

CoroWare, Inc,  
Form 10-Q  
August 19, 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 June 30, 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**

*(ISSUER/REGISTRANT 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  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.

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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 5, 2009 there were 2,942,211 shares of the issuer's \$.001 par value common stock issued and outstanding.

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**EXPLANATORY NOTE**

All common share amounts and per share amounts in the accompanying financial statements and in this Quarterly Report on Form 10-Q for the three and six months ended June 30, 2009 reflect the one-for-three hundred reverse stock split of the issued and outstanding shares of common stock of the Company, effective on April 8, 2009.

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**COROWARE, INC.**

**June 30, 2009 QUARTERLY REPORT ON FORM 10-Q**

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**Part I FINANCIAL INFORMATION****ITEM 1.****CONSOLIDATED FINANCIAL STATEMENTS****COROWARE, INC.****CONSOLIDATED BALANCE SHEETS**

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash	\$ 1,313	\$ 32,142
Accounts receivable, net	194,978	52,796
Other current assets	3,073	8,821
Total current assets	199,364	93,759
Property and equipment, net	77,717	65,462
Intangible assets, net	50,981	148,343
Other assets, net	4,815	4,815
Deferred financing costs, net	59,646	130,173
<b>TOTAL ASSETS</b>	<b>\$ 392,523</b>	<b>\$ 442,552</b>
<b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>		
Current liabilities:		
Lines of credit	\$ 121,102	\$ 29,210
Accounts payable and accrued expenses	2,085,848	1,985,112
Accrued expenses, related parties	191,506	166,513
Notes payable	317,732	322,500
Notes payable, related parties	331,940	189,600
Derivative liability	2,207,669	284,745

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Current maturities of convertible debt, net of discount	1,552,043	585,188
Redeemable preferred stock, Series B, \$.001 par value, 10,000,000 shares authorized, 159,666 shares issued and outstanding as of June 30, 2009 and December 31, 2008	571,604	212,888
Total current liabilities	7,379,444	3,775,756
Convertible debt, net of discount		241,678
Long-term debt	989,100	989,100
Total liabilities	8,368,544	5,006,534
Stockholders' deficit:		
Common stock, \$.001 par value, 900,000,000 shares authorized, 2,922,211 and 2,929,176 shares issued and outstanding at June 20, 2009 and December 31, 2008, respectively	2,922	2,929
Additional paid-in capital	14,717,795	14,694,361
Accumulated deficit	(22,656,659 )	(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	(7,976,021 )	(4,563,982 )
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 392,523</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 and Six Months ended June 30, 2009 and 2008****(Unaudited)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Revenues	\$ 416,117	\$ 654,147	\$ 1,074,106	\$ 1,438,317
Cost of revenues	253,589	559,989	669,077	1,185,822
Gross profit	162,528	94,158	405,029	252,495
Operating expenses:				
General and administrative	190,353	619,860	413,129	1,228,594
Sales and marketing	30,642	14,594	46,327	34,228
Depreciation and amortization	46,696	62,387	109,470	119,614
Total operating expenses	267,691	696,841	568,926	1,382,436
Loss from operations	(105,163 )	(602,683 )	(163,897 )	(1,129,941 )
Other income (expense):				
Derivative income (expense)	(691,803 )	1,371,059	(2,277,262 )	1,336,123
Interest expense, net	(569,286 )	(105,041 )	(989,928 )	(299,988 )
Loss on debt redemptions		(192,602 )		(342,088 )
Total other income (expense)	(1,261,089 )	1,073,416	(3,267,190 )	694,047
Net income (loss)	\$ (1,366,252 )	\$ 470,733	\$ (3,431,087 )	\$ (435,894 )
Net loss per share:				
Basic and diluted, continuing operations	\$ (0.46 )	\$ 0.71	\$ (1.17 )	\$ (0.72 )
Weighted average shares outstanding:				

Basic and diluted	2,917,834	666,915	2,923,474	607,631
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The accompanying notes are an integral part of these consolidated financial statements.

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**COROWARE, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Six Months ended June 30, 2009 and 2008**

(Unaudited)

	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (3,431,087 )	\$ (435,894 )
Adjustments to reconcile net loss to net flows from operating activities:		
Depreciation and amortization	109,470	119,614
Stock option expense	27,373	61,284
Amortization of debt discount	837,507	161,045
Amortization of deferred financing costs	70,528	79,546
Derivative (income) loss	2,277,262	(1,336,123 )
Loss on debt redemptions		342,088
Common stock issued for services		283,666
Imputed interest		1,800
Changes in operating assets and liabilities:		
Accounts receivable, net	(142,182 )	(11,159 )
Other current assets, net	5,748	(19,402 )
Accounts payable and accrued expenses	8,280	349,015
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>(237,101 )</b>	<b>(404,520 )</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property and equipment	(23,192 )	(8,458 )
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(23,192 )</b>	<b>(8,458 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from convertible debt financing		240,000
Proceeds from lines of credit, net	91,892	
Payments on notes payable	(5,268 )	
Payments on notes payable, related party	(30,000 )	
Proceeds from notes payable	500	

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Proceeds from notes payable, related party	172,340		17,900
NET CASH FLOWS FROM FINANCING ACTIVITIES	229,464		257,900
NET DECREASE IN CASH	(30,829 )		(155,078 )
Cash, beginning of period	32,142		205,058
Cash, end of period	\$ 1,313	\$	49,980
SUPPLEMENTAL CASH FLOW INFORMATION			
Interest paid	\$ 24,065	\$	33,691
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	\$	\$	355,599
Common stock issued in satisfaction of accrued liabilities	\$ 4,100	\$	208,449
Common stock issued for conversion of Series C preferred stock	\$	\$	35,000

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 operating subsidiary, *CoroWare Technologies, Inc.* ( *CTI* ). Also included in the consolidated statements are the *Company*'s inactive wholly-owned subsidiaries, *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 six months ended June 30, 2009 and 2008 of \$3,431,087 and \$435,894, 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 June 30, 2009 and December 31, 2008:

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
\$2,825,000 financing	\$ 1,064,135	\$ 585,188
\$ 600,000 financing	269,427	85,602
\$ 300,000 financing	218,481	156,076
	<b>\$ 1,552,043</b>	<b>\$ 826,866</b>

The following tables illustrate the fair value adjustments that were recorded related to the derivative financial instruments associated with the convertible debenture financings:

		<b>Three Months ended June 30, 2009</b>		
<b>Derivative income (expense)</b>	<b>Inception</b>	<b>Fair Value Adjustments</b>	<b>Redemptions</b>	<b>Total</b>
\$2,825,000 financing	\$	\$ (252,117 )	\$	\$ (252,117 )
\$ 600,000 financing		(199,517 )		(199,517 )
\$ 300,000 financing		11,786		11,786
Preferred stock, Series B		(251,953 )		(251,953 )
	\$	<b>\$ (691,801 )</b>	\$	<b>\$ (691,801 )</b>

		<b>Six Months ended June 30, 2009</b>		
<b>Derivative income (expense)</b>	<b>Inception</b>	<b>Fair Value Adjustments</b>	<b>Redemptions</b>	<b>Total</b>
\$2,825,000 financing	\$	\$ (1,347,000 )	\$	\$ (1,347,000 )
\$ 600,000 financing		(569,710 )		(569,710 )
\$ 300,000 financing		(1,836 )		(1,836 )
Preferred stock, Series B		(358,716 )		(358,716 )
	\$	<b>\$ (2,277,262 )</b>	\$	<b>\$ (2,277,262 )</b>

The following table illustrates the components of derivative liabilities at June 30, 2009:

	<b>Compound Derivative</b>	<b>Warrant Liability</b>	<b>Other warrants</b>	<b>Total</b>
\$2,825,000 financing	\$ 1,559,260	\$ 18	\$	\$ 1,559,278
\$ 600,000 financing	639,855	4,038		643,893
\$ 300,000 financing	118	4,380		4,498
				\$ 2,207,669

The following table summarizes the number of common shares indexed to the derivative financial instruments as of June 30, 2009:

	<b>Conversion</b>		<b>Total</b>
Financing or other contractual arrangement:	<b>Features</b>	<b>Warrants</b>	
\$2,825,000 Convertible note financing	18,513,394	31,000	18,544,394
\$ 600,000 Convertible note financing	6,152,450	40,385	6,192,835
\$ 300,000 Convertible note financing	58,860	33,333	92,193
			24,829,422

Warrants issued in connection with the \$600,000 financing have an embedded derivative feature (full-ratchet anti-dilution provision). Emerging Issues Task Force EITF 07-5 requires reclassification of the warrants to liabilities at fair value on January 1, 2009 and subsequent reporting of the change in fair value. The valuation for 72,917 warrants with embedded features was \$4,379 on January 1, 2009 and \$13,125 on June 30, 2009. \$4,379 was reclassified from the accumulated deficit account to the derivative liabilities account on January 1, 2009. For the quarter ended June 30, 2009, the change in fair value of this component of the derivative instruments was \$8,746 and recorded as an increase in the derivative liability account and as an expense.

**NOTE 5 - STOCK BASED COMPENSATION**

*Stock Options:*

The following table summarizes stock option activity:

	<b>Total Options</b>		<b>Weighted Average Price</b>
Outstanding, December 31, 2008	44,261	\$	6.00
Granted			
Cancelled	(5,732 )	\$	(30.00 )
Exercised			
Outstanding, June 30, 2009	38,529	\$	3.00

**NOTE 6 OTHER STOCKHOLDERS EQUITY**

a)

*Outstanding warrants:*

At June 30, 2009, the Company had the following warrants outstanding:

	<b>Grant Date</b>	<b>Expiration Date</b>	<b>Warrants Granted</b>	<b>Exercise Price</b>
\$2,800,000 financing	07/21/06	07/21/09 & 07/21/11	31,000	\$ 6.00
\$ 600,000 financing	10/25/07	10/25/10	40,385	\$ 0.13
\$ 300,000 financing	03/19/08	03/19/13	33,333	\$ 6.00
			104,718	

b)

*Reverse stock split:*

All common share amounts and per share amounts in the accompanying financial statements for the three and six months ended June 30, 2009 reflect the one-for-three hundred reverse stock split of the issued and outstanding shares of common stock of the Company, effective April 8, 2009.

**NOTE 7 SUBSEQUENT EVENT**

On July 24, 2009, the Company entered into a Forbearance and Settlement Agreement (the Agreement) with ThreeAM, SPC Ltd. ( ThreeAM ), the current holder of the convertible debentures described in Note 4. The Agreement calls for the Company to make a lump sum payment of \$350,000 in cash to ThreeAM by no later than September 15, 2009. This payment by the Company will fully and completely satisfy the Company's obligations under its convertible debt agreements. There is no guarantee that the Company will be able to raise the needed funds to pay ThreeAM.

**ITEM 2.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative of such terms, or other comparable terminology. These statements are only predictions. Actual events or results may differ materially from those in the forward-looking statements as a result of various important factors. Although we believe that the expectations reflected in the forward-looking statements are reasonable, such should not be regarded as a representation by CoroWare, Inc., or any other person, that such forward-looking statements will be achieved. The business and operations of CoroWare, Inc. are subject to substantial risks, which increase the uncertainty inherent in the forward-looking statements contained in this report.

**BACKGROUND**

CoroWare, Inc ( CoroWare or the Company ) is a professional services, software development and managed services company that develops and delivers telepresence products and services, collaborative web applications, and mobile robotics solutions to its customers in North America and Europe. The Company has historically focused its efforts in the software products, education and automotive industry sectors. The Company has one operational subsidiary: CoroWare Technologies, Inc. ( CTI ).

**COROWARE TECHNOLOGIES, INC.**

CTI is a software professional services company with a strong focus on Information Technology integration and robotics integration, business automation solutions, and unmanned systems solutions to its customers in North America and Europe.

CTI s expertise includes the deployment and integration of computing platforms and applications, as well as the development of unmanned vehicle software and solutions for customers in the research, commercial, and homeland security market segments. CTI shall continue to offer its high value software systems development and integration services that complement the growing trend in outsourced software development services in Asia, Latin America and Eastern Europe.

CTI is comprised of three principal solutions delivery groups:

Software and IT Consulting: Professional Services, including IT management, software development, content management, program management.

Robotics and Automation: Professional Services such as visualization, simulation and software development; and Mobile Robot Platforms for university, government and corporate researchers.

Telepresence: High definition video conferencing solutions and subscription services.

The company's revenues are principally derived from standing contracts that include Microsoft (partner management and IT professional services), a European auto manufacturer (simulation software custom development), and other customers whose product development groups require custom software development and consulting companies.. Existing contract revenues vary month by month based on the demands of the clients. The Company's telepresence effort is in the early stages of growth and will require additional working capital to compete effectively against new entrants in this rapidly growing market.

## **RESULTS OF OPERATIONS**

THREE MONTHS ENDED JUNE 30, 2009 COMPARED TO THREE MONTHS ENDED JUNE 30, 2008:

During the three-month period ended June 30, 2009 (the "2009 Period") revenues were \$416,117 compared to revenues of \$654,147 during the three-month period ended June 30, 2008 (the "2008 Period"). Our revenues decreased compared to the previous quarter as customers delayed or reduced spending on software development, infrastructure deployment and product purchases.

Cost of revenues was \$253,589 and \$559,989 for the 2009 Period compared to the 2008 Period, respectively. Cost of revenues sold represents primarily labor and labor-related costs in addition to overhead costs. Management made a concerted effort during the past 12 months to reduce our cost of sales and increase our gross profit. Gross profit on these 2009 revenues amounted to \$162,528 (39% gross profit percentage) compared to \$94,158 (14% gross profit percentage) for the 2008 Period revenues.

Operating expenses were \$267,691 during the 2009 Period compared to \$696,841 during the 2008 Period. Selling, general and administrative operating expenses were significantly lower in the 2009 Period due to the substantial reduction in costs related to officers' salaries, rent and related expenses, travel and entertainment.

Loss from operations was \$105,163 during the 2009 Period compared to a loss of \$602,683 in the 2008 Period. We believe the reduction in this loss to be a direct result of our cost cutting measures.

Other income (expense) was \$(1,261,089) during the 2009 Period compared to \$1,073,416 in the 2008 Period. Other income (expense) is comprised primarily of derivative income (expense) and amortization of debt discount and deferred finance costs. The embedded conversion features associated with our convertible debentures are valued based on the number of shares that are indexed to that liability. Keeping the number of shares constant, the liability associated with the embedded conversion features increases as our share price increases and, likewise, decreases when our share price decreases. Derivative income (expense) displays the inverse relationship. The derivative expense in the 2009 Period is an indirect result of losing the par floor on the conversion feature subsequent to the 1-for-300 reverse split. The par floor had the effect of limiting the number of shares indexed to the debt and thus limiting the liability. Subsequent to the reverse split, the stock was trading well above par so the number of shares indexed to the debt was not limited, the liability was thus greater and derivative expense was recorded. The stock price over the three month period remained relatively consistent with little volatility during the 2009 Period. (\$0.18 at March 31, 2009 versus \$0.18 at June 30, 2009). The derivative income in the 2008 Period is the direct result of the decrease in our stock price on the measurement dates during the three month period (\$2.10 at March 31, 2008 versus \$.45 at June 30, 2008). A decrease in the stock price resulted in a decreased value of the embedded conversion feature (using the Monte Carlo calculator) which resulted in derivative income.

Net loss for the 2009 Period was \$1,366,752 compared to net income of \$470,733 for the 2008 Period.

Weighted average shares outstanding were 2,917,834 during the 2009 Period compared to 669,915 in the 2008 Period.

#### SIX MONTHS ENDED JUNE 30, 2009 COMPARED TO SIX MONTHS ENDED JUNE 30, 2008:

During the six-month period ended June 30, 2009 (the "2009 Six Month Period") revenues were \$1,074,106 compared to revenues of \$1,438,317 during the six-month period ended June 30, 2008 (the "Six Month 2008 Period"). Our revenues decreased compared to the Six Month 2008 Period as customers delayed or reduced spending on software development, infrastructure deployment and product purchases.

Cost of revenues was \$669,077 and \$1,185,822 for the Six Month 2009 Period compared to the Six Month 2008 Period, respectively. Cost of revenues sold represents primarily labor and labor-related costs in addition to overhead costs. Management made a concerted effort during the second half of 2008 and the first half of 2009 to reduce staffing levels that helped to reduce our cost of sales and increase our gross profit. Gross profit on these 2009 revenues amounted to \$405,029 compared to \$252,495 for the 2008 Period revenues.

Operating expenses were \$568,926 during the Six Month 2009 Period compared to \$1,382,436 during the Six Month 2008 Period. Selling, general and administrative operating expenses were significantly lower in the 2009 Period due to the substantial reduction in costs related to officers' salaries, rent and related expenses, travel and entertainment.

Loss from operations was \$163,897 during the Six Month 2009 Period compared to \$1,129,941 in the Six Month 2008 Period. We believe the reduction in this loss to be a direct result of our cost cutting measures.

Other income (expense) was \$(3,267,190) during the Six Month 2009 Period compared to \$694,047 in the Six Month 2008 Period. Other income (expense) is comprised primarily of derivative income (expense) and amortization of debt discount and deferred finance costs. The embedded conversion features associated with our convertible debentures are valued based on the number of shares that are indexed to that liability. Keeping the number of shares constant, the liability associated with the embedded conversion features increases as our share price increases and, likewise, decreases when our share price decreases. The derivative expense in the Six Month 2009 Period is a direct result of the increase in our stock price on the measurement dates during the six month period (\$0.03 at December 31, 2008 versus \$0.18 at June 30, 2009). The derivative income in the Six Month 2008 Period is the direct result of the decrease in our stock price on the measurement dates during the six month period (\$3.00 at December 31, 2007 versus \$.45 at June 30, 2008).

Net loss for the Six Month 2009 Period was (\$3,431,087) compared to net loss of (\$435,894) for the Six Month 2008 Period.

Weighted average shares outstanding were 2,923,474 during the Six Month 2009 Period compared to 607,631 in the Six Month 2008 Period.

## **LIQUIDITY AND CAPITAL RESOURCES**

At June 30, 2009, we had current assets of \$199,364, current liabilities of \$7,379,444, negative working capital of \$7,180,080 and an accumulated deficit of \$7,976,021.

We presently do not have any available credit, bank financing or other external sources of liquidity. We will need to obtain additional capital in order to expand operations and become profitable. In order to obtain capital, we may need to sell additional shares of our common stock or borrow funds from private lenders. There can be no assurance that we will be successful in obtaining additional funding. We will still need additional capital in order to continue operations until we are able to achieve positive operating cash flow. Additional capital is being sought, but we cannot guarantee that we will be able to obtain such investments. Financing transactions may include the issuance of equity or debt securities, obtaining credit facilities, or other financing mechanisms. If we do not obtain additional capital, we may cease operations.

However, even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses, fail to collect significant amounts owed to us, or experience unexpected cash requirements that would force us to seek alternative financing. Furthermore, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. If additional financing is not available or is not available on acceptable terms, we will have to curtail our operations.

## **OFF-BALANCE SHEET ARRANGEMENTS**

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, results of operations, liquidity or capital expenditures.

## **CONTRACTUAL OBLIGATIONS**

The following table sets forth the contractual obligations of the Company as of December 31, 2008:

<b>Contractual Obligations</b>	<b>Payments due by Period</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Convertible debt	\$ 826,866	\$ 585,188	\$ 241,678	\$	\$
Notes payable	322,500	322,500			
Notes payable, related parties	189,600	189,600			
Operating leases	110,829	36,800	74,029		
Long term debt	989,100	989,100			
<b>Total</b>	<b>\$ 2,438,895</b>	<b>\$ 2,123,188</b>	<b>\$ 315,707</b>	<b>\$</b>	<b>\$</b>

## **EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS**

Refer to Form 10-K for the year ended December 31, 2008. Also refer to *Note 1* of the accompanying *Notes to Consolidated Financial Statements*.

### **ITEM 3.**

## **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As a smaller reporting company, as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the Exchange Act ), we are not required to provide the information required by this item.

### **ITEM 4.**

## **CONTROLS AND PROCEDURES**

### *Evaluation of Disclosure Controls and Procedures*

With the participation of Lloyd T. Spencer, who serves as the Chief Executive Officer (the principal executive officer) and Interim Chief Financial Officer (the principal financial officer); the Company's management has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act )), as of the end of the quarterly period covered by this Quarterly Report on Form 10-Q. As of the end of the period covered by this Report, we conducted an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, our chief executive officer and interim chief financial officer concluded that our disclosure controls and procedures are not effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. The ineffectiveness of our disclosure controls and procedures is the result of certain deficiencies in internal controls constituting material weaknesses as discussed below. The material weaknesses identified did not result in the restatement of any previously reported financial statements or any other related financial disclosure, nor does management believe that it had any effect on the accuracy of the Company's financial statements for the current reporting period. We lack segregation of duties in the period-end financial reporting process. The Company has historically had limited accounting and limited operating revenue and, as such, all accounting and financial reporting operations have been and are currently performed by a limited number of individuals. The parties that perform the accounting and financial reporting operations are the only parties with any significant knowledge of generally accepted accounting principles. In addition, the lack of additional staff with significant knowledge of generally accepted accounting principles has resulted in ineffective oversight and monitoring.

We lack segregation of duties in the period-end financial reporting process. This lack of additional accounting/auditing staff with significant knowledge of generally accepted accounting principles in order to properly segregate duties could result in ineffective oversight and monitoring and the possibility of a misstatement within the

financial statements. However, the material weaknesses identified did not result in the restatement of any previously reported financial statements or any other related financial disclosure, nor does management believe that it had any effect on the accuracy of the Company's financial statements for the current reporting period.

The Company is currently reviewing its policies and is evaluating its disclosure controls and procedures so that it will be able to determine the changes it can and should make to make such controls more effective.

***Changes in Internal Controls over Financial Reporting***

There has been no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to material affect, our internal control over financial reporting.

**Part II OTHER INFORMATION**

**ITEM 1.**

**LEGAL PROCEEDINGS**

None.

**ITEM 1A.**

**RISK FACTORS**

As a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act, we are not required to provide the information required by this item.

**ITEM 2.**

**UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF FUNDS**

None.

**ITEM 3.**

**DEFAULTS UPON SENIOR SECURITIES**

(a)

No material default in the payment of principal, interest, a sinking fund or purchase fund installment, or any other material default not cured within 30 days exists as of the balance sheet date.

(b)

As of the balance sheet date the company is in arrears in the payment of dividends related to its Series B preferred stock in the amount of \$15,969.

**ITEM 4.**

**SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5.**

**OTHER INFORMATION**

**ITEM 6.**

**EXHIBITS**

- 31 Certification of Periodic Financial Reports by Lloyd Spencer in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification of Periodic Financial Reports by Lloyd Spencer in satisfaction of Section 906 of the Sarbanes-Oxley Act of 2002 and 18 U.S.C. Section 1350

**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 thereunto duly authorized.

**Coroware, Inc.**

By:

/s/ Lloyd T. Spencer

Lloyd T. Spencer

*Chief Executive Officer and Interim  
Chief Financial Officer*

*(Principal Executive Officer and  
Principal Accounting and Financial  
Officer)*

Date: August 19, 2009