

iRobot Second-Quarter 2013 Conference Call Script**July 23, 2013****Operator:**

Good day everyone and welcome to the iRobot second-quarter 2013 financial results conference call. This call is being recorded. At this time for opening remarks and introductions, I would like to turn the call over to Elise Caffrey of iRobot Investor Relations. Please go ahead.

Elise:

This conference call may contain express or implied forward-looking statements relating to the company's financial results and operations for full year 2013 and the third quarter ending September 28, 2013, our expected quarterly and full year 2013 financial performance, the growth and revenue impact of our businesses, our expectations regarding revenue, Adjusted EBITDA, operating cash flow, operating expenses, gross margins, tax rates, profitability and earnings per share, demand for our home robots, our expectations regarding domestic and international Home Robot revenue, the impact of our Mint[®] robot, the impact of our marketing campaigns and the timing and impact of related investments, the timing and fulfillment of government contracts and orders, demand for our Defense and Security robots and related parts and services, orders for and sales and deliveries of our PackBot, SUGV and FirstLook[®] robots, our Defense and Security contract, product lifecycle and recurring revenue, the mix of product revenue and impact on operating margins, the impact of our acquisition of Evolution Robotics on our financial results, our plans for expansion, our introduction and delivery of new products (such as Braava and Ava 500) and new product capabilities and functionality, the impact of our RP-VITA robot and our Remote Presence business on our financial results, the availability, capabilities and functionality of new technology, our competitive position, our market share, and business conditions. These statements are neither promises nor guarantees, but are subject to a variety of risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from those contemplated in the forward-looking statements. In particular, the risks and uncertainties include those contained in our public filings with the Securities and

Exchange Commission. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. iRobot undertakes no obligation to update or revise these forward-looking statements, whether as a result of new information, future events or circumstances or otherwise.

During this conference call, we will also disclose non-GAAP financial measures as defined by SEC Regulation G, including Adjusted EBITDA, which we define as earnings before interest, taxes, depreciation, amortization, merger and acquisition expenses, restructuring expenses, net intellectual property litigation expenses and non-cash stock compensation.. A reconciliation between Adjusted EBITDA and net income – the GAAP measure most directly comparable to Adjusted EBITDA -- is provided in the financial tables at the end of the second quarter 2013 earnings press release issued last evening, which is available on our website <http://investor.irobot.com/phoenix.zhtml?c=193096&p=irol-news&nyo=0>. A live audio broadcast of this conference call is also available on the Investor Relations page of our website and an archived version of the broadcast will be available on the same Web page following the call. In addition, a replay of this conference call will be available through August 1, 2013 and can be accessed by dialing 630-652-3000, access code 34160570#.

On today's call, iRobot Chairman & CEO Colin Angle will provide a review of the company's operations and achievements for the second quarter of 2013 as well as our business outlook for the rest of 2013; and Alison Dean, iRobot Chief Financial Officer, will review our financial results for the second quarter and provide our financial expectations for the full year 2013 and the third quarter ending September 28, 2013. Then we'll open the call for questions.

At this point I'll turn the call over to Colin Angle.

Colin:

Good morning and thank you for joining us.

I am very excited to report that we had an excellent quarter following our outstanding Q1. Our Home Robot business delivered strong results both domestically and overseas and the outlook continues to be excellent. We announced our second remote presence market initiative, Enterprise Tele-presence, in partnership with Cisco, and our Defense & Security business performed as expected.

Based on our view of the rest of the year, our expectations for revenue and Adjusted EBITDA remain unchanged, but we are increasing the low end of our EPS range due to a one-time tax benefit received in Q2. We expect to deliver fiscal 2013 revenue of **\$485 to \$495** million, EPS between **\$0.88 and \$1.00** and Adjusted EBITDA of **\$55-\$61** million.

Now, I'll take you through some of the details of the second quarter and our expectations for the rest of 2013.

Total Q2 revenue of **\$130** million was consistent with our expectations while Adjusted EBITDA of **\$17** million and EPS of **\$0.28** slightly exceeded our expectations – EPS for Q2 included a **\$0.07** tax benefit that we received in the quarter as I just mentioned.

Domestic revenue growth of **26%** coupled with international growth of **18%** fueled a **20%** year-over-year increase in Home Robot revenue in Q2. Strong sell through domestically, supported by our advertising campaign, helped drive this Q2 growth. The launch of Braava overseas and broadened availability of the Roomba 600 and 700 robots to retailers all contributed to the increase in Home Robot revenue.

Over the past year we have talked about the importance of investing in brand and marketing to support our strategic growth plans. We saw the positive impact of our investments on domestic results in 2012 and continue to see this program driving

greater awareness this year. In fact, we are running the campaign to a limited degree in select European markets to test its effectiveness there.

Overseas, demand in Japan continues to be very strong and China's performance was consistent with our expectations. EMEA was up slightly from Q1 due to the launch of Braava and roughly flat year-over-year.

In Q3, we expect the U.S. launch of Braava, coupled with further growth from adoption of our core products, to drive domestic revenue, while overseas revenue will be driven by strong demand in Japan, continued Roomba sales into China and expanded distribution of Braava in EMEA.

We continue to expect overall home robot revenue to grow **20-25%** from last year but based on the strength of the domestic home robot market year to date and our outlook for the remainder of the year, we now expect that part of the business to grow **25-30%** and the international business to grow **15-20%** for the full year.

Turning now to our Defense & Security business, Q2 results were consistent with our expectations and consisted primarily of shipments of FirstLook robots. During the quarter we announced **\$7.2** million in contracts from the Brazilian government to provide iRobot 510 PackBot robots, spares and associated equipment and a four year **\$30** million IDIQ from the U.S. Army for FasTac robots and spares, with an initial order of **\$3** million.

These contracts were included in our full year expectations and we remain confident in achieving those results.

Switching now to our Remote Presence business unit, we had a very busy and exciting quarter. As you know, we began shipping the RP-VITA to InTouch Health in Q1 2013. We continued to ship robots in Q2 and have now delivered more than 40 units to ITH, half of which are being used in hospitals. These are very early days but initial feedback has been positive, especially about the navigation capabilities and ease of use through the iPad.

We will sell additional RP-VITA units this year but our Remote Presence business unit is **NOT** expected to generate meaningful revenue in 2013. We are very excited about our progress in this segment and do expect the product to be a growth driver over the next couple of years.

In June we announced a joint marketing agreement with Cisco to bring the enterprise-grade Ava 500 video collaboration robot to market. The robot blends iRobot's autonomous navigation with Cisco's TelePresence to enable people working off-site to participate in meetings and presentations where freedom of movement, and location spontaneity are important. We demonstrated the Ava 500 at the InfoComm Conference and then at Cisco Live, attended by Cisco's customers and VAR network. The reception at both events was extremely positive. We will be initiating a Beta program this year and are targeting limited availability through select Cisco partners in 2014.

In summary, the business performed as expected in the second quarter and we are confident in our ability to deliver full year 2013 expectations.

Before turning the call over to Alison to review our second quarter results and Q3 expectations in more detail, I wanted to comment on a lawsuit we recently filed in Germany. iRobot's patent portfolio now consists of more than 200 U.S. patents and 195 non-U.S. patents of which roughly half are specific to our Home Robot business. iRobot has made significant investments to protect its intellectual property and intends to defend its patent portfolio by the appropriate means available domestically and abroad. We have demonstrated our willingness to rigorously defend it in the past and we will continue to do so.

With that I'll turn the call over to Alison.

Alison

Thanks Colin.

Revenue in the second quarter was **\$130** million compared with last year's revenue of **\$111** million. Q2 for both years includes approximately **\$3** million of return reserve releases. Adjusted EBITDA for Q2 was **\$17.0** million compared with **\$16.2** million last year. EBITDA came in slightly ahead of our expectations, driven primarily by favorability in gross margin. Gross margin was favorably impacted by the release of the returns reserves and favorable product mix. Earnings per share for the quarter were **\$0.28** versus **\$0.26** last year. EPS was ahead of our expectations primarily due to a **\$0.07** one-time tax benefit associated with sales, from 2000 to 2006, of government robots to the U.S. military which were used outside of the U.S.

For the first half, revenue was **\$237** million compared with **\$209** million in 2012; EPS was **\$0.57** compared with **\$0.28**; and Adjusted EBITDA was **\$32** million compared with **\$22** million last year.

In Q2, Home Robot units grew **16%** while revenue of **\$116** million increased **20%** from a year ago. The mix of higher ASP Roomba 700 and 600 robots this year accounted for the majority of the difference in unit growth versus increased revenue. Based upon current indications from our retailers and distributors, we anticipate our Home revenue profile for the year to decrease slightly sequentially in Q3 and then increase in Q4 to Q2 levels. Total domestic revenues were up **26%** in Q2 YOY, following a **44%** increase in Q1, due to expanded distribution of Roomba 600 and 700 robots and the inclusion of Mint. Importantly, sell through, at our top **5** domestic customers, was up **30%** year-over-year reflecting consumer demand and the impact of our marketing programs. International revenue grew **18%** in Q2 over last year and comprised approximately **66%** of Home Robot revenue.

Defense & Security revenue of **\$12** million was consistent with our expectations but down from a year ago as expected. Defense & Security product revenue was **\$11** million in the second quarter, **\$3** million of which was product lifecycle revenue (PLR).

Q2 gross margin was **47.3%** for the company compared with **47.4%** last year, and OPEX was **41%** of revenue compared with **38%** last year. The increase in OPEX YOY was driven by the addition of Evolution Robotics for 2013 as well as the impact of a write-down of a maritime intangible asset.

At the end of Q2, we had cash, including investments, totaling **\$153** million compared with **\$177** million last year and operating cash flow was roughly **\$8** million compared with a **\$4** million use of cash last year.

In Q3, we expect revenue of **\$124-\$128** million, driven by strong growth in Home Robots. We expect EPS in the range of **\$0.20** to **\$0.25** and Adjusted EBITDA of **\$14-\$17** million. We are maintaining our full year revenue expectation of **\$485 - \$495** million. This assumes Home Robot revenue will grow approximately **22%** to **\$435 - \$440** million and comprise roughly **90%** of total company revenue. Our expectations for Defense & Security revenue continue to be **\$45** to **\$55** million for the full year.

Last quarter we provided an estimated 2013 effective tax rate of **20%** based on the impact of the 2012 and 2013 investment tax credit for R&D. Due to the additional impact of the one-time export tax credit, we now estimate a full year rate of approximately **12%**. For Q3 and Q4 we are estimating roughly **28%**.

In summary, we performed as expected in Q2 and remain confident in our full year expectations. Our Home business performance is strong, driven by sales growth in our domestic and Asian markets, and our Defense & Security business is executing very well against its plan for the year.

I'll now turn the call back to Colin.

Colin

Our strong second quarter results, driven by our Home Robot business, give us confidence in achieving our full year expectations.

As we look at the rest of this year and beyond, we see tremendous growth opportunities for our home robots and expect that business to drive both top and bottom line growth for the company. Our success in home robots will enable us to invest in technology and the iRobot brand, while delivering on our commitment to profitable growth. We are very excited about the potential for our Remote Presence robots in both the health care and enterprise tele-presence markets. While the near-term U.S. military climate is somewhat disappointing, our Defense & Security business is solid at current levels and gaining traction in adjacent markets.

With that we'll take your questions.

Following Q&A

Colin

That concludes our second quarter earnings call. We appreciate your support and look forward to talking with you again in October to discuss our Q3 results.

Operator -That concludes the call. Participants may now disconnect.