

CoroWare, Inc,  
Form 10-Q  
May 20, 2009

**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 Act of 1934**

For the quarterly period ended March 31, 2009

**Transition Report Pursuant to Section 13 or 15(D) of the Securities Exchange Act of 1934**

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

**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.)*

**4056 148<sup>th</sup> Avenue NE**

**Redmond, WA 98052**

*(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)*

**(800) 641-2676**

*(ISSUERREGISTRANT TELEPHONE NUMBER)*

*(FORMER NAME OR FORMER ADDRESS, IF CHANGED FROM LAST REPORT)*

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 May 1, 2009 there were 2,933,941 shares (880,182,300 pre-reverse split shares) of the issuer's \$.001 par value common stock issued and outstanding.

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**COROWARE, INC.**

**March 31, 2009 QUARTERLY REPORT ON FORM 10-Q**

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**PART I FINANCIAL INFORMATION****ITEM 1.****CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****COROWARE, INC.****CONSOLIDATED BALANCE SHEETS****March 31, 2009 and December 31, 2008**

	<b>March 31,</b>	<b>December 31,</b>
	<b>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Current assets:		
Cash	\$ 29,408	\$ 32,142
Accounts receivable, net	163,113	52,796
Other current assets	7,332	8,821
Total current assets	199,853	93,759
Property and equipment, net	72,481	65,462
Intangible assets, net	91,256	148,343
Other assets, net	4,815	4,815
Deferred financing costs, net	94,574	130,173
<b>TOTAL ASSETS</b>	<b>\$ 462,979</b>	<b>\$ 442,552</b>
<b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>		
Current liabilities:		
Lines of credit	\$ 114,736	\$ 29,210
Accounts payable and accrued expenses	2,073,142	1,985,112
Accrued expenses, related parties	151,504	166,513
Notes payable	280,232	285,000
Notes payable, related parties	261,100	227,100
Derivative liability	1,767,820	284,745
Current maturities of convertible debt, net of discount	1,124,221	585,188
Redeemable preferred stock, Series B, \$.001 par value, 10,000,000 shares authorized, 159,666 shares issued and outstanding	319,651	212,888
Total current liabilities	6,092,406	3,775,756

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Convertible debt, net of discount		241,678
Long-term debt	989,100	989,100
Total liabilities	7,081,506	5,006,534
Stockholders' deficit:		
Common stock, \$.001 par value, 900,000,000 shares authorized, 878,752,920 shares issued and outstanding	878,753	878,753
Additional paid-in capital	13,833,206	13,818,537
Accumulated deficit	(21,290,407 )	(19,225,572 )
Cumulative effect of adjustment related to the adoption of EITF 07-05	(4,379 )	
Treasury stock	(35,700 )	(35,700 )
Total stockholders' deficit	(6,618,527 )	(4,563,982 )
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 462,979</b>	<b>\$ 442,552</b>

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

**COROWARE, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the Three Months ended March 31, 2009 and 2008**  
**(Unaudited)**

	<b>2009</b>	<b>2008</b>
Revenues	\$ 657,989	\$ 778,276
Cost of revenues	415,488	619,028
Gross Profit	242,501	159,248
Operating expenses:		
General and administrative	222,776	606,234
Sales and marketing	15,685	20,109
Depreciation and amortization	62,774	59,665
Total operating expenses	301,235	686,008
Loss from continuing operations before other income (expense)	(58,734 )	(526,760 )
Other income (expense):		
Derivative expense	(1,585,459 )	(57,317 )
Interest expense	(420,642 )	(172,570 )
Loss on debt redemptions		(149,486 )
Total other income (expense)	(2,006,101 )	(379,373 )
Loss from continuing operations	(2,064,835 )	(906,133 )
Loss from discontinued operations		(4,273 )
Net loss	\$ (2,064,835 )	\$ (910,406 )
Net loss per share:		
Basic and diluted, continuing operations	\$ (0.00 )	\$ (0.01 )
Basic and diluted, discontinued operations	\$ (0.00 )	\$ (0.00 )
Weighted average shares outstanding:		
Basic and diluted	878,752,920	136,663,873

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





**COROWARE, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the three Months ended March 31, 2009 and 2008**  
**(Unaudited)**

	<b>2009</b>		<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss	\$ (2,064,835 )	\$	(910,406 )
Adjustments to reconcile net loss to net flows from operating activities:			
Depreciation and amortization	62,774		59,665
Stock option expense	14,669		40,768
Amortization of debt discount	340,950		74,243
Amortization of deferred financing costs	35,599		54,286
Derivative loss	1,585,459		57,317
Loss on debt redemptions			149,486
Common stock issued for services			196,593
Imputed interest			900
Changes in operating assets and liabilities:			
Accounts receivable, net	(110,317 )		(136,642 )
Other current assets, net	1,489		(6,606 )
Accounts payable and accrued expenses	29,425		57,203
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>(104,787 )</b>		<b>(363,193 )</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property and equipment	(12,705 )		(4,700 )
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(12,705 )</b>		<b>(4,700 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from convertible debt financing			240,000
Proceeds from lines of credit, net	85,526		
Payments on notes payable	(5,268 )		
Payments on notes payable, related party	(5,000 )		(40,000 )
Proceeds from notes payable	500		
Proceeds from notes payable, related party	39,000		41,000
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>114,758</b>		<b>241,000</b>
<b>NET DECREASE IN CASH</b>	<b>(2,734 )</b>		<b>(126,893 )</b>
Cash, beginning of period	32,142		205,058
Cash, end of period	\$ 29,408	\$	78,165

SUPPLEMENTAL CASH FLOW INFORMATION

Interest paid	\$	14,439	\$	21,378
Income taxes paid	\$		\$	

NON-CASH INVESTING AND FINANCING TRANSACTIONS

Common stock issued for Series B preferred stock dividends	\$		\$	28,750
Common stock issued in satisfaction of note payable	\$		\$	1,500
Common stock issued for redemption of convertible debentures	\$		\$	155,443
Common stock issued in satisfaction of accrued liabilities	\$		\$	85,641

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 and prior reports for 2008. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, CoroWare Technologies, Inc. ( CTI ), Innova Robotics, Inc. ( IR ), Robotic Workspace Technologies, Inc. ( RWT ), and Robotics Software Service, Inc. ( RSS ) (Herein are referred to as the Subsidiaries ). 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, 2008 as reported in Form 10-K have been omitted.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Adopted Accounting Pronouncements:***

On January 1, 2009, the Company adopted EITF 07-5, *Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity s Own Stock* ( EITF 07-5 ). EITF 07-5 provides that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument s contingent exercise and settlement provisions. The adoption of this pronouncement required the Company to perform additional analyses on both its freestanding equity derivatives and embedded equity derivative features. The adoption of EITF 07-05 affected the Company s accounting for the warrants associated with the \$600,000 convertible debenture resulting in the Company recording a derivative liability of \$4,379 representing the fair value of the warrants as of January 1, 2009. EITF 07-5 requires the Company to recognize the cumulative effect of the change in accounting principle as an adjustment to the opening balance of retained earnings.

***Reclassifications:***

Certain 2008 balances have been reclassified to conform to current year presentation.

**NOTE 3 FINANCIAL CONDITION AND GOING CONCERN**

The Company has incurred losses for the three months ended March 31, 2009 and 2008 of \$2,064,835 and \$910,406, respectively. Because of these losses, the Company will require additional working capital to develop its business operations.

The Company intends to raise additional working capital through the use of private placements, public offerings, bank financing 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 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 - CONVERTIBLE DEBT**

The following table illustrates the carrying value of convertible debt at March 31, 2009 and December 31, 2008:

	<b>March 31,</b>	<b>December 31,</b>
	<b>2009</b>	<b>2008</b>