iRobot Fourth-Quarter and Full Year 2010 Conference Call Script

February 9, 2011

Operator:

Good day everyone and welcome to the iRobot fourth-quarter and full year 2010 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:

Thank you and good morning. Before I introduce the iRobot management team, I would like to note that statements made on today's call that are not based on historical information are forward-looking statements made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995.

This conference call may contain express or implied forward-looking statements relating to the company's financial results and operations for fiscal 2011 and the first quarter ending April 2, 2011, our expected quarterly financial performance, seasonality, the timing of expenses, orders and order fulfillment, our expectations regarding revenue growth, Adjustment EBITDA margin, operating cash flow, operating expenses and gross margins, our plans for expansion, our introduction and delivery of new products and new product capabilities and functionality, the availability of new technology, backlog and demand for and adoption of our Government and Industrial robots and related parts and services, including international demand and mix of product revenue, orders for our SUGV robots, recurring revenue, demand for our home robots, international home robot revenue, mix of product revenue and impact on operating margins, 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 various non-GAAP financial measures as defined by SEC Regulation G, including net income and earnings per share excluding the impact of one-time tax benefit, and Adjusted EBITDA, which we define as Earnings Before Interest, Taxes, Depreciation, Amortization, merger and acquisition expenses and non-cash stock compensation expense. Reconciliations between net income excluding the impact of one-time tax benefit and net income, earnings per share excluding the impact of one-time tax benefit and earnings per share, and Adjusted EBITDA and net income – the GAAP measure most directly comparable to Adjusted EBITDA -- are provided in the financial tables at the end of the Q4 and full year 2010 earnings press release issued last evening, which is available on our website http://investor.irobot.com/phoenix.zhtml?c=193096&p=irol-irhome. 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 February 17, 2011 and can be accessed by dialing 617-801-6888, access code 22913930.

On today's call, iRobot Chairman & CEO Colin Angle will provide a review of the company's operations and achievements for the fourth quarter and full year 2010 as well as our outlook for the business in 2011; and John Leahy, Chief Financial Officer, will review our financial results for the fourth quarter and full year 2010 and provide our outlook for financial expectations for the first quarter ending April 2, 2011 and fiscal 2011. 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.

2010 represented a watershed year for iRobot:

- We delivered record full-year financial results after increasing expectations three times during the year and exceeding our increased expectations in every quarter;
- Our international home robot revenues grew **70%**;
- We delivered game-changing technology with our Aware® 2 software upgrades to **1,500** iRobot PackBots in the field, and;
- We completed several senior level organization moves, laying the groundwork for continued successes.

2010 revenue increased **34%** to **$401** million for the full year while Adjusted EBITDA more than **DOUBLED** to **$49** million or **12%** of revenue. EPS of **$0.96** for the year**,** which includes the impact of a **$0.08** one-time tax benefit in Q3, was more than **7** times greater than our 2009 EPS. Our exceptional results were driven by strong performance in both divisions. We demonstrated our ability to improve profitability while continuing to invest in research & development and our brand, critical to maintaining our industry-leading position.

Our continued focus on strengthening the balance sheet resulted in year-end cash and investments of **$122** million, up **59%** from **$77** million a year ago. In 2010, we generated **$49** million in operating cash flow as a result of significantly improved EBITDA.

During the year we invested considerable resources in developing common software that can be used across common platforms. Our intellectual property is protected by more than **100** defensible worldwide patents that we will continue to defend should we detect infringement. Likewise, our brands are protected by **18** trademark registrations in the United States and more than **65** trademarks internationally, and we will continue to invest to support our brand.

In 2011 we will continue to widen our competitive moat by delivering robots that make a difference, built on common platforms, using highly integrated iRobot-developed technology that incorporates artificial intelligence with advanced concepts in navigation, autonomy, sensing and manipulation. Further, by leveraging technology developed by third parties in areas such as VOIP, user interface, voice control, and facial recognition, we will develop high quality robots for multi-billion dollar automated home maintenance and remote presence markets.

In the spring we will launch technology-rich products with exciting new capabilities. Our new home robots are the Scooba® 230, the world's most compact floor-washing robot, and the Roomba® 700 series, featuring persistent pass cleaning, HEPA-type filtration, a high efficiency cleaning head and extended battery life. Our G&I division will offer our first autonomy package for Aware® 2 enabled robots. The User Assist Payload system will provide self-righting, retro-traverse, cruise control and other features that will allow soldiers to maximize the robots' combat effectiveness while minimizing the time necessary to focus on the robot.

During the third quarter we discussed organizational changes that we made to capitalize on our long term opportunities. Joe Dyer, formerly President of our G&I division was promoted to Chief Operating Officer; Knob Moses, formerly Senior Vice President of G&I was promoted to President of the division; Tom Wagner was promoted to Chief Technology Officer from his previous position as Division Technology Officer for G&I, and we hired Russ Campanello, a highly experienced human resource and organizational development executive, as Senior Vice President of Human Resources.

In 2011 we expect to make good progress toward our 3-year financial goals of:

- Mid to high teen revenue CAGR;
- Mid-teen Adjusted EBITDA margins and;
- High single-digit operating cash flow margins

For the full year 2011, we expect revenue to be **$450** to **$465** million, growth of **12-16%** over 2010, with higher growth in the home robot division. We expect EPS to be **$0.90** to **$1.00,** and Adjusted EBITDA of **$58** to **$62** million**,** an **18-27%** increase from Adjusted EBITDA last year.

In the first quarter of 2011 we anticipate revenue of **$102** to **$106** million, EPS of **$0.20** to **$0.24** and Adjusted EBITDA of **$12** to **$14** million.

Now, I'd like to take you through some of the details of 2010 and our expectations for 2011.

In the Home Robot division, strong demand overseas, particularly in long-time markets in France, Spain, Germany and Japan, continued to fuel Home Robot revenue growth. International home robot revenue increased **70%** year-over-year, and we expect overseas demand to be the driving force for Home Robot revenue growth in 2011. We extended our reach further into Latin America in the fourth quarter and are expecting revenues from that region, especially in Mexico and Brazil, to begin to contribute nominally in 2011. More than **50%** of our international growth this year will come from distributors with whom we've been doing business for more than **3** years.

In 2010, domestic revenue was up slightly year-over-year but the important story in that market was gross margin improvement. Repositioning the product, as well as eliminating unprofitable skus, lower margin programs, customers and channels, helped us to achieve home robot margins of **40%** in 2010; an eight percentage point increase over 2009. In 2011 we will continue to reposition our products, through brand messaging and selective channel mix, to optimize profitable placement while rolling out our new home robot products. Sales of the Roomba® 700 and Scooba® 230 robots will further enhance the division's margins.

In our 2011 expectations, we have assumed flat revenues domestically due to consumer spending uncertainty. As economic conditions improve, we are positioned to capitalize on increased consumer spending which would improve our domestic market performance.

At the Consumer Electronics show last month, we introduced the iRobot Scooba® 230 – a floor washing robot small enough to clean in tight spaces and around bathroom fixtures – and the iRobot Roomba® 700 Series, the smartest and most effective Roomba vacuum cleaning robots to date. The Scooba® 230 and iRobot Roomba ®700 Series use iAdapt™ Responsive Cleaning Technology, a highly intuitive, flexible and effective way to clean your floors. This system of software and sensors monitors the environment **64** times per second, using dozens of behaviors to ensure the entire floor is thoroughly cleaned. The dirt-centric technology ensures thorough coverage, including under and around furniture, and multiple passes over the areas that need it most. In short, our robots simply work better than the competition.

These products will be available for purchase on our website in the spring and will rollout to our domestic retail and select international customers later this year. There is strong demand for our current generation of home robots in existing and emerging international markets and the Roomba® 700 series will augment our offerings in established markets. We have sold more than **6** million home robots worldwide and continue to be the undisputed leader in this market.

Investments and initiatives implemented in 2010 in Latin America, new product introductions, tough decisions made regarding customers and channels in North America and the addition of a new tier one contract manufacturing partner will enable us to extend the positive profitable growth trends we have established in this division, throughout 2011 and beyond.

Our potential in home robots is tremendous and we have only just begun to penetrate the markets we serve. The **annual** worldwide market for vacuum cleaners that cost more than **$200** is **$4 BILLION** and in 2010 we captured less than **6%** of that market**.** Based on research, we believe that the market for wet floor care products at this price point is equal to that of robot vacuum cleaners. Our brand awareness and strong intellectual property position will enable us to continue growing our share of both these markets.

Our Government & Industrial Robot division achieved some major milestones in 2010 including:

- Receipt of the low rate initial production contract for SUGV under the Army's modernization program;
- Reliability results achieved during limited user testing that exceeded the Army's objective requirement for low rate and full rate production; and,
- Probably most significantly, we received a contract to upgrade 1,500 PackBots in theater, setting the stage for periodic software block upgrades.

In 2011, we will see continued growth from sales of our robots due to wholesale adoption of robots by the military. Our tactical ground robots perform battlefield reconnaissance, bomb disposal and route clearance missions, saving lives every day and have become an essential piece of the warfighter's gear.

SUGV is a smaller and lighter version of the combat-proven PackBot® which makes it easy for soldiers to carry in their back packs, a critical aspect for soldiers fighting in Afghanistan. It is designed to give warfighters real-time awareness of critical situations and allow them to complete missions from safe standoff distances. It is ideal for dangerous reconnaissance missions such as entering buildings, caves and tunnels. We began delivering SUGVs in the 4th quarter of 2009 and have shipped approximately **400** through 2010. Soldiers have seen first-hand and Pentagon leaders clearly understand how robots increase the tempo of operation by providing increased situational awareness.

We are just beginning to see the substantial infantry market opportunity for small unmanned ground vehicles materialize. Our big opportunity continues to be embedding our robots at the squad level throughout the infantry. I can't tell you the exact timing of the inflection point when we will see an acceleration of orders to fill this expectation but it is likely to happen at some point beyond 2011.

In addition to buying robots, the U.S. Army is exploring ways to upgrade its fleet of small tactical robots in Iraq and Afghanistan. On our last call, we discussed the **$14** million order we'd received to upgrade the Army's fleet with our Aware® 2 software as part of this process. They are looking at ways to add new capabilities to existing robots enabling them to perform more functions and navigate uncertain terrain without needing their every move to be controlled or tele-operated by a human. We are moving along that spectrum from tele-operating to semi-autonomy, where you can send a robot from Point A to Point B without any intervention. iRobot's AwareHead™ supervisory control system software enables semi-autonomous navigation; the robot uses infrared sensors to map an area by itself, allowing a human controller to point-and-click on a touch-screen to send the robot to a given destination. Soldiers want robots with modularity, interoperability and more autonomy that will free them to attend to additional concerns or threats and we are working to provide them with all of these features. This technology is currently being developed and tested and we expect it to be available in 2012.

The results of the Aware® 2 software upgrade will be a standardized fleet that can readily accept future upgrades as autonomous capabilities increase and new payloads are developed. Some of the newer robotic capabilities we have developed, such as automatic self-righting and retro-traversing, enable robots to correct course, change direction, or turn right-side up by themselves, are being tested by the soldiers in theater today.

For us, this upgrade is an important step in the implementation of our common software strategy. It also paves the way for acceleration of recurring revenue which will carry higher margins and enable expansion of our competitive moat.

In other defense department news, there has been much discussion around the fate of the Brigade Combat Team Modernization, or BCTM. If you recall, BCTM is the successor to the Future Combat Systems program, FCS, originally competed in 2003. Our contract, under the FCS program, funded the development of SUGV. In June 2009, Defense Secretary Gates announced the dissolution of FCS and the acceleration and expansion of four systems under the new BCTM. During limited user testing, our system was the only system whose reliability results exceeded not only the Army's requirement for low rate initial production but also for full rate production.

In the fourth quarter we received the formal contract to procure **45** SUGVs under the LRIP. We delivered **30** of the units in 2010 and will complete the delivery of the order in the first quarter of 2011. Last month, the DoD announced its intention to terminate **2** of the **4** systems being developed under the BCTM and the defense acquisition board recently announced that the Army will procure **2** additional low rate initial production brigade sets of SUGV this year.

Should the U.S. begin drawing down troop levels as proposed, we would expect to see systematic infrastructure equipping programs replacing the urgent need orders currently being funded under supplementals. Until now most of our orders have come from the latter. As this shift occurs over the next couple of years, our current portfolio of contracting vehicles will also be replaced with longer term programs of record, which tend to provide better visibility.

Beyond supplying robots to the U.S. Government, we continue to expand our international footprint, adding new countries to our growing list of customers. In 2010 we delivered **94** robots to our existing NATO customers through both direct sales and Foreign Military Sales. In 2011 we plan to increase revenue through shipments of robots to international customers and through foreign military sales, growing to about **15%** of our product business.

As with our home robot market, the opportunity for our government robots is significant. We have received orders for more than **4,000** unmanned ground vehicles over the past few years, primarily from the U.S. military, principally for use by bomb disposal teams. We have a majority of the current market for this size robot and have proven the defensibility of our intellectual property in this sector. Expanding the fleet of robots provides not only current revenue but a stream of recurring revenue, potentially equal to twice that of the robot itself, through product lifecycle revenue such as the software block upgrades I described.

In summary, both of our businesses performed well in 2010 and we expect each to grow in the mid-teens at the top line in 2011 while contributing a greater percentage to the bottom line.

I will now turn the call over to John to review our fourth quarter results and 2011 expectations in more detail.

John

Thanks Colin.

Our performance in the fourth quarter was very strong with revenue reaching the highest quarterly level in our history. Earnings per share, Adjusted EBITDA and cash flow all exceeded expectations. Revenue of **$114** million was up **12%** for the quarter driven by growth in our international Home Robot business.

Earnings per share for the quarter and full year were **$0.26** and **$0.96** compared with**$0.20** and **$0.13** in Q4 and full year 2009 respectively. Our full year 2010 EPS would have been **$0.88** excluding the impact of the non-recurring **$2.3** million tax benefit we reported in Q3. Adjusted EBITDA for Q4 was **$12** million, and our full year Adjusted EBITDA of **$49** million was more than double 2009 Adjusted EBITDA. Operating cash flow of **$50** million drove our cash position to **$122** million, up **$45** million from the end of last year.

Our focus on driving Adjusted EBITDA and cash flow produced great results throughout 2010.

In the Home Robot division, shipments grew **17%** while revenue of **$69** million increased **27%** from a year ago. For the full year we shipped approximately **1.3** million home robots and generated revenue of **$229** million, increases of **28%** and **38%** respectively over 2009. International revenue increased nearly **50%** in the quarter to **$44** million and comprised **64%** of Home Robot revenue. Total domestic revenues were flat in Q4 and up slightly for the full year. Home Robot gross margin improvement of **600** basis points for the quarter was due to an increase in international as a percent of total revenue, and improved product costs and channel mix.

G&I's revenue of **$45** million was down slightly from a year ago due to the timing of product shipments. Gross margins in the division improved **500** basis points in Q4 over last year due to product mix.

G&I product revenue was **$34** million in the fourth quarter, compared with **$36** million last year. Product lifecycle revenue or PLR was **$12** million or **34%** of G&I product revenue, up from **$9** million in 2009. As Colin discussed, the contract we received in 2010 for the Aware®2 software upgrade on **1,500** robots enables future software upgrades of our growing robot base.

For the total company, gross margin was **40%** for the quarter and **36**% for the year, up **600** and **500** basis points respectively. The improvement, which puts us well within our 3-year gross margin target range of **35-37%,** was driven primarily by improved home robot mix and product costs.

Operating expenses increased as a percentage of revenue to **33%** in Q4 from **25%** last year, due to the higher spend in R&D and marketing we discussed on last quarter's call.

Our tax rate in Q4 was **9%**, primarily due to a year to date catch up of the investment tax credit recently approved by Congress. The low rate increased Q4 EPS by about **$0.08**. Our full year rate of **25%** was also favorably impacted by the Q3 state tax valuation reversal.

Q4 operating cash flow was **$14** million. For the full year, operating cash flow was **$49** million, or **12%** of revenue. Importantly, most of our full year OCF was due to net income, as opposed to working capital reductions.

Inventory was **$27** million at quarter end, down from **$32** million a year ago partly due to production capacity constraints in our Home Robot division. Accounts receivable continue to perform well, as evidenced by our DSO of **30** days compared with **33** days a year ago.

At the end of Q4, we had cash, including investments, totaling **$122** million compared with **$77** million a year ago.

Now I'd like to provide you with additional detail and some of the underlying assumptions for the 2011 financial expectations Colin discussed.

We expect full year revenue of **$450** to **$465** million, up **12%** to **16%,** comprised of Home Robot revenue of **$260** to **$270** million and G&I revenue of **$190** to **$200** million. We will be lapping a very strong first half of 2010 which grew **63%** over 2009. Therefore year over year 2011 growth will be stronger in the second half.

In Home Robots, growth will be driven by international sales, more than half of which will be to long time distributors, while domestic revenue will be relatively flat year over year.

We expect roughly half of G&I unit revenue to come from SUGV and slightly less than that from PackBot sales. Contract revenue is expected to be between **$30** and **$35** million and product lifecycle revenue is expected to total **25-30%** of product revenue. International sales, SUGVs and PLR will drive revenue growth in 2011. Timing is difficult to predict on a quarterly basis but we anticipate more than **60%** of G&I revenue to come in the second half of the year; a much different pattern than in 2010.

We once again anticipate positive EBITDA in each quarter this year. In Q2, EBITDA may decrease sequentially due to higher operating expenses as we increase spending in r&d and marketing. These investments will continue throughout the year resulting in opex of approximately **30%** of revenue for the full year.

However, we should see further improvement in full year gross margins, largely offsetting the opex increases.

A few additional data points. We are assuming:

- Stock comp expense of roughly **$10** million

- Depreciation and amortization expense of approximately **$8** million
- Tax rate of **37%**
- Diluted share count of **27** million shares and;
- Operating cash flow of roughly **$35-$40** million

Finally, in 2011 we expect another year of good progress towards our long term financial goals with reasonable top line growth and healthy growth in Adjusted EBITDA and operating cash flow.

I'll now turn the call back to Colin.

Colin

2010 was an incredible year for iRobot on all fronts.

In particular, during the year we:

- Delivered record full year financial results after increasing and exceeding our increased expectations every quarter during the year;
- Strengthened our senior leadership team and made organizational changes that positioned us well to continue carefully managing our growth long into the future;
- Expanded the international reach of our Home Robot division which grew **70%;**
- Began delivering our Aware®2 software to the military's installed base of PackBot robots which will allow us to provide additional functionality through periodic software block upgrades, thus widening our competitive moat; and,
- Delivered on our continuous commitment to invest in our technology and iRobot brand, giving us a sustainable competitive advantage that will allow us to continue to expand our share of our large and growing markets.

In 2011 we expect stronger revenue and earnings growth in the second half of the year due to the timing of G&I orders and year-over-year comparison with a record-breaking first half of 2010. We will continue to make ongoing investments in building for our future and maintaining our market-leading position while delivering:

- Revenue of **$450-$465** million
- EPS of **$0.90-$1.00** and
- Adjusted EBITDA of **$58-62** million

We continue to successfully navigate through the dynamic and challenging global marketplace in which we operate. We're making significant progress towards our 3 year financial targets while making ongoing investments in building for our future and maintaining our market-leading position.

iRobot is a market leader in robust, global markets with current annual sales of more than **$4** billion. The size of our markets will continue to grow and we are focused on expanding our share of these markets.
With that we'll take your questions.

Following Q&A

Colin

That concludes our fourth quarter and full year 2010 earnings call. We appreciate your support and look forward to talking with you again in April to discuss our Q1 results.

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