

iRobot First-Quarter 2012 Conference Call Script**April 24, 2012****Operator:**

Good day everyone and welcome to the iRobot first-quarter 2012 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 full year 2012 and the second quarter ending June 30, 2012, our expected quarterly and second-half financial performance, the mix of total revenue and product revenue, seasonality, the timing of orders and order fulfillment, our expectations regarding revenue growth, Adjusted EBITDA margin, operating cash flow, operating expenses and gross margins, our plans to expand into new markets and the distribution of our robots, international demand and growth, demand for our home robots, international home robot revenue, our introduction and delivery of new products and new product capabilities and functionality, demand for and adoption of our Defense & Security robots and related parts and services, including the timing of government contracts and orders for our PackBot, SUGV and FirstLook robots, our marketing initiatives and the associated impact, new market opportunities, the availability and impact of our 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 -- are provided in the financial tables at the end of the first quarter 2012 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 May 2, 2012 and can be accessed by dialing 630-652-3042, access code 32231617#.

On today's call, iRobot Chairman & CEO Colin Angle will provide a review of the company's operations and achievements for the first quarter of 2012 as well as our business outlook for the rest of 2012; and John Leahy, Chief Financial Officer, will review our financial results for the first quarter and provide our financial expectations for the full year 2012 and the second quarter ending June 30, 2012. 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.

We kicked off 2012 with a better than anticipated quarter. The results and outlook for our Home Robot business are excellent while the near-term visibility in our Defense & Security business continues to be limited.

Total Q1 revenue of **\$98** million was at the high end of our expectations for the quarter while Adjusted EBITDA of **\$6** million and EPS of **\$0.02** for the quarter, both exceeded our expectations.

Strong growth in both our international and U.S. markets fueled a **20%** year over year increase in Home Robot revenue. We are successfully expanding our distribution of new products and increasing our penetration in existing markets while establishing a presence in new markets. Our steadily increasing Home Robot global reach is enabling us to weather continuing U.S. budget issues impacting our Defense & Security business.

Based on our view of the rest of the year, we are reaffirming our financial expectations shared this past February, to deliver full year 2012 revenue of **\$465 to \$485** million, EPS between **\$0.75 and \$0.95** and Adjusted EBITDA of **\$56-\$63** million. Our outlook by business unit has changed, and due to the significant growth in Home Robots we now expect that business to comprise approximately **75%** of total company revenue for the year.

In the second quarter, we expect expanded product distribution and international demand to drive significant revenue growth in Home Robots. We expect to receive U.S. government contracts for the purchase of FirstLook and SUGV robots that will generate higher second half revenue in our Defense & Security business, as we discussed earlier this year.

For the second quarter we anticipate revenue of **\$102-\$112** million, EPS between **\$0.05** and **\$0.13** and Adjusted EBITDA of **\$7-\$10** million.

Now, I'd like to take you through some of the details of the first quarter and our expectations for the rest of 2012.

In Home Robots, very strong demand overseas, particularly in Japan, continued to fuel revenue growth. In the first quarter, international Home Robot revenue increased **20%** year-over-year, and we expect overseas demand to contribute significantly to revenue for the remainder of 2012.

I have said in the past that one in four vacuum cleaners sold in Spain is a robot. Based on current data, that statistic is even more striking. Quarterly data through February showed that one in three vacuum cleaners sold in Spain was a robot. Beyond Spain, we see the same fast developing adoption in such diverse markets as Italy, Taiwan, Denmark, Israel and Russia. The robotic vacuum cleaner category is going mainstream and growing far faster than the overall vacuum cleaner market. The good news is that not only is the rate of adoption accelerating but our Roomba remains the market leader.

Last year, we began selling into Latin America and that region is on track to grow considerably this year off of a small base. We have also begun selling limited product in China and expect material revenue contribution from that market in 2013.

In our domestic business, Q1 results grew an impressive **21%** over the same quarter last year largely due to increased sales to retail stores. Our U.S. retailers are reporting stronger sell through, and we expect strong double digit full year growth over 2011.

During the quarter we expanded our distribution of Roomba 700 into retailers domestically and further throughout western European markets. We also introduced Scooba 230 into select European markets. Both products have been very well received

in all regions and together comprised approximately **40%** of revenue in the first quarter. Expanding our distribution of both products throughout the rest of 2012 will continue to drive increased revenue.

In mid-April we launched one of the largest domestic marketing campaign in iRobot history. This campaign will help build off of the strong Q1 performance. The multifaceted media blitz, based on the concept “iRobot, Do You?”, includes an extensive integrated presence on television, online and print publications. We are reaching out to our target customer, the modern professional, to a greater extent than ever before. Two thousand television spots, reaching more than 1.5 billion people will run on channels such as HGTV, DIY Network, Food Network and Travel Channel. In addition, more than 200 million online banner impressions will run on sites including Wired, Epicurious and The New Yorker and print ads will appear in a number of targeted magazines.

We initiated the campaign in Q2 to capture the markets for spring cleaning, Mother’s Day and the wedding season and will run it again in the fourth quarter around the holidays. The objective is to increase awareness of iRobot and position our home robots as mainstream solutions to practical problems. 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 2011 and expect this program to drive even greater awareness in the U.S. market in 2012.

In Q2, we anticipate higher year over year revenue in the U.S. supported by our new campaign, as well as significant growth in our international markets driven by sales of the Roomba 700 and Scooba 230. These positive developments have allowed us to increase our full-year revenue expectation for Home Robots.

Turning now to our Defense & Security business, the Q1 results are consistent with our expectation that **70%** of the unit’s revenue will be generated in the second half of the year. We are well positioned with a broad product base, and increased functionality

enabled through technology to meet the evolving needs of global military and security forces.

The President requested **\$84** million to purchase more than **300** SUGVs in his proposed 2013 budget compared with his **\$25** million request in the 2012 budget. While multiple approvals are required for its passage, this demonstrates the recognized value of and support for our tactical ground robots by the military leadership in Washington. Given leaner military budgets, there is an intense focus on doing more with less. Unmanned ground vehicles enable efficient achievement of mission objectives with fewer troops.

We recently reported orders for more than **100** FirstLook robots and a Warrior robot, both new products introduced last year. The FirstLook, weighing in at **5** pounds, is our smallest robot. The robots are undergoing operational assessment in theater and we have received very positive feedback from the field about its capabilities. We are excited about the advantages this game-changing robot will provide to our troops and expect additional orders for FirstLook in the second half of the year.

Exploring adjacent market opportunities for our Defense & Security robots has been an ongoing initiative at the company. Earlier this month we announced the first significant order for a commercial-use ground robot. Progress Energy purchased a Warrior, our largest robot at **350** pounds, and several PackBot robots for use at the Robinson Nuclear Plant near Hartsville, SC. Following our success moving debris and transmitting information regarding radiation levels at Japan's Fukushima Daiichi nuclear plant last year, we had numerous inquiries about using our robots at other nuclear facilities. Robots mitigate risk by keeping personnel out of radioactive environments and serve as a cost-effective way to perform operations. We are very excited about the potential in this market and continue to look at other industrial applications for our military robot systems.

We continue to experience funding delays that will impact Q2 revenue and we have reflected that impact in our expectations. We expect orders and funding to start flowing, but full-year results will be lower than we anticipated last quarter.

We continue to believe that the prospects for our Defense & Security robots are significant. As the life-saving and operating efficiency attributes of our products and technology have been acknowledged by the soldiers and military leadership, expanded use of the robots has driven increasing demand. The wars in Iraq and Afghanistan clearly accelerated adoption of robots to a point where unmanned systems have become part of the military doctrine and our products part of the future army's standard equipment. As we said on our last earnings call, limited visibility in our Defense & Security business presents near term challenges but we are working our way through them and expect to exit 2012 in a good position.

In addition to our established businesses, I am excited about the progress we are making and the opportunities that we see for Ava, our human interface robot. Ava is a breakthrough mobile robotics platform developed to help robot designers, application developers and market innovation specialists expedite the pursuit of practical, affordable mobile robotic solutions. New market opportunities exist for Ava in multiple industries including healthcare, retail and security.

Finally, at the end of February we announced a management and structural realignment of the company for our next stage of evolution.

Three business units were formed focused on Home robots, Defense & Security robots and emerging technologies. These business units report to Jeff Beck, formerly president of home robots, as chief operating officer. Our Government & Industrial division has been renamed, Defense & Security, to reflect our focus on those markets. The three business units will advance iRobot's long-term growth strategy as a

technology leader in remote presence and automated home maintenance solutions. The use of iRobot platforms and technologies outside of the home and military markets has grown significantly and the new structure allows us to build market-facing business units around new opportunities and energize rapid product development. Jeff has made significant and meaningful contributions to iRobot, driving profitable growth strategies across the business, expanding new product distribution domestically and internationally, and improving business processes.

Joe Dyer, formerly chief operating officer, has been named chief strategy officer and he will lead strategic business development, mergers and acquisitions, research and advanced technology development.

In summary, first quarter results exceeded expectations and we are on track to meet our expectations for the rest of the year.

I will now turn the call over to John to review our first quarter results and Q2 expectations in more detail.

John

Thanks Colin.

Revenue in the first quarter was **\$98** million compared with last year's record **\$106** million revenue. Earnings per share and Adjusted EBITDA both exceeded expectations.

Earnings per share for the quarter were **\$0.02** compared with **\$0.27**, and Adjusted EBITDA for Q1 was **\$6.1** million, compared with **\$15.2** million last year.

Home Robot shipments grew **12%** while revenue of **\$82** million increased **20%** from a year ago. International revenue increased **20%** in the quarter to **\$60** million and comprised approximately **75%** of Home Robot revenue. Total domestic revenues were up **21%** in Q1, one of our best performances in several years, and we expect this double digit growth to continue throughout 2012. Importantly, sell through at our top **5** domestic retailers was up **15%** year over year reflecting improved consumer sentiment and the impact of our marketing programs and new product introductions.

Defense & Security revenue of **\$16** million decreased from a year ago due to both lower contract and product revenue. Gross margins in the division decreased significantly as a result of lower fixed cost absorption.

Defense & Security product revenue was **\$10** million in the first quarter, compared with **\$29** million last year. Product lifecycle revenue was **\$5** million, or **48%** of product revenue.

For the total company, gross margin was **35%** for the quarter, compared with **41%** last year due to the negative impact of the Defense & Security business. Home Robot gross margins continued to be strong at **45%**. We expect gross margin to improve throughout the year resulting in full year 2012 gross margins of **40-41%**.

Operating expenses were limited to a **3%** increase over last year. As a percentage of revenue opex was **34%** in Q1 compared with **30%** last year, primarily due to lower revenue. For the full year, we continue to expect operating expenses to be approximately **31%** of revenue.

At the end of Q1, we had cash, including investments, totaling **\$182** million compared with **\$124** million last year and operating cash flow was **\$4** million.

In Q2, we expect revenue of **\$102-\$112** million, a slight increase over last year, driven by very strong growth in Home Robots. We expect EPS in the range of **\$0.05** to **\$0.13** and Adjusted EBITDA of **\$7-\$10** million. Our full year revenue expectations of **\$465 - \$485** million remain unchanged, however we now expect Home Robot revenue to grow approximately **25%** to **\$345 - \$355** million and comprise **75%** of total company revenue. We anticipate Defense & Security revenue in the range of **\$120** to **\$130** million for the full year, with about **70%** coming in the second half.

Strong domestic sales growth, the expanded distribution of new products, and further penetration into long term international markets will drive the Home Robot business. Orders for FirstLook and SUGV robots from the US military, sales to foreign countries and block software upgrades of Defense & Security robots in theater will support that business in the second half.

I'll now turn the call back to Colin.

Colin

Our results in the first quarter exceeded our expectations due to strong performance by our Home Robot business.

As we look at the rest of the year, we will diligently balance our investment in technology and the iRobot brand, with our commitment to deliver profitable growth. This year we are further deepening our presence in existing markets and expanding in new geographic markets enabled by our investments. Beyond this year, we see tremendous

growth opportunities for our Home robots. While the current military climate is disappointing, the longer term drivers remain intact for our Defense & Security business, and we are well-positioned for those markets.

With that we'll take your questions.

Following Q&A

Colin

That concludes our first quarter earnings call. We appreciate your support and look forward to talking with you again in July to discuss our Q2 results.

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