OPINION OF INDEPENDENT PUBLIC ACCOUNTANTS

Androbot, Inc.:

We have examined the balance sheets of Androbot, Inc. (a development stage company) as of December 31, 1981 and 1982 and March 31, 1983 and the related statements of operations, shareholders' equity (deficiency), and changes in financial position for the period from October 23, 1981 (inception) through December 31, 1981, the year ended December 31, 1982, the three-month period ended March 31, 1983, and cumulative from October 23, 1981 (inception) through March 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Androbot, Inc. at December 31, 1981 and 1982 and March 31, 1983 and the results of its operations and the changes in its financial position for the periods stated above in conformity with generally accepted accounting principles applied on a consistent basis.

DELOITTE HASKINS & SELLS

May 27, 1983

ANDROBOT, INC.

(A Development Stage Company)

BALANCE SHEETS

ASSETS

	December 31, 1981	December 31, 1982	March 31, 1983
Current Assets:			
Cash	$ 10,634	$ 29,653	$ —
Accounts receivable	—	—	44,760
Convertible preferred stock subscriptions receivable (Note 7)	—	500,000	150,000
Inventories	—	19,350	113,668
Prepaid expenses	—	89,940	41,838
Total current assets	10,634	638,943	350,266
Property and Equipment—Net	—	32,263	36,092
Other Assets	—	3,020	13,494
Total	$ 10,634	$ 674,226	$ 399,852

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)

Current Liabilities:			
Accounts payable:			
Trade	$ —	$ 329,145	$ 659,533
Related party	—	61,338	160,333
Accrued liabilities (Note 5)	2,384	154,127	257,900
Amounts payable to shareholder	46,173	400,811	920,844
Total current liabilities	48,557	945,421	1,998,610
Commitments (Note 9)			
Shareholders' Equity (Deficiency) (Notes 7 and 10):			
Convertible preferred stock—authorized, 5,000,000 no par shares:			
Series A shares outstanding: 1982, 265,000; 1983, 405,000	—	643,518	993,518
Series A shares subscribed: 1982, 200,000; 1983, 60,000	—	500,000	150,000
Common stock—authorized, 20,000,000 no par shares; outstanding: 1981, 500,000; 1982, 3,982,000; 1983, 3,986,100	25,000	203,300	210,450
Deficit accumulated during the development stage	(62,923)	(1,618,013)	(2,952,726)
Shareholders' equity (deficiency)	(37,923)	(271,195)	(1,598,758)
Total	$ 10,634	$ 674,226	$ 399,852

See accompanying notes to financial statements.

ANDROBOT, INC.
(A Development Stage Company)

STATEMENTS OF OPERATIONS

	October 23, 1981 (Inception) Through December 31, 1981	Year Ended December 31, 1982	Three Months Ended March 31, 1982	Three Months Ended March 31, 1983	October 23, 1981 (Inception) Through March 31, 1983
			(Unaudited)		
Net Sales	$ —	$ —	$ —	$ 46,760	$ 46,760
Operating Expenses:					
Manufacturing	—	56,106	—	330,022	386,128
Research and development	62,923	1,074,193	113,791	435,105	1,572,221
Marketing	—	138,633	—	416,520	555,153
General and administrative	—	255,458	7,931	178,793	434,251
Interest—net	—	30,700	—	21,033	51,733
Total	62,923	1,555,090	121,722	1,381,473	2,999,486
Net Income (Loss)	$(62,923)	$(1,555,090)	$(121,722)	$(1,334,713)	$(2,952,726)
Net Income (Loss) per Common Share	$(.13)	$(.57)	$(.10)	$(.34)	
Weighted Average Common Shares Outstanding	500,000	2,724,000	1,280,000	3,984,000	

See accompanying notes to financial statements.

ANDROBOT, INC.
(A Development Stage Company)

STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)

	Series A Convertible Preferred Stock		Common Stock		Deficit Accumulated During the Development Stage	Total
	Shares	Amounts	Shares	Amounts		
Sale of stock in December 1981 for cash ($.05 per share)			500,000	$ 25,000		$ 25,000
Net loss					$ (62,923)	(62,923)
Balances, December 31, 1981			500,000	25,000	(62,923)	(37,923)
Sale of common stock in March through November 1982 for cash ($.05—$.75 per share)			3,068,000	157,600		157,600
Stock options exercised in July through December 1982 for cash ($.05 per share)			414,000	20,700		20,700
Sale of convertible preferred stock (net of issuance costs of $18,982) in November 1982 for cash and cancellation of notes ($2.50 per share)	265,000	$ 643,518				643,518
Subscription of convertible preferred stock in November 1982 for a note ($2.50 per share)	200,000	500,000				500,000
Net loss					(1,555,090)	(1,555,090)
Balances, December 31, 1982	465,000	1,143,518	3,982,000	203,300	(1,618,013)	(271,195)
Convertible preferred stock subscribed	(140,000)	(350,000)				(350,000)
Issuance of convertible preferred stock in February and March 1983	140,000	350,000				350,000
Issuance of common stock for services in March 1983 ($1.50—$1.75 per share)			4,100	7,150		7,150
Net loss					(1,334,713)	(1,334,713)
Balances, March 31, 1983	465,000	$1,143,518	3,986,100	$210,450	$(2,952,726)	$(1,598,758)

See accompanying notes to financial statements.

ANDROBOT, INC.
(A Development Stage Company)

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	October 23, 1981 (Inception) Through December 31, 1981	Year Ended December 31, 1982	Three Months Ended March 31, 1982	Three Months Ended March 31, 1983	October 23, 1981 (Inception) Through March 31, 1983
			(Unaudited)		
Funds Provided By:					
Sale of convertible preferred stock, net of subscriptions receivable	$ —	$ 643,518	$ —	$ 350,000	$ 993,518
Sale of common stock	25,000	178,300	78,000	7,150	210,450
Increase in amounts payable to shareholder	46,173	354,638	9,500	520,033	920,844
Increase in accrued liabilities	2,384	151,743	5,604	103,773	257,900
Increase in accounts payable	—	390,483	24,096	429,383	819,866
Total funds provided	73,557	1,718,682	117,200	1,410,339	3,202,578
Funds Used For:					
Operations:					
Net loss	62,923	1,555,090	121,722	1,334,713	2,952,726
Depreciation and amortization not requiring funds	—	(3,503)	(46)	(1,871)	(5,374)
Total applied to operations	62,923	1,551,587	121,676	1,332,842	2,947,352
Property purchases	—	35,766	1,378	5,700	41,466
Increase in inventories	—	19,350	—	94,318	113,668
Increase in accounts receivable	—	—	—	44,760	44,760
Increase (decrease) in prepaid expenses	—	89,940	—	(48,102)	41,838
Increase in other assets	—	3,020	2,700	10,474	13,494
Total funds used	62,923	1,699,663	125,754	1,439,992	3,202,578
Increase (Decrease) In Cash	$10,634	$ 19,019	$ (8,554)	$ (29,653)	$ —

See accompanying notes to financial statements.

ANDROBOT, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Organization—The Company was incorporated on October 23, 1981 for the purpose of developing, manufacturing and marketing personal robots for the consumer market. Since inception, the Company has been in the development stage. Its operations have principally involved the design and development of personal robots, introductory marketing of Topo I, the development of channels of distribution and the development of relationships with subcontractors and vendors.

Inventory is stated at the lower of cost (first-in, first-out) or market.

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over estimated useful lives of five years. Amortization of leasehold improvements is computed over the shorter of the useful life or the lease term.

Revenue recognition—Revenues are recognized upon shipment. Product warranty costs are accrued at the time sales are recognized.

Marketing costs—Costs paid in advance to attend trade shows ($84,000 at December 31, 1982) are included in prepaid expenses and expensed at the time the show occurs. Other marketing costs are expensed as incurred. Total costs to attend a trade show in January 1983 were $216,000.

Taxes on income—Investment tax credits reduce the provision for taxes on income when realizable.

Net income (loss) per common share is computed based on the weighted average number of shares of Common Stock outstanding. Preferred Stock and stock options outstanding during the period are excluded from the computation as such items are anti-dilutive.

Unaudited financial statements—The unaudited statements of income and changes in financial position for the three months ended March 31, 1982 include, in the opinion of management, all adjustments (consisting of only normal recurring adjustments) necessary to state fairly the results for such period.

2. Inventories and Manufacturing Expenses

Inventories consist of:

	December 31, 1982	March 31, 1983
Purchased parts	$14,828	$ 76,907
Work-in-process	—	35,676
Finished goods	4,522	1,085
Total	$19,350	$113,668

Manufacturing expenses include inventory writedowns of prototype parts of $26,000 in 1982 and $84,000 in 1983, and the write-off of prototype tooling of $30,000 in 1982.

3. Property and Equipment

Property and equipment consist of:

	December 31, 1982	March 31, 1983
Machinery and equipment	$27,922	$33,622
Furniture and fixtures	6,067	6,067
Leasehold improvements	1,777	1,777
Total	35,766	41,466
Accumulated depreciation and amortization	(3,503)	(5,374)
Property and equipment—net	$32,263	$36,092

4. Taxes on Income

In 1981, the Company elected to be treated as a Subchapter S corporation under the Internal Revenue Code. All operating losses from inception through September 30, 1982 ($662,000) were allocated directly to the shareholders for federal income tax purposes.

In October 1982, the Company revoked its Subchapter S election. At March 31, 1983, the Company had net operating loss carryforwards of approximately $2,237,000 available to offset future federal taxable income through 1997.

The net operating loss carryforwards differ from the Company's deficit due primarily to losses allocated directly to the shareholders and differences, for financial reporting and tax purposes, in the accounting for research and development costs.

5. Accrued Liabilities

Accrued liabilities consist of:

	December 31,		March 31,
	1981	1982	1983
Compensation	$ 2,384	$ 33,127	$159,047
Consulting	—	121,000	90,000
Other	—	—	8,853
	$ 2,384	$154,127	$257,900

6. Amounts Payable To Shareholder

Amounts payable to shareholder consist of:

	December 31,		March 31,
	1981	1982	1983
15% notes payable due December 1, 1983	$ —	$368,173	$867,173
Interest on notes payable	—	32,638	53,671
Advances	46,173	—	—
	$46,173	$400,811	$920,844

NOTES TO FINANCIAL STATEMENTS—(continued)

7. Shareholders' Equity (Deficiency)

Preferred Stock. The Company has authorized 5,000,000 shares of Preferred Stock and has designated 465,000 shares as Series A Preferred Stock ("Series A"). In November 1982, 265,000 shares of Series A were sold for $500,000 cash and the cancellation of $162,500 of outstanding notes payable to the Company's principal shareholder. In addition, 200,000 shares were subscribed in exchange for a non-interest bearing note of $500,000 due in various instalments through April 1, 1983. The funds were irrevocably committed, and subsequently collected, and are shown as a current asset at December 31, 1982 and March 31, 1983.

Each share of Series A is convertible at the option of the holder into two shares of Common Stock. All shares will be automatically converted in the event of a public offering of Common Stock with an aggregate offering price of at least $5,000,000. No dividend may be paid on a share of Common Stock unless a dividend of twice that amount is first paid on each share of Series A. The holders of shares of Series A have a right of first refusal on subsequent sales of Common and Preferred Stock to the extent of their proportionate interest, as defined. In the event of liquidation, the holders of shares of Series A are entitled to receive $2.50 per share.

Common Stock. Under the 1982 Stock Option Plan, the Board of Directors may grant incentive and non-qualified stock options to employees, consultants, directors and others. Options must be granted at a price not less than fair market value (as determined by the Board of Directors) at the date of grant and expire five years from the date of grant.

In December 1982, the Company permitted option holders to accelerate the exercise dates of certain outstanding stock options, and options for 396,000 shares were exercised. The Company has the right to repurchase these shares at the option price upon termination of employment. This right expires on the dates that the options for such shares would have been exercisable under the subject stock option agreements.

The Company also has the right to repurchase, at fair market value, 56,000 shares of Common Stock held by employees and any shares issued under the 1982 Stock Option Plan, subsequent to the expiration of the repurchase option described above, in certain circumstances relating to termination of employment. In addition, the Company retains a right of first refusal on any sale of such shares. These rights expire upon the completion of the Company's initial public stock offering.

Additional information regarding stock options is as follows:

1982 Stock Option Plan	Number of Shares Under Option	Exercise Price	Total
Granted	862,000	$.05—$.75	$295,100
Exercised	(414,000)	.05	(20,700)
Cancelled	(56,000)	.05	(2,800)
Balances, December 31, 1982	392,000	.05—.75	271,600
Granted	321,500	1.00	321,500
Balances, March 31, 1983	713,500	$.05—$1.00	$593,100

At March 31, 1983, options to purchase 4,000 shares of Common Stock were exercisable.

NOTES TO FINANCIAL STATEMENTS—(continued)

At March 31, 1983, the Company had reserved shares of Common Stock for issuance as follows:

Conversion of Series A	930,000
Issuance under 1982 Stock Option Plan	986,000
	1,916,000

The outstanding shares of Common Stock were split 2.5 for 1 in March 1982 and 2 for 1 in March 1983. All share and per share amounts have been adjusted to reflect these stock splits.

8. Related Party Transactions

Fees for management and administrative services of $33,000 for the year ended December 31, 1982 and $23,000 for the three-month period ended March 31, 1983 were owed to Catalyst Technologies, which is owned by the principal shareholder of the Company (see Note 9).

9. Commitments

The Company has entered into a five-year facilities lease beginning in June 1983. The monthly rent will be determined upon completion of the building improvements, and will be increased over the term as defined in the agreement. Future minimum lease payments based upon expected occupancy dates are currently estimated to be as follows:

Year ending December 31:

1983	$ 101,000
1984	442,000
1985	469,000
1986	554,000
1987	610,000
1988	254,000
	$2,430,000

In addition, the Company has commitments for approximately $150,000 of leasehold improvements for this facility.

Rent expense for facilities and equipment was $151,000 for the year ended December 31, 1982, and $87,000 for the three-month period ended March 31, 1983. These amounts include $78,000 and $52,000, respectively, owed to Catalyst Technologies, which is owned by the principal shareholder of the Company.

10. Subsequent Events

In April 1983, the principal shareholder of the Company obtained a line of credit and a commitment for equipment lease guarantees from a financial institution to be used exclusively for the Company. These commitments expire in April 1984; however, any amounts outstanding under the line of credit must be repaid by the shareholder from the proceeds of certain financings by the Company.

NOTES TO FINANCIAL STATEMENTS—(concluded)

During April and May 1983, the Company borrowed $1,000,000 from its principal shareholder and an additional $500,000 from another shareholder in exchange for 9% promissory notes and options to purchase 35,000 shares of Common Stock at $5.00 per share. The notes are payable at the earlier of June 30, 1984, or five days after completion of the Company's initial public stock offering. The stock options expire three years from date of grant.

Subsequent to March 31, 1983, the Company increased the number of shares reserved for issuance under the 1982 Stock Option Plan by 500,000 shares and granted options to purchase 371,000 shares of Common Stock at $1.75 per share and 140,100 shares at $5.00 per share. In addition, the Company amended its Articles of Incorporation to increase the number of authorized shares of Preferred and Common Stock to 5,000,000 and 20,000,000 shares, respectively.

In May 1983, 270,000 shares of Series B Preferred Stock were sold for $5.00 per share. Each share is convertible into one share of Common Stock at the option of the holder, and will be automatically converted in the event of the Company's initial public stock offering.

ANDROBOT, INC.
BALANCE SHEET

SEPTEMBER 30, 1983

ASSETS

CURRENT ASSETS

CASH IN BANK	(25,352.18)	
ACCOUNTS RECEIVABLE	92,890.15	
NOTES RECEIVABLE	137,365.52	
DEPOSITS & PREPAID EXPENSES	148,872.42	
INVENTORY	576,556.12	
INVESTMENT IN SUBSIDIARY	641,616.73	
TOTAL CURRENT ASSETS	1,571,948.76	

FIXED ASSETS

TOOLING	106,431.65	
MACHINERY & EQUIPMENT	194,183.03	
FURNITURE & FIXTURES	24,099.37	
LEASEHOLD IMPROVEMENTS	245,699.26	
ACCUMULATED DEPRECIATION	(46,522.14)	
TOTAL FIXED ASSETS	523,891.17	
INTANGIBLE ASSETS	60,973.59	
ACC. AMORT/INT. ASSETS	(3,884.27)	
NET INTANGIBLE ASSETS	57,089.32	
TOTAL ASSETS		2,152,929.25

ANDROBOT, INC.
BALANCE SHEET

SEPTEMBER 30, 1983

LIABILITIES AND EQUITY

CURRENT LIABILITIES		
ACCOUNTS PAYABLE - TRADE	1,254,177.02	
ACCRUED SALARIES & TAXES	97,608.69	
SHAREHOLDER INTEREST PAY.	189,377.11	
OTHER ACCRUED EXPENSES	309,894.00	
TOTAL CURRENT LIABILITIES	1,851,056.82	
LONG TERM LIABILITIES		
NOTES PAYABLE - NKB	4,176,396.70	
ACCOUNTS PAYABLE CATALYST	402,624.83	
TOTAL LIABILITIES	6,430,078.35	
STOCKHOLDER'S EQUITY		
CAPITAL STOCK - PREFERRED	2,491,812.00	
CAPITAL STOCK - COMMON	341,387.78	
RETAINED EARNINGS-PRIOR	(1,617,786.21)	
RETAINED EARNINGS-CURRNT YEAR	(5,492,562.67)	
TOTAL STOCKHOLDER'S EQUITY	(4,277,149.10)	
TOTAL LIABILITIES AND EQUITY		2,152,929.25

Restated
10/26/83

ANDROBOT, INC.
INCOME STATEMENT

FOR THE PERIOD ENDING SEPTEMBER 30, 1983

	---MONTH TO DATE--- ACTUAL	---YEAR TO DATE--- ACTUAL
Sales:		
Topo Sales	11,589.20	220,893.69
Total Sales	11,589.20	220,893.69
Cost of Sales:		
Change of Inventory	12,747.90	396,552.25
Direct Manufacturing	66,224.03	863,343.07
Total Cost of Sales	78,971.93	1,259,895.32
Gross Margin	(67,382.73)	(1,039,001.63)
Operating Expenses:		
General & Administrative	75,272.43	938,478.55
Research & Development	217,197.66	1,446,440.52
Facilities	67,298.05	223,635.41
Fixed Marketing Exp.	81,719.97	1,572,584.18
Variable Selling Expenses	2,095.30	105,718.91
Total Operating Expenses	443,583.41	4,286,857.57
Operating Income (Loss)	(510,966.14)	(5,325,859.20)
Interest & Other Income	27.44	15,469.03
Interest & Other Expense	(35,956.76)	(182,172.50)
Net Income (Loss)	(546,895.46)	(5,492,562.67)