
Increase for tax positions related to prior years	1,888	672	369
Decrease related to settlement with taxing authorities	—	(1,412)	—
Decrease for lapses of statute of limitations	(385)	(613)	—
Balance at end of period	$ 11,648	$ 9,606	$ 9,842

The Company accrues interest and, if applicable, penalties for any uncertain tax positions as a component of income tax expense. As of December 30, 2023 and December 31, 2022, there were $1.8 million and $1.2 million in accrued interest, respectively, and there were no material accrued penalties. Significant judgment is required in evaluating its uncertain tax positions and determining its provision for income taxes. 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, 2023 were to become recognizable in the future, it would affect its effective tax rate by $10.1 million, inclusive of interest and penalties.

The Company conducts business in a number of jurisdictions and, as such 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") and state tax authorities is closed for fiscal years prior to fiscal 2017. All federal and state carryforward attributes generated to date, including fiscal 2017 and earlier, 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.

As of December 30, 2023, the Company continues to assert that the unremitted foreign earnings, as well as the capital in its foreign subsidiaries, are permanently reinvested and therefore no deferred taxes or withholding taxes have been provided. At December 30, 2023, the Company has unremitted foreign earnings for which any unrecognized deferred tax liability on these unremitted earnings would be immaterial.

16. Industry Segment, Geographic Information and Significant Customers

The Company operates as one operating segment. The Company's consumer robots are offered to consumers through a variety of distribution channels, including chain stores and other national retailers, through the Company's own website and app, dedicated e-commerce websites, the online arms of traditional retailers, and through value-added distributors and resellers worldwide.

Geographic Information

For the fiscal years ended December 30, 2023, December 31, 2022 and January 1, 2022, sales to non-U.S. customers accounted for 51.9%, 48.0% and 51.8% of total revenue, respectively.

The following table provides information about revenue by geographical region (in thousands):

	December 30, 2023	December 31, 2022	January 1, 2022
Domestic	$ 428,531	$ 615,107	$ 754,173
International	462,049	568,276	810,814
Total	$ 890,580	$ 1,183,383	$ 1,564,987

Significant Customers

For the fiscal years ended December 30, 2023, December 31, 2022, and January 1, 2022, there was one customer that accounted for 10% or more of total revenue, representing 24.0%, 22.6% and 21.8%, of total revenue, respectively.

17. Subsequent Events

Termination of Merger Agreement

As previously disclosed, on August 4, 2022, the Company entered into the Original Merger Agreement with Amazon, and Merger Sub, providing for, among other things, the merger of Merger Sub with and into iRobot, with the Company surviving the merger as a wholly owned subsidiary of Parent. On July 24, 2023, iRobot, Amazon and Merger Sub entered into an amendment to the Original Merger Agreement.

On January 28, 2024, the Company and Amazon mutually agreed to terminate the Merger Agreement and entered into the Termination Agreement effective as of such date. The termination of the Merger Agreement was approved by the Company's Board of Directors. In accordance with the terms of the Termination Agreement, Amazon made a cash payment to the Company in the previously agreed amount of $94.0 million on January 29, 2024. The Company then made a payment of $18.8 million for professional fees incurred in connection with the Transactions.

Term Loan

As a result of the termination of the Merger Agreement and receipt of the Parent Termination Fee of $94.0 million from Amazon, the Company used $35.0 million of such Parent Termination Fee to repay a portion of the Term Loan, and the remaining $40.0 million of the Parent Termination Fee will be set aside in a restricted account to be used for future repayments of the Term Loan subject to limited rights of the Company to utilize such amounts for the purchase of inventory in the third quarters of 2024 and 2025. The $35.0 million repayment was applied to the principal, interest and the 1.4x minimum guaranteed return, reducing the principal balance of the loan to $175.8 million. With the termination of the Merger Agreement and the $35.0 million repayment, the applicable minimum guaranteed return now ranges between 1.4x and 1.7x of the principal and the consolidated core assets financial covenant is reduced to $200.0 million.

Restructuring

In conjunction with the termination of the Merger Agreement, the Company's then-Chief Executive Officer stepped down from employment with the Company and from his position as chairman of the Board of Directors of the Company ("Board"), effective January 28, 2024. The Board appointed Glen D. Weinstein, the Company's then Executive Vice President and Chief Legal Officer, as Interim Chief Executive Officer while a search is conducted for a permanent CEO.

On January 29, 2024, following the termination of the Merger Agreement, the Company announced it will implement an operational restructuring plan that is expected to include an overall reduction of approximately 350 employees, which represents 31% of the Company's global workforce as of December 30, 2023. In connection with this workforce reduction, the Company expects to record restructuring charges of approximately $12 million to $13 million in the first two quarters of 2024 primarily relating to severance packages and related benefits, with the majority of the restructuring charges anticipated in the first quarter of 2024. These estimates of the charges that the Company expects to incur, and the timing thereof, are subject to a number of assumptions and actual results may differ. The Company may also incur additional costs not currently contemplated due to events that may occur as a result of, or that are associated with, the actions described above.

The Company considers these subsequent events as a triggering event and will perform an impairment assessment of goodwill and other long-lived assets in connection with its preparation of financial statements for the first quarter of 2024.

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 Interim 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, 2023, 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. Based on this assessment, management concluded that the Company maintained effective internal control over financial reporting as of December 30, 2023 based on the specified criteria.

The effectiveness of the Company's internal control over financial reporting as of December 30, 2023 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, 2023, 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

During the three months ended December 30, 2023, none of our directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted, terminated or modified a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K).

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not Applicable.

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, 2023.

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, 2023.

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, 2023.

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, 2023.

ITEM 14. *PRINCIPAL ACCOUNTING FEES AND SERVICES*

Our independent public accounting firm is PricewaterhouseCoopers LLP, Boston, Massachusetts, PCAOB Auditor ID 238.

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, 2023.

PART IV

ITEM 15. ***EXHIBITS AND 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, 2023 and December 31, 2022

Consolidated Statements of Operations for the Years ended December 30, 2023, December 31, 2022 and January 1, 2022

Consolidated Statements of Comprehensive (Loss) Income for the Years ended December 30, 2023, December 31, 2022 and January 1, 2022

Consolidated Statements of Stockholders' Equity for the Years ended December 30, 2023, December 31, 2022 and January 1, 2022

Consolidated Statements of Cash Flows for the Years ended December 30, 2023, December 31, 2022 and January 1, 2022

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

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

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

(b) Exhibits

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

Exhibit Number	Description
3.1(1)	Form of Second Amended and Restated Certificate of Incorporation of the Registrant dated November 15, 2005
3.2	Amended and Restated By-laws of the Registrant (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on March 9, 2016 and incorporated by reference herein)
3.3	First Amendment to the Amended and Restated By-laws of iRobot Corporation (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on August 5, 2022 and incorporated by reference herein)
4.1(1)	Specimen Stock Certificate for shares of the Registrant's Common Stock
4.2	Description of the Registrant's securities registered under Section 12 of the Securities Exchange Act of 1934 (filed as Exhibit 4.2 to the Registrant's Annual Report on Form 10-K filed on February 13, 2020 and incorporated by reference herein)
10.1†	Form of Amended and Restated Indemnification Agreement (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 9, 2020 (File No. 001-36414) and incorporated by reference herein)
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 through the eighth amendment)
10.7	Ninth Amendment to Lease Agreement between the Registrant and Boston Properties Limited Partnership for premises located at 4-18 Crosby Drive, Bedford, Massachusetts, dated as of January 28, 2022 (filed as Exhibit 10.7 to the Registrant's Annual Report on Form 10-K for the year ended January 1, 2022 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	Fourth Amendment to Amended and Restated Credit Agreement by and between Bank of America, N.A. and iRobot Corporation, dated January 17, 2023. (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 20, 2023 and incorporated by reference herein)
10.11	Fourth Amendment to Amended and Restated Reimbursement Agreement by and between Bank of America, N.A. and iRobot Corporation, dated January 17, 2023. (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on January 20, 2023 and incorporated by reference herein)
10.12#	Manufacturing Services Agreement between the Registrant and Kin Yat Industrial Company Limited, dated as of January 22, 2014 (filed as Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the year ended December 29, 2018 and incorporated by reference herein)
10.13†	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)
10.14†	Form of Performance-Based Restricted Stock Unit Award Agreement under the 2015 Stock Option Incentive Plan (filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 2, 2016 and incorporated by reference herein)
10.15†	iRobot Corporation 2017 Employee Stock Purchase Plan (filed as Exhibit 10.18 to the Registrant's Annual Report on Form 10-K for the year ended December 30, 2017 and incorporated by reference herein)
10.16†	iRobot Corporation 2018 Stock Option and Incentive Plan (filed as Exhibit 99.1 to the Registrant's Registration Statement on Form S-8 filed on June 7, 2018 (File No. 333-225482) and incorporated by reference herein)
10.17†	iRobot Corporation Senior Executive Incentive Compensation Plan as Amended and Restated (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 30, 2019 and incorporated by reference herein)
10.18†	Amendment to the iRobot Corporation 2018 Stock Option and Incentive Plan (filed as Exhibit 99.1 to the Registrant's Registration Statement on Form S-8 on June 30, 2020 (File No. 333-239573) and incorporated by reference herein)
10.19+	Credit Agreement, dated as of July 24, 2023, by and among iRobot Corporation, as borrower, each lender from time to time party thereto, and TCG Senior Funding L.L.C., as administrative agent and collateral agent (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on July 25, 2023 and incorporated by reference herein)
10.20	Termination Agreement, dated as of January 28, 2024, by and among Amazon.com, Inc., Martin Merger Sub, Inc. and the Company (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 29, 2023 and incorporated by reference herein)
10.21	Transitional Services and Separation Agreement dated as of January 28, 2024, by and between the Company and Colin Angle (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on January 29, 2023 and incorporated by reference herein)
21.1*	Subsidiaries of the Registrant
23.1*	Consent of PricewaterhouseCoopers LLP
24.1	Power of Attorney (incorporated by reference to the signature page of this report on Form 10-K)
31.1*	Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934
31.2*	Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934
32.1**	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
97*	iRobot Corporation Compensation Recovery Policy
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document

101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
104*	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101.*)

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

Confidential treatment requested for portions of this document.

Certain exhibits and schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish supplementally to the SEC a copy of any omitted exhibits or schedules upon request.

+ Certain schedules and exhibits to this agreement have been omitted pursuant to Item 601(a)(5) of Regulation S-K. A copy of any omitted schedule and/or exhibit will be furnished supplementally to the SEC upon request.

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

* Filed herewith

** Furnished 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/ Glen D. Weinstein
Glen D. Weinstein
Interim Chief Executive Officer

Date: February 27, 2024

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Glen D. Weinstein and Julie Zeiler, 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 27, 2024.

Signature	Title(s)
/s/ GLEN D. WEINSTEIN Glen D. Weinstein	Interim Chief Executive Officer (Principal Executive Officer)
/s/ ANDREW MILLER Andrew Miller	Chairman of the Board
/s/ JULIE ZEILER Julie Zeiler	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ KARIAN WONG Karian Wong	SVP, Finance (Principal Accounting Officer)
/s/ MOHAMAD ALI Mohamad Ali	Director
/s/ KAREN M. GOLZ Karen M. Golz	Director
/s/ RUEY-BIN KAO Ruey-Bin Kao	Director

/s/ Eva Manolis Eva Manolis	Director
/s/ Michelle V. Stacy Michelle V. Stacy	Director
/s/ Colin M. Angle Colin M. Angle	Director

Exhibit 21.1

iROBOT CORPORATION
SUBSIDIARIES OF THE REGISTRANT

Subsidiary Legal Name	Jurisdiction of Incorporation/Formation
iRobot US Holdings, LLC	Delaware
iRobot Holdings LLC	Delaware
Guangzhou iRobot Robot Technology Consulting Company Limited	China
iRobot (Shanghai) Ltd.	China
iRobot (HK) Limited	Hong Kong
iRobot Japan G.K.	Japan
iRobot UK Ltd.	United Kingdom
iRobot France SAS	France
iRobot Belgium SPRL	Belgium
iRobot Portugal, Unipessoal Lda	Portugal
iRobot Austria GmbH	Austria
iRobot Germany GmbH	Germany
iRobot Netherlands B.V.	Netherlands
iRobot Iberia S.L.	Spain
Aeris Cleantec AG	Switzerland
Aeris Beijing, Ltd.	China
Aeris Health SEA Pte, Ltd	Singapore

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (Nos. 333-265677, 333-239573, 333-225482, 333-219686, 333-204669, 333-193998, 333-186700, 333-184320, 333-179593, 333-172333, 333-164993, 333-157306, 333-149373, 333-140707, 333-129576) of iRobot Corporation of our report dated February 27, 2024 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts

February 27, 2024

Exhibit 31.1

Certifications

I, Glen D. Weinstein, certify that:

1. I have reviewed this Annual Report on Form 10-K of iRobot Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2024

/s/ GLEN D. WEINSTEIN

Glen D. Weinstein
Interim Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

Certifications

I, Julie Zeiler, certify that:

1. I have reviewed this Annual Report on Form 10-K of iRobot Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2024

/s/ JULIE ZEILER

Julie Zeiler
Chief Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of iRobot Corporation (the "Company") for the year ended December 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Glen D. Weinstein, the Interim Chief Executive Officer of the Company and Julie Zeiler, the Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to our knowledge, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certification is being provided pursuant to 18 U.S.C. 1350 and is not to be deemed a part of the Report, nor is it to be deemed to be “filed” for any purpose whatsoever.

Dated	February 27, 2024	/s/ GLEN D. WEINSTEIN
		Glen D. Weinstein Interim Chief Executive Officer (Principal Executive Officer)
Dated	February 27, 2024	/s/ JULIE ZEILER
		Julie Zeiler Chief Financial Officer

Exhibit 97

IROBOT CORPORATION

AMENDED AND RESTATED CLAWBACK POLICY

Adopted as of August 1, 2023

iRobot Corporation, a Delaware corporation (the “Company”), has adopted a Compensation Recovery Policy (this “Policy”) as described below.

1. Overview

The Policy sets forth the circumstances and procedures under which the Company shall recover Erroneously Awarded Compensation from Covered Persons (as defined below) in accordance with rules issued by the United States Securities and Exchange Commission (the “SEC”) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the Nasdaq Stock Market. Capitalized terms used and not otherwise defined herein shall have the meanings given in Section 3 below.

2. Compensation Recovery Requirement

In the event the Company is required to prepare a Material Financial Restatement, the Company shall recover reasonably promptly all Erroneously Awarded Compensation with respect to such Material Financial Restatement.

3. Definitions

“*Applicable Recovery Period*” means the three completed fiscal years immediately preceding the Restatement Date for a Material Financial Restatement. In addition, in the event the Company has changed its fiscal year: (i) any transition period of less than nine months occurring within or immediately following such three completed fiscal years shall also be part of such Applicable Recovery Period and (ii) any transition period of nine to 12 months will be deemed to be a completed fiscal year.

“*Applicable Rules*” means any rules or regulations adopted by the Exchange pursuant to Rule 10D-1 under the Exchange Act and any applicable rules or regulations adopted by the SEC pursuant to Section 10D of the Exchange Act.

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

“*Committee*” means the Compensation & Talent Committee of the Board or, in the absence of such committee, a majority of independent directors serving on the Board.

“*Covered Person*” means any Executive Officer and any employee of the Company or a subsidiary of the Company holding the title of Senior Vice President or Executive Vice President. A person’s status as a Covered Person with respect to Erroneously Awarded

Compensation shall be determined as of the time of receipt of such Erroneously Awarded Compensation regardless of the person's current role or status with the Company (e.g., if a person began service as an Executive Officer after the beginning of an Applicable Recovery Period, that person would not be considered a Covered Person with respect to Erroneously Awarded Compensation received before the person began service as an Executive Officer, but would be considered a Covered Person with respect to Erroneously Awarded Compensation received after the person began service as an Executive Officer where such person served as an Executive Officer at any time during the performance period for such Erroneously Awarded Compensation).

"*Effective Date*" means August 1, 2023.

"*Erroneously Awarded Compensation*" means the amount of any Incentive-Based

Compensation received by a Covered Person on or after the Effective Date and during the Applicable Recovery Period that exceeds the amount that otherwise would have been received by the Covered Person had such compensation been determined based on the restated amounts in the Material Financial Restatement, computed without regard to any taxes paid. Calculation of Erroneously Awarded Compensation with respect to Incentive-Based Compensation based on stock price or total shareholder return, where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in a Material Financial

Restatement, shall be based on a reasonable estimate of the effect of the Material Financial Restatement on the stock price or total shareholder return upon which the Incentive-Based Compensation was received, and the Company shall maintain documentation of the determination of such reasonable estimate and provide such documentation to the Exchange in accordance with the Applicable Rules. Incentive-Based Compensation is deemed received, earned, or vested when the Financial Reporting Measure is attained, not when the actual payment, grant, or vesting occurs.

"*Exchange*" means the Nasdaq Stock Market LLC.

"*Executive Officer*" means any person who served the Company in any of the following roles at any time during the performance period for Incentive-Based Compensation such person received during or after beginning service in such role: president, principal financial officer, principal accounting officer (or if there is no such accounting officer the controller), any vice president in charge of a principal business unit, division, or function (such as sales, administration or finance), any other officer who performs a policy making function, or any other person who performs similar policy making functions for the Company. Executive officers of parents or subsidiaries of the Company may be deemed executive officers of the Company if they perform such policy making functions for the Company.

"*Financial Reporting Measures*" mean measures that are determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, any measures that are derived wholly or in part from such measures (including, for example, a non-GAAP financial measure), and stock price and total shareholder return.

"*Incentive-Based Compensation*" means any compensation provided, directly or indirectly, by the Company or any of its subsidiaries that is granted, earned, or vested based, in whole or in part, upon the attainment of a Financial Reporting Measure.

"*Material Financial Restatement*" means an accounting restatement of previously issued financial statements of the Company due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously-issued financial statements that is material to the previously-issued financial statements or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.

"*Restatement Date*" means, with respect to a Material Financial Restatement, the earlier to occur of: (i) the date the Board, a committee of the Board or the officer or officers of the Company authorized to take such action if Board action is not required concludes, or reasonably should have concluded, that the Company is required to prepare the Material Financial Restatement or (ii) the date a court, regulator or other legally authorized body directs the Company to prepare the Material Financial Restatement.

4. Exception to Compensation Recovery Requirement

The Company may elect not to recover Erroneously Awarded Compensation pursuant to this Policy if the Committee determines that recovery would be impracticable, and one or more of the following conditions, together with any further requirements set forth in the Applicable Rules, are met: (i) the direct expense paid to a third party to assist in enforcing this Policy would exceed the amount to be recovered, and the Company has made a reasonable attempt to recover such Erroneously Awarded Compensation; or, (ii) recovery would likely cause an otherwise taxqualified retirement plan to fail to be so qualified under applicable regulations.

5. Method of Compensation Recovery

The Committee shall determine, in its sole discretion, the method for recovering Erroneously Awarded Compensation hereunder, which may include, without limitation, any one or more of the following:

a. requiring reimbursement of cash Incentive-Based Compensation previously paid;

b. seeking recovery of any gain realized on the vesting, exercise, settlement, sale, transfer, or other disposition of any equity-based awards;

c. cancelling or rescinding some or all outstanding vested or unvested equity-based awards;

d. adjusting or withholding from unpaid compensation or other set-off;

e. cancelling or offsetting against planned future grants of equity-based awards; and/or

f. any other method permitted by applicable law or contract.

Notwithstanding the foregoing, a Covered Person will be deemed to have satisfied such person's obligation to return Erroneously Awarded Compensation to the Company if such Erroneously Awarded Compensation is returned in the exact same form in which it was received; provided

that equity withheld to satisfy tax obligations will be deemed to have been received in cash in an amount equal to the tax withholding payment made.

6. Policy Interpretation

This Policy shall be interpreted in a manner that is consistent with the Applicable Rules and any other applicable law. The Committee shall take into consideration any applicable interpretations and guidance of the SEC in interpreting this Policy, including, for example, in determining whether a financial restatement qualifies as a Material Financial Restatement hereunder. To the extent the Applicable Rules require recovery of Incentive-Based

Compensation in additional circumstances besides those specified above, nothing in this Policy shall be deemed to limit or restrict the right or obligation of the Company to recover IncentiveBased Compensation to the fullest extent required by the Applicable Rules.

7. Policy Administration

This Policy shall be administered by the Committee. The Committee shall have such powers and authorities related to the administration of this Policy as are consistent with the governing documents of the Company and applicable law. The Committee shall have full power and authority to take, or direct the taking of, all actions and to make all determinations required or provided for under this Policy and shall have full power and authority to take, or direct the taking of, all such other actions and make all such other determinations not inconsistent with the specific terms and provisions of this Policy that the Committee deems to be necessary or appropriate to the administration of this Policy. The interpretation and construction by the Committee of any provision of this Policy and all determinations made by the Committee under this policy shall be final, binding and conclusive.

8. Compensation Recovery Repayments not Subject to Indemnification

Notwithstanding anything to the contrary set forth in any agreement with, or the organizational documents of, the Company or any of its subsidiaries, Covered Persons are not entitled to indemnification for Erroneously Awarded Compensation recovered under this Policy.