

CoroWare, Inc,
Form 10-Q
August 19, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE OF 1934

For the quarterly
period ended June 30, 2013

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 000-33231

COROWARE, INC.
(EXACT NAME OF THE COMPANY AS SPECIFIED IN ITS CHARTER)

Delaware
(State or Other Jurisdiction
of Incorporation)

95-4868120
(I.R.S. Employer
Identification No.)

1410 Market Street, Suite 200
Kirkland, WA 98033
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(800) 641-2676
(ISSUER REGISTRANT TELEPHONE NUMBER)

Indicate by check mark whether the Company (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Company (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)
Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of August 19, 2013 there were 4,306,030,028 shares of the issuer's \$.0001 par value common stock outstanding.

COROWARE, INC.
June 30, 2013 QUARTERLY REPORT ON FORM 10-Q

TABLE OF CONTENTS

		PAGE
PART I – FINANCIAL INFORMATION		
Item 1.	Consolidated Financial Statements	2
	Consolidated Balance Sheets at June 30, 2013 (Unaudited) and December 31, 2012	2
	Unaudited Consolidated Statements of Operations for the three and six months ended June 30, 2013 and 2012 (Unaudited)	3
	Unaudited Consolidated Statements of Cash Flows for the six months ended June 30, 2013 and 2012 (Unaudited)	4
	Notes to Unaudited Consolidated Financial Statements	6
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	16
Item 4.	Controls and Procedures	17
PART II – OTHER INFORMATION		
Item 1.	Legal Proceedings	18
Item 1A.	Risk Factors	18
Item 2.	Unregistered Sales of Equity Securities and Use of Funds	18
Item 3.	Defaults Upon Senior Securities	18
Item 4.	Mine Safety Disclosures	19
Item 5.	Other Information	19
Item 6.	Exhibits	19
SIGNATURES		20

COROWARE, INC.
Consolidated Balance Sheets

ASSETS

	June 30, 2013 (unaudited)	December 31, 2012
CURRENT ASSETS		
Cash	\$ 4,037	\$ 2,754
Accounts receivable, net	215,717	176,123
Inventory, net	34,320	15,267
Other current assets	1,109	21,109
Total Current Assets	255,183	215,253
PROPERTY AND EQUIPMENT, net	5,761	15,454
OTHER ASSETS		
Other assets, net	7,831	12,873
Total Other Assets	7,831	12,873
TOTAL ASSETS	\$ 268,775	\$ 243,580

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 5,469,044	\$ 5,155,860
Lines of credit	132,281	121,369
Obligations collateralized by receivables	240,257	177,455
Current portion of notes payable	294,582	232,332
Accrued expenses- related parties	183,929	183,929
Notes payable-related parties	221,369	202,612
Derivative liability	19,678,274	77,655,809
Current maturities of convertible debt, net of discount	2,270,651	2,258,830
Redeemable preferred stock, Series B, \$.001 par value, 525,000 shares authorized, 159,666 shares issued and outstanding	212,886	70,961
Redeemable preferred stock, Series D, \$.001 par value, 500,000 shares authorized, 100,000 shares issued and outstanding	117,647	34,602
Redeemable preferred stock, Series E, \$.001 par value, 500,000 shares authorized, 100,000 shares issued and outstanding	-	50
Small business administration loan	980,450	980,450

Total Current Liabilities	29,801,370	87,074,259
LONG TERM LIABILITIES		
Convertible debentures, net of current maturities	221,805	221,805
Total Liabilities	30,023,175	87,296,064
Commitments and contingencies		
STOCKHOLDERS' DEFICIT		
Common stock; 100,000,000 shares authorized at \$0.0001 par value, 3,846,848,328 and 306,542,857 shares issued and outstanding, respectively	384,684	30,654
Additional paid-in capital	16,463,216	16,537,112
Non controlling interest	72,174	39,298
Treasury stock	(35,700)	(35,700)
Accumulated deficit	(46,638,774)	(103,623,848)
Total Stockholders' Deficit	(29,754,400)	(87,052,484)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 268,775	\$ 243,580

The accompanying notes are an integral part of these consolidated financial statements.

COROWARE, INC.
Consolidated Statements of Operations
(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
REVENUES	\$239,596	\$321,745	\$558,184	\$675,121
COST OF SALES	178,192	199,530	376,820	412,019
GROSS PROFIT	61,404	122,215	181,364	263,102
OPERATING EXPENSES				
Depreciation and amortization	4,231	3,000	8,462	6,000
General and administrative	209,334	293,063	554,713	519,173
Total Operating Expenses	213,565	296,063	563,175	525,173
LOSS FROM OPERATIONS	(152,161)	(173,848)	(381,811)	(262,071)
OTHER INCOME (EXPENSE)				
Gain (loss) on derivative valuation	57,011,047	(150,136)	57,752,615	(339,493)
Gain (loss) on convertible debt redemptions	-	-	-	(35,630)
Interest expense	(354,049)	(172,097)	(408,555)	(379,389)
Loss on settlement of debt	-	2,100	-	2,100
TOTAL OTHER INCOME (EXPENSE)	56,656,998	(320,133)	57,344,060	(752,412)
LOSS BEFORE NON CONTROLLING INTEREST	56,504,837	(493,981)	56,962,249	(1,014,483)
Net loss attributable to non controlling interest	10,193	-	22,826	-
LOSS BEFORE INCOME TAXES	56,515,030	(493,981)	56,985,075	(1,014,483)
INCOME TAX EXPENSE	-	-	-	-
NET LOSS	\$56,515,030	\$(493,981)	\$56,985,075	\$(1,014,483)
BASIC AND DILUTED LOSS PER SHARE	\$0.02	\$(0.04)	\$0.02	\$(0.11)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED	2,935,326,681	11,382,014	2,401,827,198	9,186,530

The accompanying notes are an integral part of these consolidated financial statements

COROWARE, INC.
Consolidated Statements of Cash Flows
(unaudited)

For the Six Months Ended
June 30,
2013 2012

OPERATING ACTIVITIES

Net loss	\$57,007,950	\$(1,014,483)
Adjustments to reconcile net loss to net cash used in operating activities:		
(Gain) loss on derivative valuation	(57,752,615)	339,493
Loss on settlement of debt	-	(2,100)
Amortization of deferred financing costs	-	3,370
(Gain) loss on convertible debt redemptions	-	35,630
Stock issued for services	30,478	8,000
Depreciation and amortization	9,693	6,000
Amortization of debt discount	5,042	131,064
Changes in operating assets and liabilities:		
Accounts receivable	(39,594)	(24,703)
Other current assets	20,000	(2,258)
Inventory	(19,053)	-
Accrued expenses-related parties	-	36,643
Accounts payable and accrued expenses	313,184	468,122
Net Cash Used in Operating Activities	(424,915)	(15,222)

INVESTING ACTIVITIES

Purchase of property and equipment	-	(1,371)
Net Cash Used in Investing Activities	-	(1,371)

FINANCING ACTIVITIES

Obligations collateralized by receivables	62,802	(11,382)
Proceeds from related party loans	18,757	-
Proceeds from convertible debentures	261,477	12,990
Proceeds from line of credit	10,912	1,425
Proceeds from non controlling interest	10,000	-
Proceeds from sale of preferred stock, Series E	-	10,000
Proceeds from notes payable	62,250	-
Repayment of notes payable	-	9,000
Repayment of related party loans	-	(5,468)
Net Cash Provided by Financing Activities	426,198	16,565

NET INCREASE (DECREASE) IN CASH	1,283	(28)
CASH AT BEGINNING OF PERIOD	2,754	522

CASH AT END OF PERIOD	\$4,037	\$494
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The accompanying notes are an integral part of these consolidated financial statements.

4

COROWARE, INC.
 Consolidated Statements of Cash Flows (Continued)
 (unaudited)

For the Six Months Ended
 June 30,
 2013 2012

SUPPLEMENTAL DISCLOSURES OF
 CASH FLOW INFORMATION

CASH PAID FOR:

Interest	\$-	\$-
Income taxes	-	-

NON CASH FINANCING ACTIVITIES:

Common stock issued upon conversion of debt	\$ 249,656	\$ 207,859
Common stock issued for accrued liabilities	-	17,985

The accompanying notes are an integral part of these consolidated financial statements.

COROWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements of CoroWare, Inc. (“CoroWare” or “the Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission (“SEC”), and should be read in conjunction with the audited financial statements and notes thereto contained in the Company’s annual report filed with the SEC on Form 10-K for the year ended December 31, 2012. The consolidated financial statements include the accounts of the Company and its wholly-owned operating subsidiary, CoroWare Technologies, Inc. Also included in the consolidated statements are the Company’s inactive wholly-owned subsidiaries, Innova Robotics, Inc., Robotic Workspace Technologies, Inc., and Robotics Software Service, Inc. (herein referred to as the “Subsidiaries”). The Company also consolidates its 51% interest in Aricon, LLC. All significant inter-company balances and transactions have been eliminated in the consolidated financial statements. In the opinion of management, all adjustments consisting of normal recurring adjustments necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements which would substantially duplicate the disclosure contained in the audited financial statements for the most recent fiscal year ended December 31, 2012 as reported in Form 10-K have been omitted.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsequent Events

The Company evaluated events occurring between the end of the current period and the date these financial statements were issued for potential subsequent event disclosures.

Recent Accounting Pronouncements

Management does not expect the impact of any other recently issued accounting pronouncements to have a material impact on its financial condition or results of operations.

Reclassifications

None.

NOTE 3 – FINANCIAL CONDITION AND GOING CONCERN

The Company has net loss from operations for the six months ended June 30, 2013 of \$381,811. Because of the current working capital deficit, and the projection of losses for the remainder of 2013, the Company will require additional working capital to develop its business operations.

The Company intends to raise additional working capital through the use of public offerings and/or related party financings.

There are no assurances that the Company will be able to either (1) achieve a level of revenues adequate to generate sufficient cash flow from operations; or (2) obtain additional financing through either private placements, public

offerings, bank financing and/or related party financing necessary to support the Company's working capital requirements. To the extent that funds generated from operations, any private placements, public offerings, bank financing and/or related party financings are insufficient, the Company will have to raise additional working capital. No assurance can be given that additional financing will be available or, if available, will be on terms acceptable to the Company.

These conditions raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 4 – ACCOUNTS RECEIVABLE FACTORING

On March 21, 2010, the Company established a \$200,000 factoring line with an asset-based lender, CapeFirst Funding, LLC (“Capefirst”) that is secured by accounts receivable that the Lender may accept and purchase from the Company. The agreement calls for Capefirst to advance up to 80% of the net face amount of each assigned account or up to 50% of eligible assigned purchase orders. The agreement calls for a maximum facility amount of \$200,000 with a purchase fee of 2% of the net face amount of each assigned account and a collection fee of 0.1% compounded daily. In the event of a dispute or in the event of fraud, misrepresentation, willful misconduct or negligence on the part of the Company, Capefirst may require the Company to immediately repurchase the assigned accounts at a purchase price that includes the amount of the assigned account plus the discount fee, interest and collection fee and may include a processing fee of 10%.

NOTE 5 - CONVERTIBLE DEBT

The following table illustrates the outstanding balances of the convertible debt, net of debt discount:

Financing	June 30, 2013	December 31, 2012
\$2,825,000 Yorkville financing (a)	\$ 44,805	\$ 471,543
\$ 600,000 Yorkville financing	600,000	600,000
\$ 300,000 Yorkville financing	300,000	300,000
\$ 75,000 Collins financing	39,170	39,170
\$ 17,500 Asher financing (k)	18,750	3,547
\$20,000 Asher financing (k)	37,500	18,775
\$ 27,500 Asher financing (k)	33,750	18,900
\$10,750 Barclay financing	10,750	10,750
\$ 9,750 Tangiers (formerly Mackie) financing (i)	-	3,059
\$170,562 Ratzker financing (b)	17,734	152,007
\$ 67,042 Harvey financing	67,042	67,042
\$ 89,383 Cariou financing (c)	22,465	54,838
\$ 65,000 Panache financing (d)	24,253	41,860
\$ 15,000 Panache financing	15,000	15,000
\$567,200 Westmount financing (l)	534,055	537,318
\$170,561 Redwood financing (e)	54,127	89,377
\$21,962 Premier financing	21,962	21,962
\$21,000 Tangiers financing (i)	-	11,424
\$5,474 Tangiers financing (i)	-	2,500
\$ 10,000 Magna financing (m)	-	10,000
\$13,000 Kellburgh financing (n)	13,000	-
\$54,060 Ridge Point financing (f)	17,805	9,117
\$42,200 AGS financing (s)	5,238	-
\$131,377 AGS financing (g)	122,036	-
\$25,000 Yorkville financing (r)	25,000	-
\$12,372.60 Tangiers financing (h)	-	-
\$14,000 Tangiers financing (o)	14,000	-
\$24,893.17 Tangiers financing (p)	24,879	-