iRobot Second-Quarter 2009 Conference Call Script

July 22, 2009

Operator:

Good day everyone and welcome to the iRobot second-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 and operations, demand for the company's products and services, 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.

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 and non-cash stock compensation expense. A reconciliation between net loss – the GAAP measure most directly comparable to Adjusted EBITDA - and Adjusted EBITDA loss is provided in the financial tables at the end of the Q2 2009 earnings press release issued last evening 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A live audio broadcast of this conference call is available on the Investor Relations page of our website and an archived version of the broadcast will be available on the same Web page shortly.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 July 30, 2009 and can be accessed by dialing (719) 457-0820, access code 2717744.

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 2009 and our outlook for the business for the rest of the year; and John Leahy, Chief Financial Officer, will review our financial results for the second 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 solid second quarter results in a very challenging environment. Revenue of **$61** million and a **10** cent loss per share were at the top end of our expectations for the quarter. Adjusted EBITDA of **$100** thousand, nearly a **$6** million improvement over last year, far exceeded expectations. More importantly, it was the first time since the company's IPO that we generated positive EBITDA in the second quarter of the year. For the first half of the year, we reported more than **$10** million in EBITDA improvement. Our continued focus on achieving operating excellence and our efforts to tightly manage expenses helped us deliver on our commitment of improved profitability.

The most profound change at the company over the course of the last year has been our focus on driving EBITDA and operating cash flow. Over the past year we have generated operating cash flow of almost **$31** million and improved our cash position by nearly **$21** million. At the end of the quarter, our cash position was **$51** million compared with **$30** million a year ago.

We achieved these improvements while continuing to make investments to preserve our market leadership position. In particular, is our commitment to the ongoing development of Aware®, our robot intelligence software, which provides a competitive advantage and is an important part of our strategy.

Based on our performance through the first half, we are narrowing the range of our full year revenue expectations and reaffirming our expectations for earnings per share and Adjusted EBITDA. For 2009, we expect revenue to be in the range of **$295-305** million, earnings per share between breakeven and **$0.04** and Adjusted EBITDA to be between **$14** and **$17** million.

Despite favorable first half results, continuing uncertainty about second half retail demand and the potential impact on defense spending caused by the federal Government's actions to fund the U.S. economic recovery makes us cautious. Particularly in the third quarter, we anticipate the domestic retail channel to order slowly until retailers can gauge the level of consumer holiday spending. We also expect revenue in the G&I business, which tends to be lumpy due to the nature of the Government's contracting and ordering process, to be lower in Q3 and higher in Q4 than 2008.

Now let's look at the results in detail:

In home robots, revenue totaled **$34** million for the quarter compared with **$42** million last year. Our international business continues to be the bright light against a dreary domestic consumer backdrop. We generated nearly **$20** million of international revenue, an increase of **9%** from Q2 last year, which partially offset the year-over-year quarterly decline in domestic retail and direct revenue.

Our international business continues to demonstrate the strength we anticipated going into the year. Many of our existing customers, in key Tier 1 countries, are expanding with new retail partners because of the success they've had with the Roomba 500. We are beginning to see the impact of the expanding global recession, particularly in the UK, but demand elsewhere at this point seems to be outpacing the negative recessionary impact.

In the U.S., we are seeing the greatest demand from secondary retailers such as Amazon and HSN. Total domestic retail and direct sales were down year-over-year. At this point it is difficult to say whether the decline in consumer spending has hit bottom. Most U.S. retailers are still taking a cautious approach to 2009 holiday inventory planning, but we continue to expect growth in international to partially offset recession-driven weakness in our domestic retail and direct channels.

I'd like to take a minute to highlight the substantial improvements we have made to our home robot operations. An historic risk factor in our ability to operate efficiently and predict results, supply chain effectiveness is becoming a real strength. Specifically we have:

- Reduced inventory through improved sales and production forecasting;
- Implementated an Oracle MRP system to better manage supply chain;
- Developed dual sourcing for batteries and other key components;
- Eliminated SKUs, and;
- Consolidated third party logistics providers to optimize warehouse and distribution processes.

All of these initiatives have contributed to creating improved operating efficiency and as a result we are meeting the supply demands of our customers while maintaining much lower inventory levels.

Now let's turn to Government and Industrial Robots.

In the Government & Industrial division, we generated **$27** million in Q2 revenue, compared with **$25** million a year ago. More than half of the **151** government robots shipped during the quarter were PackBot FasTacs, as we'd anticipated. In addition, we delivered the first PackBot 510 EODs - enhanced versions of PackBot that are faster, stronger and easier to use. We also delivered the first **10** small unmanned ground vehicles, SUGV 310's, under the mini-EOD contract. We expect to receive and fulfill additional orders for all **3** robot classes in the second half of the year.

On June 23, the Defense Department issued a decision memorandum confirming the recommendations made earlier this year by Defense Secretary Robert Gates to replace the Future Combat Systems (FCS) program with a number of smaller modernization efforts. One of the new modernization programs includes plans to quickly spin out the FCS capabilities, that have already been developed, to seven infantry brigades. Limited user testing will be conducted this summer on various individual systems including our small unmanned ground vehicle. A Milestone C decision to move the systems into production is expected by the end of 2009.

The budget details surrounding the Army's procurement of SUGVs have still not been finalized. Further complicating the equation is the overall economic situation and the Government's competing funding priorities. However, while timing is uncertain, we still expect SUGVs to be procured for all combat brigades over time, beginning in the Government's fiscal year 2010, as we discussed last quarter. We have not included any revenue from the sale of SUGVs under the Army's revised programs in our calendar 2009 expectations.

In addition to supplying robots to the U.S. Government, we are gaining traction in international markets. In the second quarter, international revenue increased to **$2** million, or **6%** of G&I product revenue compared with **$400** thousand or **2%** last year. We recently received a new order from the German Federal Defense Forces for **12** robots. They first ordered **18** PackBot EOD robots in 2006 after conducting a competitive market search and an intensive year and a half long test. After receiving the first delivery, the soldiers went through extensive user training, and were impressed by PackBot's lightweight design, ease of use, speed, dexterity and maneuverability. The successful training was one of the primary reasons for their executing a follow-on order for **22** robots in 2007 and the recent order follows several years' worth of positive experience with our robots.

Likewise, we recently received a new order from the UK Metropolitan Police for **7** robots, following the UK's successful experience with PackBots purchased in 2006.

Our success with the GFDF and the UK, gives us increased confidence that our international strategy is on track.

On the research front, we were selected by the Robotics Technology Consortium to work on **3** projects designed to enhance the capabilities of currently deployed and future unmanned ground vehicles. Funding for the **3** awards totals **$1.5** million and includes work on a controller that will provide warfighters with a “sense of touch” when operating an Unmanned Ground Vehicle, development of an enhanced robot sniper detection capability, and the development of a robot head with enhanced autonomy support for sensing and processing.

These examples of our continuing commitment to research & development efforts are important to growing our reputation as a leading innovator in the robotics space. Working with government, academic and industrial partners, we are developing fundamental technologies and capabilities, applicable across our robot family, which will provide innovative robotic solutions to the warfighter. Externally funded programs augment our ir&d efforts while positioning us well to understand our customers’ evolving needs and to be selected for production programs.

In summary, we successfully executed against our plan in the first half and, despite the fact that the rest of 2009 will be challenging due to macro forces, we are on track to meet the expectations we provided at the beginning of the year. We will continue to tightly manage the business to drive Adjusted EBITDA and operating cash flow while investing in our future.

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

John

Thanks Colin. And good morning everyone.

Our financial results for the second quarter were at the top end of the range for revenue and earnings per share and far exceeded our Adjusted EBITDA expectations. While revenue declined **9%** from the second quarter of last year as anticipated to **$61** million, growth in our international home robot business continued to be strong; up **9%** from a year ago.

Loss per share for the quarter was **($0.10)** compared with a loss of (**$0.18)** per share in 2008.

Adjusted EBITDA for Q2 was **$100** thousand compared with an Adjusted EBITDA loss of (**$5.8)** million a year ago. For the first half of 2009 Adjusted EBITDA loss improved **$10** million from the first half of 2008.

Our focus on driving EBITDA and our commitment to growing profitability have produced solid first half results.

In the home robot division, shipments of **192** thousand units generated **$34** million in revenue, compared to **237** thousand units and **$42** million in revenue a year ago. International revenue increased **9%** in the quarter year over year and comprised more than **50%** of home robot revenue. Domestic revenue, including direct, continues to be soft.

In the G&I Division, total revenue increased **7%** to **$27** million in the quarter. Revenue was driven by fulfillment of orders for the PackBot FasTac, 510s and SUGVs. Contract revenue increased **34%** in the quarter due largely to funding for maritime research and a number of PackBot sensor programs.

G&I product revenue was **$19** million in the second quarter, relatively flat versus last year. Product Lifecycle Revenue was **$5** million or **25%** of G&I product revenue, compared with **11%** of product revenue in Q2 last year.

For the total company, gross margin for the second quarter was **26.8%** – up from **24.5%** last year. This gross margin increase was largely driven by improved cost of goods and mix in home robots.

Operating expenses improved **$5.3** million year-over-year in Q2. Expenses totaled **33%** of revenue, down from **38%** last year. The overall reduction in opex was largely driven by a reduction in selling & marketing.

Our tax rate for Q2 was **29.5%** versus **52.6%** in Q1. The rate was positively impacted by a change in the deductibility of 2009 incentive plan expenses. Second quarter loss per share was negatively impacted by **$0.03** by the lower rate. For Q3 and Q4 we are forecasting a **36%** tax rate.

Operating cash flow was a use of funds of approximately **$2.5** million compared with breakeven in Q2 last year. G&I shipments late in the quarter resulted in higher accounts receivable at quarter end. This was offset in part by continued improvements in inventory levels and higher accounts payable. Over the past year we have generated operating cash flow of nearly **$31** million as a result of our focus on working capital.

Days sales outstanding were **52** days, up from **42** at the end of the first quarter, and **36** last year primarily due to the late quarter G&I sales.

Inventory improved further to **$29** million, down from **$31** million at the end of the first quarter and down almost **$15** million from **$43** million a year ago.

At the end of the second quarter we had cash and investments totaling **$51** million compared with **$41** million at the end of December. Over the past year we have improved our cash position by **$21** million. We expect our cash balance to decline in the third quarter, as we build inventory for the holiday season, before growing again in Q4. We expect to generate **$11-$14** million in operating cash flow for the year, and finish the year with **$45** to **$48** million in cash.

To summarize, we met expectations in a difficult environment and continued to strengthen the company's financial position. The remainder of the year promises to be challenging, but we will continue to aggressively manage the key drivers of valuation - - EBITDA, working capital, 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 good second quarter, and despite the uncertainty impacting our expectations for both businesses in the second half of the year we are on track to meet expectations.

In summary:

- We ended the second quarter with nearly **$51** million in cash, reported a $**6** million improvement in Adjusted EBITDA year over year and a **$10** million first half improvement over last year;
- Growth in our international home robot business has partially offset the recession-driven decline in domestic sales;
- The medium and long term outlook for our G&I business is excellent despite near term uncertainty about funding flow and order timing; and,
- We will continue to manage the business aggressively to deliver strong operating performance while investing in technology and new product development.

Before we take your questions I'd like to provide you with our financial expectations for the third quarter. Predicting the exact timing of holiday orders in our home robot business between third and fourth quarter is extremely difficult. We expect domestic retailers to be cautious about ordering early this year and to wait as long as possible. In addition, the lumpiness in our G&I business will negatively impact the quarter. Therefore, we anticipate Q3 revenue and profit to be significantly lower than 2008 and Q4 to show an improvement over 2008.

We are expecting Q3 revenues to be in the range of **$75 to $80** million;

For Q3, we expect earnings per share of **$0.00** to **$0.03; and,**

We expect Adjusted EBITDA for Q3 to be between **$3** and **$5** million.

We are narrowing the range of our full year revenue expectation and reaffirming our expectations for earnings per share and Adjusted EBITDA. For 2009, we anticipate revenue to be in the range of **$295-305** million, earnings per share of between breakeven and **$0.04** and Adjusted EBITDA to be between **$14** and **$17** million.

With that, we'll open the call to 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 following our third quarter

Operator

That concludes the call. Participants may now disconnect.