
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

(Amendment No. 1)

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of report (Date of earliest event reported): October 1, 2012

iROBOT CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

000-51598
(Commission
File Number)

77-0259335
(IRS Employer
Identification No.)

8 Crosby Drive, Bedford, Massachusetts
(Address of Principal Executive Offices)

01730
(Zip Code)

Registrant's telephone number, including area code: (781) 430-3000

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-
-

Item 2.01. Completion of Acquisition or Disposition of Assets.

This Current Report on Form 8-K/A is being filed as an amendment to the Current Report on Form 8-K dated October 1, 2012 (the "Original Form 8-K") filed by iRobot Corporation (the "Company") with the Securities and Exchange Commission on October 1, 2012, announcing the completion of the Company's acquisition of Evolution Robotics, Inc. ("Evolution"), a Delaware corporation. At that time, the Company stated in such Form 8-K that it intended to file the required financial statements and pro forma financial information within 71 days from the date that such report was required to be filed. This Current Report on Form 8-K/A amends and restates Item 9.01 of the Original Form 8-K to present certain financial statements of Evolution and to present certain unaudited pro forma financial statements of the Company in connection with the Company's acquisition of Evolution, which financial statements and unaudited pro forma financial statements are filed as exhibits hereto and are incorporated herein by reference. All of the other items in the Original Form 8-K remain the same and are hereby incorporated by reference into this Current Report on Form 8-K/A.

Item 9.01. Financial Statements and Exhibits.

(a) *Financial Statements of Businesses Acquired.*

The audited financial statements of Evolution as of December 31, 2011 and 2010 and for the year ended December 31, 2011 are filed as Exhibit 99.1 to this Current Report on Form 8-K/A.

The unaudited financial statements of Evolution as of June 30, 2012, and the related statements of operations and cash flows for the six-month periods ended June 30, 2012 and 2011, and stockholders' deficit for the six month period ended June 30, 2012, and the notes related thereto, are filed as Exhibit 99.2 to this Current Report on Form 8-K/A.

(b) *Pro Forma Financial Information.*

The unaudited pro forma condensed consolidated financial statements of the Company as of and for the six months ended June 30, 2012 and for the year ended December 31, 2011 giving effect to the acquisition of Evolution, are filed as Exhibit 99.3 to this Current Report on Form 8-K/A.

(d) *Exhibits.*

23.1 Consent of Independent Registered Public Accounting Firm

23.2 Letter from Independent Registered Public Accounting Firm regarding Incorporation of Review Report in Registration Statements

99.1 Evolution Robotics, Inc. Audited Financial Statements as of December 31, 2011 and 2010 and for the Year Ended December 31, 2011

99.2 Evolution Robotics, Inc. Unaudited Financial Statements as of June 30, 2012 and for the Six Months Ended June 30, 2012 and 2011

99.3 Unaudited Pro Forma Condensed Consolidated Financial Statements of iRobot Corporation as of and for the Six Months Ended June 30, 2012 and the Year Ended December 31, 2011

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: December 4, 2012

iRobot Corporation

By: /s/ Glen D. Weinstein

Name: Glen D. Weinstein

Title: Chief Legal Officer and Secretary

EXHIBIT INDEX

Exhibit Number	Description
23.1	Consent of Independent Registered Public Accounting Firm.
23.2	Letter from Independent Registered Public Accounting Firm regarding Incorporation of Review Report in Registration Statements.
99.1	Evolution Robotics, Inc. Audited Financial Statements as of December 31, 2011 and 2010 and for the Year Ended December 31, 2011.
99.2	Evolution Robotics, Inc. Unaudited Financial Statements as of June 30, 2012 and for the Six Months Ended June 30, 2012 and 2011.
99.3	Unaudited Pro Forma Condensed Consolidated Financial Statements of iRobot Corporation as of and for the Six Months Ended June 30, 2012 and the Year Ended December 31, 2011.

Consent of Independent Registered Public Accounting Firm

iRobot Corporation
Bedford, Massachusetts

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-172333, 333-164993, 333-157306, 333-149373, 333-140707, 333-129576, and 333-179593) of iRobot Corporation of our report dated August 31, 2012, relating to the financial statements of Evolution Robotics, Inc. which appears in this Form 8-K/A. Our report contains an explanatory paragraph regarding Evolution Robotics, Inc.'s ability to continue as a going concern.

/s/ BDO USA, LLP
Los Angeles, California

December 4, 2012



Tel: (310) 557-0300
Fax: (310) 557-1777
www.bdo.com

1888 Century Park East
4th Floor
Los Angeles, California
90067

December 4, 2012

Securities and Exchange Commission
100 F Street N.E.
Washington, D.C. 20549

We are aware that iRobot Corporation has incorporated by reference in the Registration Statements on Form S-8 (Nos. 333-172333, 333-164993, 333-157306, 333-149373, 333-140707, 333-129576, and 333-179593) our report dated December 3, 2012, relating to Evolution Robotics, Inc.'s unaudited interim financial statements appearing in this Form 8-K/A. Pursuant to Regulation C under the Securities Act of 1933, that report is not considered a part of the registration statement prepared or certified by our firm or a report prepared or certified by our firm within the meaning of Sections 7 and 11 of the Act.

BDO USA, LLP

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

EVOLUTION ROBOTICS, INC.
REPORT ON AUDITED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011 AND 2010
AND FOR THE YEAR ENDED DECEMBER 31, 2011

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.



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INDEPENDENT AUDITORS' REPORT

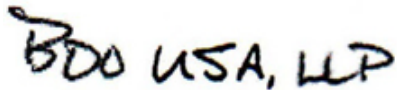
Board of Directors
Evolution Robotics, Inc.
Pasadena, California

We have audited the accompanying balance sheets of Evolution Robotics, Inc. (the "Company") as of December 31, 2011 and 2010 and the related statements of operations, stockholders' deficit and cash flows for the year ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2011 and 2010, and the results of its operations and its cash flows for the year ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses and negative cash flows from operations, and has an accumulated deficit of \$33,741,000 at December 31, 2011. The Company has been dependent on equity and debt financing to fund its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.



August 31, 2012

EVOLUTION ROBOTICS, INC.
BALANCE SHEETS
(in thousands, except share data)

	December 31,	
	2011	2010
Assets:		
Current assets:		
Cash and cash equivalents	\$ 818	\$ 2,305
Account receivable, net	2,206	1,728
Inventory	5,437	971
Prepaid expenses and other current assets	41	265
Total current assets	8,502	5,269
Property and equipment, net	449	192
Other assets	204	23
Total Assets	\$ 9,155	\$ 5,484
Liabilities, Convertible Preferred Stock and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$ 5,506	\$ 692
Accrued expenses	804	230
Accrued compensation	459	224
Deferred revenue	—	43
Payable to related party	530	118
Notes and accrued interest payable to related parties	3,303	—
Current portion of bank loan	2,721	333
Total current liabilities	13,323	1,640
Bank loan, less current portion	589	495
Other liabilities	800	593
Total liabilities	14,712	2,728
Commitments and contingencies (Note 11)		
Convertible preferred stock, \$0.001 par value, 31,955,862 and 27,915,862 shares authorized at December 31, 2011 and 2010, respectively; 27,215,862 shares issued and outstanding; liquidation preference of \$27,216 at December 31, 2011 and 2010	27,017	27,017
Stockholders' Deficit		
Common stock, Class A, \$0.001 par value; 55,529,238 and 35,700,001 shares authorized at December 31, 2011 and 2010, respectively; 148,424 and 51,667 shares issued and outstanding at December 31, 2011 and 2010, respectively	—	—
Common stock, Class B, \$0.001 par value; 1,000 shares authorized; no shares issued and outstanding at December 31, 2011 and 2010	—	—
Special stock, \$0.001 par value; 1 share authorized, issued and outstanding at December 31, 2011 and 2010	—	—
Additional paid-in capital	1,167	1,067
Accumulated deficit	(33,741)	(25,328)
Total stockholders' deficit	(32,574)	(24,261)
Total Liabilities, Convertible Preferred Stock and Stockholders' Deficit	\$ 9,155	\$ 5,484

See accompanying summary of accounting policies and notes to the financial statements.

EVOLUTION ROBOTICS, INC.
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2011
(in thousands)

Revenue:	
Product revenue, net	\$16,430
Other revenue	920
Total revenue, net	<u>17,350</u>
Cost of revenue:	
Cost of product revenue	11,618
Cost of other revenue	469
Total cost of revenue	<u>12,087</u>
Gross margin	<u>5,263</u>
Operating expenses:	
Sales and marketing	7,890
Research and development	3,717
General and administrative	1,653
Total operating expenses	<u>13,260</u>
Operating loss	(7,997)
Other income (expense):	
Interest expense	(416)
Total other income (expense)	<u>(416)</u>
Net loss	<u><u>\$ (8,413)</u></u>

See accompanying summary of accounting policies and notes to the financial statements.

EVOLUTION ROBOTICS, INC.
STATEMENT OF STOCKHOLDERS' DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 2011
(in thousands, except share data)

	<u>Common Stock - Class A</u>		<u>Common Stock - Class B</u>		<u>Special Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accum. Deficit</u>	<u>Total Stockholders' Deficit</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Balance at December 31, 2010	51,667	\$ —	—	\$ —	1	\$ —	\$ 1,067	\$(25,328)	\$ (24,261)
Issuance of common stock for exercise of stock options	96,757	—	—	—	—	—	21	—	21
Stock-based compensation	—	—	—	—	—	—	79	—	79
Net loss	—	—	—	—	—	—	—	(8,413)	(8,413)
Balance at December 31, 2011	<u>148,424</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>1</u>	<u>\$ —</u>	<u>\$ 1,167</u>	<u>\$(33,741)</u>	<u>\$ (32,574)</u>

See accompanying summary of accounting policies and notes to the financial statements.

EVOLUTION ROBOTICS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011
(in thousands)

Cash flows from operating activities:	
Net loss	\$(8,413)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	159
Amortization of debt discount	41
Stock-based compensation	79
Changes in operating assets and liabilities:	
Accounts receivable, net	(478)
Inventory	(4,466)
Prepaid expenses and other assets	43
Accounts payable	4,814
Accrued expenses	781
Accrued compensation	235
Deferred revenue	(43)
Payable to related party	412
Accrued interest due to related parties	103
Net cash used in operating activities	<u>(6,733)</u>
Cash flows from investing activities:	
Purchases of property and equipment	(416)
Net cash used in investing activities	<u>(416)</u>
Cash flows from financing activities:	
Borrowings on Term Debt	1,000
Payments on Term Debt	(583)
Borrowings on A/R Line, net	2,054
Payments of bank fees for Loan Agreement	(30)
Note financings from related parties	3,200
Exercise of stock options	21
Net cash provided by financing activities	<u>5,662</u>
Net decrease in cash and cash equivalents	(1,487)
Cash and cash equivalents at beginning of year	<u>2,305</u>
Cash and cash equivalents at end of year	<u>\$ 818</u>
Supplemental cash flow information:	
Cash paid for:	
Interest	\$ 220
Income taxes	\$ —

See accompanying summary of accounting policies and notes to the financial statements.

EVOLUTION ROBOTICS, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

(tabular amounts in thousands, except per share data)

1. Nature of Business

Evolution Robotics, Inc. ("Evolution" or the "Company") is a Delaware corporation which was formed in January 2007. The Company began principal operations on January 4, 2008 when its parent, Future Vision, Inc. ("Future Vision" and formerly known as Evolution Robotics, Inc.), contributed the employees, assets, operations and intellectual property of its consumer products technology division into the Company in exchange for 13,333,333 shares of Series A convertible preferred stock with an estimated fair value of \$13,333,333. The contribution of assets between entities under common control was recorded at historical cost and the difference between the historical cost of the assets and the fair value of the preferred stock was recorded as an adjustment to the opening accumulated deficit. The Company develops intelligent products and solutions for the consumer products industry using its proprietary vision and localization software. Since mid-2009 the Company has principally focused its efforts on the development and direct distribution of the MINT robotic, hard-surface floor cleaning appliance.

At December 31, 2011, Idealab Holdings, LLC owned a special share of voting stock which gave it the right to vote 80% of the outstanding voting securities of the Company (see Note 7). Idealab Holdings, LLC is a wholly owned subsidiary of Idealab, a creator and operator of technology businesses. Idealab Holdings, LLC also owns the majority of the outstanding voting securities of Future Vision, which is an investor in the Company.

The Company's financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future.

The Company has incurred recurring losses from operations and negative cash flows from operating activities since inception, and has an accumulated deficit of \$33,741,000 at December 31, 2011. The Company has been dependent on equity and debt financing to fund its operations. Management plans to expand the Company's revenue base by marketing the MINT product to a larger number of U.S. retailers and expanding its product offering into foreign markets. The Company is also developing additional intelligent, robotic consumer products. The Company does not know whether it will be able to raise additional financing or financing on terms favorable to the Company or if it will ultimately achieve profitability on a stand-alone basis.

The Company's industry is competitive and characterized by ongoing technological advances. The Company is subject to risks common to companies in the technology and consumer products industries including, but not limited to, development of new technological innovations by the Company or its competitors, dependence on key customers or sole source suppliers for materials, a change in the demand for consumer products and protection of proprietary technologies.

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies followed by the Company in the preparation of the accompanying financial statements is set forth below.

Basis of Presentation

The accompanying financial statements reflect the stand-alone operations of the Company. Certain services are provided to the Company by Idealab and such services are billed to the Company at amounts which approximate their cost (Note 10).

EVOLUTION ROBOTICS, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

(tabular amounts in thousands, except per share data)

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in operating bank accounts and a money market account and therefore the carrying amount approximates fair value.

Concentration of Credit Risk and Significant Customers

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Company has never experienced any losses related to these balances. All of the Company's non-interest bearing cash balances were fully insured at December 31, 2011 and 2010 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning 2013, insurance coverage will revert to \$250,000 per depositor at each financial institution, and the Company's non-interest bearing cash balances may again exceed federally insured limits. There were no interest-bearing amounts in excess of federally insured limits at December 31, 2011. Interest-bearing amounts on deposit in excess of federally insured limits at December 31, 2010 were approximately \$725,000.

With respect to accounts receivable, the Company generally does not require collateral or other security against accounts receivable and periodically evaluates whether a reserve for potential credit losses is necessary. No allowance for doubtful accounts was recorded at December 31, 2011 and 2010 based on an evaluation of the collectability of the Company's outstanding accounts receivable.

Customers comprising more than 10% of revenues for the year ended December 31, 2011 were as follows:

Customer A	40%
Customer B	10%

Customers comprising more than 10% of accounts receivable as of December 31, 2011 and 2010 were as follows:

	December 31,	
	2011	2010
Customer A	23%	61%
Customer B	4%	11%
Customer C	25%	—
Customer D	26%	—

At December 31, 2011, one supplier represented 68% of accounts payable. The Company has historically been primarily dependent on large U.S. retailers as resellers of its products and therefore has a limited customer base. In addition, the Company is dependent upon a single manufacturer of the MINT floor cleaning appliance, however, other manufacturers could be identified with minimal disruption to the Company.

Inventories

Inventories are primarily comprised of finished goods and are stated at lower of cost or market. Cost is determined using the first-in, first-out method. Market represents the lower of replacement cost or estimated net realizable value. The Company fully reserves the cost of products returned by end users due to the fact that the Company does not have an established program to refurbish and liquidate returned product.

EVOLUTION ROBOTICS, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

(tabular amounts in thousands, except per share data)

Property and Equipment

Property and equipment are generally comprised of product tooling, computer equipment, furniture and fixtures and leasehold improvements and are recorded at cost. Provisions for depreciation are based on the estimated useful lives using the straight-line method over a period of three years. Product tooling is depreciated over its useful life based on the number of units produced. Upon retirement or disposal, the cost of the asset disposed of and the related accumulated depreciation are removed from the accounts and any gain or loss is reflected in income. Expenditures for repairs and maintenance are expensed as incurred.

Impairment of Long-Lived Assets

The Company identifies and records impairment losses on long-lived assets, primarily property and equipment, when events or changes in circumstances indicate that such assets might be impaired and the carrying value may not be recoverable. Events or changes in circumstances that may indicate that an asset is impaired include significant decreases in the market value of an asset, a change in the extent or manner in which an asset is used, loss of key management or personnel, changes in the business model or strategy and competitive forces. If events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and the expected undiscounted future cash flow attributable to the asset is less than the carrying amount of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. Fair value is determined based on the present value of estimated future cash flows using a discount rate commensurate with the risk involved, quoted market prices, appraised values or values at which independent third parties have acquired such assets, depending on the nature of the assets. There were no adjustments due to impairment of long-lived assets during the year ended December 31, 2011.

Fair Value Measurements

The Company applies certain provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") ASC 820, *Fair Value Measurements and Disclosures*, which establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and expands on required disclosures about fair value measurement. The provisions of ASC 820 relate to financial and nonfinancial assets and liabilities as well as other assets and liabilities carried at fair value on a recurring basis. The fair value guidance establishes a three-tiered hierarchy that draws a distinction between market participants assumptions based on (i) quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1), (ii) inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2) and (iii) unobservable inputs that require the Company to use present value and other techniques in the determination of fair value (Level 3).

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, accrued compensation, and notes and accrued interest to related parties approximate fair value because of their short maturities. Borrowings under the Company's bank loans bear floating rates of interest that reset periodically to a market benchmark rate plus a credit margin. The Company believes the effective interest rate of the bank loan agreement approximates current market rates for such indebtedness at December 31, 2011. The Company believes the carrying amount of its floating rate debt approximates its fair value at December 31, 2011. Certain assets are also subject to measurement at fair value on a nonrecurring basis, if they are deemed to be impaired as the result of an impairment review. During the year ended December 31, 2011, no impairments were recorded on those assets required to be measured at fair value on a nonrecurring basis.

EVOLUTION ROBOTICS, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

(tabular amounts in thousands, except per share data)

For financial assets and liabilities that utilize Level 1 and Level 2 inputs, the Company utilizes both direct and indirect observable price quotes, including quoted market prices (Level 1 inputs) or inputs that are derived principally from or corroborated by observable market data (Level 2 inputs). Level 3 instruments use unobservable inputs and require management judgment due to the absence of quoted market prices, inherent lack of liquidity and the long-term nature of such financial instruments. The following table presents information about assets required to be carried at fair value on a recurring basis at December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$818,000	\$ —	\$ —	\$ 818,000
Preferred stock warrants	—	—	593,000	593,000
	<u>\$818,000</u>	<u>\$ —</u>	<u>\$593,000</u>	<u>\$1,411,000</u>

There were no transfers in or out of Levels 1, 2 or 3 during the year ended December 31, 2011.

The following table presents information about assets required to be carried at fair value on a recurring basis at December 31, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$2,305,000	\$ —	\$ —	\$2,305,000
Preferred stock warrants	—	—	593,000	593,000
	<u>\$2,305,000</u>	<u>\$ —</u>	<u>\$593,000</u>	<u>\$2,898,000</u>

Revenue Recognition

The Company recognizes revenue from sales of consumer products under the terms of the customer agreement upon transfer of title and risk of loss to the customer, net of estimated returns, provided that collection is determined to be reasonably assured and no significant obligations remain. Sales to resellers are typically subject to agreements allowing for limited rights of return and customer discount programs. Accordingly, the Company reduces revenue for its estimates of liabilities for these rights of return at the time the related sale is recorded. Due to the uncertainty of the condition or marketability of products returned by end users the Company does not record the cost of estimated returns into inventory. The Company makes an estimate of sales returns for products sold by resellers directly based on historical returns experience and other relevant data. The Company has aggregated and analyzed historical returns from resellers and end users which form the basis of its estimate of future sales returns by resellers or end users. If actual returns differ significantly from its estimates, such differences could have a material impact on the Company's results of operations for the period in which the returns become known. The estimates for returns are adjusted periodically based upon historical rates of returns. The estimates and reserve for customer discounts are based on specific programs, expected usage and historical experience. Actual results could differ from these estimates.

EVOLUTION ROBOTICS, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

(tabular amounts in thousands, except per share data)

The Company also derives revenue from other sources, comprised of the following:

Software license agreements – The Company licenses its software and provides post contract support (“PCS”) generally consisting of maintenance, technical support and when and if available upgrades of the software. The licensing fee is allocated to each respective element of the arrangement (including PCS) based on its vendor-specific objective evidence (“VSOE”) of fair value and recognized for each element when the following revenue recognition criteria are met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred, (3) the fee is fixed and determinable and (4) collectability is probable. The Company’s software licenses generally include PCS for a specified term and may be renewed for additional terms at the option of the customer. The Company does not have a history of selling PCS services separately from its licensing agreements or a history of charging a substantive stated renewal rate for PCS, therefore the Company has not established VSOE and cannot allocate the licensing fee to each respective element sold. As a result, revenue for software license agreements is recognized on a straight-line basis over the term of the PCS obligation commencing at the beginning of the PCS term.

Development agreements – The Company enters into agreements to develop prototype consumer products using its proprietary vision and navigation hardware and software systems. The Company considers these contracts to be within the scope of ASC 605-35 *Construction-Type and Production-Type Contracts*. The Company recognizes revenue for such contracts using the percentage-of-completion method of accounting. Under this method revenue is recognized as work is performed based on specific output milestones. Since the Company is generally delivering a tangible consumer product to the customer at various stages of development management considers specific output milestones to be the best available measure of progress on the contracts.

Contract costs for development agreements generally include direct labor costs. Management prepares detailed budgets at the inception of its development agreements and monitors the time, effort and progress toward meeting each output milestone. Provisions for estimated losses on uncompleted development agreements, if any, are recognized in the period in which the loss first becomes probable and reasonably estimable. No loss provision was necessary during the year ended December 31, 2011. Changes in direct labor performance and estimated profitability may result in revisions to costs and income, which are recognized in the period in which the revisions are determined.

Funded Research agreements – The Company enters into cost-plus-fixed-fee (“CPFF”) type contracts funded by agencies of the U.S. government. The Company recognizes revenue based on costs incurred plus a pro rata portion of the total fixed fee. Costs incurred include labor, incurred by the Company and subcontractors, that is directly associated with individual CPFF contracts plus indirect overhead and general and administrative type costs. The Company is required to submit incurred cost reports to the governmental agencies each year to substantiate the indirect billing rates. These final billing rates are subject to audit by the Defense Contract Audit Agency (“DCAA”), which can occur several years after the final billing rates are submitted and may result in material adjustments to revenue recognized based on estimated final billing rates. As a result of an audit of 2008, agency auditors determined that the Company was not compliant with certain administrative program requirements and placed the Company on a billing hold until such time as the Company becomes compliant. As a result of the billing hold, the Company has only recognized revenue to the extent that CPFF billings have been paid. The Company has taken actions to remediate instances of noncompliance; however, if the Company is ultimately found to be noncompliant with material requirements of the contracts, the contracting agency may terminate the contracts for default and the Company may be liable to the contracting agency for excess procurement costs. The Company has recognized revenue of \$138,000 during the year ended December 31, 2011 in connection with funded research agreements.

EVOLUTION ROBOTICS, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

(tabular amounts in thousands, except per share data)

Research and Software Development Costs

Research and development costs are expensed as incurred. Capitalization of software development costs for software to be sold, leased, or otherwise marketed begins upon the establishment of technological feasibility, which is generally the completion of a working prototype that has been certified as having no critical bugs and is a release candidate. Amortization begins once the software is ready for its intended use, generally based on the pattern in which the economic benefit will be consumed. To date, software development costs incurred between completion of a working prototype and general availability of the related product have not been material and accordingly no costs have been capitalized.

Sales and Marketing Costs

The Company expenses advertising costs as incurred. Advertising expense is included in sales and marketing expenses in the accompanying statements of operations and was approximately \$5,263,000 for the year ended December 31, 2011.

Warranty Obligations

The Company provides a product warranty for manufacturing defects in materials and workmanship for a period of one year from the date of purchase by an end user. For products returned directly to the Company with valid warranty claims, the Company has the option to repair, adjust, or replace the products with new or reconditioned products. To date, the costs of providing replacement products have not been significant. The Company has provided for estimated future warranty costs of approximately \$53,000, representing its best estimate of the likely expense of fulfilling its obligations for product warranties. The Company closely monitors and evaluates its products in an effort to ensure the quality of its products and to reduce warranty exposure. If the costs of providing replacement products for actual warranty claims differ from the Company's estimates, accrued warranty costs could be adjusted in the period in which these actual costs become known.

Income Taxes

Income taxes are accounted for using the asset and liability method whereby deferred income tax assets and liabilities are recognized based on the differences between the financial statement reporting and tax bases of the Company's assets and liabilities. Deferred income tax assets and liabilities are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is established when available evidence indicates that it is more likely than not that all or a portion of the net deferred income tax assets will not be realized.

Stock-Based Compensation

The Company recognizes compensation expense related to employee option grants in accordance with ASC 718, *Compensation – Stock Compensation* ("ASC 718").

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ASC 718 requires companies to estimate the fair value of stock option awards on the grant date using an option pricing model. Employee stock-based compensation recognized in 2011 is measured using the Black-Scholes option pricing model for estimating the fair value of options granted under the Company's stock option plan. The Company has elected to treat share-based payment awards with graded vesting schedules and time-based service conditions as a single award and recognizes stock-based compensation on a straight-line basis, net of estimated forfeitures, over the requisite service period. The assumptions that were used to calculate the grant date fair value of the Company's employee and non-employee stock option grants for the year ended December 31, 2011 were as follows:

Risk-free interest rate	2.55%
Expected term (in years)	6.39
Dividend yield	0%
Expected volatility	60%
Weighted-average estimated fair value	\$0.15

The expected term of employee stock options represents the weighted-average period that the stock options are expected to remain outstanding. In estimating the expected term for options granted to employees during the year ended December 31, 2011, the Company applied the simplified method from Staff Accounting Bulletin ("SAB") Topic No. 14, *Share-Based Payments* as the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term.

The Company determined the expected volatility assumption using the frequency of daily historical prices of comparable public companies common stock for a period equal to the expected term of the options. The Company will continue to monitor peer companies and other relevant factors used to measure expected volatility for future stock option grants.

The risk-free interest rate assumption is based upon observed interest rates on the United States government securities appropriate for the expected term of the Company's employee stock options.

The dividend yield assumption is based on the Company's history and expectation of dividend payouts. The Company has never declared or paid any cash dividends to its stockholders, and the Company does not anticipate paying any cash dividends in the foreseeable future.

As stock-based compensation expense recognized in the Company's statement of operations for the year ended December 31, 2011 is based on awards ultimately expected to vest, the amount has been reduced by estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on the Company's historical experience and future expectations.

For purposes of financial accounting for stock-based compensation, the Company has determined the fair values of its options based in part on the work of third-party valuation specialists utilizing Level 3 valuation inputs. The determination of stock-based compensation is inherently uncertain and subjective and involves the application of valuation models and assumptions requiring the use of judgment. If the Company had made different assumptions, its stock-based compensation expense, and its net loss could have been significantly different.

Warrants Exercisable into Convertible Preferred Stock

In accounting for preferred stock warrants, the Company applies the provisions of ASC 480-10 *Distinguishing Liabilities from Equity* ("ASC 480-10"). ASC 480-10 requires freestanding warrants and other similar instruments on shares that are redeemable (either puttable or mandatorily redeemable) to be classified as liabilities. The Company has issued warrants which are exercisable into convertible preferred stock in connection with its credit facility arrangement and note financings from its investors (see Note 7). The Company has determined that the preferred stock warrants contain contingently puttable features associated with the deemed liquidation preferences upon a change-in-control. Accordingly, the preferred stock warrants have been recorded as other liabilities in the accompanying balance sheet. The preferred

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stock warrants are carried at their fair values at the date of issuance with subsequent changes in fair value at each reporting period recorded in other income (expense) in the accompanying statement of operations. The warrants are exercisable either through cash payment of the exercise price or through net-share settlement at the option of the holder. There was no change in the fair value of the preferred stock warrants for the year ended December 31, 2011.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

On an ongoing basis, management evaluates these estimates and judgments, including those related to the timing and recognition of revenue, sales returns, bad debts, warranty claims, inventory reserves, income taxes, warrants and assumptions used in valuing stock-based compensation instruments. The Company bases these estimates on historical and anticipated results, and trends and on various other assumptions that the Company believes are reasonable under the circumstances, including assumptions as to future events. The Company may engage third party valuation specialists to assist with estimates related to the valuation of its common stock. Such estimates often require the selection of appropriate valuation methodologies and models, and significant judgment in evaluating ranges of assumptions and financial inputs.

These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from the Company's estimates.

Recent Accounting Pronouncements

In May 2011, the FASB issued amended guidance on fair value measurement and related disclosures. The new guidance clarifies the concepts applicable for fair value measurement of non-financial assets and requires the disclosure of quantitative information about the unobservable inputs used in a fair value measurement. This guidance will be effective for reporting periods beginning after December 15, 2011, and will be applied prospectively. The Company does not anticipate a material impact on its financial statements as a result of the adoption of this amended guidance.

From time to time, new accounting pronouncements are issued by FASB that are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on the Company's financial statements upon adoption.

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3. Balance Sheet Amounts

	December 31,	
	2011	2010
Accounts receivable:		
Accounts receivable, gross	\$ 4,973	\$ 2,522
Less: Returns reserve	(1,440)	(424)
Less: Reserve for customer discounts	(1,327)	(370)
Accounts receivable, net	\$ 2,206	\$ 1,728
	December 31,	
	2011	2010
Inventory:		
Raw materials	\$ 558	\$ 293
Finished goods	4,879	678
	\$ 5,437	\$ 971
	December 31,	
	2011	2010
Property and equipment, net:		
Computer equipment	\$ 55	\$ 48
Furniture and fixtures	46	46
Product tooling	447	260
Leasehold improvements	222	—
	770	354
Less: Accumulated depreciation	(321)	(162)
	\$ 449	\$ 192

Total depreciation expense on property and equipment was \$159,000 for the year ended December 31, 2011, including \$115,000 of depreciation expense on product tooling which is included in inventory costs.

4. Notes and Accrued Interest Payable to Related Parties

In July 2011, the Company entered into secured promissory notes with certain of its investors, all of which are characterized as bridge loan financings. These notes mature one year from the date of issuance, bear interest at the rate of 7.5% per annum and are collateralized by substantially all of the assets of the Company. These notes are subordinate to the bank loan described in Note 5.

The notes and accrued interest are mandatorily convertible into preferred stock if a financing round with proceeds of \$8,000,000 or greater at a per share price that is equal to or greater than the Series B convertible preferred stock price (“Qualified Financing”) occurs prior to the maturity date. The conversion price is variable and is based on a sliding scale such that the investors receive a discount to the next round preferred stock price of 5% to 25% at the time of conversion depending on the timing of the next financing round. The note holders can elect to convert their notes and accrued interest into shares with these same

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terms in the case of a financing event that is not a Qualified Financing. The notes and accrued interest are mandatorily convertible into Series B convertible preferred stock at the price of \$1.00 per share in the event that there is a change in control of the Company prior to the maturity date and before the next Qualified Financing. After the maturity date, the note holders can elect to convert their notes and accrued interest into shares issued in the next Qualified Financing at the price of the next Qualified Financing. These conversion features are considered to be contingent and therefore will not be accounted for until all remaining contingencies surrounding their issuance are resolved. See Note 12 for a description of the conversion of the notes into Series C convertible preferred stock in May 2012.

In addition, as consideration for entering into the note financing agreement, the Company issued each note holder warrants exercisable into either common stock or preferred stock in the next round of financing (see Note 7). In the case of a financing event (either a Qualified Financing or not), each note holder will be issued warrants based on the warrant coverage amount divided by the conversion price as determined in accordance with the sliding scale described above. These warrants are exercisable into preferred stock of the next round of financing. In the case of a change in control each note holder will be issued warrants equal to the warrant coverage amount divided by \$0.25. These warrants are exercisable into common stock. In all cases the warrants have a term of 5 years from the date of issuance. These warrants are considered to be contingently issuable and therefore will not be recorded by the Company until all remaining contingencies surrounding their issuance are resolved. See Note 12 for a description of the issuance of warrants in connection with the Series C convertible preferred stock financing in May 2012.

At December 31, 2011, the aggregate principal and accrued interest balances were \$3,200,000 and \$103,000, respectively.

5. Bank Loan

In August 2010, the Company entered into a loan and security agreement ("Loan Agreement") with a financial institution that allowed the Company to borrow up to \$7,000,000. The Loan Agreement is comprised of \$2,000,000 of term debt ("Term Debt") and a \$5,000,000 revolving credit line secured by the Company's qualified accounts receivable ("AR Line"). In October 2011, the Company and the financial institution amended the Loan Agreement (the "October Amendment") to, among other things, increase the maximum amount of borrowings under the AR Line to \$10,000,000.

Term Debt

In September 2010 and March 2011, the Company borrowed the maximum amount of Term Debt under the Loan Agreement, in increments of \$1,000,000 each. At December 31, 2011 and 2010, \$1,333,333 and \$916,667, respectively, of principal and \$9,000 and \$6,000, respectively, of accrued interest payable (which is included within accrued expenses in the accompanying balance sheets) were outstanding.

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Annual maturities of Term Debt including minimum interest payments are as follows:

Years ending December 31:	
2012	\$ 741
2013	608
2014	84
Total principal and interest	<u>\$1,433</u>
Less: Amounts representing interest	<u>(99)</u>
Total principal	<u>\$1,334</u>
Less: current portion	<u>(667)</u>
Bank loan, less current portion	\$ 667
Less: unamortized debt discount	<u>(78)</u>
Bank loan, less current portion and unamortized debt discount	<u>\$ 589</u>

Interest on amounts drawn accrues at 7.5% per year and is payable monthly. Principal and accrued interest are to be repaid in 36 equal monthly installments beginning on October 1, 2010 (for the first \$1,000,000 drawn) and April 1, 2011 (for the second \$1,000,000 drawn). Outstanding principal and accrued interest will be paid off on March 1, 2014. Aggregate borrowings can be prepaid at any time, however, amounts repaid cannot be re-borrowed. The Company is obligated to pay a final payment fee of 2% of the amounts drawn on the earlier of the prepayment date, if any, or the maturity date of each draw. The borrowings are collateralized by a first-priority security interest in substantially all of the assets of the Company.

AR Line

The Company's AR Line is a revolving credit facility that permits it to borrow up to 80% of eligible accounts receivable as defined in the Loan Agreement. Under the original Loan Agreement interest was payable monthly at the greater of 6.5% per year or the financial institution's prime rate (4.0% at December 31, 2011) plus 2.5% per year on 100% of eligible accounts receivable that have outstanding borrowings. The October Amendment changed the interest rate to the financial institution's prime rate plus 1% per year if the Company maintained certain financial ratios or the financial institution's prime rate plus 2% per year. The Company pays a collateral handling fee which varies based on certain financial ratios and ranges from 0% to 0.375% per month of 100% of eligible accounts receivable that have outstanding borrowings. The Company is also required to pay a minimum amount of \$5,000 of interest on the AR Line each month and pay an annual fee of \$25,000 to maintain availability of the AR Line. At December 31, 2011 the Company had outstanding borrowings of \$2,054,000 on the AR Line and interest payable of \$23,000. The Company had no outstanding borrowings under the AR Line at December 31, 2010. The maximum amount available under the AR Line at December 31, 2011 and 2010 was \$3,661,000 and \$1,513,000, respectively.

The Loan Agreement does not have any financial debt covenants. The financial institution can demand payment of amounts outstanding under the Loan Agreement in the case of a material adverse change in the Company's business, operations or condition or a material impairment in the value of the collateral securing the loan.

As consideration for the Loan Agreement the Company paid fees of \$39,000 and issued the financial institution a preferred stock warrant which is exercisable into Series B convertible preferred stock. As consideration for the October Amendment to the Loan Agreement the Company paid the financial

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institution a fee of \$5,000. The warrant had a fair value of \$61,000 on the date of issuance and has been classified, along with the other fees (including the annual fee on the AR Line described above), as a discount on the bank loan in the accompanying balance sheet. The debt discount is being amortized to interest expense over the term of the bank loan. The Company recorded amortization expense of \$41,000 for the year ended December 31, 2011. The remaining unamortized debt discount is \$78,000 and \$89,000 at December 31, 2011 and 2010, respectively.

See Note 12 which describes the amendment and restatement of the Loan Agreement executed in August 2012.

6. Convertible Preferred Stock

Convertible preferred stock at December 31, 2011 consists of the following:

	Shares		Liquidation Preference
	Authorized	Outstanding	
Series A convertible preferred stock	13,333	13,333	\$ 13,333
Series B convertible preferred stock	18,623	13,883	\$ 13,883
	<u>31,956</u>	<u>27,216</u>	<u>\$ 27,216</u>

At December 31, 2010 the Company had 14,582,529 shares of Series B convertible preferred stock authorized with no other differences for the Series A and Series B convertible preferred stock to the table above.

The Company's Board of Directors is authorized to determine the rights of each offering of preferred stock including, among other terms, dividend rights, voting rights, conversion rights, redemption prices and liquidation preferences, if any, subject to the limitations of applicable laws, regulations and its charter. The following summarizes the terms of the convertible preferred stock as of December 31, 2011:

Conversion rights – Each share of preferred stock is convertible, at the holder's option, into such number of fully paid and non-assessable shares of Class A common stock as is determined by dividing the applicable original issue price by the conversion price, both as defined in the Company's Amended and Restated Certificate of Incorporation. At December 31, 2011, the original issue price and conversion price is \$1.00 per share for both Series A and Series B, such that each share of preferred stock is convertible into Class A common stock on a one to one basis. In the event of the issuance of additional shares of common stock, subject to certain exclusions, at a price per share less than the conversion price in effect on the date of such issuance, the conversion price will be adjusted based on a weighted average anti-dilution formula. The conversion price is also subject to adjustment based on certain other anti-dilution provisions. Preferred stock will automatically convert into shares of Class A common stock at its then effective conversion rate immediately upon the closing of an initial public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, covering the offer and sale of Class A common stock with gross proceeds to the Company of not less than \$30,000,000 at a per share price of not less than \$3.00 ("Qualified IPO") or upon the consent of 66% of each series of stock voting as a single class. The Company is required to reserve and keep available, out of its authorized but unissued shares of Class A common stock, 31,955,862 shares for the conversion of Series A and Series B.

Liquidation preference – In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the holders of Series B convertible preferred stock are entitled to receive,

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prior and in preference to any distribution of any assets or surplus funds to the holders of the Series A convertible preferred stock, the Special Stock (see below for a description of the terms of the Special Stock) and the common stock, \$1.00 per share plus any dividends declared but unpaid on such shares. After distribution to the Series B convertible preferred stock and prior and in preference to any distribution of any assets or surplus funds to the holders of the Special Stock and the common stock, the holders of Series A convertible preferred stock are entitled to receive \$1.00 per share plus any dividends declared but unpaid on such shares. Thereafter, any remaining assets and funds of the Company will be distributed ratably to the holders of Class A common stock and Special Stock.

A liquidation event is deemed to include the Company's sale of all or substantially all of its assets or the acquisition of the Company by another person or entity by means of merger or consolidation resulting from the transfer of 50% or more of the Company's voting power. The preferred stockholders can waive this "deemed" liquidation preference by a majority vote.

The liquidation preference provisions of the convertible preferred stock are considered contingent redemption provisions that are not solely within the control of the Company. The Company has presented the convertible preferred stock in the mezzanine section of the balance sheet which is outside of the stockholders' deficit section.

Voting rights – The preferred stockholders are entitled to one vote for each share of Class A common stock into which such preferred stock can be converted. The preferred stock generally votes together with the Special Stock and the common stock and not as a separate class. The Company's Amended and Restated Articles of Incorporation include certain provisions which require a majority vote of each class of preferred stockholders with respect to certain actions of the Board of Directors including: (1) effecting an amendment or waiver of any of the provisions of the Company's certificate of incorporation or bylaws which adversely affects the preferred stockholders; (2) declaring or paying any dividends; (3) authorization, creation or issuance of any share of capital stock senior to, or on parity with such series of preferred stock with respect to any preferences, designations, privileges or powers; and (4) alteration or change of the rights and preferences of its series of preferred stock. In addition, the vote of at least 66% of the preferred stock, voting as separate classes is required to: (1) increase or decrease the number of authorized shares of such series of preferred stock; (2) redeem, purchase or otherwise acquire any share or shares of preferred stock or Class A or Class B common stock (other than the repurchase of stock from employees, officers, directors or consultants of the Company in connection with the termination of their employment or services pursuant to agreements approved by the Company's Board of Directors); and (3) issue any equity securities of the Company or grant any options, warrants or other rights to acquire equity securities of the Company other than equity securities or options, warrants or other rights issued pursuant to the terms of equity incentive plans approved by the Company's Board of Directors. As long as at least 40% of the total number of issued shares of Series B convertible preferred stock remain outstanding the consent of the holders of at least 66% of the preferred stock, voting as a single class, is required to effect a sale of all or substantially all of the Company's assets or the acquisition of the Company by another person or entity by means of merger or consolidation resulting from the transfer of 50% or more of the Company's voting power.

Dividends – The holders of preferred stock are entitled to receive noncumulative dividends in an amount per share equal to 8% of the original issuance price per annum when and if declared by the Board of Directors. In all cases, if dividends are declared and paid to preferred stockholders they must have at least the same terms as dividends declared and paid to the common stockholders.

There were no issuances of Series A or Series B convertible preferred stock during the year ended December 31, 2011. See Note 12 for a description of the issuance of Series C convertible preferred stock in May 2012.

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7. Capitalization

Common and Special Stock

The Company is authorized to issue Class A and Class B common stock and Special Stock. The holder of the Special Stock is entitled to cast that number of votes equal to the greater of such holder's actual votes or that number of votes equal to 80% of the voting power of all outstanding shares of capital stock of the Company in each vote of the stockholders of the Company or action by written consent of such stockholders held or taken for any purpose, including the election of directors. As of December 31, 2011 and 2010, 1 share of Special Stock was held by Idealab Holdings, LLC.

The Special Stock can be converted at any time, at the option of the holder, into 1 share of Class A common stock. Upon the closing of a Qualified IPO, the Special Stock will automatically convert into that number of shares of Class B common stock representing 80% of the total voting power of the Company after the public offering (including those shares of Class A stock already held by the holder of the Class B common stock). The Special Stock and Class B common stock will automatically convert into 1 share of Class A common stock upon: (1) the transfer of the Special Stock or Class B common stock to any person or entity other than Idealab or any of its wholly or majority owned subsidiaries or (2) the failure of Idealab or any of its wholly or majority owned subsidiaries to own or control at least 10% of the outstanding shares of Class A common stock of the Company, on an as converted basis.

No dividends shall be paid on the Class B common stock or the Special Stock in any year.

Warrants for Series B Convertible Preferred Stock Issued with Bank Loan Agreement

In August 2010, the Company issued a warrant to a financial institution to purchase 100,000 shares of its Series B convertible preferred stock in connection with the establishment of the Loan Agreement (see Note 5). The Series B convertible preferred stock warrant has an exercise price of \$1.00 per share and is exercisable at any time on or prior to August 12, 2020. The fair value of the warrant as of December 31, 2011 is \$61,000 and is recorded in other liabilities in the accompanying balance sheet. There was no significant change in the fair value of the Series B convertible preferred stock warrant during the year ended December 31, 2011.

Warrants Issued with Notes Payable to Related Parties

In August 2010, the Company obligated itself to issue warrants to purchase 1,200,000 shares of Series B convertible preferred stock to certain investors that had funded secured promissory notes. The Series B convertible preferred stock warrants have an exercise price of \$1.00 per share and are exercisable at any time on or prior to March 27, 2016. The warrants are exercisable through either a cash purchase or through a customary net-share settlement formula. The fair value of the warrants as of December 31, 2011 is \$532,000 and is recorded in other liabilities in the accompanying balance sheet. There was no change in the fair value of the Series B convertible preferred stock warrant during the year ended December 31, 2011.

In July 2011, the Company obligated itself to issue warrants to purchase shares of either common stock, in the case of a qualified change in control, or convertible preferred stock in the next round of financing to certain investors that had funded secured promissory notes (see Note 4). The common stock warrants have an exercise price of \$0.25 per share and the Series B convertible preferred stock warrants have an exercise price equal to a discount to the per share price of the next round of financing. Both the common and preferred stock warrants are exercisable within 5 years of the date of issuance and are exercisable through either a cash purchase or through a customary net-share settlement formula. These warrants are considered to be contingently issuable and therefore will not be recorded by the Company until all remaining contingencies surrounding their issuance are resolved. See Note 12 for a description of the Series C convertible preferred stock financing in May 2012 which resulted in the issuance of these preferred stock warrants.

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The preferred stock warrants issued with the Loan Agreement and the preferred stock warrants issued with the notes payable to related parties were valued using the Black-Scholes option pricing model and have a total fair value of \$593,000 at December 31, 2011. Management determined the approximate fair value using an exercise price of \$1 per share; an expected life of 10 years, in the case of the warrants issued with the Loan Agreement and 5 years in the case of the warrants issued with the notes payable to related parties; expected volatility of 51%; dividend yield of 0% and a risk free rate of 0.87% . There was no significant change in the fair value of the preferred stock warrants during the year ended December 31, 2011.

8. Stock-Based Compensation

The Company is authorized to issue up to 5,333,333 shares of its common stock pursuant to the 2007 Stock Option Plan (the "2007 Plan"). As of December 31, 2011, 417,241 options are available for grant under the 2007 Plan. The purpose of the 2007 Plan is to incent employees, directors and consultants who render services to the Company by providing opportunities to purchase stock in the Company. All options granted will expire ten years from their date of issuance. Incentive stock options generally have a four-year vesting period from their date of issuance and nonqualified options have various vesting schedules generally ranging from immediate vesting to vesting within three years. Stock purchase rights may also be granted under the terms of the 2007 Plan; however, as of December 31, 2011 none have been issued.

The Company's Board of Directors administers the 2007 Plan, selects the individuals to whom options will be granted, determines the number of options to be granted and the term and exercise price of each option. Incentive stock options granted pursuant to the terms of the 2007 Plan cannot be granted with an exercise price of less than 100% of the fair market value of the underlying stock on the date of grant or 110% if the award is issued to a ten percent or more stockholder of the Company. Nonstatutory stock options granted pursuant to the terms of the 2007 Plan cannot be granted with an exercise price of less than eighty-five percent of the fair market value of the underlying stock on the date of grant or 110% for awards granted to a ten percent or more stockholder of the Company. The term of the options granted under the 2007 Plan cannot be greater than ten years; five years for incentive stock options granted to optionees who have a greater than ten percent ownership interest in the Company. Options granted generally vest twenty-five percent on the one-year anniversary of the date of grant with the remaining balance vesting equally on a monthly basis over the subsequent three years.

For the year ended December 31, 2011, the Company recorded stock-based compensation expense in the following categories on its statement of operations:

Cost of revenues	\$—
Sales and marketing	—
Research and development	36
General and administrative	43
Total stock-based compensation expense	<u>\$ 79</u>

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The following table summarizes stock option activity for the year ended December 31, 2011:

	Number of Options	Wgt Avg Exercise Price	Wgt Avg Remaining Contract Life (Yrs)	Aggregate Intrinsic Value
Outstanding at December 31, 2010	3,819	\$ 0.18		
Granted	1,098	\$ 0.25		
Exercised	(97)	\$ 0.22		
Canceled/forfeited	(51)	\$ 0.24		
Outstanding at December 31, 2011	<u>4,769</u>	\$ 0.19	6.98	\$ 286
Vested and exercisable as of Dec. 31, 2011 and expected to vest thereafter	4,757	\$ 0.19	6.98	\$ 285
Vested and exercisable as of Dec. 31, 2011	3,889	\$ 0.19	6.98	\$ 233

The aggregate intrinsic value in the table above represents the difference between the estimated fair value of the Company's common stock at December 31, 2011 and the option exercise price, multiplied by the number of in-the-money options at December 31, 2011. The intrinsic value changes are based on the estimated fair value of the Company's common stock. At December 31, 2011, total remaining stock-based compensation expense for unvested awards is \$164,448, which is expected to be recognized over a weighted-average period of 2.8 years.

Stock options to purchase 96,757 shares of the Company's common stock were exercised during the year ended December 31, 2011 for cash proceeds of \$20,839.

There was no tax benefit realized for the tax deductions from stock options exercised during the year ended December 31, 2011.

9. Income Taxes

The Company was part of the Idealab federal consolidated income tax reporting group from January 9, 2007 (inception) to January 31, 2008 and is part of the Idealab combined income tax reporting group for state income tax purposes. The Company is a party to an income tax sharing agreement with Idealab. Pursuant to the tax sharing agreement the Company will be reimbursed for the allocated tax benefit of net operating losses that were used by the group. Reimbursement under the tax sharing agreement will be due at the time that such allocated losses would have otherwise been utilizable by the Company on a stand-alone basis.

The consolidated amount of current and deferred income tax expense for a group that files a consolidated tax return is allocated among the members of the group when those members issue separate financial statements. The Company's income tax provision has been computed as if the Company were a separate entity from Idealab.

As a result of net operating losses and the inability to record a benefit for its deferred income tax assets, the Company has not recorded a provision for income taxes.

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The Company's deferred tax assets and liabilities as of December 31, 2011 and 2010 consist of the following:

	December 31,	
	2011	2010
Deferred income tax assets:		
Net operating loss carryforwards	\$ 6,295	\$ 4,061
Research and development credits	696	508
Accruals	1,111	80
Total gross deferred income tax assets	8,102	4,649
Deferred income tax liabilities	(61)	(37)
Less: valuation allowance	(8,041)	(4,612)
Net deferred income tax assets	\$ —	\$ —

The Company has recorded a full valuation allowance against its net deferred income tax assets at December 31, 2011 as management has determined, after evaluating all positive, negative, historical and prospective evidence that it is more likely than not that these assets will not be realized. The net increase in the valuation allowance for deferred income tax assets of \$3,429,000 for the year ended December 31, 2011 was primarily due to additional net operating losses generated by the Company. The Company's effective income tax rate differs from the federal statutory income tax rate of 34% due primarily to the valuation allowance on deferred tax assets.

The Company had federal net operating loss carryforwards at December 31, 2011 of approximately \$15,135,000. State net operating loss carryforwards reflect the allocable portion of net operating losses as apportioned to the Company under state regulation. As of December 31, 2011, the Company had state net operating loss carryforwards of approximately \$19,701,000. These federal and state net operating loss carryforwards begin to expire in 2028 and 2030, respectively. The Company also has research and development credit carryforwards of \$696,000 and \$508,000 at December 31, 2011 and 2010, respectively, which begin to expire in 2028. The utilization of these tax benefits may be further limited under Section 382 of the Code based on additional changes in the ownership of the Company. These limitations could significantly impact the timing and amount of future income tax obligations, if any.

At December 31, 2011 and 2010, the Company has no significant unrecognized tax positions. The Company's policy is to recognize interest and penalties, if any, related to uncertain tax positions as a component of income tax expense. For the year ended December 31, 2011, the Company did not recognize any interest or penalties for uncertain tax positions. The Company is currently not under examination by the United States Internal Revenue Service or any other state, city or local jurisdiction. As such, the Company is subject to the standard statutes of limitations by the relevant tax authorities for federal and state purposes. The Company remains subject to federal and state tax examinations by tax authorities for all tax years ended since inception.

10. Related Party Transactions

The Company receives a variety of overhead services from Idealab. Such services include accounting, human resources, legal, information technology, marketing and public relations. Idealab charges the Company a fee based on the cost to Idealab of the specific services provided and these fees totaled \$342,000 for the year ended December 31, 2011.

EVOLUTION ROBOTICS, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

(tabular amounts in thousands, except per share data)

The Company's employees participate in Idealab's payroll benefit plans. Idealab charges the Company for payroll benefit costs paid on the Company's behalf. The Company's employees also participate in Idealab's defined contribution plan for the benefit of all of its eligible employees. Participants may contribute a portion of their compensation up to the Internal Revenue Service's annual contribution limit. The Company, within the guidelines of the Idealab plan, may make discretionary contributions to the plan. The Company has not made any contributions to the plan since its inception.

The Company had amounts payable to Idealab of \$530,000 and \$118,000 at December 31, 2011 and 2010, respectively, including accrued interest of \$13,000 at December 31, 2011 for past due amounts.

As more fully described in Note 4, the Company has entered into secured convertible promissory notes with certain of its investors.

In connection with the purchase of the Company's Series A convertible preferred stock, as described in Note 1, the Company entered into a worldwide, perpetual, royalty-free license with Future Vision, to use certain vision-related software code, intellectual property and marks exclusively in defined fields of use. Future Vision has also entered into a similar license with another unrelated company to use the same software code, intellectual property and marks in other defined fields of use.

11. Commitments and Contingencies

The Company leases its office space under a non-cancellable operating lease agreement expiring in August 2016. Future minimum lease payments under this operating lease as of December 31, 2011 are as follows:

Years ending December 31:	
2012	\$ 289
2013	298
2014	307
2015	316
2016	215
Total minimum lease payments	<u>\$1,425</u>

The Company licenses the rights to certain technology from a third party for exclusive use in certain markets. This license agreement requires the Company to pay royalties, including guaranteed or minimum royalty amounts, based on the revenue generated from the sale of products which include the licensed technology. The agreement expires when the copyright for the underlying licensed technology expires. During the year ended December 31, 2011, the Company paid royalties of \$150,000 which are included in cost of revenues in the accompanying statement of operations.

At December 31, 2011 the Company had firm commitments to purchase raw materials and finished goods inventory from its suppliers in the amount of \$4,200,000. Based on the Company's inventory levels and plans for product production the company estimates that \$151,000 of this commitment represents excess raw materials inventory that will not be used in the production process. At December 31, 2011 the Company has recorded an accrual of \$151,000 for this adverse purchase commitment.

From time to time the Company may be involved in disputes that have arisen in the ordinary course of business. Management believes the ultimate resolution of these disputes will not have a material adverse impact on the Company's results of operations, financial position or cash flows.

EVOLUTION ROBOTICS, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

(tabular amounts in thousands, except per share data)

The Company has entered into contractual agreements with certain customers, which include provisions for indemnifying the customer against losses, expenses and liabilities from damages that may be awarded against the customer in the event the Company's software is found to infringe upon a patent, copyright, trademark, or other proprietary rights of a third party. Additionally, in the normal course of business, the Company has made certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. The Company has also agreed to indemnify directors and officers of the Company to the maximum extent permitted under the laws of the State of Delaware. These indemnifications may survive termination of the underlying agreement and the maximum potential amount of future payments the Company could be required to make under these indemnification provisions may not be subject to maximum loss clauses. The Company believes its internal development processes and other policies and practices limit its exposure related to the indemnification provisions of its contractual agreements. To date, the Company has not had to reimburse any of its counterparties for any losses related to these indemnification provisions and no claims are outstanding as of December 31, 2011.

The Company has not recorded any liability for these indemnities and commitments in the accompanying balance sheets. The Company does, however, accrue for losses for any known contingent liability, including those that may arise from indemnification provisions, when future payment is probable.

12. Subsequent Events

The Company has evaluated subsequent events through August 31, 2012, the date the financial statements were issued.

In May 2012, the Company's articles were amended to authorize the Company to issue up to 50,356,351 shares of common stock, designated as 50,535,351 shares of Class A common stock and 1,000 shares of Class B common stock, and 41,499,535 shares of preferred stock, designated as 13,333,330 shares of Series AA convertible preferred stock, 10,778,000 shares of Series BB convertible preferred stock and 17,388,205 shares of Series C convertible preferred stock and 1 share of Special Stock. The rights, preferences and privileges of the Series AA and Series BB convertible preferred stock are identical to the rights, preferences and privileges of the Series A and Series B convertible preferred stock, respectively, as described in Note 6.

In May 2012, the Company issued 13,534,874 shares of Series C convertible preferred stock for cash of \$7,500,000 and the conversion of notes and accrued interest of \$4,905,187. The purchase price of the stock was \$1.00 per share, however, notes and accrued interest in the amount of \$3,389,062 were converted at \$0.75 per share based on a negotiated discount to the Series C convertible preferred stock price (see Note 4). The liquidation preference and redemption amount of the Series C convertible preferred stock is \$13,534,874. The terms of the Series C convertible preferred stock are identical to the terms of the Series A and Series B convertible preferred stock described in Note 6, however, the Series C convertible preferred stockholders have priority in liquidation over all other common, preferred and special stockholders. Also, under the terms of the Series C convertible preferred stock financing, the vote of 66% of the preferred stock, voting as a single class, is required to adopt any new equity incentive plan, amend any existing equity incentive plan or increase the number of shares of the Company's capital stock reserved for issuance under any such plan.

In connection with the Company's Series C convertible preferred stock financing all of the Company's Series A and Series B convertible preferred stock was converted into common stock in May 2012 on a 1 share of common stock for 10 shares of preferred stock basis and the Series A and B convertible preferred stock classes were eliminated. Concurrently with the Series C convertible preferred stock financing the purchasers of the Series C convertible preferred stock were entitled to exchange shares

EVOLUTION ROBOTICS, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

(tabular amounts in thousands, except per share data)

of common stock that they had received upon the conversion of their Series A and Series B convertible preferred stock for shares of the Company's newly created Series AA and Series BB convertible preferred stock on a 10 shares of preferred stock for 1 share of common stock basis. As part of this transaction, 4,484,529 previously issued shares of Series B convertible preferred stock were converted into 448,452 shares of common stock for investors who did not invest in the Series C convertible preferred stock financing. As a result, an amount equal to \$4,485,000 within the Series B convertible preferred stock carrying value was reclassified to Additional Paid-in Capital. The Company's Board also approved the replacement of outstanding warrants to purchase Series B convertible preferred stock with identical warrants to purchase Series BB convertible preferred stock.

The Company also issued warrants to purchase 853,332 shares of Series C convertible preferred stock to certain of its investors that had outstanding notes and accrued interest which automatically converted into Series C convertible preferred stock as noted above (see Note 7). The fair value of the warrants was estimated to be \$434,000 which has been classified as interest expense in the Company's statement of operations during the quarter ended June 30, 2012.

As a result of the resolution of the contingency surrounding the conversion of the notes and accrued interest payable to related parties as described in Note 4, the Company was able to determine the amount of the beneficial conversion feature created by the discount for the converted notes and accrued interest to the Series C convertible preferred stock price and the warrants issued in connection with the note financings. The Company recorded a charge of \$1,564,000 to interest expense during the quarter ended June 30, 2012 representing the difference between the fair value of the Series C convertible preferred stock and the fair value of the warrants that were together issued for the \$3,398,062 notes and accrued interest that converted into Series C convertible preferred stock at a discount.

In May 2012, the Company increased the number of shares it is authorized to issue pursuant to the 2007 Plan to 8,556,363.

In June 2012, the Company's Board of Directors approved the grant of stock options to purchase 1,932,199 shares of common stock with an exercise price of \$0.34 per share to employees and service providers of the Company.

In July 2012, the Company executed a non-binding proposal letter to be acquired by an unrelated third party and entered into a period of exclusivity with the potential buyer. The buyer is currently performing due diligence on the Company.

In August 2012, the Loan Agreement (see Note 5) was amended and restated to refinance the existing Term Debt by entering into a new term debt agreement (the "New Term Debt") which allowed the Company to borrow up to \$3,000,000. The New Term Debt is required to be fully drawn at inception and requires interest only payments for a period of six months. Principal and interest on the New Term Debt is due in 36 equal monthly payments beginning six months after the first interest only payment. Additionally, if the Company maintains certain minimum cash requirements, as defined in the amendment, interest on the AR Line would be charged based on the net amount borrowed. The amendment to the Loan Agreement also requires the Company to meet certain minimum three-month revenue targets as measured each month.

As consideration for the amendment to the Loan Agreement the Company paid a fee of \$15,000 and issued the financial institution a warrant to purchase approximately 265,000 shares of the Company's common stock at a strike price of \$0.34 per share. The warrant has a 10 year term. The costs and fair value of the warrant will be recorded as a discount on debt and amortized to interest expense over the remaining term of the loan. The financial institution has agreed to waive the final payment fee of 2% on amounts drawn on the Term Debt and sell the warrant to the Company for a fixed amount if the loan is paid early due to the change in control transaction described above.

EVOLUTION ROBOTICS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(tabular amounts in thousands, except per share data)

Of the \$4,200,000 firm purchase commitments described in Note 11, the Company remains obligated to purchase \$647,000 of inventory at August 31, 2012, which includes the \$151,000 of excess inventory also described in Note 11. The reduction in this firm purchase commitment is due to a combination of inventory purchases by the Company and negotiations with the Company's supplier to further reduce the commitment.



EVOLUTION ROBOTICS, INC.

Financial Statements and Review Report
For the Six Months Ended June 30, 2012



The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.



EVOLUTION ROBOTICS, INC.

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Shareholder of
Evolution Robotics, Inc.
Pasadena, California

We have reviewed the accompanying balance sheet of Evolution Robotics, Inc. ("Company") as of June 30, 2012, and the related statements of operations and cash flows for the six-month periods ended June 30, 2012 and 2011, and stockholders' deficit for the six month period ended June 30, 2012. This interim financial information is the responsibility of the company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the interim financial information referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

Note 1 of the Company's financial statements as of December 31, 2011, and for the year then ended discloses that the Company has suffered recurring losses and negative cash flows from operations, and has been dependent on equity and debt financing to fund its operations. Our auditor's report on those financial statements includes an explanatory paragraph referring to matters in Note 1 to those financial statements and indicating that these matters raised a substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the unaudited interim financial information as of June 30, 2012, the Company has suffered recurring losses and negative cash flows from operations, and has an accumulated deficit of \$40,403,000 at June 30, 2012. The Company is still dependent on equity and debt financing to fund its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern as of June 30, 2012. Management's plans in regard to these matters are also described in Note 1. The accompanying interim financial information does not include any adjustments that might result from the outcome of this uncertainty.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of the Company as of December 31, 2011, and the related statements of operations, stockholders' deficit, and cash flows for the year then ended (not presented herein); and in our report dated August 31, 2012, we expressed an unqualified opinion with a going concern explanatory paragraph on those financial statements. In our opinion, the information set forth in the accompanying balance sheet as of December 31, 2011, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived

BDO USA, LLP

December 3, 2012

EVOLUTION ROBOTICS, INC.
UNAUDITED BALANCE SHEETS
(in thousands, except share data)

	June 30, 2012	December 31, 2011
Assets:		
Current assets:		
Cash and cash equivalents	\$ 2,995	\$ 818
Accounts receivable, net	129	2,206
Inventory	2,935	5,437
Prepaid expenses and other current assets	360	41
Total current assets	6,419	8,502
Property and equipment, net	424	449
Other assets	204	204
Total Assets	\$ 7,047	\$ 9,155
Liabilities, Convertible Preferred Stock and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$ 1,897	\$ 5,506
Accrued expenses	577	804
Accrued compensation	375	459
Deferred revenue	100	—
Payable to related party	60	530
Notes and accrued interest payable to related parties	—	3,303
Current portion of bank loan	667	2,721
Total current liabilities	3,676	13,323
Bank loan, less current portion	287	589
Other liabilities	1,365	800
Total liabilities	5,328	14,712
Commitments and contingencies (Note 11)		
Convertible preferred stock, \$0.001 par value, 41,499,535 and 31,955,862 shares authorized at June 30, 2012 and December 31, 2011, respectively; 36,266,204 and 27,215,862 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively; liquidation preference of \$36,266 and \$27,216 at June 30, 2012 and December 31, 2011, respectively	36,407	27,017
Stockholders' Deficit:		
Common stock, Class A, \$0.001 par value; 50,536,351 and 55,529,238 shares authorized at June 30, 2012 and December 31, 2011, respectively; 596,876 and 148,424 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	1	—
Common stock, Class B, \$0.001 par value; 1,000 shares authorized, no shares issued and outstanding at June 30, 2012 and December 31, 2011	—	—
Special stock, \$0.001 par value; 1 share authorized, issued and outstanding at June 30, 2012 and December 31, 2011	—	—
Additional paid-in capital	5,714	1,167
Accumulated deficit	(40,403)	(33,741)
Total stockholders' deficit	(34,688)	(32,574)
Total Liabilities, Convertible Preferred Stock and Stockholders' Deficit	\$ 7,047	\$ 9,155

See accompanying summary of accounting policies, notes to the financial statements and independent accountants' review report.

EVOLUTION ROBOTICS, INC.
UNAUDITED STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2012 and 2011
(in thousands)

	Six Months Ended	
	June 30, 2012	June 30, 2011
Revenue:		
Product revenue	\$ 4,240	\$ 5,195
Other revenue	119	570
Total revenue	4,359	5,765
Cost of revenue:		
Cost of product revenue	3,198	3,742
Cost of other revenue	414	261
Total cost of revenue	3,612	4,003
Gross margin	747	1,762
Operating expenses:		
Sales and marketing	2,359	2,711
Research and development	1,747	1,480
General and administrative	868	914
Total operating expenses	4,974	5,105
Operating loss	(4,227)	(3,343)
Other income (expense):		
Interest income (expense):		
Interest on bank loan and notes to investors	(284)	(242)
Beneficial conversion feature from Series C conversion	(1,564)	—
Warrants issued on notes to investors	(434)	—
Total interest income (expense)	(2,282)	(242)
Change in fair value of warrants	(153)	—
Total other income (expense)	(2,435)	(242)
Net loss	<u>\$ (6,662)</u>	<u>\$ (3,585)</u>

See accompanying summary of accounting policies, notes to the financial statements and independent accountants' review report.

EVOLUTION ROBOTICS, INC.
UNAUDITED STATEMENT OF STOCKHOLDERS' DEFICIT
FOR THE SIX MONTHS ENDED JUNE 30, 2012
(in thousands, except share data)

	<u>Common Stock - Class A</u>		<u>Common Stock - Class B</u>		<u>Special Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accum. Deficit</u>	<u>Total Stockholders' Deficit</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Balance at December 31, 2011	148,424	\$ —	—	\$ —	1	\$ —	\$ 1,167	\$(33,741)	\$ (32,574)
Conversion of Series A and Series B convertible preferred stock to common stock	2,721,585	3	—	—	—	—	27,014	—	27,017
Conversion of common stock to Series AA and Series BB convertible preferred stock	(2,273,133)	(2)	—	—	—	—	(22,530)	—	(22,532)
Stock-based compensation	—	—	—	—	—	—	63	—	63
Net loss	—	—	—	—	—	—	—	(6,662)	(6,662)
Balance at June 30, 2012	<u>596,876</u>	<u>1</u>	<u>—</u>	<u>\$ —</u>	<u>1</u>	<u>\$ —</u>	<u>\$ 5,714</u>	<u>\$(40,403)</u>	<u>\$ (34,688)</u>

See accompanying summary of accounting policies, notes to the financial statements and independent accountants' review report.

EVOLUTION ROBOTICS, INC.
UNAUDITED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2012 and 2011
(in thousands)

	Six Months Ended	
	June 30, 2012	June 30, 2011
Cash flows from operating activities:		
Net loss	\$ (6,662)	\$(3,585)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	27	53
Amortization of debt discount	2,030	17
Change in fair value of warrant liability	153	—
Stock-based compensation	63	39
Changes in operating assets and liabilities:		
Accounts receivable, net	2,077	1,794
Inventory	2,502	(2,141)
Prepaid expenses and other assets	(319)	(47)
Accounts payable	(3,609)	1,309
Accrued expenses	(249)	233
Accrued compensation	(84)	(4)
Deferred revenue	100	(20)
Payable to related party	(470)	156
Accrued interest due to related parties	102	—
Net cash used in operating activities	<u>(4,339)</u>	<u>(2,196)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(2)	—
Net cash used in investing activities	<u>(2)</u>	<u>—</u>
Cash flows from financing activities:		
Issuance of Series C preferred stock, net of issuance costs	7,406	—
Borrowings on Term Debt	—	1,000
Payments on Term Debt	(334)	(250)
Payments on A/R Line, net	(2,054)	—
Note financings from related parties	1,500	—
Net cash provided by financing activities	<u>6,518</u>	<u>750</u>
Net increase in cash and cash equivalents	2,177	(1,446)
Cash and cash equivalents at beginning of period	818	2,305
Cash and cash equivalents at end of period	<u>\$ 2,995</u>	<u>\$ 859</u>
Supplemental Cash Flow Information:		
Cash paid for:		
Interest	\$ 214	\$ 69
Income taxes	\$ —	\$ —
Supplemental schedule of non-cash investing and financing activities:		
Conversion of notes and accrued interest to related parties to Series C convertible preferred stock	\$ 4,905	\$ —
Conversion of Series A and Series B convertible preferred stock to common stock	\$27,017	\$ —
Conversion of common stock to Series AA and Series BB convertible preferred stock	\$22,532	\$ —

See accompanying summary of accounting policies, notes to the financial statements and independent accountants' review report.

EVOLUTION ROBOTICS, INC.

NOTES TO UNAUDITED FINANCIAL STATEMENTS

JUNE 30, 2012

(tabular amounts in thousands, except per share data)

1. Nature of Business

Evolution Robotics, Inc. ("Evolution" or the "Company") is a Delaware corporation which was formed in January 2007. The Company began principal operations on January 4, 2008 when its parent, Future Vision, Inc. ("Future Vision" and formerly known as Evolution Robotics, Inc.), contributed the employees, assets, operations and intellectual property of its consumer products technology division into the Company in exchange for 13,333,333 shares of Series A convertible preferred stock with an estimated fair value of \$13,333,333. The contribution of assets between entities under common control was recorded at historical cost and the difference between the historical cost of the assets and the fair value of the preferred stock was recorded as an adjustment to the opening accumulated deficit. The Company develops intelligent products and solutions for the consumer products industry using its proprietary vision and localization software. Since mid-2009 the Company has principally focused its efforts on the development and direct distribution of the MINT robotic, hard-surface floor cleaning appliance.

At June 30, 2012, Idealab Holdings, LLC owned a special share of voting stock which gave it the right to vote 80% of the outstanding voting securities of the Company (see Note 7). Idealab Holdings, LLC is a wholly owned subsidiary of Idealab, a creator and operator of technology businesses. Idealab Holdings, LLC also owns the majority of the outstanding voting securities of Future Vision, which is an investor in the Company.

The Company's financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future.

The Company has incurred recurring losses from operations and negative cash flows from operating activities since inception, and has an accumulated deficit of \$40,403,000 at June 30, 2012. The Company has been dependent on equity and debt financing to fund its operations. Management plans to expand the Company's revenue base by marketing the MINT product to a larger number of U.S. retailers and expanding its product offering into foreign markets. The Company is also developing additional intelligent, robotic consumer products. The Company does not know whether it will be able to raise additional financing or financing on terms favorable to the Company or if it will ultimately achieve profitability on a stand-alone basis.

The Company's industry is competitive and characterized by ongoing technological advances. The Company is subject to risks common to companies in the technology and consumer products industries including, but not limited to, development of new technological innovations by the Company or its competitors, dependence on key customers or sole source suppliers for materials, a change in the demand for consumer products and protection of proprietary technologies.

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies followed by the Company in the preparation of the accompanying financial statements is set forth below.

Basis of Presentation

The accompanying financial statements reflect the stand-alone operations of the Company. Certain services are provided to the Company by Idealab and such services are billed to the Company at amounts which approximate their cost (Note 10).

The accompanying interim financial statements have been prepared in accordance with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 270, *Interim*

See accompanying independent accountants' review report.

EVOLUTION ROBOTICS, INC.

**NOTES TO UNAUDITED FINANCIAL STATEMENTS
JUNE 30, 2012**

(tabular amounts in thousands, except per share data)

Reporting, and should be viewed as an integral part of the annual period. In the opinion of management, all adjustments necessary to state fairly the Company's statement of financial position at June 30, 2012 and results of operations and cash flows for the six months ended June 30, 2012 and June 30, 2011, have been made. The results of operations and cash flows for any interim period are not necessarily indicative of the operating results and cash flows for the full year or any future periods.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in operating bank accounts and a money market account and therefore the carrying amount approximates fair value.

Concentration of Credit Risk and Significant Customers

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Company has never experienced any losses related to these balances. All of the Company's non-interest bearing cash balances were fully insured at June 30, 2012 and December 31, 2011 due to a temporary federal program in effect from December 31, 2011 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. There were no interest-bearing amounts in excess of federally insured limits at June 30, 2012 or December 31, 2011.

With respect to accounts receivable, the Company generally does not require collateral or other security against accounts receivable and periodically evaluates whether a reserve for potential credit losses is necessary. No allowance for doubtful accounts was recorded at June 30, 2012 or December 31, 2011, based on an evaluation of the collectability of the Company's outstanding accounts receivable.

Customers comprising more than 10% of revenues for the six months ended June 30, 2012 and June 30, 2011 were as follows:

	Six Months Ended	
	June 30, 2012	June 30, 2011
Customer A	34%	48%
Customer B	14%	1%
Customer C	13%	1%
Customer D	9%	12%
Customer E	4%	0%
Customer F	3%	0%
Customer G	2%	19%

Customers comprising more than 10% of accounts receivable at June 30, 2012 and December 31, 2011 were as follows:

	June 30, 2012	December 31, 2011
Customer A	50%	23%
Customer B	5%	0%
Customer C	14%	7%
Customer D	4%	4%
Customer E	13%	26%
Customer F	1%	25%
Customer G	3%	7%

See accompanying independent accountants' review report.

EVOLUTION ROBOTICS, INC.

NOTES TO UNAUDITED FINANCIAL STATEMENTS

JUNE 30, 2012

(tabular amounts in thousands, except per share data)

At June 30, 2012 and December 31, 2011, one supplier represented 79% and 68% of accounts payable, respectively. The Company has historically been primarily dependent on large U.S. retailers as resellers of its products and therefore has a limited customer base. In addition, the Company is dependent upon a single manufacturer of the MINT floor cleaning appliance, however, other manufacturers could be identified with minimal disruption to the Company.

Inventories

Inventories are primarily comprised of finished goods and are stated at lower of cost or market. Cost is determined using the first-in, first-out method. Market represents the lower of replacement cost or estimated net realizable value. The Company fully reserves the cost of products returned by end users due to the fact that the Company does not have an established program to refurbish and liquidate returned product.

Property and Equipment

Property and equipment are generally comprised of product tooling, computer equipment, furniture and fixtures and leasehold improvements and are recorded at cost. Provisions for depreciation are based on the estimated useful lives using the straight-line method over a period of three years. Product tooling is depreciated over its useful life based on the number of units produced. Upon retirement or disposal, the cost of the asset disposed of and the related accumulated depreciation are removed from the accounts and any gain or loss is reflected in income. Expenditures for repairs and maintenance are expensed as incurred.

Impairment of Long-Lived Assets

The Company identifies and records impairment losses on long-lived assets, primarily property and equipment, when events or changes in circumstances indicate that such assets might be impaired and the carrying value may not be recoverable. Events or changes in circumstances that may indicate that an asset is impaired include significant decreases in the market value of an asset, a change in the extent or manner in which an asset is used, loss of key management or personnel, changes in the business model or strategy and competitive forces. If events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and the expected undiscounted future cash flow attributable to the asset is less than the carrying amount of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. Fair value is determined based on the present value of estimated future cash flows using a discount rate commensurate with the risk involved, quoted market prices, appraised values or values at which independent third parties have acquired such assets, depending on the nature of the assets. There were no adjustments due to impairment of long-lived assets during the six months ended June 30, 2012 or June 30, 2011.

Fair Value Measurements

The Company applies certain provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") ASC 820, *Fair Value Measurements and Disclosures*, which establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and expands on required disclosures about fair value measurement. The provisions of ASC 820 relate to financial and nonfinancial assets and liabilities as well as other assets and liabilities carried at fair value on a recurring basis. The fair value guidance establishes a three-tiered hierarchy that draws a distinction between market participants assumptions based on (i) quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1), (ii) inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2) and (iii) unobservable inputs that require the Company to use present value and other techniques in the determination of fair value (Level 3).

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In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, accrued compensation, and notes and accrued interest to related parties approximate fair value because of their short maturities. Borrowings under the Company's bank loans bear floating rates of interest that reset periodically to a market benchmark rate plus a credit margin. The Company believes the effective interest rate of the bank loan agreement approximates current market rates for such indebtedness at June 30, 2012 and December 31, 2011. The Company believes the carrying amount of its floating rate debt approximates its fair value at June 30, 2012 and December 31, 2011. Certain assets are also subject to measurement at fair value on a nonrecurring basis, if they are deemed to be impaired as the result of an impairment review. During the six months ended June 30, 2012 and June 30, 2011, no impairments were recorded on those assets required to be measured at fair value on a nonrecurring basis.

For financial assets and liabilities that utilize Level 1 and Level 2 inputs, the Company utilizes both direct and indirect observable price quotes, including quoted market prices (Level 1 inputs) or inputs that are derived principally from or corroborated by observable market data (Level 2 inputs). Level 3 instruments use unobservable inputs and require management judgment due to the absence of quoted market prices, inherent lack of liquidity and the long-term nature of such financial instruments. The following table presents information about assets required to be carried at fair value on a recurring basis at June 30, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$2,995,000	\$ —	\$ —	\$2,995,000
Preferred stock warrants	—	—	1,180,000	1,180,000
	<u>\$2,995,000</u>	<u>\$ —</u>	<u>\$1,180,000</u>	<u>\$4,175,000</u>

The following table presents information about assets required to be carried at fair value on a recurring basis at December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$818,000	\$ —	\$ —	\$ 818,000
Preferred stock warrants	—	—	593,000	593,000
	<u>\$818,000</u>	<u>\$ —</u>	<u>\$593,000</u>	<u>\$1,411,000</u>

There were no transfers in or out of Levels 1, 2 or 3 during the six months ended June 30, 2012 or June 30, 2011.

Revenue Recognition

The Company recognizes revenue from sales of consumer products under the terms of the customer agreement upon transfer of title and risk of loss to the customer, net of estimated returns, provided that collection is determined to be reasonably assured and no significant obligations remain. Sales

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to resellers are typically subject to agreements allowing for limited rights of return and customer discount programs. Accordingly, the Company reduces revenue for its estimates of liabilities for these rights of return at the time the related sale is recorded. Due to the uncertainty of the condition or marketability of products returned by end users the Company does not record the cost of estimated returns into inventory. The Company makes an estimate of sales returns for products sold by resellers directly based on historical returns experience and other relevant data. The Company has aggregated and analyzed historical returns from resellers and end users which form the basis of its estimate of future sales returns by resellers or end users. If actual returns differ significantly from its estimates, such differences could have a material impact on the Company's results of operations for the period in which the returns become known. The estimates for returns are adjusted periodically based upon historical rates of returns. The estimates and reserve for customer discounts are based on specific programs, expected usage and historical experience. Actual results could differ from these estimates.

Sales of the Company's consumer products are highly seasonal with a large proportion of product revenue occurring in the third and fourth calendar quarters. As a result of the larger proportion of sales in the third and fourth calendar quarters the Company generally receives a large proportion of actual product returns in the first calendar quarter.

The Company also derives revenue from other sources, comprised of the following:

Software license agreements - The Company licenses its software and provides post contract support ("PCS") generally consisting of maintenance, technical support and when and if available upgrades of the software. The licensing fee is allocated to each respective element of the arrangement (including PCS) based on its vendor-specific objective evidence ("VSOE") of fair value and recognized for each element when the following revenue recognition criteria are met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred, (3) the fee is fixed and determinable and (4) collectability is probable. The Company's software licenses generally include PCS for a specified term and may be renewed for additional terms at the option of the customer. The Company does not have a history of selling PCS services separately from its licensing agreements or a history of charging a substantive stated renewal rate for PCS, therefore the Company has not established VSOE and cannot allocate the licensing fee to each respective element sold. As a result, revenue for software license agreements is recognized on a straight-line basis over the term of the PCS obligation commencing at the beginning of the PCS term.

Development agreements - The Company enters into agreements to develop prototype consumer products using its proprietary vision and navigation hardware and software systems. The Company considers these contracts to be within the scope of ASC 605-35 *Construction-Type and Production-Type Contracts*. The Company recognizes revenue for such contracts using the percentage-of-completion method of accounting. Under this method revenue is recognized as work is performed based on specific output milestones. Since the Company is generally delivering a tangible consumer product to the customer at various stages of development management considers specific output milestones to be the best available measure of progress on the contracts.

Contract costs for development agreements generally include direct labor costs. Management prepares detailed budgets at the inception of its development agreements and monitors the time, effort and progress toward meeting each output milestone. Provisions for estimated losses on uncompleted development agreements, if any, are recognized in the period in which the loss first becomes probable and reasonably estimable. No loss provisions were necessary during the six months ended June 30, 2012 or June 30, 2011. Changes in direct labor performance and estimated profitability may result in revisions to costs and income, which are recognized in the period in which the revisions are determined.

Funded Research agreements - The Company enters into cost-plus-fixed-fee ("CPFF") type contracts funded by agencies of the U.S. government. The Company recognizes revenue based on costs

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incurred plus a pro rata portion of the total fixed fee. Costs incurred include labor, incurred by the Company and subcontractors, that is directly associated with individual CPFF contracts plus indirect overhead and general and administrative type costs. The Company is required to submit incurred cost reports to the governmental agencies each year to substantiate the indirect billing rates. These final billing rates are subject to audit by the Defense Contract Audit Agency ("DCAA"), which can occur several years after the final billing rates are submitted and may result in material adjustments to revenue recognized based on estimated final billing rates. As a result of an audit of 2008, agency auditors determined that the Company was not compliant with certain administrative program requirements and placed the Company on a billing hold until such time as the Company becomes compliant. As a result of the billing hold, the Company has only recognized revenue to the extent that CPFF billings have been paid. The Company has taken actions to remediate instances of noncompliance; however, if the Company is ultimately found to be noncompliant with material requirements of the contracts, the contracting agency may terminate the contracts for default and the Company may be liable to the contracting agency for excess reprocurement costs. The Company did not recognize any revenue during the six months ended June 30, 2012 in connection with funded research agreements. The Company recognized \$138,000 in revenue during the six months ended June 30, 2011 in connection with funded research agreements.

Research and Software Development Costs

Research and development costs are expensed as incurred. Capitalization of software development costs for software to be sold, leased, or otherwise marketed begins upon the establishment of technological feasibility, which is generally the completion of a working prototype that has been certified as having no critical bugs and is a release candidate. Amortization begins once the software is ready for its intended use, generally based on the pattern in which the economic benefit will be consumed. To date, software development costs incurred between completion of a working prototype and general availability of the related product have not been material and accordingly no costs have been capitalized.

Sales and Marketing Costs

The Company expenses advertising costs as incurred. Advertising expense is included in sales and marketing expenses in the accompanying statements of operations and was approximately \$1,841,000 for the six months ended June 30, 2012, and approximately \$1,631,000 for the six months ended June 30, 2011.

Warranty Obligations

The Company provides a product warranty for manufacturing defects in materials and workmanship for a period of one year from the date of purchase by an end user. For products returned directly to the Company with valid warranty claims, the Company has the option to repair, adjust, or replace the products with new or reconditioned products. To date, the costs of providing replacement products have not been significant. As of June 30, 2012 and December 31, 2011, the Company has provided for estimated future warranty costs of approximately \$53,000, representing its best estimate of the likely expense of fulfilling its obligations for product warranties. The Company closely monitors and evaluates its products in an effort to ensure the quality of its products and to reduce warranty exposure. If the costs of providing replacement products for actual warranty claims differ from the Company's estimates, accrued warranty costs could be adjusted in the period in which these actual costs become known.

Income Taxes

Income taxes are accounted for using the asset and liability method whereby deferred income tax assets and liabilities are recognized based on the differences between the financial statement reporting and tax bases of the Company's assets and liabilities. Deferred income tax assets and liabilities are measured

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using enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is established when available evidence indicates that it is more likely than not that all or a portion of the net deferred income tax assets will not be realized.

Stock-Based Compensation

The Company recognizes compensation expense related to employee option grants in accordance with ASC 718, *Compensation - Stock Compensation* ("ASC 718").

ASC 718 requires companies to estimate the fair value of stock option awards on the grant date using an option pricing model. Employee stock-based compensation recognized is measured using the Black-Scholes option pricing model for estimating the fair value of options granted under the Company's stock option plan. The Company has elected to treat share-based payment awards with graded vesting schedules and time-based service conditions as a single award and recognizes stock-based compensation on a straight-line basis, net of estimated forfeitures, over the requisite service period. The assumptions that were used to calculate the grant date fair value of the Company's employee and non-employee stock option grants for the six months ended June 30, 2012 and June 30, 2011 were as follows:

	Six Months Ended	
	June 30, 2012	June 30, 2011
Risk-free interest rate	1.24%	2.55%
Expected term (in years)	6.31	6.39
Dividend yield	0%	0%
Expected volatility	60%	60%
Weighted-average estimated fair value	\$ 0.19	\$ 0.15

The expected term of employee stock options represents the weighted-average period that the stock options are expected to remain outstanding. In estimating the expected term for options granted to employees during the six months ended June 30, 2012 and June 30, 2011, the Company applied the simplified method from Staff Accounting Bulletin ("SAB") Topic No. 14, *Share-Based Payments* as the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term.

The Company determined the expected volatility assumption using the frequency of daily historical prices of comparable public companies common stock for a period equal to the expected term of the options. The Company will continue to monitor peer companies and other relevant factors used to measure expected volatility for future stock option grants.

The risk-free interest rate assumption is based upon observed interest rates on the United States government securities appropriate for the expected term of the Company's employee stock options.

The dividend yield assumption is based on the Company's history and expectation of dividend payouts. The Company has never declared or paid any cash dividends to its stockholders, and the Company does not anticipate paying any cash dividends in the foreseeable future.

As stock-based compensation expense recognized in the Company's statement of operations for the six months ended June 30, 2012 and June 30, 2011, is based on awards ultimately expected to vest, the amount has been reduced by estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on the Company's historical experience and future expectations.

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For purposes of financial accounting for stock-based compensation, the Company has determined the fair values of its options based in part on the work of third-party valuation specialists utilizing Level 3 valuation inputs. The determination of stock-based compensation is inherently uncertain and subjective and involves the application of valuation models and assumptions requiring the use of judgment. If the Company had made different assumptions, its stock-based compensation expense, and its net loss could have been significantly different.

Warrants Exercisable into Convertible Preferred Stock

In accounting for preferred stock warrants, the Company applies the provisions of ASC 480-10 *Distinguishing Liabilities from Equity* ("ASC 480-10"). ASC 480-10 requires freestanding warrants and other similar instruments on shares that are redeemable (either puttable or mandatorily redeemable) to be classified as liabilities. The Company has issued warrants which are exercisable into convertible preferred stock in connection with its credit facility arrangement and note financings from its investors (see Note 7). The Company has determined that the preferred stock warrants contain contingently puttable features associated with the deemed liquidation preferences upon a change-in-control. Accordingly, the preferred stock warrants have been recorded as other liabilities in the accompanying balance sheet. The preferred stock warrants are carried at their fair values at the date of issuance with subsequent changes in fair value at each reporting period recorded in other income (expense) in the accompanying statement of operations. The warrants are exercisable either through cash payment of the exercise price or through net-share settlement at the option of the holder. The fair value of the preferred stock warrants increased by \$153,000 during the six months ended June 30, 2012. There was no change in the fair value of the preferred stock warrants for the six months ended June 30, 2011.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

On an ongoing basis, management evaluates these estimates and judgments, including those related to the timing and recognition of revenue, sales returns, bad debts, warranty claims, inventory reserves, income taxes, warrants and assumptions used in valuing stock-based compensation instruments. The Company bases these estimates on historical and anticipated results, and trends and on various other assumptions that the Company believes are reasonable under the circumstances, including assumptions as to future events. The Company may engage third party valuation specialists to assist with estimates related to the valuation of its common stock. Such estimates often require the selection of appropriate valuation methodologies and models, and significant judgment in evaluating ranges of assumptions and financial inputs.

These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from the Company's estimates.

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Recent Accounting Pronouncements

In May 2011, the FASB issued amended guidance on fair value measurement and related disclosures. The new guidance clarifies the concepts applicable for fair value measurement of non-financial assets and requires the disclosure of quantitative information about the unobservable inputs used in a fair value measurement. This guidance is effective for reporting periods beginning after December 15, 2011, and will be applied prospectively. The adoption of this guidance did not have a material impact on the Company's financial statements.

From time to time, new accounting pronouncements are issued by FASB that are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on the Company's financial statements upon adoption.

3. Balance Sheet Amounts

	June 30, 2012	December 31, 2011
Accounts receivable:		
Accounts receivable, gross	\$ 939	\$ 4,973
Less: Returns reserve	(558)	(1,440)
Less: Reserve for customer discounts	(252)	(1,327)
Accounts receivable, net	<u>\$ 129</u>	<u>\$ 2,206</u>
Inventory:		
Raw materials	\$ 424	\$ 558
Finished goods	2,511	4,879
	<u>\$2,935</u>	<u>\$ 5,437</u>
Property and Equipment, net:		
Computer equipment	\$ 57	\$ 55
Furniture and fixtures	46	46
Product tooling	447	447
Leasehold improvements	222	222
	772	770
Less: Accumulated depreciation	(348)	(321)
	<u>\$ 424</u>	<u>\$ 449</u>

Total depreciation expense on property and equipment was \$27,000 for the six months ended June 30, 2012, including \$4,000 of depreciation expense on product tooling which is included in inventory costs. Total depreciation expense on property and equipment was \$53,000 for the six months ended June 30, 2011, including \$36,000 of depreciation expense on product tooling which is included in inventory costs.

4. Notes and Accrued Interest Payable to Related Parties

In July 2011, March 2012 and April 2012 the Company entered into secured promissory notes with certain of its investors, all of which are characterized as bridge loan financings. These notes had an aggregate principal balance of \$4,700,000 and each matured one year from the date of issuance. The notes accrued interest at the rate of 7.5% per annum and are collateralized by substantially all of the assets of the Company. These notes are subordinate to the bank loan described in Note 5.

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The notes and accrued interest were mandatorily convertible into preferred stock if a financing round with proceeds of \$8,000,000 or greater at a per share price that is equal to or greater than the Series B convertible preferred stock price ("Qualified Financing") occurred prior to the maturity dates. The conversion price was variable and was based on a sliding scale such that the investors were to receive a discount to the next round preferred stock price of 5% to 25% at the time of conversion depending on the timing of the next financing round. The note holders could also elect to convert their notes and accrued interest into shares with these same terms in the case of a financing event that was not a Qualified Financing. The notes and accrued interest were mandatorily convertible into Series B convertible preferred stock at the price of \$1.00 per share in the event that there was a change in control of the Company prior to the maturity date and before the next Qualified Financing. After the maturity date, the note holders could have elected to convert their notes and accrued interest into shares issued in the next Qualified Financing at the price of the next Qualified Financing. These conversion features were considered to be contingent and therefore were not accounted for at the time of the note issuances.

In addition, as consideration for entering into the note financing agreement, the Company issued each note holder warrants exercisable into either common stock or preferred stock in the next round of financing (see Note 7). In the case of a financing event (either a Qualified Financing or not), each note holder would be issued warrants based on the warrant coverage amount divided by the conversion price as determined in accordance with the sliding scale described above. These warrants were to be exercisable into preferred stock of the next round of financing. In the case of a change in control each note holder would be issued warrants equal to the warrant coverage amount divided by \$0.25. These warrants were to be exercisable into common stock. In all cases the warrants would have a term of 5 years from the date of issuance. These warrants were considered to be contingently issuable and therefore were not recorded by the Company at the time of the note issuances.

In May 2012, the total note and accrued interest balance of \$4,905,187 converted into Series C convertible preferred stock, which was a Qualified Financing, as more fully described in Note 6. However, the note holders only retained their conversion rights and warrants with respect to the July 2011 bridge loan financing of \$3,200,000 and the March and April 2012 notes and accrued interest converted into Series C convertible preferred stock with no discount to the \$1.00 per share Series C stock price and no warrant coverage.

As a result of the resolution of the contingency described above, the Company was able to determine the amount of the beneficial conversion feature created by the discount for the converted notes and accrued interest to the Series C convertible preferred stock price and the warrants issued in connection with the note financings. The Company recorded a charge of \$1,564,000 to interest expense during the six months ended June 30, 2012 representing the difference between the fair value of the Series C convertible preferred stock and the fair value of the warrants that were together issued for the \$3,398,062 notes and accrued interest that converted into Series C convertible preferred stock at a discount. In May 2012, the Company also issued warrants to purchase 853,332 shares of Series C convertible preferred stock to certain of its investors that had outstanding notes and accrued interest funded in July 2011. The fair value of the warrants was estimated to be \$434,000 which has been classified as interest expense in the Company's statement of operations during the six months ended June 30, 2012.

5. Bank Loan

In August 2010, the Company entered into a loan and security agreement ("Loan Agreement") with a financial institution that allowed the Company to borrow up to \$7,000,000. The Loan Agreement is comprised of \$2,000,000 of term debt ("Term Debt") and a \$5,000,000 revolving credit line secured by the Company's qualified accounts receivable ("AR Line"). In October 2011, the Company and the financial institution amended the Loan Agreement (the "October Amendment") to, among other things, increase the maximum amount of borrowings under the AR Line to \$10,000,000.

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Term Debt

In September 2010 and March 2011, the Company borrowed the maximum amount of Term Debt under the Loan Agreement, in increments of \$1,000,000 each. At June 30, 2012 and December 31, 2011, \$1,000,000 and \$1,333,333, respectively, of principal and \$31,000 and \$9,000, respectively, of accrued interest payable (which is included within accrued expenses in the accompanying balance sheets) were outstanding.

Annual maturities of Term Debt including minimum interest payments are as follows:

Six months ending December 31, 2012	\$ 364
Year ending December 31, 2013	608
Year ending December 31, 2014	<u>84</u>
Total principal and interest	\$1,056
Less: Amounts representing interest	<u>(56)</u>
Total principal	\$1,000
Less: current portion	<u>(667)</u>
Bank loan, less current portion	\$ 333
Less: unamortized debt discount	<u>(46)</u>
Bank loan, less current portion and unamortized debt discount	<u>\$ 287</u>

Interest on amounts drawn accrues at 7.5% per year and is payable monthly. Principal and accrued interest are to be repaid in 36 equal monthly installments beginning on October 1, 2010 (for the first \$1,000,000 drawn) and April 1, 2011 (for the second \$1,000,000 drawn). Outstanding principal and accrued interest will be paid off on March 1, 2014. Aggregate borrowings can be prepaid at any time, however, amounts repaid cannot be re-borrowed. The Company is obligated to pay a final payment fee of 2% of the amounts drawn on the earlier of the prepayment date, if any, or the maturity date of each draw. The borrowings are collateralized by a first-priority security interest in substantially all of the assets of the Company.

AR Line

The Company's AR Line is a revolving credit facility that permits it to borrow up to 80% of eligible accounts receivable as defined in the Loan Agreement. Under the original Loan Agreement interest was payable monthly at the greater of 6.5% per year or the financial institution's prime rate (4.0% at June 30, 2012) plus 2.5% per year on 100% of eligible accounts receivable that have outstanding borrowings. The October Amendment changed the interest rate to the financial institution's prime rate plus 1% per year if the Company maintained certain financial ratios or the financial institution's prime rate plus 2% per year. The Company pays a collateral handling fee which varies based on certain financial ratios and ranges from 0% to 0.375% per month of 100% of eligible accounts receivable that have outstanding borrowings. The Company is also required to pay a minimum amount of \$5,000 of interest on the AR Line each month and pay an annual fee of \$25,000 to maintain availability of the AR Line. The Company had no outstanding borrowings under the AR Line at June 30, 2012. At December 31, 2011, the Company had outstanding borrowings of \$2,054,000 on the AR Line and interest payable of \$23,000. The maximum amount available under the AR Line at June 30, 2012 and December 31, 2011 was \$718,000 and \$3,661,000, respectively.

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The Loan Agreement does not have any financial debt covenants. The financial institution can demand payment of amounts outstanding under the Loan Agreement in the case of a material adverse change in the Company's business, operations or condition or a material impairment in the value of the collateral securing the loan.

As consideration for the Loan Agreement the Company paid fees of \$39,000 and issued the financial institution a preferred stock warrant which is exercisable into Series B convertible preferred stock. As consideration for the October Amendment to the Loan Agreement the Company paid the financial institution a fee of \$5,000. The warrant had a fair value of \$61,000 on the date of issuance and has been classified, along with the other fees (including the annual fee on the AR Line described above), as a discount on the bank loan in the accompanying balance sheet. The debt discount is being amortized to interest expense over the term of the bank loan. The Company recorded amortization expense of \$32,000 during the six months ended June 30, 2012 and \$23,000 during the six months ended June 30, 2011. The remaining unamortized debt discount is \$46,000 and \$78,000 at June 30, 2012 and December 31, 2011, respectively.

See Note 12 which describes the amendment and restatement of the Loan Agreement executed in August 2012.

6. Convertible Preferred Stock

Convertible preferred stock at June 30, 2012 consists of the following:

	Shares		Liquidation Preference
	Authorized	Outstanding	
Series AA convertible preferred stock	13,333	13,333	\$ 13,333
Series BB convertible preferred stock	10,778	9,398	9,398
Series C convertible preferred stock	17,388	13,535	13,535
Total convertible preferred stock	41,499	36,266	\$ 36,266

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Convertible preferred stock activity during the six months ended June 30, 2012 was as follows:

	"Old" Convertible Preferred Stock:					
	Series A		Series B		Total "Old"	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance at December 31, 2011	13,333	\$ 13,301	13,883	\$ 13,716	27,216	\$ 27,017
Conversion of Series A and Series B convertible preferred stock to common stock	(13,333)	(13,301)	(13,883)	(13,716)	(27,216)	(27,017)
Balance at June 30, 2012	<u>—</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>

	Convertible Preferred Stock:									
	"Old" (from above)		Series AA		Series BB		Series C		Total	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Balance at December 31, 2011	27,216	\$ 27,017	—	\$ —	—	\$ —	—	\$ —	27,216	\$ 27,017
Conversion of Series A and Series B convertible preferred stock to common stock	(27,216)	\$(27,017)	—	—	—	—	—	—	(27,216)	(27,017)
Issuance of Series C convertible preferred stock	—	—	—	—	—	—	13,535	12,405	13,535	12,405
Series C convertible preferred stock issuance costs	—	—	—	—	—	—	—	(94)	—	(94)
Conversion of common to Series AA and Series BB convertible preferred stock	—	—	13,333	13,301	9,398	9,231	—	—	22,731	22,532
Beneficial conversion feature on Series C convertible preferred stock issued at a discount	—	—	—	—	—	—	—	1,564	—	1,564
Balance at June 30, 2012	<u>—</u>	<u>\$ —</u>	<u>13,333</u>	<u>\$13,301</u>	<u>9,398</u>	<u>\$9,231</u>	<u>13,535</u>	<u>\$13,875</u>	<u>36,266</u>	<u>\$ 36,407</u>

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In May 2012, the Company's articles of incorporation were restated and amended to authorize the Company to issue up to 41,499,535 shares of preferred stock, designated as 13,333,330 shares of Series AA convertible preferred stock, 10,778,000 shares of Series BB convertible preferred stock and 17,388,205 shares of Series C convertible preferred stock. The rights, preferences and privileges of the Series AA and Series BB convertible preferred stock are identical to the rights, preferences and privileges of the previously issued Series A and Series B convertible preferred stock, respectively, as described below.

In May 2012, the Company issued 13,534,874 shares of Series C convertible preferred stock for cash of \$7,500,000 and the conversion of notes and accrued interest of \$4,905,187. The purchase price of the stock was \$1.00 per share, however, notes and accrued interest in the amount of \$3,389,062 were converted at \$0.75 per share based on a negotiated discount to the Series C convertible preferred stock price (see Note 4). In connection with the Company's Series C convertible preferred stock financing all of the Company's Series A and Series B convertible preferred stock was converted into common stock in May 2012 on a 1 share of common stock for 10 shares of preferred stock basis and the Series A and B convertible preferred stock classes were eliminated. Concurrently with the Series C convertible preferred stock financing the purchasers of the Series C convertible preferred stock were entitled to exchange shares of common stock that they had received upon the conversion of their Series A and Series B convertible preferred stock for shares of the Company's newly created Series AA and Series BB convertible preferred stock on a 10 shares of preferred stock for 1 share of common stock basis. As part of this transaction, 4,484,529 previously issued shares of Series B convertible preferred stock were converted into 448,452 shares of common stock for investors who did not invest in the Series C convertible preferred stock financing. As a result, an amount equal to \$4,485,000 within the Series B convertible preferred stock carrying value was reclassified to Additional Paid-in Capital. The Company's Board also approved the replacement of outstanding warrants to purchase Series B convertible preferred stock with identical warrants to purchase Series BB convertible preferred stock.

The Company's Board of Directors is authorized to determine the rights of each offering of preferred stock including, among other terms, dividend rights, voting rights, conversion rights, redemption prices and liquidation preferences, if any, subject to the limitations of applicable laws, regulations and its charter. The following summarizes the terms of the convertible preferred stock as of June 30, 2012:

Conversion rights - Each share of preferred stock is convertible, at the holder's option, into such number of fully paid and non-assessable shares of Class A common stock as is determined by dividing the applicable original issue price by the conversion price, both as defined in the Company's Amended and Restated Certificate of Incorporation. At June 30, 2012, the original issue price and conversion price is \$1.00 per share for each of Series AA, Series BB and Series C convertible preferred stock, such that each share of preferred stock is convertible into Class A common stock on a one to one basis. In the event of the issuance of additional shares of common stock, subject to certain exclusions, at a price per share less than the conversion price in effect on the date of such issuance, the conversion price will be adjusted based on a weighted average anti-dilution formula. The conversion price is also subject to adjustment based on certain other anti-dilution provisions. Preferred stock will automatically convert into shares of Class A common stock at its then effective conversion rate immediately upon the closing of an initial public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, covering the offer and sale of Class A common stock with gross proceeds to the Company of not less than \$30,000,000 at a per share price of not less than \$3.00 ("Qualified IPO") or upon the consent of 66% of each series of stock voting as a single class. The Company is required to reserve and keep available, out of its authorized but unissued shares of Class A common stock, 41,499,535 shares for the conversion of Series AA, Series BB and Series C convertible preferred stock.

Liquidation preference - In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the holders of Series C convertible preferred stock are entitled to receive,

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prior and in preference to any distribution of any assets or surplus funds to the holders of the Series AA and Series BB convertible preferred stock, the Special Stock (see below for a description of the terms of the Special Stock) and the common stock, \$1.00 per share plus any dividends declared but unpaid on such shares. After distribution to the Series C convertible preferred stockholders and prior and in preference to any distribution of any assets or surplus funds to the holders of the Series AA convertible preferred stock, the Special Stock and the common stock, the holders of Series BB convertible preferred stock are entitled to receive \$1.00 per share plus any dividends declared but unpaid on such shares. After distribution to the Series C and Series BB convertible preferred stockholders and prior and in preference to any distribution of any assets or surplus funds to the holders of the Special Stock and the common stock, the holders of Series AA convertible preferred stock are entitled to receive \$1.00 per share plus any dividends declared but unpaid on such shares. Thereafter, any remaining assets and funds of the Company will be distributed ratably to the holders of Class A common stock and Special Stock.

A liquidation event is deemed to include the Company's sale of all or substantially all of its assets or the acquisition of the Company by another person or entity by means of merger or consolidation resulting from the transfer of 50% or more of the Company's voting power. The preferred stockholders can waive this "deemed" liquidation preference by a majority vote.

The liquidation preference provisions of the convertible preferred stock are considered contingent redemption provisions that are not solely within the control of the Company. The Company has presented the convertible preferred stock in the mezzanine section of the balance sheet which is outside of the stockholders' deficit section.

Voting rights - The preferred stockholders are entitled to one vote for each share of Class A common stock into which such preferred stock can be converted. The preferred stock generally votes together with the Special Stock and the common stock and not as a separate class. The Company's Amended and Restated Articles of Incorporation include certain provisions which require a majority vote of each class of preferred stockholders with respect to certain actions of the Board of Directors including: (1) effecting an amendment or waiver of any of the provisions of the Company's certificate of incorporation or bylaws which adversely affects the preferred stockholders; (2) declaring or paying any dividends; (3) authorization, creation or issuance of any share of capital stock senior to, or on parity with such series of preferred stock with respect to any preferences, designations, privileges or powers; and (4) alteration or change of the rights and preferences of its series of preferred stock. In addition, the vote of at least 66% of the preferred stock, voting as separate classes is required to: (1) increase or decrease the number of authorized shares of such series of preferred stock; (2) redeem, purchase or otherwise acquire any share or shares of preferred stock or Class A or Class B common stock (other than the repurchase of stock from employees, officers, directors or consultants of the Company in connection with the termination of their employment or services pursuant to agreements approved by the Company's Board of Directors); (3) issue any equity securities of the Company or grant any options, warrants or other rights to acquire equity securities of the Company other than equity securities or options, warrants or other rights issued pursuant to the terms of equity incentive plans approved by the Company's Board of Directors; and (4) adopt any new equity incentive plan, amend any existing equity incentive plan or increase the number of shares of the Company's capital stock reserved for issuance under any such plan. As long as at least 40% of the total number of issued shares of Series BB convertible preferred stock remain outstanding the consent of the holders of at least 66% of the preferred stock, voting as a single class, is required to effect a sale of all or substantially all of the Company's assets or the acquisition of the Company by another person or entity by means of merger or consolidation resulting from the transfer of 50% or more of the Company's voting power.

Dividends - The holders of convertible preferred stock are entitled to receive noncumulative dividends in an amount per share equal to 8% of the original issuance price per annum when and if

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declared by the Board of Directors. In all cases, if dividends are declared and paid to preferred stockholders they must have at least the same terms as dividends declared and paid to the common stockholders.

7. Capitalization*Common and Special Stock*

In May 2012, the Company's articles of incorporation were restated and amended to authorize the Company to issue up to 50,536,351 shares of common stock, designated as 50,535,351 shares of Class A common stock and 1,000 shares of Class B common stock. The Company is also authorized to issue 1 share of Special Stock. The holder of the Special Stock is entitled to cast that number of votes equal to the greater of such holder's actual votes or that number of votes equal to 80% of the voting power of all outstanding shares of capital stock of the Company in each vote of the stockholders of the Company or action by written consent of such stockholders held or taken for any purpose, including the election of directors. As of June 30, 2012, and December 31, 2011, 1 share of Special Stock was held by Idealab Holdings, LLC.

The Special Stock can be converted at any time, at the option of the holder, into 1 share of Class A common stock. Upon the closing of a Qualified IPO, the Special Stock will automatically convert into that number of shares of Class B common stock representing 80% of the total voting power of the Company after the public offering (including those shares of Class A stock already held by the holder of the Class B common stock). The Special Stock and Class B common stock will automatically convert into 1 share of Class A common stock upon: (1) the transfer of the Special Stock or Class B common stock to any person or entity other than Idealab or any of its wholly or majority owned subsidiaries or (2) the failure of Idealab or any of its wholly or majority owned subsidiaries to own or control at least 10% of the outstanding shares of Class A common stock of the Company, on an as converted basis.

No dividends shall be paid on the Class B common stock or the Special Stock in any year.

Warrants for Series BB Convertible Preferred Stock Issued with Bank Loan Agreement

In August 2010, the Company issued a warrant to a financial institution to purchase 100,000 shares of its Series BB convertible preferred stock in connection with the establishment of the Loan Agreement (see Note 5). The Series BB convertible preferred stock warrant has an exercise price of \$1.00 per share and is exercisable at any time on or prior to August 12, 2020. The fair value of the warrant was \$69,000 and \$61,000 as of June 30, 2012 and December 31, 2011, respectively, and is recorded in other liabilities in the accompanying balance sheets. The fair value of the Series BB convertible preferred stock warrant increased by \$8,000 during the six months ended June 30, 2012. There was no significant change in the fair value of the Series BB convertible preferred stock warrant during the six months ended June 30, 2011.

Warrants Issued with Notes Payable to Related Parties

In August 2010, the Company obligated itself to issue warrants to purchase 1,200,000 shares of Series BB convertible preferred stock to certain investors that had funded secured promissory notes. The Series BB convertible preferred stock warrants have an exercise price of \$1.00 per share and are exercisable at any time on or prior to March 27, 2016. The warrants are exercisable through either a cash purchase or through a customary net-share settlement formula. The fair value of the warrants was \$620,000 and \$532,000 as of June 30, 2012 and December 31, 2011, respectively, is recorded in other liabilities in the accompanying balance sheets. The fair value of the Series BB convertible preferred stock

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warrants increased by \$88,000 during the six months ended June 30, 2012. There was no significant change in the fair value of the Series BB convertible preferred stock warrant during the six months ended June 30, 2011.

In July 2011, the Company obligated itself to issue warrants to purchase shares of either common stock, in the case of a qualified change in control, or convertible preferred stock in the next round of financing to certain investors that had funded secured promissory notes (see Note 4). The common stock warrants have an exercise price of \$0.25 per share and the convertible preferred stock warrants have an exercise price equal to a discount to the per share price of the next round of financing. Both the common and preferred stock warrants are exercisable within 5 years of the date of issuance and are exercisable through either a cash purchase or through a customary net-share settlement formula. As described in Note 4, the Company issued warrants to purchase 853,332 shares of Series C convertible preferred stock to certain of its investors that funded the July 2011 note financing. The fair value of the warrants was estimated to be \$434,000 which has been classified as interest expense in the Company's statement of operations during the six months ended June 30, 2012. The fair value of the Series C convertible preferred stock warrants increased by \$57,000 during the six months ended June 30, 2012 resulting in a warrant liability of \$491,000 at June 30, 2012.

The Series BB and Series C preferred stock warrants were valued using the Black-Scholes option pricing model and have a total fair value of \$1,180,000 at June 30, 2012. Management determined the approximate fair value using an exercise price of \$1 per share; an expected life of 8.2 years, in the case of the warrants issued with the Loan Agreement and 3.8 and 4.9 years in the case of the Series BB and Series C warrants, respectively, issued with the notes payable to related parties; expected volatility of 60%; dividend yield of 0% and a risk free rate of 0.37%.

The preferred stock warrants issued with the Loan Agreement and the preferred stock warrants issued with the notes payable to related parties were valued using the Black-Scholes option pricing model and have a total fair value of \$593,000 at December 31, 2011. Management determined the approximate fair value using an exercise price of \$1 per share; an expected life of 10 years, in the case of the warrants issued with the Loan Agreement and 5 years in the case of the warrants issued with the notes payable to related parties; expected volatility of 51%; dividend yield of 0% and a risk free rate of 0.87%.

8. Stock-Based Compensation

The Company is authorized to issue up to 8,556,363 shares of its common stock pursuant to the 2007 Stock Option Plan (the "2007 Plan"). As of June 30, 2012, 1,719,802 options are available for grant under the 2007 Plan. The purpose of the 2007 Plan is to incent employees, directors and consultants who render services to the Company by providing opportunities to purchase stock in the Company. All options granted will expire ten years from their date of issuance. Incentive stock options generally have a four-year vesting period from their date of issuance and nonqualified options have various vesting schedules generally ranging from immediate vesting to vesting within three years. Stock purchase rights may also be granted under the terms of the 2007 Plan; however, as of June 30, 2012 none have been issued.

The Company's Board of Directors administers the 2007 Plan, selects the individuals to whom options will be granted, determines the number of options to be granted and the term and exercise price of each option. Incentive stock options granted pursuant to the terms of the 2007 Plan cannot be granted with an exercise price of less than 100% of the fair market value of the underlying stock on the date of grant or 110% if the award is issued to a ten percent or more stockholder of the Company. Nonstatutory stock

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options granted pursuant to the terms of the 2007 Plan cannot be granted with an exercise price of less than eighty-five percent of the fair market value of the underlying stock on the date of grant or 110% for awards granted to a ten percent or more stockholder of the Company. The term of the options granted under the 2007 Plan cannot be greater than ten years; five years for incentive stock options granted to optionees who have a greater than ten percent ownership interest in the Company. Options granted generally vest twenty-five percent on the one-year anniversary of the date of grant with the remaining balance vesting equally on a monthly basis over the subsequent three years. For the six months ended June 30, 2012 and June 30, 2011, the Company recorded stock-based compensation expense in the following categories on its statement of operations:

	Six Months Ended	
	June 30, 2012	June 30, 2011
Cost of revenues	\$ —	\$ —
Sales and marketing	—	—
Research and development	31	19
General and administrative	32	20
Total stock-based compensation expense	\$ 63	\$ 39

The following table summarizes stock option activity for the six months ended June 30, 2012:

	Number of Options	Wgt Avg Exercise Price	Wgt Avg Remaining Contract Life (Yrs)	Aggregate Intrinsic Value
Outstanding at January 1, 2012	4,769	\$ 0.19		
Granted	1,932	\$ 0.34		
Exercised	—	\$ 0.00		
Canceled/forfeited	(12)	\$ 0.25		
Outstanding at June 30, 2012	6,689	\$ 0.24	7.48	\$ 669
Vested and exercisable as of June 30, 2012 and expected to vest thereafter	6,689	\$ 0.24	7.48	\$ 669
Vested and exercisable as of June 30, 2012	4,122	\$ 0.19	6.17	\$ 618

The following table summarizes stock option activity for the six months ended June 30, 2011:

	Number of Options	Wgt Avg Exercise Price	Wgt Avg Remaining Contract Life (Yrs)	Aggregate Intrinsic Value
Outstanding at January 1, 2011	3,818	\$ 0.18		
Granted	1,098	\$ 0.25		
Exercised	—	\$ 0.00		
Canceled/forfeited	(51)	\$ 0.24		
Outstanding at June 30, 2011	4,865	\$ 0.20	7.52	\$ 267
Vested and exercisable as of June 30, 2011 and expected to vest thereafter	4,865	\$ 0.20	7.52	\$ 267
Vested and exercisable as of June 30, 2011	3,769	\$ 0.18	6.95	\$ 251

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The aggregate intrinsic value in the tables above represent the difference between the estimated fair value of the Company's common stock and the option exercise price, multiplied by the number of in-the-money options measured at June 30, 2012 and June 30, 2011. The intrinsic value changes are based on the estimated fair value of the Company's common stock. At June 30, 2012, total remaining stock-based compensation expense for unvested awards is \$473,000, which is expected to be recognized over a weighted-average period of 3.4 years. At December 31, 2011, total remaining stock-based compensation expense for unvested awards is \$164,000, which is expected to be recognized over a weighted-average period of 2.8 years.

9. Income Taxes

The Company was part of the Idealab federal consolidated income tax reporting group from January 9, 2007 (inception) to January 31, 2008 and is part of the Idealab combined income tax reporting group for state income tax purposes. The Company is a party to an income tax sharing agreement with Idealab. Pursuant to the tax sharing agreement the Company will be reimbursed for the allocated tax benefit of net operating losses that were used by the group. Reimbursement under the tax sharing agreement will be due at the time that such allocated losses would have otherwise been utilizable by the Company on a stand-alone basis.

The consolidated amount of current and deferred income tax expense for a group that files a consolidated tax return is allocated among the members of the group when those members issue separate financial statements. The Company's income tax provision has been computed as if the Company were a separate entity from Idealab.

Management has determined, after evaluating all positive, negative, historical and prospective evidence that it is more likely than not that the Company's deferred tax assets will not be realized. As a result of the Company's net operating losses and the inability to record a benefit for its deferred income tax assets, the Company has not recorded a provision for income taxes. The Company's effective income tax rate differs from the federal statutory income tax rate of 34% due primarily to the valuation allowance on deferred tax assets.

The utilization of net operating loss carryforwards and research and development credit carryforwards may be limited under Section 382 of the Code based on additional changes in the ownership of the Company. These limitations could significantly impact the timing and amount of future income tax obligations, if any.

At June 30, 2012, the Company has no significant unrecognized tax positions. The Company's policy is to recognize interest and penalties, if any, related to uncertain tax positions as a component of income tax expense. For the six months ended June 30, 2012 and June 30, 2011, the Company did not recognize any interest or penalties for uncertain tax positions. The Company is currently not under examination by the United States Internal Revenue Service or any other state, city or local jurisdiction. As such, the Company is subject to the standard statutes of limitations by the relevant tax authorities for federal and state purposes. The Company remains subject to federal and state tax examinations by tax authorities for all tax years ended since inception.

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10. Related Party Transactions

The Company receives a variety of overhead services from Idealab. Such services include accounting, human resources, legal, information technology, marketing and public relations. Idealab charges the Company a fee based on the cost to Idealab of the specific services provided and these fees totaled \$173,000 for the six months ended June 30, 2012 and \$132,000 for the six months ended June 30, 2011.

The Company's employees participate in Idealab's payroll benefit plans. Idealab charges the Company for payroll benefit costs paid on the Company's behalf. The Company's employees also participate in Idealab's defined contribution plan for the benefit of all of its eligible employees. Participants may contribute a portion of their compensation up to the Internal Revenue Service's annual contribution limit. The Company, within the guidelines of the Idealab plan, may make discretionary contributions to the plan. The Company has not made any contributions to the plan since its inception.

The Company had amounts payable to Idealab of \$60,000 at June 30, 2012. The Company had amounts payable to Idealab of \$530,000 at December 31, 2011, including accrued interest of \$13,000 for past due amounts.

As more fully described in Note 4, the Company had entered into secured convertible promissory notes with certain of its investors. The notes and accrued interest converted into Series C convertible preferred stock in May 2012.

In connection with the purchase of the Company's Series A convertible preferred stock, as described in Note 1, the Company entered into a worldwide, perpetual, royalty-free license with Future Vision, to use certain vision-related software code, intellectual property and marks exclusively in defined fields of use. Future Vision has also entered into a similar license with another unrelated company to use the same software code, intellectual property and marks in other defined fields of use.

11. Commitments and Contingencies

The Company leases its office space under a non-cancellable operating lease agreement expiring in August 2016. Future minimum lease payments under this operating lease as of June 30, 2012 are as follows:

Six months ending December 31, 2012	\$ 146
Year ending December 31, 2013	298
Year ending December 31, 2014	307
Year ending December 31, 2015	316
Year ending December 31, 2016	215
Total minimum lease payments	<u>\$1,282</u>

The Company licenses the rights to certain technology from a third party for exclusive use in certain markets. This license agreement requires the Company to pay royalties, including guaranteed or minimum royalty amounts, based on the revenue generated from the sale of products which include the licensed technology. The agreement expires when the copyright for the underlying licensed technology expires. During the six months ended June 30, 2012, the Company paid royalties of \$280,000, of which \$140,000 is

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included in cost of revenues in the accompanying statement of operations (\$140,000 is included in prepaid expenses in the accompanying balance sheet). During the six months ended June 30, 2011, the Company paid royalties of \$150,000, of which \$75,000 is included in cost of revenues in the accompanying statement of operations.

At June 30, 2012 the Company had firm commitments to purchase raw materials and finished goods inventory from its suppliers in the amount of \$4,000,000.

From time to time the Company may be involved in disputes that have arisen in the ordinary course of business. Management believes the ultimate resolution of these disputes will not have a material adverse impact on the Company's results of operations, financial position or cash flows.

The Company has entered into contractual agreements with certain customers, which include provisions for indemnifying the customer against losses, expenses and liabilities from damages that may be awarded against the customer in the event the Company's software is found to infringe upon a patent, copyright, trademark, or other proprietary rights of a third party. Additionally, in the normal course of business, the Company has made certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. The Company has also agreed to indemnify directors and officers of the Company to the maximum extent permitted under the laws of the State of Delaware. These indemnifications may survive termination of the underlying agreement and the maximum potential amount of future payments the Company could be required to make under these indemnification provisions may not be subject to maximum loss clauses. The Company believes its internal development processes and other policies and practices limit its exposure related to the indemnification provisions of its contractual agreements. To date, the Company has not had to reimburse any of its counterparties for any losses related to these indemnification provisions and no claims are outstanding as of June 30, 2012.

The Company has not recorded any liability for these indemnities and commitments in the accompanying balance sheet. The Company does, however, accrue for losses for any known contingent liability, including those that may arise from indemnification provisions, when future payment is probable.

12. Subsequent Events

The Company has evaluated subsequent events through December 3, 2012, the date the unaudited financial statements were issued.

In October 2012, the Company was acquired by an unrelated third party. All issued and outstanding shares of the Company's capital stock and outstanding vested options were converted into the right to receive merger consideration. The acquiring third party became the sole stockholder.

In August 2012, the Loan Agreement (see Note 5) was amended and restated to refinance the existing Term Debt by entering into a new term debt agreement (the "New Term Debt") which allowed the Company to borrow up to \$3,000,000. The Company has repaid the outstanding principal and accrued interest on the old Term Loan and drawn the full \$3,000,000. The New Term Debt is required to be fully drawn at inception and requires interest only payments for a period of six months. Principal and interest on the New Term Debt is due in 36 equal monthly payments beginning six months after the first interest only payment. Additionally, if the Company maintains certain minimum cash requirements, as defined in the amendment, interest on the AR Line would be charged based on the net amount borrowed. The amendment to the Loan Agreement also requires the Company to meet certain minimum three-month revenue targets as measured each month.

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As consideration for the amendment to the Loan Agreement the Company paid a fee of \$15,000 and issued the financial institution a warrant to purchase approximately 265,000 shares of the Company's common stock at a strike price of \$0.34 per share. The warrant has a 10 year term. The costs and fair value of the warrant were recorded as a discount on debt and amortized to interest expense over the remaining term of the loan. All amounts outstanding under the Loan Agreement were extinguished in conjunction with the Company being acquired in October 2012. As part of the October 2012 repayment, the financial institution agreed to waive the final payment fee of 2% on amounts drawn on the Term Debt, and sold the common warrant to the Company for \$250,000.

See accompanying independent accountants' review report.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

On October 1, 2012, iRobot Corporation (“the Company”) acquired Evolution Robotics, Inc. (“Evolution”) for \$74.9 million in cash, inclusive of a preliminary working capital adjustment. Pursuant to the Agreement and Plan of Merger, \$8.9 million of the purchase price was placed into an escrow account to settle certain claims for indemnification for breaches or inaccuracies in Evolution’s representations and warranties, covenants and agreements, and \$250,000 of the purchase price was deposited in escrow to satisfy, in part, any payments due to the Company for certain adjustments to the calculation of the working capital of Evolution.

The unaudited pro forma condensed consolidated financial information is based on the assumptions set forth in the notes to such information. The unaudited pro forma adjustments made in the compilation of the unaudited pro forma financial information are based upon available information and assumptions that the Company considers to be reasonable, and have been made solely for purposes of developing such unaudited pro forma financial information for illustrative purposes in compliance with the disclosure requirements of the Securities and Exchange Commission (“SEC”).

The pro forma adjustments have been made solely for informational purposes. The actual results reported by the consolidated company in periods following the acquisition may differ significantly from that reflected in these unaudited pro forma condensed consolidated financial statements for a number of reasons, including but not limited to cost savings from operating efficiencies, synergies and the impact of the incremental costs incurred in integrating the two companies. As a result, the pro forma condensed consolidated information is not intended to represent and does not purport to be indicative of what the combined company’s financial condition or results of operations would have been had the acquisition been completed on the applicable dates of this pro forma condensed consolidated financial information. In addition, the pro forma condensed consolidated financial information does not purport to project the future financial condition and results of operations of the consolidated company.

The pro forma condensed consolidated financial statements are based on various assumptions, including assumptions relating to the consideration paid and the allocation thereof to the assets acquired and liabilities assumed from Evolution based on preliminary estimates of fair value. The pro forma assumptions and adjustments are described in the accompanying notes presented on the following pages. Pro forma adjustments are those that are directly attributable to the transaction, are factually supportable and, with respect to the unaudited pro forma condensed consolidated statement of income, are expected to have a continuing impact on the consolidated results. The final purchase price and the allocation thereof may differ from that reflected in the pro forma condensed consolidated financial statements after final working capital adjustments are performed.

The unaudited pro forma condensed consolidated statements of income included herein do not reflect any potential cost savings or other operating efficiencies that should result from the integration of the companies.

These unaudited pro forma condensed consolidated financial information and the accompanying notes should be read together with (1) the Company’s audited consolidated financial statements and accompanying notes, as of and for the fiscal year ended December 31, 2011, and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2011, which was filed with the SEC on February 17, 2012 and (2) the Company’s unaudited condensed consolidated financial statements and accompanying notes as of and for the six months ended June 30, 2012 and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in the Company’s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2012, which was filed with the SEC on August 3, 2012, (3) Evolution’s audited financial statements for the years ended December 31, 2011 and 2010, included as exhibit 99.1 to this Form 8-K/A, and (4) Evolution’s unaudited financial statements for the six months ended June 30, 2012 and 2011, included as exhibit 99.2 to this Form 8-K/A.

The actual operating results for Evolution will be consolidated with the Company’s operating results for all periods subsequent to the acquisition date of October 1, 2012.

The unaudited pro forma condensed consolidated statement of income of the Company and Evolution for the year ended December 31, 2011 gives effect to the acquisition of Evolution by the Company as if it had occurred effective January 2, 2011, the beginning of the Company’s 2011 fiscal year.

The unaudited pro forma condensed consolidated statement of income of the Company and Evolution for the six months ended June 30, 2012 gives effect to the acquisition of Evolution by the Company as if it had occurred effective January 2, 2011, the beginning of the Company’s 2011 fiscal year.

The unaudited pro forma condensed consolidated balance sheet of the Company and Evolution at June 30, 2012 gives effect to the acquisition of Evolution by the Company as if it had occurred effective June 30, 2012.

iRobot Corporation
Pro Forma Condensed Consolidated Statement of Income
(in thousands, except per share amounts)
(unaudited)

	Year Ended December 31, 2011			
	iRobot	Evolution	Pro Forma Adjustment	Pro Forma Consolidated
Revenue				
Product revenue	\$ 426,525	\$ 16,430	\$ —	\$ 442,955
Contract revenue	38,975	920	—	39,895
Total	<u>465,500</u>	<u>17,350</u>	<u>—</u>	<u>482,850</u>
Cost of Revenue				
Product revenue	246,905	11,618	2,471(a)	260,994
Contract revenue	26,477	469	—	26,946
Total	<u>273,382</u>	<u>12,087</u>	<u>2,471</u>	<u>287,940</u>
Gross Margin	192,118	5,263	(2,471)	194,910
Operating Expense				
Research & development	36,498	7,890	—	44,388
Selling & marketing	58,544	3,717	—	62,261
General & administrative	43,753	1,653	1,043(a)	46,449
Total	<u>138,795</u>	<u>13,260</u>	<u>1,043</u>	<u>153,098</u>
Operating income (loss)	53,323	(7,997)	(3,514)	41,812
Other income (expense), net	218	(416)	—	(198)
Pre-tax income (loss)	53,541	(8,413)	(3,514)	41,614
Income tax expense (benefit)	13,350	—	(3,532)(d)	9,818
Net income (loss)	<u>\$ 40,191</u>	<u>\$ (8,413)</u>	<u>\$ 18</u>	<u>\$ 31,796</u>
Net income per common share:				
Basic	\$ 1.50			\$ 1.19
Diluted	\$ 1.44			\$ 1.14
Shares used in per common share calculations:				
Basic	26,712			26,712
Diluted	27,924			27,924

The accompanying notes are an integral part of the unaudited pro forma condensed consolidated financial statements.

iRobot Corporation
Pro Forma Condensed Consolidated Statement of Income
(in thousands, except per share amounts)
(unaudited)

	Six Months Ended June 30, 2012			
	iRobot	Evolution	Pro Forma Adjustment	Pro Forma Consolidated
Revenue				
Product revenue	\$ 199,502	\$ 4,240	\$ —	\$ 203,742
Contract revenue	9,750	119	—	9,869
Total	<u>209,252</u>	<u>4,359</u>	<u>—</u>	<u>213,611</u>
Cost of Revenue				
Product revenue	117,070	3,198	1,236(a)	121,504
Contract revenue	8,722	414	—	9,136
Total	<u>125,792</u>	<u>3,612</u>	<u>1,236</u>	<u>130,640</u>
Gross Margin	83,460	747	(1,236)	82,971
Operating Expense				
Research & development	18,391	2,359	—	20,750
Selling & marketing	32,692	1,747	—	34,439
General & administrative	21,064	868	521(a)	22,453
Total	<u>72,147</u>	<u>4,974</u>	<u>521</u>	<u>77,642</u>
Operating income (loss)	11,313	(4,227)	(1,757)	5,329
Other income (expense), net	280	(2,435)	2,151(b,c)	(4)
Pre-tax income (loss)	11,593	(6,662)	394	5,325
Income tax expense (benefit)	3,565	—	(1,940)(d)	1,625
Net income (loss)	<u>\$ 8,028</u>	<u>\$(6,662)</u>	<u>\$ 2,334</u>	<u>\$ 3,700</u>
Net income per common share:				
Basic	\$ 0.29			\$ 0.13
Diluted	\$ 0.28			\$ 0.13
Shares used in per common share calculations:				
Basic	27,441			27,441
Diluted	28,259			28,259

The accompanying notes are an integral part of the unaudited pro forma condensed consolidated financial statements.

iRobot Corporation
Pro Forma Condensed Consolidated Balance Sheet
(unaudited, in thousands)

	June 30, 2012			
	iRobot	Evolution	Pro Forma Adjustment	Pro Forma Consolidated
Assets				
Cash and equivalents	\$ 156,543	\$ 2,995	\$ (74,886)(e)	\$ 84,652
Short term investments	20,181	—	—	20,181
Accounts receivable, net	39,527	129	—	39,656
Unbilled revenues	2,073	—	—	2,073
Inventory	34,597	2,935	629(f)	38,161
Deferred tax assets	15,494	—	(1,734)(g)	13,760
Other current assets	8,270	360	—	8,630
Total current assets	276,685	6,419	(75,991)	207,113
Property, plant and equipment, net	26,940	424	—	27,364
Deferred tax assets	11,086	—	—	11,086
Goodwill	7,910	—	44,838(l)	52,748
Other intangible assets, net	2,282	—	27,300(h)	29,582
Other assets	8,500	204	—	8,704
Total assets	\$ 333,403	\$ 7,047	\$ (3,853)	\$ 336,597
Liabilities and stockholders' equity				
Accounts payable	\$ 45,212	\$ 1,897	\$ —	\$ 47,109
Accrued expenses	13,878	577	—	14,455
Accrued compensation	9,738	375	—	10,113
Payables to related party	—	60	—	60
Deferred revenue and customer advances	1,882	100	—	1,982
Current portion of bank loan	—	667	(667)(i)	—
Total current liabilities	70,710	3,676	(667)	73,719
Bank loan, less current portion	—	287	(287)(i)	—
Other liabilities	4,069	1,365	(1,180)(j)	4,254
Convertible preferred stock	—	36,407	(36,407)(k)	—
Stockholders' equity	258,624	(34,688)	34,688(k)	258,624
Total liabilities and stockholders' equity	\$ 333,403	\$ 7,047	\$ (3,853)	\$ 336,597

The accompanying notes are an integral part of the unaudited pro forma condensed consolidated financial statements.

iRobot Corporation
Notes to Pro Forma Condensed Consolidated Financial Statements
(Unaudited)

1. Summary of Transaction

On October 1, 2012, iRobot Corporation (“the Company”) acquired Evolution Robotics, Inc. (“Evolution”) for \$74.9 million in cash, inclusive of a preliminary working capital adjustment. Pursuant to the Agreement and Plan of Merger, \$8.9 million of the purchase price was placed into an escrow account to settle certain claims for indemnification for breaches or inaccuracies in Evolution’s representations and warranties, covenants and agreements, and \$250,000 of the purchase price was deposited in escrow to satisfy, in part, any payments due to the Company for certain adjustments to the calculation of the working capital of Evolution.

Evolution develops intelligent products and solutions for the consumer products industry using its proprietary vision and localization software. Since mid-2009, Evolution has principally focused its efforts on the development and direct distribution of the MINT robotic, hard-surface floor cleaning robot.

The fair value of the total consideration transferred was \$74.9 million. A summary of the preliminary purchase price allocation associated with the acquisition of Evolution, as if the transaction occurred on June 30, 2012, is as follows:

	(in thousands)
Cash	\$ 2,995
Accounts receivable	129
Inventory	3,564
Prepaid and other assets	564
Deferred tax assets	(1,734)
Property and equipment	424
Intangible assets	27,300
Goodwill	44,838
Total assets	78,080
Accounts payable	(1,957)
Accrued expenses	(577)
Accrued compensation	(375)
Deferred revenue	(100)
Other liabilities	(185)
Total consideration transferred	<u>\$ 74,886</u>

2. Intangible Assets

Based on the preliminary allocation of the purchase price, the following amounts have been allocated to identifiable intangible assets:

	(in thousands)
Completed technology	\$ 17,300
vSLAM technology	9,000
Trademarks and domain names	1,000
Total intangible assets	<u>\$ 27,300</u>

The estimated fair value attributed to the completed technology was determined based upon a discounted cash flow forecast. Cash flows were discounted at a rate of 15.5%. The fair value of the completed technology will be amortized over a period of 7 years on a straight-line basis, which approximates the pattern in which the economic benefits of the completed technologies are expected to be realized.

The vSLAM technology relates to visual recognition and autonomous navigation software developed by Evolution that is currently not included in any products sold by either Evolution or the Company. The fair value of the vSLAM technology was determined based upon the estimated cost required to replace the asset. The fair value of the vSLAM technology will be amortized over 10 years on a straight-line basis, which approximates the pattern in which the economic benefits of the vSLAM technology will be realized.

The fair value of the trademarks and domain names will be amortized over 7 years on a straight-line basis, which approximates the pattern in which the economic benefits of the trademarks and domain names will be realized. The estimated fair value of the trademarks and domain names was determined based upon a discounted cash flow forecast. Cash flows were discounted at a rate of 15.5%.

3. Pro Forma Adjustments

The pro forma adjustments in the unaudited pro forma condensed consolidated financial information are as follows:

Unaudited Pro Forma Condensed Consolidated Statements of Income:

- (a) Reflects amortization expense related to the acquired intangible assets, calculated over the estimated useful lives on a straight line basis (See Note 2 – Intangible Assets). The increase in amortization expense for the year ended December 31, 2011 and for the six months ended June 30, 2012 was \$3,514,000 and \$1,757,000, respectively. The amortization expense associated with the acquired completed technology is recorded as cost of revenue. The amortization expense associated with the acquired vSLAM technology and the trademarks and domain names is recorded as general and administrative expense.
- (b) Reflects the elimination of the beneficial conversion feature associated with the Evolution Series C financing that was settled in conjunction with the acquisition. The reduction in other income (expense), net for the six months ended June 30, 2012 was \$1,564,000.
- (c) Reflects the elimination of fair value adjustments associated with warrants issued by Evolution since the warrants were settled in conjunction with the acquisition. The reduction in other income (expense), net for the six months ended June 30, 2012 was \$587,000.
- (d) Reflects a reduction to income tax expense based upon the application of the Company's effective tax rate, net of discrete items, to the pro forma consolidated pre-tax income. The reduction in income tax expense for the year ended December 31, 2011 and for the six months ended June 30, 2012 was \$3,532,000 and \$1,940,000, respectively.

Unaudited Pro Forma Condensed Consolidated Balance Sheet:

- (e) Reflects the consideration paid by the Company to Evolution of \$74,886,000 (See Note 1 – Summary of Transaction).
- (f) Reflects an increase in inventory resulting from a fair value adjustment for Evolution finished goods inventory acquired. The increase in inventory at June 30, 2012 was \$629,000.
- (g) Reflects a net reduction in the pro forma consolidated deferred tax asset of \$1,734,000 resulting from the acquisition.
- (h) Reflects the estimated fair values of \$27,300,000 of intangible assets based on the preliminary allocation of the purchase price (See Note 2 – Intangible Assets).
- (i) Reflects the elimination of Evolution debt of \$954,000 that was settled in conjunction with the acquisition.

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- (j) Reflects the elimination of Evolution warrant liability of \$1,180,000 that was settled in conjunction with the acquisition.
 - (k) Reflects the elimination of Evolution convertible preferred stock and stockholders' equity.
 - (l) Reflects the inclusion of \$44,838,000 of goodwill (See Note 1 – Summary of Transaction). None of the goodwill associated with this transaction will be deductible for tax purposes.