

FINAL TRANSCRIPT

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IRBT - Q4 2008 iRobot Corp. Earnings Conference Call

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PRESENTATION

Operator

Good day, everyone, and welcome to the iRobot fourth-quarter 2008 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 Caffrey - iRobot Corp. - IR Director

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 provision of the Private Securities Litigation Reform Act of 1995. This conference call may contain expressed 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 and 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 statement. 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 discuss 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. The most directly comparable GAAP financial measures and a reconciliation of the differences between the GAAP financial measures and the non-GAAP financial measures are posted on the Investor Relations page of our Web site at www.iRobot.com.

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Please note that a live audio broadcast of this conference call is also available on the Investor Relations page. And 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 February 19, 2009 and can be accessed by dialing 719-457-0820 access code 4192943.

On today's call, iRobot Chairman and CEO, Colin Angle, will provide a review of the Company's operations and achievements for the fourth quarter and full year 2008 and our expectations for 2009. John Leahy, Chief Financial Officer will review our financial results for the fourth quarter and full year 2008. Then we will open the call for questions.

At this point, I will turn the call over to Colin Angle.

Colin Angle - *iRobot Corp. - CEO*

Hello and thank you for joining us.

Last evening, we reported 2008 revenue of \$308 million, up 24% over 2007. While our fourth-quarter results fell short of expectations, we reacted quickly to deteriorating indicators and made tough decisions early in the quarter to strengthen our financial position. In short, we effected a reduction in force, imposed a freeze on discretionary capital expenditures, and reduced inventory levels. As a result of these actions, the Company is financially strong and poised for profitable growth when the economy recovers.

In the light of the current market, we intensified our focus on improving our liquidity through aggressive working capital management. Our efforts are producing tangible results. In the fourth quarter, we reversed a trend which began more than a year ago by generating significant positive operating cash flow of more than \$19 million. We began 2009 with a strong cash position of \$41 million and a more efficient operating model.

In 2008, we worked to become a more global Company. Our results for the year demonstrated solid progress against that goal. iRobot's international revenue more than doubled in 2008 compared with 2007. For the year, it comprised almost a quarter of total revenue compared with just 13% in 2007.

Our successful expansion into overseas markets suggests worldwide demand for our products and provides important diversification to help offset the impact of the U.S. recession. In 2009, we expect increased demand from our international Home Robots customers to partially offset the recession-driven decline we are experiencing in domestic retail sales.

I would like to spend a few minutes reviewing the highlights of 2008 and then provide you with our expectations for 2009 as well as lay out the assumptions that underlie our plan. In 2008, we sold a record number of robots in both divisions. We delivered these results despite a US economy that deteriorated throughout the year.

In the Government and Industrial division, we shipped 951 robots during the year, more than double the number of units delivered in 2007, bringing total iRobot sold today to more than 2200. This larger installed base continues to help grow our recurring revenue from the sale of additional spare parts, service and support.

G&I revenue for the year increased 28% over 2007 and was driven by the sale of PackBot FasTac robots under our \$286 million xBot contract. As we have discussed for the past year, we expect the military to transition from FasTacs to small unmanned ground vehicles, or SUGV's at some point in 2009. We expect revenue in the first half to continue coming from orders of FasTacs, such as the \$13 million in orders we have received in the past few weeks. Revenue in the second half will be fueled by new products, including the SUGV, Warrior, Negotiator and unmanned underwater robots such as Ranger and Seaglider, also product lifecycle revenue and international sales.

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We ended the year with \$8.4 million in backlog compared with \$26.1 million at the end of 2007. However, we have good visibility into the first half of 2009 based on orders received recently and several we are expecting to receive in the next couple of months. Beyond that, we have a solid plan to meet our 2009 goals through sales of new products, increased product lifecycle revenue and international sales.

Revenue in the Home Robots division increased 20% for the year compared with 2007. This growth was primarily driven by the sale of Roomba 500 overseas. We shipped more than 1 million robots during the year, up 17% from a year ago despite a difficult U.S. US economy.

Total gross margin for the year did not meet our expectations, primarily due to lower divisional gross margin throughout the year. Home Robots was impacted by retail customer bankruptcies in the first and fourth quarter, adjustments to return reserves, promotional incentives used to drive sales in a weakening environment and channel mix. G&I gross margins were impacted by change in product mix.

To offset lower gross margins, we took aggressive action and reduced our operating expenses by more than 4 percentage points to 30.3% of revenue in 2008, reaffirming our commitment to improving profitability. Pretax income of \$1.1 million was more than double the \$500,000 we reported in 2007. Our annual adjusted EBITDA margin increased to 4.3% from 3.0% in 2007.

Now, turning to 2009, this year will be challenging due to the current state of the economy and uncertainties around the timing of actions from a new administration in Washington. The key factors impacting potential upside or downside to our 2009 plan are the depths of the recession and the transition by the military from FasTac to SUGV.

We built a plan that assumes no overall growth primarily due to the consumer sentiment, which is at historic low levels. We expect the US demand for Home Robots to decline year-over-year due to the recession but expect it to improve with the economy.

We anticipate this recession-driven decrease to be offset in part by growth in international Home Robots sales. We also expect growth in our G&I division. Assuming an uninterrupted transition to SUGV, our timing of orders could cause our quarterly results to be lumpy.

Our revenue continues to be highly seasonal with a majority of Home Robots revenue generated in the month leading up to the year-end holiday season. As in prior years, we expect approximately 60% of our annual revenue will be generated in the second half of the year. We also expect to report a net loss in each of the first two quarters consistent with previous years before posting profitable quarters in the back half and a profitable full year.

More than half of our expected incremental growth in international Home Robots revenue will be driven by the sales to existing partners. Many of them continue to expand to new stores because of the success they have had with the Roomba 500.

Despite the economic environment, our international partners continue to report strong consumer demand and have sponsored additional amortizing and promotions to support our products. We are also expanding our reach through eCommerce by adding direct capabilities to more international markets. While the recession is broadening to impact countries worldwide, growth in our international business is being measured off of a small base and demand at this point seems to be outpacing the negative recessionary impact.

In 2009, we anticipate orders for PackBot FasTacs will generate first-half revenue. More than half of the G&I revenues for the year will be generated in the third and fourth quarters from the sale of new products, international revenues and product lifecycle revenue to support a larger installed base of robots. As in 2008, our G&I division will incur disproportionately high IR&D expenses in the first half of the year, particularly the second quarter, as we finalize product development in order to fulfill expected orders in the second half of the year.

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I will now turn the call over to John to review our 2008 financial results.

John Leahy - *iRobot Corp. - CFO*

Thanks, Colin. Good morning, everyone.

Fourth-quarter revenue of \$91 million was 8% below a very strong fourth quarter a year ago due to lower domestic sales of Home Robots. Annual revenue increased 24% to \$308 million driven by growth of more than 20% in both divisions. Revenue from our acquisition of Nekton in September accounted for approximately \$1.1 million in the quarter and \$1.7 million for the full year.

For the fourth quarter, pretax profit was \$10.2 million compared with \$12.1 million last year. Full-year pretax profit was \$1.1 million compared with \$0.5 million a year ago.

EPS for the quarter was 20 \$0.21 compared with \$0.81 in 2007. Full year EPS was \$0.03 compared with \$0.36 per share last year.

The 2007 results include an \$8.6 million tax benefit due to the release of a federal deferred tax allowance. That benefit accounted for roughly \$0.34 of EPS in Q4 2007 while we had a \$4.8 million tax expense or about \$0.19 of EPS in Q4 2008.

Our full-year tax rate was 32.8%. The lower-than-expected rate was largely due to R&D credits received in the fourth quarter. For 2009, you should assume an annual tax rate of 48%.

Adjusted EBITDA for the fourth quarter was \$13.7 million compared with \$14.2 million a year ago. For the full year, adjusted EBITDA was \$13.2 million or 4.3% of revenue, compared to \$7.4 million or 3% of revenue last year. For 2009, we expect stock compensation expense to be in the range of \$8 million to \$9 million.

Looking now at Home Robots, unit shipments of 293,000 in Q4 generated \$48 million in revenue, compared to 441,000 units and \$74 million in revenue a year ago. We did expect revenue for the division to be lower in 2008 the last year as the Roomba 500 launch caused Q4 2007 results to be unusually high. For the full year, we shipped more than 1 million Home Robots, up 17% while revenue of \$174 million for the year grew 20%. International revenue doubled in the quarter and was more than three times higher for the full year than in 2007.

In the G&I division, total revenue grew 69% to \$43 million in the quarter and 28% to \$134 million for the full year. This increase was driven by fulfillment of several large orders for the PackBot FasTac.

Contract revenue increased 48% in the quarter due to SUDV funding, a full quarter of revenue from Nekton and funding for Warrior development.

G&I product revenue was \$35 million in the fourth quarter compared to \$20 million a year ago and grew 30% to \$108 million for the year. Product lifecycle revenue was \$9 million, or 25% of G&I product revenue, compared with 18% of product revenue in Q3.

For the total Company, gross margin for the fourth quarter was 36.1%, down slightly from 36.6% last year. Home Robots gross margin decreased 2.8 percentage points while G&I gross margin increased 1.4 percentage points. For the full year, total Company gross margin was down 2.8 points to 30.4%, reflecting a 3.6 point decrease in Home Robots and a 1.8 point decline in G&I margins.

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In Q4, Home Robots gross margin was negatively impacted by reserves for excess inventory and promotions we supported with select retailers to drive sales. Improvement in G&I margin was primarily the result of the obstruction of overhead due to higher revenues.

Operating expenses declined \$2 million year-over-year in Q4. For the full year, OpEx totaled 30.3% of revenue in 2008, down from 34.2% last year. The overall reduction in operating expenses demonstrates our ability to respond quickly in the face of changing economic conditions.

We generated \$19 million of positive operating cash flow for the quarter and \$19 million for the full year, compared with negative operating cash flow of \$2 million in Q4 last year and negative \$16 million dollars for full year 2007. The significant improvement this year is a result of our focus on inventory management and strong receivables collection.

At the end of the fourth quarter, we had cash and investments totaling \$41 million compared with \$27 million at the end of September. Days sales outstanding were 38 days, down from 48 at the end of the third quarter and improved from 46 last year.

At the end of the quarter, inventory was \$35 million, down from \$43 million at the end of the third quarter, despite a weakening economy and the related declining sales. As I discussed last quarter, this continued improvement was driven by a two-pronged approach of better managing production builds and a concerted effort to push slower-moving SKUs through our sales channels.

To summarize, in 2008, we managed well in a tough environment and put the Company in a stronger financial position than a year ago. As we face an equally challenging situation in 2009, we will continue to aggressively manage the key drivers of valuation, our EBITDA margins, working capital and cash flow.

Now I would like to turn the call back to Colin.

Colin Angle - *iRobot Corp.* - CEO

Thanks.

I would like to provide you with the details of our 2009 guidance. For the full year 2009, we are expecting revenues to be in the range of \$290 million to \$310 million with Home Robots revenue of \$158 million to \$168 million and G&I revenue of \$132 million to \$142 million.

Included in the 2009 revenue is approximately \$6 million to \$8 million from the acquisition of Nekton for the full year. This compares with about \$2 million for the last four months in 2008 following the acquisition.

In the first quarter, we anticipate revenue in the range of \$50 million to \$55 million. We expect revenue in Q2 to increase slightly over Q1 and begin to ramp in Q3 as retail holiday orders are placed.

For the year, we anticipate earnings per share to be between breakeven and \$0.04. For Q1, we expect a loss per share between \$0.18 and \$0.12.

We expect adjusted EBITDA to be between \$14 million and \$17 million for the full year -- that is an increase of \$1 million to \$4 million over 2008 -- and an adjusted EBITDA loss for Q1 to be between a loss of \$6 million and \$4 million. We expect to report an adjusted EBITDA loss in each of the first two quarters.

Before taking your questions, I would like to wrap up with a few comments about how we're thinking about the next couple of years. 2008 demonstrates to us that there is a strong demand for our robots. Given the uncertainty about the timing of an

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economic recovery, we are not expecting 2009 to be a growth year for us but instead we will continue our focus on operating efficiency and building for the future.

Beyond 2009, our model is one of balanced top and bottom-line growth. We expect to return to a state of double-digit revenue growth once the economy improves, the administration's transition is complete and we have our major G&I transition behind us.

In Home Robots, there is tremendous opportunity for growth through further penetration of existing markets in the U.S. and overseas with our current product line. Expansion beyond our current international markets, coupled with increased eCommerce access, will provide additional avenues for growth.

For several years, we have told investors that capturing the infantry market was key to our longer-term growth in G&I. In 2003, we were awarded the development contract for the future combat systems small unmanned ground vehicle. We expect to be able to begin delivering SUGVs to the Army in the fall of this year and to continue for years to come. Demand for other G&I products -- Warrior, PackBot and Underwater Robots -- domestically and overseas should layer on additional growth.

As we assess the revenue opportunities, we will focus on leveraging our operating model to improve EBITDA margin and driving operating cash flow.

With that, we will open the call to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Jim Ricchiuti, Needham & Co.

Jim Ricchiuti - Needham & Co - Analyst

Thank you. Good morning. Just a question on backlog -- your current backlog, if we take into account the orders that you announced in January, is it somewhere around \$20 million, \$21 million?

Colin Angle - iRobot Corp. - CEO

That's correct.

Jim Ricchiuti - Needham & Co - Analyst

Colin, I wonder if you would comment a little bit about the order visibility you alluded to. Can you give us a sense in terms of the orders you are anticipating? Will these be for existing PackBot? How do you see the bookings beginning to ramp over the next one to two quarters?

Colin Angle - iRobot Corp. - CEO

Typically, at this point in the year, we don't have visibility yet for the full year in the form of booked orders or work complete. That grows typically in our next call and next call substantially.

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We are in a very similar position as we sit here today than we have been in 2008 and 2007, so that we are very comfortable as to what we have in-hand. So there is really -- despite the transition and so forth in the administration, we're in a very similar position so we feel good about that. While our backlog at year end was lower than a year before, that was only because of year-end beginning-year timing of contracts, which we have since received.

Jim Ricchiuti - *Needham & Co - Analyst*

Again, just with respect to what you potentially see on the horizon, in the near-term will these be PackBot?

Colin Angle - *iRobot Corp. - CEO*

In the first half of the year, they are primarily going to be the PackBot FastTac robots. That is going to drive revenue in the first half. We're going to see a transition in the back half away from the FasTac version of the PackBot to some of our new products, such as the SUGV, the Warrior, the Negotiator and some of our underwater vehicles. So we will see a diversification of product drivers -- of revenue drivers in G&I.

Jim Ricchiuti - *Needham & Co - Analyst*

Just a question for John if I may? Just with respect to operating expenses and in particular R&D, you alluded to that. It is sounding like that is going to be a little higher in the June quarter. Will that be the high watermark for R&D for the year, the June quarter? I wonder how you would characterize operating expense in general for the year. If there is any color you can give on that? Thank you.

John Leahy - *iRobot Corp. - CFO*

I think, in terms, of OpEx we would expect to continue to leverage our operating expenses as a percentage of revenue as we have for the last couple of years. In addition, we are managing our OpEx very aggressively. Colin mentioned that we did a small reduction in force this year. So, we are managing OpEx in absolute dollar terms very aggressively as well in our effort to improve our overall EBITDA margins.

In terms of externally funded R&D, the high point probably will be in Q2 as we are finishing up work on projects or products for the second half.

Jim Ricchiuti - *Needham & Co - Analyst*

John, what was the headcount at the end of the year?

John Leahy - *iRobot Corp. - CFO*

I think we've got that here in front of us somewhere.

Colin Angle - *iRobot Corp. - CEO*

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John Leahy - *iRobot Corp. - CFO*

Thank you.

Jim Ricchiuti - *Needham & Co - Analyst*

Okay, thanks a lot.

Operator

Barbara Coffey, Kaufman Brothers.

Barbara Coffey - *Kaufman Brothers - Analyst*

To some degree, I'm a little surprised at that the international strength in the home market as Europe is continuing to see somebody recessionary environment that we are. Can you add a little bit more color as to what you saw sell well and what you think are the drivers for the continued strength?

Colin Angle - *iRobot Corp. - CEO*

Sure. Basically, what we're seeing is substantial growth in a very large market as we have a sales organization and distributor network which is increasingly mature and able to do the sorts of things that have been shown to drive sales. So the extraordinary demand and growth is due to our small initial base and the fact that the actions we took in 2007 to improve the way we sold our product internationally really paid off and kicked in in 2008 and should continue to kick in in 2009. So there is absolutely a negative pressure from the growing global recession on ourselves but as I said, it is offset from selling a very exciting product into a hungry environment.

Barbara Coffey - *Kaufman Brothers - Analyst*

Were any particular countries stronger than others?

Colin Angle - *iRobot Corp. - CEO*

Of course. We sell particular success and growth in Japan and in Europe.

Barbara Coffey - *Kaufman Brothers - Analyst*

Thank you.

Operator

Jeff Evanson, Dougherty & Co.

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Jeff Evanson - *Dougherty & Co - Analyst*

Well, let's see. First of all, I was wondering if you could give us any kind of an update on where the RFP process is with respect to Oceanglider and your positioning there.

Colin Angle - *iRobot Corp. - CEO*

The LBF contract -- what we know is that or I should say what we believe is that we are one of three finalists and we have been actively engaged in responding to questions. They put out a schedule which suggests an announcement is something that could happen at any time. So, over the next few weeks, we could be in the position of receiving word.

Now, just to set expectations, we've been expecting word for quite some time, so there is a potential that could get pushed to the right but the last schedule that we saw suggested relatively soon notification.

Jeff Evanson - *Dougherty & Co - Analyst*

Okay. Well, we're cheering for you there.

Colin Angle - *iRobot Corp. - CEO*

I appreciate that.

Jeff Evanson - *Dougherty & Co - Analyst*

The next question -- on the PLR being up so strongly, can you give us a little color on what specifically drove that?

Colin Angle - *iRobot Corp. - CEO*

I think the most important driver is our installed base. We have sold in -- every robot we sell in carries with it a stream of product service support and spare revenue. So with having sold an additional 951 robots into the theater in 2008, we nearly doubled the potential base for driving this PLR revenue. So this is an exciting part of our business model.

Now, we also have on the market today upgrades, block upgrades to allow some of our older PackBot models to be improved to the PackBot 510. So that is in addition to our product offering. We are certainly seeing some very real interest from our military customers who own our older robots for that as well. So this is a classic recurring revenue dimension to our G&I story.

Jeff Evanson - *Dougherty & Co - Analyst*

I guess the revenue, if I calculate this right, PLR did not grow as much as the installed base. Is my math right there?

Colin Angle - *iRobot Corp. - CEO*

That is true, but it is going to be lumpy because the way the military works is they sometimes buy a big chunk of spare parts and then work that down before buying new spare parts. You should expect utilization to be a factor in deciding what our sustained PLR rate is going to be.

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Jeff Evanson - *Dougherty & Co - Analyst*

Sure. If we see reduced operational tempo, we could see reduced per-unit PLR.

Colin Angle - *iRobot Corp. - CEO*

Offset by things like the block upgrades from the PackBot 500 to 510. Again, it is a multivariable problem. The one thing you can say is the more robots we have in the field, the better the opportunity for PLR.

Jeff Evanson - *Dougherty & Co - Analyst*

Did you have any payload upgrades in the quarter of consequence?

Colin Angle - *iRobot Corp. - CEO*

No, we did not.

Jeff Evanson - *Dougherty & Co - Analyst*

Okay. My last question -- if I look at kind of a roll-forward of your funded backlog, it appears as though maybe what got added to that on a year-over-year basis is down year-over-year. What are you seeing with respect to contracting Tempo?

Colin Angle - *iRobot Corp. - CEO*

I think that the G&I side of the business is always lumpy so it is difficult to do a true apples-to-apples comparison. We are seeing a lot of contracting activity. We are seeing, as we mentioned on the international front, an increase in Tempo. We had a lot of things started in 2008 that we are seeing them to fruition in 2009, so that is a very good sign. Then as the administration sort of settles in, we have lots of ongoing discussions.

I think that it is also important to note that revenue in the back half is driven by a far more diverse set of products than we have ever had in the past. 2008 was really a PackBot story and 2009 represents the transition from the PackBot story to the PackBot SUGV Negotiator, Warrior, Seaglider, Ranger story. So you are seeing a tremendous diversification and change in the fundamental drivers of our business. That is very exciting for us to finally be able to cross that hurdle.

Jeff Evanson - *Dougherty & Co - Analyst*

I apologize. I have thought of one more question here. With respect to your comments about your outlook to 2010, Colin, kind of where you putting an improvement in the economy, in your thinking?

Colin Angle - *iRobot Corp. - CEO*

I try not to assume any particular moment in recovery. We modeled this year without recovery from our recession built-in. It is also modeled as a recession staying sort of no worse than it currently is. If the recession deepens substantially, that could be problematic and if we see a back-half recovery, as some people are suggesting we might, then we could see some upside. But it is very difficult to predict the economy, especially with customer sentiment so low right now.

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Jeff Evanson - *Dougherty & Co - Analyst*

So maybe you are thinking possibly in the early stages of 2010?

Colin Angle - *iRobot Corp. - CEO*

As I said, the guidance that we gave for 2009 does not hinge on an assumed recovery and I don't think I said too much about 2010.

Jeff Evanson - *Dougherty & Co - Analyst*

Okay. All right. Thank you very much. Good job on the balance sheet improvements.

Operator

Alex Hamilton, Jesup & Lamont.

Alex Hamilton - *Jesup & Lamont - Analyst*

I guess a question that I have for you, if you could provide a little bit of color? You did a pretty good job on that. I'm just trying to figure this out a little more. You said G&I revenue for the year is expected to be in the range of \$132 million to \$142 million. You also said that I guess the back half of that is kind of contingent on a transition to SUGV. Can you quantify kind of what the numbers are in terms of the transition? I'm just trying to figure out how much of this is transition based?

Colin Angle - *iRobot Corp. - CEO*

I'm not going to be able to comment too strongly on that. We have -- the way we model our year is that we have a basket of different opportunities and we handicap that basket. We believe that SUGV is one of the big rocks in that basket but we have other very exciting big rocks that also could exceed and provide opportunities. So, I'm not going to try to break it out for you. If it doesn't happen, we could still make the year if some other good things come along. So that is premature and we certainly will be giving you more information as the year goes by and things get a little bit more certain.

Alex Hamilton - *Jesup & Lamont - Analyst*

International has clearly been doing well on the commercial side. Based on your comments, I am assuming we are expecting a flattish kind of state of the economy, if you will. That being said, are there any further expansion plans on the international side or is it more just kind of playing defense and kind of holding onto the status -- holding onto where you are, more importantly?

Colin Angle - *iRobot Corp. - CEO*

Internationally, on the home side, it is a growth area. So we are predicting domestic because of the recession for a full year to be down year-over-year, offset by increases in international sale, so that what we are seeing -- to answer the question where is the growth international coming from, about half of the growth, half of the incremental sales is coming from our current array of distributors increasing their sales. The other half is from expansion into some new markets as well as the expansion of our eCommerce platform to cover more countries in Europe.

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Alex Hamilton - *Jesup & Lamont - Analyst*

Okay, thank you very much.

Operator

Josephine Millward, Stanford Group.

Josephine Millward - *Stanford Group - Analyst*

Colin, you mentioned that you're expecting additional G&I orders in the next few months. Are you referring to PackBot FasTac orders? Can you just give us a little more color on that?

Colin Angle - *iRobot Corp. - CEO*

Sure. The additional orders we see certainly include FasTac orders but also orders for some of our other products. So, we have seen recently two orders on the FasTac come in and we think there are opportunities for more FasTacs to come in in 2009 as well as other variants. The FasTac -- I'm sorry, the PackBot 510 and our, as I mentioned previously in the back half of the year, orders from our expanding diversity of products.

Josephine Millward - *Stanford Group - Analyst*

Can you talk about what demand is like for EOD robots in this environment as we -- the military has fielded a lot of EOD robots and we are drawing down in Iraq -- if you expect that to remain relatively robust going forward?

Colin Angle - *iRobot Corp. - CEO*

I think what we are seeing is a recognition based out of experience in this field that the EOD mission needs to expand beyond just the EOD units and so that there is interest from the Army, from the Marines and engineers in having more equipment so there is an expansion of interest in this sort of capability. There was a recent competition on the mini EOD robot which has not been yet been awarded but that will provide an acquisition vehicle for a number of additional robots into the military and so that is an area where the EOD teams themselves will probably see a decrease in units purchased in 2009. But on whole, this category of robots sold should remain vibrant and strong.

Josephine Millward - *Stanford Group - Analyst*

You expect this mini EOD opportunity to be awarded in the near future?

Colin Angle - *iRobot Corp. - CEO*

It is our expectation that that will be the case.

Josephine Millward - *Stanford Group - Analyst*

Colin, I am hearing great things about the SUGV from the military but it is unclear to me when they are going to move forward with a production decision. Can you give us more color on when you might see an additional low-rate production order?

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Colin Angle - *iRobot Corp. - CEO*

What we said is that we expect to see production and acquisition of the SUGV in the back half of the year but we have not given any more specificity as to when exactly that is going to happen. But you are right, the feedback that we have gotten and continue to get on the SUGV is extremely positive.

Josephine Millward - *Stanford Group - Analyst*

Great, thanks. I don't know. Can you tell us what direct sales -- the portion of direct sales were for Home Robots last year and sell-through number in the U.S.?

John Leahy - *iRobot Corp. - CFO*

Well, Josephine, our direct revenue in Q4 was a little more than \$8 million. It was about \$31 million for the full year on the home side. That compares to about \$34 million for the full year in '07.

Josephine Millward - *Stanford Group - Analyst*

What are you expecting to be for 2009?

John Leahy - *iRobot Corp. - CFO*

We are not guiding on that.

Josephine Millward - *Stanford Group - Analyst*

You're not? Okay. Do you have a sell-through number for U.S. retailers?

Colin Angle - *iRobot Corp. - CEO*

We haven't specifically. I can give you a qualitative answer. Certainly in the back half of the year, we saw a significant decrease in sell-through based on the deteriorating economy. We were well up through Q3 and then we saw performance consistent with other consumer electronic firms and saw it fall off significantly. We cut back on our inventory and were thus able to end the year with inventories substantially down from the beginning of Q3, which we are pretty happy about because in this type the economy one of the dangers a company can fall into is losing track of their inventory and seeing that balloon as orders and demand sell-through fall down.

So we believe that we have taken accurate reserves at year end to cover any excess and obsolete inventory. We are working -- what we are hearing from our retailers is that we are in decent shape.

Josephine Millward - *Stanford Group - Analyst*

When do you plan to launch the Negotiator or can you talk about new product introductions planned for this year?

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Colin Angle - *iRobot Corp. - CEO*

The Negotiator is a launched product.

Josephine Millward - *Stanford Group - Analyst*

I'm sorry. Did I say the Negotiator? I meant the Connector. I'm sorry.

Colin Angle - *iRobot Corp. - CEO*

On the Home Robots side, the Connector was in beta test. What we determined was that, as a result of beta test, we had a little bit more work to do and so that we have not announced a formal launch date for that product. We have the firm commitment to our customers that we're not going to launch product prematurely. Thus, as a result of the beta, we said okay we're going to hold back on this and we will be speaking to you again as soon as we have more concrete information.

Josephine Millward - *Stanford Group - Analyst*

Thanks for the update.

Colin Angle - *iRobot Corp. - CEO*

We have time for one more come question.

Operator

Jim Ricchiuti, Needham & Co.

Jim Ricchiuti - *Needham & Co - Analyst*

I was just wondering if you could perhaps quantify the impact on Q4 Home Robots margins from the reserves and the promotions. Any flavor you can give us on that, John?

John Leahy - *iRobot Corp. - CFO*

Jim, the reserves that we took for inventory on the home side were about \$1.5 million. The incremental promotions, which were in-store coupons and stuff like that where we work with our retailers, were about \$1.7 million, so \$3.3 million to \$3.5 million, between those two things.

Then the last thing I would mention, as I think you know, Circuit City was also a customer of ours. We took reserves for about \$450,000 on Circuit City, which also would have impacted our gross margin.

Jim Ricchiuti - *Needham & Co - Analyst*

Okay, thank you.

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Colin Angle - *iRobot Corp. - CEO*

All right.

Operator

At this time, I will turn the conference back to Mr. Colin Angle. Please go ahead, sir.

Colin Angle - *iRobot Corp. - CEO*

Once again, thank you all for joining us. We look forward to speaking with you again in April when we will be reporting on our first-quarter results.

Operator

That concludes today's conference call. We thank you for your participation. You may disconnect at this time.

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