iRobot Third-Quarter 2009 Conference Call Script

October 21, 2009

Operator:

Good day everyone and welcome to the iRobot third-quarter 2009 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, operations and tax rate for fiscal 2009 and the fourth quarter ending January 2, 2010, our financial position at the end of fiscal 2009, demand for the company's products and services, the timing of the FCS Program, our plans for expansion and new product development, backlog for our Government and Industrial robots 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 Adjusted EBITDA, which we define as Earnings Before Interest, Taxes, Depreciation, Amortization, merger and acquisition expenses and non-cash stock compensation expense. A reconciliation between net income (loss) – the GAAP measure most directly comparable to Adjusted EBITDA - and Adjusted EBITDA is provided in the financial tables at the end of the Q3 2009 earnings press release issued last evening, which is available on our website www.irobot.com.
A live audio broadcast of this conference call is available on the Investor Relations page of our website and an archived version of the broadcast will be available on the same Web page shortly. In addition, a replay of this conference call will be available through October 29, 2009 and can be accessed by dialing 719-457-0820, access code 7344142.

On today's call, iRobot Chairman & CEO Colin Angle will provide a review of the company's operations and achievements for the third quarter of 2009 and year to date as well as our outlook for the business for the rest of the year; and John Leahy, Chief Financial Officer, will review our financial results for the third quarter of 2009. 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'm pleased to report that we delivered another solid quarter in a very challenging environment. Revenue of **$79** million was near the top end of our expectations for the third quarter. Earnings per share of **$0.10** and Adjusted EBITDA of **$8.4** million, significantly exceeded expectations for the third quarter. Based on our performance through the first nine months, we are reaffirming our full year revenue expectations and increasing our expectations for earnings per share and Adjusted EBITDA. For the full year, we expect revenue to be in the range of **$295-305** million, earnings per share between **$0.02** and **$0.06** and Adjusted EBITDA to be between **$15** and **$18** million.

Our quarterly and year to date results demonstrate the underlying strength of our business and reflect our success in managing costs and working capital in a difficult environment, and delivering on our commitment of improved profitability and operating cash flow.

At the end of the quarter, our cash position improved significantly to **$63** million from **$27** million a year ago. Inventory levels improved and now stand at **$25** million versus **$43** million last year reflecting better coordination of home robot sales and production planning and our laser focus on working capital management. A critical component of improving our financial position over the past year has been driving Adjusted EBITDA and operating cash flow. Year to date Adjusted EBITDA has increased **$9** million and we have generated **$25** million of operating cash flow.

Strong demand for our Roomba 500 robots in international markets continues to fuel home robot growth overseas. In the United States, stronger retailers are our best customers and we benefited from their accelerating orders into Q3. We started our peak holiday season with limited visibility and a great deal of uncertainty, however,we executed well in the third quarter by tightly managing inventory while meeting customer demands, and are well-positioned to deliver full-year expectations.

In our Government & Industrial division we have now captured **100%** of G&I's annual revenue that is contemplated by our full year revenue expectations, as a result of orders received for our PackBot robots from the US military during the quarter and are well on our way towards building backlog for 2010.

Now let's look at the results in detail:

In Home Robots, revenue totaled **$44** million for the quarter compared with **$54** million for the comparable quarter last year. Our international business, which increased **55%** year-over-year and is up **39%** year to date, continues to demonstrate the strength we anticipated coming into the year. This growth partially offset the year-over-year recession-driven decline in domestic retail and direct revenue.

Building on the success we've experienced in Europe and Asia, we are preparing for expansion into the South American market in 2010. We plan to enter that market through relationships with distributors consistent with our current international operating structure.

Domestic retail and direct sales for the quarter were down from the same period last year as anticipated in part due to comparison with a particularly strong Q3 in 2008. We are working closely with our customers to support a number of holiday programs. In addition, we will set up kiosks in Atlanta and Indianapolis for the upcoming holiday season based on the success we had with our pilot holiday kiosk last year. At this point it is still difficult to say whether the decline in consumer spending has hit bottom, but I am optimistic about our prospects for the holidays.

Now let's turn to Government and Industrial Robots.

In the G&I division, we generated **$34** million in Q3 revenue, compared with **$39** million a year ago. Approximately three-quarters of the **159** government robots shipped during the quarter were PackBot 510 EODs – the enhanced version of PackBot we began to deliver in the second quarter of this year. We received orders totaling more than **$55** million, during the quarter, including a **$35** million order for 486 PackBots with FasTac Kits, the single largest order we have ever received from the military, and an order for **90** SUGV 310s, also referred to as the mini-EOD. We did not issue a press release for the SUGV order at the customer's request. The delivery schedule for the robots will enable us to meet our 2009 G&I revenue expectations **AND** start the new year with product backlog between **$20** and **$25 million**. This compares favorably to the **$8** million in backlog at the beginning of 2009.

The timing and procurement structure for the FCS program is becoming more clear. First, the FCS program has not been officially renamed, but is referred to by the Army as Brigade Combat Team Modernization. The program has **2** increments. The first increment for three early Infantry Brigade Combat Teams will involve **124** SUGVs. (Small Unmanned Ground Vehicles). The second increment will field equipment for additional Brigade Combat Teams. We are currently working a Low Rate Initial Production proposal to support the first increment. We expect to be on contract for this effort in the first quarter of 2010.

In addition to supplying robots to the U.S. Government, we continue to make inroads in international markets. Through the third quarter, international revenue increased **54%** to **$9** million, or **10%** of G&I product revenue compared with **$6** million or **6%** last year. We added three new international customers this quarter including Iraq. The Iraqi order was the largest international order we've received for both PackBot FasTac and PackBot 510 EOD configurations. We see Iraq and Afghanistan as major growth opportunities going forward.

We will continue to invest in areas where we see opportunities to create high value products with high software and IP content that leverage our platforms in order to improve competitive positioning and drive increased product margins over time. In our G&I division, we are developing advanced capability robots for military missions requiring more autonomy, such as route clearance. Efforts in our maritime programs are focused on long duration underwater missions, such as those enabled by Seaglider. And we are pursuing development of new sophisticated home robots that will meet our customers needs in growth areas such as healthcare.

In summary, both of our businesses performed well in a difficult environment while we continued to invest and build upon our competitive advantages.

Over the past year we:

- Acquired Nekton to enter the unmanned underwater space;
- Delivered our first SUGV 310 (Mini EOD) and Seaglider units;
- Increased headcount by **7**%, primarily in government funded research and engineering since year end;
- Ramped up two new contract manufacturers; and,
- Filled several key management positions with seasoned financial and operations executives.

.

We are successfully executing against our plan for 2009 and are on track to meet our increased expectations.

I will now turn the call over to John to review our third quarter financial results.

John

Thanks Colin. And good morning everyone.

Our performance in the third quarter was near the top end of the range for expected revenue, while earnings per share and Adjusted EBITDA far exceeded our expectations. Revenue of **$79** million was down **15%** from a very strong third quarter last year when revenue grew **45%**, however growth in our international home robot business continued to be robust, up **55%** from a year ago

Earnings per share for the quarter was **$0.10** compared with **$0.15** per share in Q3 2008. Adjusted EBITDA for Q3 was **$8** million, down about **$1** million from a year ago, but on a year-to-date basis Adjusted EBITDA has improved **$9** million over 2008. Operating cash flow of nearly **$25** million year to date has driven our cash position to **$63** million, up **$36** million from Q3 last year.

Our focus on driving EBITDA and cash flow have produced strong year to date results.

In the Home Robot division, shipments of **289** thousand units generated **$44** million in revenue during Q3, compared to **355** thousand units and **$54** million in revenue a year ago. International revenue increased **55%** in the quarter year over year and comprised approximately **50%** of Home Robot revenue for the quarter. All five of our top international markets have delivered strong growth year to date.

In the G&I Division, total revenue was **$34** million in the quarter compared with **$39** million a year ago. This year over year decrease was expected given order timing. Revenue was driven primarily by fulfillment of orders for the PackBot 510s. Our backlog at the end of the quarter was **$71** million, up from **$18** million at the end of Q2 and nearly double the level at the end of Q3 2008. Backlog is sufficient to meet **100%** of G&I 2009 expectations and we will start the new year with product backlog between **$20** and **$25 million.** Contract revenue increased **84%** in the quarter due largely to funding under the FCS development contract.

G&I product revenue was **$25** million in the third quarter, compared with **$34** million last year. Product Lifecycle Revenue was **$5** million or **22%** of G&I product revenue, compared with **18%** of G&I product revenue in Q3 last year.

For the total company, gross margin for the third quarter was **30.8% -**- about even with last year.

Operating expenses improved **$2.9** million year-over-year in Q3. Expenses in the quarter totaled **25%** of revenue, unchanged from last year. The overall reduction in operating expenses was driven by tight spending controls across the company. On a year-to-date basis, operating expenses are **30.5%** of revenue, improving from **32.6%** in the comparable period in 2008.

Our tax rate for Q3 was **38.5%** versus **29.5%** in Q2. For Q4, we are forecasting a **35%** tax rate, and **29%** for the full year.

Operating cash flow was nearly **$13** million compared with a use of cash of **$500** thousand in Q3 last year. This significant improvement resulted from continued improvements in inventory levels at quarter end. Over the past 9 months we have generated operating cash flow of **$25** million as a result of our focus on managing working capital, and improved EBITDA.

Days sales outstanding were **54** days, compared with **52** at the end of the second quarter, and **48** at the end of Q3 last year. The increase in DSO was largely due to the timing of orders late in the quarter.

Inventory levels improved further to **$25** million, down from **$29** million at the end of the second quarter, and improved **$18** million from **$43** million a year ago. Inventories typically grow in the third quarter due to seasonality, so this is a significant accomplishment for our operations teams.

At the end of the third quarter, we had cash and investments totaling **$63** million compared with **$27** million a year ago.

To summarize, we met expectations in a difficult environment and continued to strengthen the company's financial position. We will continue to aggressively manage the key drivers of valuation -- EBITDA and operating cash flow - - while continuing to invest in our future.

I'll now turn the call back to Colin.

Colin

We had a very strong third quarter, and we are on track to meet our increased full year expectations.

I feel confident about our ability to deliver results that continue to move us towards our long term revenue growth, Adjusted EBITDA and Cash Flow goals, while investing in our future.

In summary:

- We ended the third quarter with nearly **$63** million in cash and generated year to date operating cash flow of **$25** million;
- Growth in our international home robot business is robust;
- We received our largest single order from the military and near term and long term outlooks for our G&I business are excellent; and,
- We are focused on delivering our commitment to improving profitability through leveraging our operating model and investing in higher value, higher margin robots.

Before we take your questions I'd like to provide you with our financial expectations for the fourth quarter.

We are expecting Q4 revenues to be in the range of **$98 to $108** million;

For Q4, we expect earnings per share of **$0.09** to **$0.13; and,**

We expect Adjusted EBITDA for Q4 to be between **$7** and **$10** million.

We are reaffirming our full year 2009 revenue expectations and increasing our expectations for earnings per share and EBITDA. For 2009, we anticipate revenue to be in the range of **$295-305** million, earnings per share of between **$0.02** and **$0.06** and Adjusted EBITDA to be between **$15** and **$18** million.

With that, we'll open the call to your questions.

Following Q&A

Colin

That concludes our third quarter earnings call. We appreciate your support and look forward to talking with you again in February when we will provide Q4 and full year 2009 results as well as our expectations for 2010.

Operator

That concludes the call. Participants may now disconnect.