CoroWare, Inc,
Form 10-K
May 24, 2016

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

FORM 10- K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

o 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.)

601 108 th Avenue Northeast, Suite 1900
Bellevue, WA 98004

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

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

SECURITIES REGISTERED UNDER SECTION 12(B) OF THE ACT: NONE

SECURITIES REGISTERED UNDER SECTION 12(G) OF THE ACT:

COMMON STOCK, PAR VALUE $0.0001
(TITLE OF CLASS)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) the Act. Yes o No þ

Indicate by check mark whether the registrant (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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. o Yes þ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o Yes þ No

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained in this form, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o Yes þ 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	o	Accelerated filer	o
Non-accelerated filer (Do not check if a smaller reporting company)	o	Smaller reporting company	þ

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

The aggregate market value of the of the registrant's common stock held by non-affiliates of the registrant, computed by reference to price at which the common equity was sold, or the average bid and asked price of such common stock as of December 31, 2015, was $0.0001. For purposes of this computation, the registrant has excluded the market value of all shares of its common stock reported as being beneficially owned by executive officers and directors and holders of more than 10% of the common stock on a fully diluted basis of the registrant; such exclusion shall not, however, be deemed to constitute an admission that any such person is an "affiliate" of the registrant.

Number of shares of common stock ($0.0001 par value) outstanding as of May 23, 2016: 11,827,670,076 shares.

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PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

In this annual report, references to “CoroWare,” “the Company,” “we,” “us,” and “our” refer to CoroWare, Inc.

This Annual Report on Form 10-K contains forward-looking statements regarding our business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements, but are not deemed to represent an all-inclusive means of identifying forward-looking statements as denoted in this Annual Report on Form 10-K. Additionally, statements concerning future matters are forward-looking statements.

Although forward-looking statements in this Annual Report on Form 10-K reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those specifically addressed under the heading "Risks Related to Our Business" below, as well as those discussed elsewhere in this Annual Report on Form 10-K. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K.

CoroWare undertakes no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Annual Report on Form 10-K, except as required by law. Readers are urged to carefully review and consider the various disclosures made throughout this Annual Report, which are designed to advise interested parties of the risk factors that may affect our business, financial condition, results of operations and prospects.

PART I

ITEM 1. BUSINESS

Overview

CoroWare, Inc. ("CWI" or, collectively with its subsidiaries, the "Company") is a public holding company whose principal subsidiary, CoroWare Technologies, Inc. ("CTI"), has expertise in information technology consulting, mobile robotics, and Internet of Things ("IOT"). Through our subsidiary, the Company delivers custom engineering services, hardware and software products.

Employees

As of December 31, 2015, we had forty-four (44) employees comprised of one (1) full-time Officer and CEO, two (2) full-time finance administration persons, one (1) full-time human resources person, thirty-two (32) full-time employees delivering services, and eight (8) part-time employees delivering services. Our employees are not represented by a union. We consider relations with our employees to be positive and productive.

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 consulting staff members uses their experience to develop product specifications, project plans, marketing plans, workflow checklists, and perform their work with the objective of helping enterprise customers - such as Microsoft - deliver their solutions and products efficiently, affordably and on schedule.

CTI service model includes R&D engineering services; business process workflow; software architecture, design and development; content management; and marketing coordination and management. CTI's revenues are principally derived from standing contracts with 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.

CTI's enhanced collaboration and conferencing subscription services were discontinued in fiscal year 2015 as the Company focused its resources on its growing software professional services business.

COROWARE ROBOTICS SOLUTIONS, INC.

In fiscal year 2015, the Company created a new subsidiary, CoroWare Robotics Solutions, Inc. ("CRS"). CRS is a technology incubation company whose focus is on the delivery of mobile robotics and IOT products, solutions and services for university, government and corporate researchers, and enterprise customers.

In December 2015, we reorganized CRS by establishing operations in Bellevue, Washington and Phoenix, Arizona, and focused our efforts on developing and delivering solutions based on the CoroBot Spark platform.

Regulation

Our services and products are not uniquely subject to governmental or industry regulations.

Research & Development

Our research and development activities have primarily been focused on the development of software components, mobile robot platforms and IOT solutions.

Products

CoroBot Classic:

CoroBot Classic was created to minimize the complexity of robot development. By combining a powerful PC-class platform with a robust, object-oriented software development system, the CoroBot Classic empowers users to rapidly deploy and develop robotic solutions. The CoroBot Classic also assists the hardware developer with additional physical mounting space, ports, sensors and communication devices.

CoroBot Spark:

CoroBot Spark is an open and state-of-the-art mobile robotics platform that is based on the Raspberry Pi™ 2 Model B embedded computer and the CoroBot Pi Hat™ embedded controller card, and will support the development of mobile applications that run on both Linux and Windows 10 operating systems. The CoroBot Spark platform will include open and cross-platform application programming interfaces that support the development of mobile robot applications.

ITEM 1A. RISK FACTORS

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 1B. UNRESOLVED STAFF COMMENTS

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. PROPERTIES

Corporate Offices

On June 1, 2015 and October 1, 2015, the Company entered into lease agreements on two corporate offices located at 14777 NE 40th Street, Bellevue, WA. Under this lease for a period of 1 year, the Company is obligated to pay an average monthly rent of $3,000 per month.

Our main corporate mailing address is 601 108th Avenue Northeast, Suite 1900, Bellevue, WA 98004.

ITEM 3. LEGAL PROCEEDINGS

We are party to two pending legal proceedings that arose in the normal course of business. While the results of proceedings cannot be predicted with certainty, management believes that the final outcome of these proceedings should not have a material adverse effect on our consolidated financial statements, and should not adversely affect our cash flows. None of our directors, officers or affiliates is involved in a proceeding adverse to our business or has a material interest adverse to our business.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Recent Sales of Unregistered Securities

None

Use of Proceeds from Registered Securities

None

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In December 2015, the Company repurchased 2,692 shares of Series E preferred stock for $3,500 cash from an employee of the Company.

During the year ended December 31, 2015, the Company repurchased a total of 129,933,000 shares of common stock into the Company's treasury for $12,993.

In the first quarter of 2016, the Company entered in agreements to repurchase 62,220 shares of Series E preferred stock for $80,886 cash from employees of the Company.

Prices of Common Stock

Beginning in February 2002, CoroWare's common stock was eligible for listing in the OTC Bulletin Board. Our trading symbol was "SRMW" until such time as our acquisition of Hy-Tech Technology Group, Inc. on January 31, 2003, when our symbol became "HYTT". In November 2006, our name was changed to Innova Robotics & Automation, Inc., and the trading symbol was changed to INRA. In April 2008, we became CoroWare, Inc. and our trading symbol was changed to CROE. In April 2009, in conjunction with a 1-for-300 reverse stock split, our trading symbol was changed to COWI. In January 2012, we revised the par value of our Common Stock from $0.001 to $0.0001. In July 2013, we effected a reverse split of 1-for-200. In January 2014, we effected a reverse split of 1-for-200.

Our common stock is quoted on the OTCQB exchange under the symbol "COWI". Accordingly, there can be no assurance as to the liquidity of any markets that may develop for our common stock, the ability of holders of our common stock to sell our common stock, or the prices at which holders may be able to sell our common stock.

The following table sets forth the quarterly high and low sales prices as reported during the last two fiscal years ended December 31, 2015, and December 31, 2014.

COMMON STOCK

Year Ended December 31, 2015	High	Low
First Quarter	$ 0.0001	$ 0.000001
Second Quarter	$ 0.0001	$ 0.000001

Third Quarter	$	0.0001	$	0.000001
Fourth Quarter	$	0.0001	$	0.00009

Year Ended December 31, 2014		High		Low
First Quarter	$	0.0065	$	0.0007
Second Quarter	$	0.0012	$	0.0001
Third Quarter	$	0.0001	$	0.0001
Fourth Quarter	$	0.0001	$	0.0001

These quotations represent interdealer prices, without retail markup, markdown, or commission, and may not reflect actual transactions. As of May 23, 2016 there were approximately 226 record holders of the Company's common stock.

Dividend Policy

The Company has never declared or paid any cash dividends on its common stock. The Company anticipates that any earnings will be retained for development and expansion of its business and does not anticipate paying any cash dividends in the foreseeable future. Additionally, as of December 31, 2015 and 2014, the Company has issued and has outstanding shares of Series B Preferred Stock, which are entitled, prior to the declaration of any dividends on common stock, to earn a 5 percent dividend, payable in either cash or common stock of the Company. The Board of Directors has sole discretion to declare dividends based on the Company's financial condition, results of operations, capital requirements, contractual obligations and other relevant factors. At December 31, 2015 and 2014, there were cumulative undeclared dividends to Preferred Series B shareholders of $15,969 and $15,969, respectively, the obligation for which is contingent on declaration by the board of directors. At December 31, 2015 and 2014, there were accrued unpaid dividends of $15,969 and $15,969, respectively. These balances have been recorded as part of accounts payable and accrued expenses.

Securities Authorized for Issuance under Equity Compensation Plans

The following tables set forth the information as of December 31, 2015, with respect to compensation plans under which our equity securities are authorized for issuance:

EQUITY COMPENSATION PLAN INFORMATION

DECEMBER 31, 2015

Plan Category	Number of shares to be issued upon exercise of outstanding options and warrants (a)	Weighted average exercise price of outstanding options and warrants (b)	Number of securities available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders:			
2003 Stock Option Plan	-	n/a	-
2004 Stock Option Plan	-	n/a	-
2005 Stock Option Plan	38,164	$ 3.60	38,164
Equity Stock Compensation plan not approved by security holders:			
2006 Employee Compensation Plan	n/a	n/a	-
2008 Amended Incentive Stock Plan	n/a	n/a	2,890
2008 SIP – SEC File #333-151258	n/a	n/a	-
2009 Incentive Stock Plan	n/a	n/a	374,900
Total	38,164		415,954

Stock Plans

As of December 31, 2015, CoroWare had four stock compensation plans which provided for the issuance of 505,503,333 shares to employees of CoroWare or our subsidiaries as follows:

Plan Description	Authorized Shares	Remaining Shares
2006 Employee Compensation Plan	3,333	-
2008 Incentive Stock Plan	200,000,000	-
2009 Incentive Stock Plan	500,000	-
2010 Incentive Stock Plan (333-165768)	5,000,000	-
2012 Incentive Stock Plan (333-171325)	200,000,000	-
2012 Incentive Stock Plan (333-183512)	50,000,000	-
2013 Incentive Stock Plan (333-186247)	50,000,000	1
Total	505,503,333	1

Stock Options

As of December 31, 2015, we had one active Stock Option Plan known as the 2005 Stock Option Plan (the "Plan"). The Plan was approved by our stockholders on November 3, 2006 and authorized the issuance of 66,667 shares of common stock. The Board of Directors on December 31, 2007, cancelled options for 26,367 shares previously granted to current employees prior to that date which were exercisable at various prices and issued 26,367 options to these employees at the closing price as of December 31, 2007, or $3.00. The number of options issued and outstanding under the 2005 plan on December 31, 2015, is 38,164.

The following table summarizes stock option activity for the year ended December 31, 2015:

	Total Options	Weighted Average Price
Outstanding, December 31, 2014	38,164	$ 3.60
Granted	-	-
Cancelled	-	-
Forfeited	-	-
Exercised	-	-
Outstanding, December 31, 2015	38,164	$ 3.60
Exercisable at December 31, 2015	38,164	$ 3.60

ITEM 6. SELECTED FINANCIAL DATA

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

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

PLAN OF OPERATION

We believe that CoroWare is well positioned for stable growth in Fiscal Year 2016, principally through continued growth of our CoroWare Business Solutions group.

The Business Consulting Services group anticipates growing its revenues by delivering consulting services to its long-term clients – including Microsoft – such as R&D engineering; business process workflow; software architecture, design and development; content management; and marketing coordination and management.

The Robotics & Automation group is in the process of reestablishing its market presence by providing custom engineering solutions and services to clients who are developing innovative software services, solutions and products that leverage our expertise in "Internet of Things".

We shall continue to grow an investor relations program that has already helped the Company communicate more effectively and actively with CoroWare shareholders, and generate greater awareness of CoroWare and our services, solutions and products.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2015 COMPARED TO YEAR ENDED DECEMBER 31, 2014

During the year ended December 31, 2015 (the "2015 Period"), revenues were $5,461,238 compared to revenues of $1,943,729 during the year ended December 31, 2014 (the "2014 Period"), an increase of $3,517,509 or 181.0%. Revenues in the 2015 Period were higher compared to the 2014 Period as the Company intensified its focus on selling R&D support, operations support, and marketing support services in the 2015 Period.

Cost of goods sold was $4,369,390 and $1,480,228 for the 2015 Period and the 2014 Period, respectively, and increase of $2,889,162 or 195.2%. Cost of goods sold primarily represents labor and labor-related costs in addition to overhead costs. The increased cost of goods sold was principally due to the higher cost of delivering these services due to increased labor expenses. The Company began to reorganize its Robotics & Automation team at the end of the 2014 Period in order to improve profitability in the upcoming fiscal year

Gross profits increased to $1,091,848 during the 2015 Period compared to $463,501 during the 2014 Period, an increase of $628,347 or 135.6%. Gross profits increased during the 2015 Period as a result of gross revenues increased. The gross profit percentage in the 2015 Period was 20% compared to 24% in the 2014 Period. The decrease in gross profit percentage relates to the higher cost of delivering these services due to increased labor expenses, along with weaker sales of our Robotics & Automation products and services.

Operating expenses were $1,086,438 for the 2015 Period compared to $2,585,036 for the 2014 Period, a decrease of $1,498,598 or 58.0%. General and administrative expenses amounted to $850,285 during the 2015 Period compared to $2,379,736 for the 2014 period, and represented mostly labor and related compensation costs, legal and professional fees, outside services, travel expenses, rental expense and related office expenses. Sales and marketing expenses were $81,463 for the 2015 Period compared to $86,380 for the 2014 Period. Research and developments costs totaled $146,284 for the 2015 Period compared to $106,842 during the 2014 Period. Depreciation and amortization costs were $8,406 for the 2015 period compared to $12,078 for the 2014 Period. The overall decrease in operating expenses was due to the Company writing off accounts payable and accrued expenses that have been outstanding for over six years.

Income (loss) from operations was $5,410 for the 2015 Period compared to $(2,121,535) for the 2014 period, and increase of $2,126,945 or 100.3%. The increase in income from operations in the 2015 Period was due primarily to a significant decrease in general and administrative expenses, along with a modest increase in gross profit.

Other expenses was $2,312,806 during the 2015 Period compared to other expense of $5,816,861 in the 2014 Period, a decrease of $3,504,055 or 60.2%. Other expenses is comprised primarily of gain/loss on derivative, amortization of debt discount, deferred finance costs, accrued interest on notes payable, and loss on extinguishment of debt. The change in derivative liabilities for the 2015 Period was $1,196,257 compared to $3,709,967 for the 2014 Period, a decrease of $2,513,710 or 67.8%. 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. Interest expense, net for the 2015 Period was $944,410 compared to $1,110,281 for the 2014 Period, a decrease of $165,871 or 14.9%. The Company also recognized a $172,139 loss on extinguishment of debt during the 2015 Period compared to $990,282 in the 2014 Period, a decrease of $818,143 or 82.6%. The decrease in interest expense is principally a result of a decrease in the amount of debt discount that was amortized and derivative valuations in excess of debt discount amounts. The debt discount is being amortized using the effective interest method. Under this method, the amount of amortization decreases exponentially as the underlying carrying value of the amortized debt decreases.

Net loss for the 2015 Period was $2,307,396 compared to net loss of $7,939,101 for the 2014 Period, a decrease of $5,631,705 or 70.9%.

LIQUIDITY AND CAPITAL RESOURCES

During the 2015 Period net cash provided by operating activities was $186,135, compared to net cash used in operating activities of $(73,354) for the 2014 Period. This increase for the 2015 Period was primarily due to a decrease in net loss, a decrease in derivative expense, a decrease in stock issued for services and compensation, and a decrease in accounts payable and accrued expenses.

During the 2015 Period, we used $20,915 net cash from investing activities compared to $16,963 for the 2014 Period, exclusively for purchases of property and equipment.

During the 2015 Period, the Company had used $93,843 in cash from financing activities compared to net cash provided by financing activities of $117,996 for the 2014 Period. This increased use of cash for financing activities was primarily due to payments made towards debt financings in the 2015 Period.

At December 31, 2015, we had current assets of $284,936, current liabilities of $19,873,447, a working capital deficit of $19,588,511 and an accumulated deficit of $51,950,675.

At December 31, 2014, we had current assets of $99,161, current liabilities of $17,445,882, a working capital deficit of $17,346,721 and an accumulated deficit of $49,643,279.

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. 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.

CRITICAL ACCOUNTING POLICIES

The consolidated financial statements and notes included in our quarterly and annual financial statements contain information that is pertinent to this management's discussion and analysis. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of our assets and liabilities, and affect the disclosure of any contingent assets and liabilities. We believe these accounting policies involve judgment due to the sensitivity of the methods, assumptions, and estimates necessary in determining the related asset and liability amounts. The significant accounting policies are described in the notes to our financial statements and notes included elsewhere in this Form 10-K.

Revenue Recognition

We derive our software system integration services revenue from short-duration, time and material contracts. Generally, such contracts provide for an hourly-rate and a stipulated maximum fee. Revenue is recorded only on executed arrangements as time is incurred on the project and as materials, which are insignificant to the total contract value, are expended. Revenue is not recognized in cases where customer acceptance of the work product is necessary, unless sufficient work has been performed to ascertain that the performance specifications are being met and the customer acknowledges that such performance specifications are being met. We periodically review contractual performance and estimate future performance requirements. Losses on contracts are recorded when estimable. No contractual losses were identified during the periods presented.

We recognize revenue for our software and software professional services when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectability is probable. Product sales are recognized by us generally at the time product is shipped. Shipping and handling costs are included in cost of goods sold.

We account for arrangements that contain multiple elements in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 605-25, Revenue Recognition, Multiple Element Arrangements. When elements such as hardware, software and consulting services are contained in a single arrangement, or in related arrangements with the same customer, we allocate revenue to each element based on its relative fair value, provided that such element meets the criteria for treatment as a separate unit of accounting. The price charged when the element is sold separately generally determines fair value. In the absence of fair value for a delivered element, we allocate revenue first to the fair value of the underlying elements and allocate the residual revenue to the delivered elements. In the absence of fair value for an undelivered element, the arrangement is accounted for as a single unit of accounting, resulting in a delay of revenue recognition for the delivered elements until the undelivered elements are fulfilled. We limit the amount of revenue recognition for delivered elements to the amount that is not contingent on future delivery of products or services or subject to customer-specified return or refund privileges.

We recognize revenue from the sale of manufacturer's maintenance and extended warranty contracts in accordance with FASB ASC 605-45, Revenue Recognition, Principal Agent Considerations, net of its costs of purchasing the related contracts.

Share-based payment

Stock based compensation expense is recorded in accordance with FASB ASC 718, Compensation – Stock Compensation, for stock and stock options awarded in return for services rendered. The expense is measured at the grant-date fair value of the award and recognized as compensation expense on a straight line basis over the service period, which is the vesting period. We estimate forfeitures that we expect will occur and record expense based upon the number of awards expected to vest.

For the year ended December 31, 2014, the Company issued Series E Preferred Shares valued at $475,608 for employee incentive payments and vendor payments.

For the year ended December 31, 2015, the Company issued Series E Preferred Shares valued at $10,000 for employee incentive payments.

Derivative Financial Instruments

Derivative financial instruments, as defined in FASB ASC 815, Derivatives and Hedging (“ASC 815”), consist of financial instruments or other contracts that contain a notional amount and one or more underlying variables (e.g. interest rate, security price or other variable), require no initial net investment and permit net settlement. The caption Derivative Liability consists of (i) the fair values associated with derivative features embedded in various convertible note financings and (ii) the fair values of the detachable warrants that were issued in connection with those financing arrangements.

We generally do not use derivative financial instruments to hedge exposures to cash-flow, market or foreign-currency risks. However, we have entered into certain other financial instruments and contracts, such as debt financing arrangements and freestanding warrants with features that are either (i) not afforded equity classification, (ii) embody risks not clearly and closely related to host contracts, or (iii) may be net-cash settled by the counterparty. As required by ASC 815, these instruments are required to be carried as derivative liabilities, at fair value, in our financial statements.

We estimate fair values of derivative financial instruments using various techniques (and combinations thereof) that are considered to be consistent with the objective of measuring fair values. In selecting the appropriate technique, we consider, among other factors, the nature of the instrument, the market risks that it embodies and the expected means of settlement. For less complex derivative instruments, such as free-standing warrants, we generally use the Black-Scholes-Merton option valuation technique because it embodies all of the requisite assumptions (including trading volatility, estimated terms and risk free rates) necessary to value these instruments. For complex derivative instruments, such as embedded conversion options, we generally use the Flexible Monte Carlo valuation technique because it embodies all of the requisite assumptions (including credit risk, interest-rate risk and exercise/conversion behaviors) that are necessary to value these more complex instruments. Estimating fair values of derivative financial instruments requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. In addition, option-based techniques are highly volatile and sensitive to changes in the trading market price of our common stock, which has a high-historical volatility. Since derivative financial instruments are initially and subsequently carried at fair values, our income will reflect the volatility in these estimate and assumption changes.

Recent Financing Transactions

Notes Payable

In January 2015 and February 2015, the Company entered into two short-term notes with LoanMe due on February 1, 2017 and March 1, 2017, respectively, whereby the Company received $18,500 in total cash proceeds, and $1,500 went directly towards indirect expenses, totaling $20,000 in principal due. These notes were paid in full in February 2015 and July 2015, along with $828 and $6,066 of interest expense, respectively.

As of December 31, 2015 and 2014 the Company had an aggregate total of $153,732 and $154,732, respectively, in notes payable. These notes bear interest at rates ranging from 5% per annum to 41.6% per annum. As of December 31, 2015, all notes payable were in default. Accrued interest on notes payable totaled $244,632 and $197,181 at December 31, 2015 and 2014, respectively.

Convertible Notes Payable

On January 7, 2015, the Company borrowed $20,625 from LG, of which $4,125 was an original issue discount. The note accrues simple interest at a rate of 12% per annum and is due on January 7, 2016, with a default simple interest rate of 24%. Pursuant to the terms of the note, the principal balance and accrued interest is convertible at the option of the note holder into shares of the Company's common stock at a rate of 45% of the lowest closing price during the 20-day trading period prior to, and including the date of, conversion. This note is currently in default.

On March 12, 2015 the Company entered into two Convertible Note Agreements with Cariou totaling $188,356 ($94,178 each) for settlement of compensation owed as well as penalties and interest. The note calls for 24% compounded interest through the maturity date of September 12, 2015 with a default compounded interest rate of 29%. The principal balance and accrued interest are convertible into shares of the Company's common stock at a conversion rate of the average of the five trading days prior to the applicable conversion date, with the number of conversion shares multiplied by 115%. These notes are currently in default.

As of December 31, 2015 and 2014 the Company had an aggregate principal balance total of $2,937,593 and $2,778,560, respectively, in convertible notes payable. These notes bear interest at rates ranging from 0% per annum to 36% per annum. As of December 31, 2015, all convertible notes payable, except for one, were in default. Accrued interest on convertible notes payable totaled $2,846,312 and $2,481,427 at December 31, 2015 and 2014, respectively.

Obligations Collateralized by Receivables

On May 27, 2015, the Company entered into an accounts receivable financing arrangement with Expansion Capital for a principal amount received in cash of $130,000. The terms of the arrangement requires the Company to repay the principal balance plus an additional $52,080 in debt discounts for total remittance of $182,080. The terms of repayment require the Company to remit to the lender approximately 35% of all future receivables arising from credit card, debit card and prepaid transactions until such time as the total remittance is paid in full. This borrowing is secured by the assets of the Company. The additional $52,080 will be recognized as interest expense over the estimated term of the agreement. The term is not fixed due to the variable repayment terms; however, management currently estimates such terms to be between approximately two and eight months. This borrowing was paid off in full during the year ended December 31, 2015.

On July 16, 2015, the Company entered into an accounts receivable financing arrangement with Knight Capital for a principal amount received in cash of $173,500. The terms of the arrangement requires the Company to repay the principal balance plus an additional $52,050 in debt discounts for total remittance of $225,550. The terms of repayment require the Company to remit to the lender approximately 30%t of all future receivables arising from credit card, debit card and prepaid transactions until such time as the total remittance is paid in full. This borrowing is secured by the assets of the Company. The additional $52,050 will be recognized as interest expense over the estimated term of the agreement. The term is not fixed due to the variable repayment terms; however, management currently estimates such terms to be between approximately two and eight months. The ending principal balance of this borrowing at December 31, 2015 was $85,018 (net of debt discount of $27,320).

On July 31, 2015, the Company entered into an accounts receivable financing arrangement with High Speed Capital for a principal amount received in cash of $85,000. The terms of the arrangement requires the Company to repay the principal balance plus an additional $39,950 in debt discounts for total remittance of $124,950. The terms of repayment require the Company to remit to the lender approximately 47% of all future receivables arising from credit card, debit card and prepaid transactions until such time as the total remittance is paid in full. This borrowing is secured by the assets of the Company. The additional $39,950 will be recognized as interest expense over the estimated term of the agreement. The term is not fixed due to the variable repayment terms; however, management currently estimates such terms to be between approximately two and eight months. The ending principal balance of this borrowing at December 31, 2015 was $37,683 (net of debt discount of $16,698).

On August 17, 2015, the Company entered into an accounts receivable financing arrangement with QuickFix Capital for a principal amount received in cash of $70,000. The terms of the arrangement requires the Company to repay the principal balance plus an additional $32,200 in debt discounts for total remittance of $102,200. The terms of repayment require the Company to remit to the lender approximately 46% of all future receivables arising from credit card, debit card and prepaid transactions until such time as the total remittance is paid in full. This borrowing is secured by the assets of the Company. The additional $32,200 will be recognized as interest expense over the estimated term of the agreement. The term is not fixed due to the variable repayment terms; however, management currently estimates such terms to be between approximately two and eight months. The ending principal balance of this borrowing at December 31, 2015 was $73,907 (net of debt discount of $25,577).

On August 18, 2015, the Company entered into an accounts receivable financing arrangement with PowerUp Lending Group, Ltd. for a principal amount received in cash of $150,000. The terms of the arrangement requires the Company to repay the principal balance plus an additional $45,000 in debt discounts for total remittance of $195,000. The terms of repayment require the Company to remit to the lender approximately 39% of all future receivables arising from credit card, debit card and prepaid transactions until such time as the total remittance is paid in full. This borrowing is secured by the assets of the Company. The additional $45,000 will be recognized as interest expense over the estimated term of the agreement. The term is not fixed due to the variable repayment terms; however, management currently estimates such terms to be between approximately two and eight months. The ending principal balance of this borrowing at December 31, 2015 was $46,224 (net of debt discount of $14,020).

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, 2015 (debt discounts are not included):

	Payments due by Period				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Obligations collateralized by receivables	$ 242,832	$ 242,832	$ -	$ -	$ -
Convertible debt	2,937,780	2,937,780	-	-	-
Notes payable	153,732	153,732	-	-	-
Notes payable, related parties	166,506	166,506	-	-	-
Small Business Administration loan	979,950	979,950	-	-	-
	$ 4,480,800	$ 4,480,800	$ -	$ -	$ -

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 8. CONSOLIDATED FINANCIAL STATEMENTS

All financial information required by this Item is attached hereto at the end of this report beginning on page F-1 and is hereby incorporated by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this annual report on Form 10-K, management performed, with the participation of our Chief Executive Officer and our interim Chief Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based on the evaluation and the identification of the material weaknesses in internal control over financial reporting described below our Chief Executive Officer and our interim Chief Financial Officer concluded that, as of December 31, 2015, our disclosure controls and procedures were not effective in ensuring that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and (ii) accumulated and communicated to our management, including our principal executive and financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange Act.) Internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive officer and principal financial officer and effected by an entity's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and directors of the entity; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the entity's assets that could have a material effect on its consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our Chief Executive Officer and interim Chief Financial Officer, the Company's management conducted an assessment of the effectiveness of our internal control over financial reporting based on the criteria set forth in the Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

Based upon this assessment, as of December 31, 2015 the Company's management concluded that there are material weaknesses affecting our internal control over financial reporting and have concluded that our internal control over financial reporting was not effective as of the end of the period covered by this report.

The matters involving internal controls and procedures that our management considers to be material weaknesses under COSO and Commission rules are: (1) lack of a functioning audit committee and lack of independent directors on our board of directors, resulting in potentially ineffective oversight in the establishment and monitoring of required internal controls and procedures; (2) inadequate segregation of duties consistent with control objectives; (3) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of US GAAP and SEC disclosure requirements; and (4) ineffective controls over period end financial disclosure and reporting processes. The aforementioned potential material weaknesses were identified by our interim Chief Financial Officer in connection with the preparation of our financial statements as of December 31, 2015, who communicated the matters to our management and board of directors.

Management believes that the material weaknesses set forth in items (2), (3) and (4) above did not have an effect on our financial results. However, the lack of a functioning audit committee and lack of a majority of independent directors on our board of directors, resulting in potentially ineffective oversight in the establishment and monitoring of required internal controls and procedures, can impact our financial statements.

Attestation Report of Independent Registered Public Accounting Firm

This annual report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to an exemption for non-accelerated filers set forth in Section 989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Management's Remediation Initiatives

Although we are unable to meet the standards under COSO because of the limited resources available to a company of our size, we are committed to improving our financial organization. As funds become available, we will undertake to: (1) create a position to segregate duties consistent with control objectives, (2) increase our personnel resources and technical accounting expertise within the accounting function (3) appoint one or more outside directors to our board of directors who shall be appointed to a Company audit committee resulting in a fully functioning audit committee who will undertake the oversight in the establishment and monitoring of required internal controls and procedures; and (4) prepare and implement sufficient written policies and checklists which will set forth procedures for accounting and financial reporting with respect to the requirements and appli