

CoroWare, Inc,
Form 10-Q
June 08, 2011

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

FORM 10-Q

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

For the quarterly period ended March 31, 2011

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 95-4868120
(State or Other (I.R.S. Employer
Jurisdiction Identification No.)
of Incorporation)

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

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

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

Indicate by check mark whether the 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 smallerSmaller reporting company reporting company

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

As of June 6, 2011 there were 631,289,576 shares of the issuer's \$.001 par value common stock outstanding.

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COROWARE, INC.
March 31, 2011 QUARTERLY REPORT ON FORM 10-Q

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COROWARE, INC.
CONSOLIDATED BALANCE SHEETS

	March 31, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash	\$-	\$-
Accounts receivable, net	118,410	188,988
Inventory	5,411	4,818
Other current assets	15,124	10,673
Total current assets	138,945	204,479
Property and equipment, net	28,391	31,391
Intangible assets, net	4,431	11,081
Other assets, net	8,619	4,731
TOTAL ASSETS	\$180,386	\$251,682
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Lines of credit	\$126,572	\$124,991
Obligations collateralized by receivables	66,133	102,389
Accounts payable and accrued expenses	3,890,580	3,811,415
Accrued expenses, related parties	182,751	150,536
Notes payable	257,732	263,133
Notes payable, related parties	280,312	292,812
Derivative liability	996,886	1,825,216
Current maturities of convertible debt, net of discount	2,136,607	2,292,410
Redeemable preferred stock, Series B, \$.001 par value, 10,000,000 shares authorized, 159,666 shares issued and outstanding as of		
March 31, 2011 and December 31, 2010	212,887	260,958
Small Business Administration Loan	981,450	982,450
Total current liabilities	9,131,910	10,106,310
Long term liabilities:		
Convertible debt, net of discount and current portion	106,134	-
Total liabilities	9,238,044	10,106,310
Commitments		
Stockholders' deficit:		
Common stock, \$.001 par value, 900,000,000 shares authorized, 347,224,535 and 88,590,637 shares issued and 347,223,701 and 88,589,803 outstanding at March 31, 2011 and		
December 31, 2010, respectively	347,224	88,591
Additional paid-in capital	15,679,177	15,530,450

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Accumulated deficit	(25,048,359)	(25,437,969)
Treasury stock	(35,700)	(35,700)
Total stockholders' deficit	(9,057,658)	(9,854,628)
<hr/>		
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 180,386	\$ 251,682

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

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COROWARE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months ended March 31, 2011 and 2010
(Unaudited)

	2011	2010
Revenues	\$370,504	\$545,809
Cost of revenues	262,314	440,436
Gross profit	108,190	105,373
Operating expenses:		
General and administrative	324,452	221,777
Sales and marketing	78,673	30,714
Research & development	45,739	-
Depreciation and amortization	9,650	10,250
Total operating expenses	458,514	262,741
Loss from operations	(350,324)	(157,368)
Other income (expense):		
Derivative income	899,569	936,711
Interest expense, net	(175,097)	(277,381)
Gain on debt redemptions	15,462	21,958
Total other income	739,934	681,288
Net income	\$389,610	\$523,920
Net income per share:		
Basic	\$0.00	\$0.08
Diluted	\$0.00	\$0.07
Weighted average shares outstanding:		
Basic	205,664,039	6,894,901
Diluted	1,580,035,894	7,157,401

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, 2011 and 2010
(Unaudited)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$389,610	\$523,920
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	9,650	10,250
Stock option expense	-	7,043
Amortization of debt discount	21,575	59,444
Amortization of deferred financing costs	1,112	6,250
Derivative income	(899,569)	(936,711)
Gain on debt redemptions	(15,462)	(21,958)
Common stock issued for services	3,300	33,822
(Gain) loss on settlement of liabilities with stock	75,134	(12,798)
Gain on partial settlement of mortgage note	-	(6,650)
Changes in operating assets and liabilities:		
Accounts receivable, net	70,578	59,699
Other current assets, net	(5,044)	15,865
Accounts payable and accrued expenses Accrued expenses, related parties	304,826 30,657	274,369 28,562
NET CASH FLOWS FROM OPERATING ACTIVITIES	(13,633)	41,107
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	-	-
NET CASH FLOWS FROM INVESTING ACTIVITIES	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Obligations collateralized by receivables	(36,256)	-
Proceeds from lines of credit, net	1,581	984
Payments on notes payable	(8,692)	(40,000)
Payments on notes payable, related parties	-	(5,097)
Payments on long-term debt	(1,000)	-
Proceeds from convertible debentures, net of financing costs	43,000	-
Proceeds from notes payable	15,000	-
Proceeds from notes payable, related party	-	20,000
NET CASH FLOWS FROM FINANCING ACTIVITIES	13,633	(24,113)
NET INCREASE IN CASH	-	16,994
Cash, beginning of period	-	3,493
Cash, end of period	\$-	\$20,487

Continued.

COROWARE, INC.
 CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
 For the Three Months Ended March 31, 2011 and 2010
 (Unaudited)

	2011	2010
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$-	\$-
Income taxes paid	\$-	\$-
NON-CASH INVESTING AND FINANCING TRANSACTIONS		
Common stock issued for redemption of convertible debentures	\$79,056	\$69,965
Common stock issued in satisfaction of accrued liabilities	\$246,401	\$67,713
Common stock issued in satisfaction of note payable	\$78,604	\$-

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

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

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements of CoroWare, Inc. (“CoroWare” or “the Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission (“SEC”), and should be read in conjunction with the audited financial statements and notes thereto contained in the Company’s annual report filed with the SEC on Form 10-K for the year ended December 31, 2010. The consolidated financial statements include the accounts of the Company and its wholly-owned operating subsidiary, CoroWare Technologies, Inc. Also included in the consolidated statements are the Company’s inactive wholly-owned subsidiaries, Innova Robotics, Inc., Robotic Workspace Technologies, Inc., and Robotics Software Service, Inc. (herein referred to as the “Subsidiaries”). 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, 2010 as reported in Form 10-K have been omitted.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

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

NOTE 3 – FINANCIAL CONDITION AND GOING CONCERN

The Company has loss from operations for the three months ended March 31, 2011 of \$350,324. Because of these losses, the current working capital deficit, and the projection of additional losses for the remainder of 2011, 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 consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 4 – ACCOUNTS RECEIVABLE FACTORING

In March 2010, the Company entered into an accounts receivable factoring arrangement with Capefirst Funding, LLC. (“Capefirst”). The agreement calls for Capefirst to advance up to 80% of the net face amount of each assigned account or up to 50% of eligible assigned purchase orders. The agreement calls for a maximum facility amount of \$200,000 with a purchase fee of 2% of the net face amount of each assigned account and a collection fee of 0.1% compounded daily. In the event of a dispute or in the event of fraud, misrepresentation, willful misconduct or negligence on the part of the Company, Capefirst may require the Company to immediately repurchase the assigned accounts at a purchase price that includes the amount of the assigned account plus the discount fee, interest and collection fee and may include a processing fee of 10%. At March 31, 2011, approximately \$66,133 of our receivables had been factored.

NOTE 5 – NOTES PAYABLE

On March 15, 2011, the Company entered into a \$15,000 note payable with an unrelated third party. The note bears interest at 18.99% through maturity at March 25, 2011 with default interest of 28.99%. The note is secured by a security interest in substantially all assets of the Company.

During the quarter ended March 31, 2011, notes payable and accrued interest aggregating \$78,604 were converted into 73,364,837 shares of common stock of the Company.

NOTE 6 - CONVERTIBLE DEBT

The following table illustrates the carrying value of convertible debt:

	March 31, 2011	December 31, 2010
\$2,825,000 financing	\$1,212,997	\$1,380,141
March 18, 2011 modification (a)	106,134	-
\$ 600,000 financing	600,000	600,000
\$ 300,000 financing	300,000	300,000
\$ 75,000 financing	7,788	12,269
\$ 27,500 financing (b)	4,297	-
\$ 10,750 financing (c)	2,004	-
\$ 9,750 financing (d)	9,521	-
	\$2,242,741	