

CoroWare, Inc,  
Form PRE 14C  
May 04, 2012

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

SCHEDULE 14C INFORMATION

Information Statement Pursuant to Section 14(c)  
of the Securities Exchange Act of 1934

Check the appropriate box:

- ☒ Preliminary Information Statement
- ☐ Confidential, for use of the Commission only (as permitted by Rule 14c-5(d)(2))
- ☐ Definitive Information Statement

COROWARE, INC.  
(Name of Registrant As Specified In Charter)

Payment of Filing Fee (Check the appropriate box):

- ☒ No fee required.
- ☐ Fee computed on table below per Exchange Act Rules 14c-5(g) and 0-11.
  - 1) Title of each class of securities to which transaction applies:
  - 2) Aggregate number of securities to which transaction applies:
  - 3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):
  - 4) Proposed maximum aggregate value of transaction:
  - 5) Total fee paid:
- ☐ Fee paid previously with preliminary materials.
- ☐ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

- 2) Form, Schedule or Registration Statement No:
- 3) Filing Party:
- 4) Date Filed:

THIS INFORMATION STATEMENT IS BEING PROVIDED TO  
YOU BY THE BOARD OF DIRECTORS OF COROWARE, INC.

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE  
REQUESTED NOT TO SEND US A PROXY

COROWARE, INC.  
1410 Market Street, Suite 200  
Kirkland, Washington 98033  
(800) 641-2676

INFORMATION STATEMENT

MAY 4, 2012

NOTICE OF STOCKHOLDER ACTION BY WRITTEN CONSENT

GENERAL INFORMATION

To the Holders of Common Stock of CoroWare, Inc.:

This Information Statement has been filed with the Securities and Exchange Commission and is being furnished, pursuant to Section 14C of the Securities Exchange Act of 1934, as amended (the “ Exchange Act ”), to the holders (the “ Common Stockholders ”) of Common Stock, par value \$.0001 per share (the “ Common Stock ”), of CoroWare, Inc., a Delaware corporation (the “ Company ”), to notify such Common Stockholders that on Date, the Company received a unanimous written consent in lieu of a meeting of the holders of Series D Convertible Preferred Stock, par value \$0.01 per share (the “ Series D Preferred ”). Each share of Series D Preferred has the equivalent of one hundred thousand (100,000) votes of Common Stock. Currently, there are 3 holders of Series D Preferred (together, the “ Series D Stockholders”), collectively holding 100,000 shares of Series D Preferred, resulting in the Series D Stockholders holding in the aggregate approximately 82% of the total voting power of all issued and outstanding voting capital of the Company (the “ Majority Stockholders ”). The Majority Stockholders authorized the following:

- An amendment of the Articles of Incorporation to reflect a one-for-two hundred reverse split;

We have attached as Appendix A hereto a form of the proposed amendment to the Articles of Incorporation, indicating the one-for-two hundred reverse split.

On May 3, 2012 the Board of Directors of the Company (the “Board”) approved, and recommended for approval to the holders having the power to vote with respect to the Common Stock, the Authorized Common Stock Reverse Split (the “Action”). On May 4, 2012, the Majority Stockholders approved the Action by written consent in lieu of a meeting in accordance with the Delaware General Corporation Law (“DGCL”). Accordingly, your consent is not required and is not being solicited in connection with the approval of the Action.

We will mail the Notice to the Common Stockholders on or about May 24, 2012.

**WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND A PROXY.**

The Board believes that the Common Stockholders of the Company will benefit from this Action because it believes that the Company will be able to attract new investors for investment in its mobile robotics and enhanced collaboration businesses, and extinguish legacy debt.

The Board believes that the Common Stockholders of the Company will benefit from the reverse split and an increased ability to trade the shares through a greater variety of brokers in that many brokers will not trade in shares of sub-penny stocks.

Our board of directors has unanimously adopted and majority voting shareholders have approved an amendment to our Certificate of Incorporation, as amended, also referred to as the Charter, that would effect datea one-for-two hundred reverse split of our Common Stock.

The amendment will effect a one-for-two hundred reverse split of the issued and outstanding shares of our common stock. The reverse stock split may not have any economic effect on our stockholders, debt holders or holders of options or restricted stock, except to the extent the reverse stock split would result in fractional shares, as discussed further below.

#### Reasons for the Reverse Stock Split

The one-for-two hundred reverse stock split is necessary to support the Company’s market price and is in the best interests of the Company’s stockholders. In addition to increasing the price of our common stock, the reverse stock split would also make our common stock more attractive to a broader range of institutional and other investors.

Reducing the number of outstanding shares of our common stock through the reverse stock split is intended, absent other factors, to increase the per share market price of our common stock. However, other factors, such as our financial results, market conditions and the market perception of our business may adversely affect the market price of our common stock. As a result, there can be no assurance that the reverse stock split, if completed, will result in the intended benefits described above, that the market price of our common stock will increase following the reverse stock split or that the market price of our common stock will not decrease in the future.

#### Effect on Existing Shares of Common Stock

The proposed reverse stock split would affect all of our stockholders uniformly and would not affect any stockholder’s percentage ownership interest in the Company, except to the extent that the reverse stock split results in any of our stockholders owning a fractional share, as described below. Proportionate voting rights and other rights and preferences of the holders of our common stock would not be affected by a reverse stock split, other than as a result of rounding up fractional shares to the next whole number. The below table illustrates a 1:200 reverse stock split with respect to the number of shares of the Company’s common stock currently authorized, currently issued and

outstanding, and currently authorized but unissued.

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|                               | Pre-Reverse   | Post Reverse  |
|-------------------------------|---------------|---------------|
| Authorized Shares             | 3,000,000,000 | 3,000,000,000 |
| Issued and Outstanding Shares | 2,293,324,939 | 11,466,624    |
| Authorized but unissued       | 706,675,061   | 2,988,533,375 |

Since the reverse stock split will result in increased available shares, it may be construed as having an anti-takeover effect. Although neither the Board of Directors nor the management of the Company views this proposal as an anti-takeover measure, the Company could use the increased available shares to frustrate persons seeking to effect a takeover or otherwise gain control of the Company. For example, the Company could privately place shares with purchasers who might side with the Board of Directors in opposing a hostile takeover bid or issue shares to a holder which would, thereafter, have sufficient voting power to assure that any proposal to amend or repeal the Bylaws or certain provisions of the Certificate of Incorporation would not receive the requisite vote. Our Certificate of Incorporation already includes authorization of preferred stock, which can also be seen as an anti-takeover measure, and our Board of directors can designate the rights, preferences, privileges and restrictions of series of preferred stock without further shareholder action. Cumulative voting is not provided for in our Certificate of Incorporation or Bylaws, which also may make it harder for third parties to gain control over the Company. We do not currently have a staggered Board of Directors, and we have not adopted any shareholders rights plans, or so-called poison pills.

Further, there are no other plans or proposals to adopt other provisions or enter into other arrangements that may have material anti-takeover consequences.

#### Effectiveness of Reverse Stock Split

The reverse stock split would become effective on the date (the “Effective Date”) of filing of a Certificate of Amendment to our Charter with the Secretary of State of the State of Delaware. The exact timing of the filing of the amendment will be determined by the board of directors based on its evaluation as to when such action will be the most advantageous to us and our stockholders, and the board of directors. In addition, the board of directors reserves the right, notwithstanding stockholder approval and without further action by the stockholders, to elect not to proceed with the reverse stock split if, at any time prior to filing the amendment, the board of directors, in its sole discretion, determines that it is no longer in our best interests and the best interests of our stockholders. The Company’s authorized shares of our common stock will not be affected.

#### No Appraisal Rights

Under the Delaware General Corporation Law, our stockholders are not entitled to appraisal rights with respect to the reverse stock split described in this filing, and we will not independently provide our stockholders with any such rights.

#### Contractual obligations

The Company intends to consider issuing shares for the purposes of attracting private financing through S-1 registrations and addressing convertible debt obligations that the Company entered into. The following table sets forth the contractual obligations of the Company as of December 31, 2011:

## CONTRACTUAL OBLIGATIONS

The following table sets forth the contractual obligations of the Company as of December 31, 2011:

## Payments due by Period

| Contractual Obligations            | Total     | Less than 1 year | 1-3 years  | 3-5 years | More than 5 years |
|------------------------------------|-----------|------------------|------------|-----------|-------------------|
| Convertible debt                   | 2,355,354 | \$ 2,206,247     | \$ 149,107 | \$ -      | \$ -              |
| Notes payable                      | 202,232   | 202,232          | -          | -         | -                 |
| Notes payable, related parties     | 208,913   | 208,913          | -          | -         | -                 |
| Small Business Administration loan | 980,450   | 980,450          | -          | -         | -                 |
| Operating leases                   | 189,240   | 49,053           | 140,187    | -         | -                 |
| Total                              | 3,936,189 | \$ 3,646,895     | \$ 289,294 | \$ -      | \$ -              |

We do not have sufficient authorized shares of Common Stock to eliminate legacy convertible debt through stock conversions. The following table sets forth the convertible note obligations of the Company as of December 31, 2011 as further described in the Company's Quarterly Report on Form 10-K for the quarter ended on December 31, 2011:

|                                 | December 31, 2011 |
|---------------------------------|-------------------|
| \$2,825,000 Yorkville financing | \$ 478,258        |
| \$ 600,000 Yorkville financing  | 600,000           |
| \$ 300,000 Yorkville financing  | 300,000           |
| \$ 75,000 Collins financing     | 34,679            |
| \$ 27,500 Asher financing       | 19,951            |
| \$ 10,750 Barclay financing     | 10,750            |
| \$ 9,750 Mackie financing       | 8,524             |
| \$ 170,562 Ratzker financing    | 79,319            |
| \$ 67,042 Harvey financing      | 62,675            |
| \$ 89,383 Cariou financing      | 83,077            |
| \$ 10,000 Tangiers financing    | 7,895             |
| \$ 15,000 Tangiers financing    | 10,764            |
| \$ 65,000 Panache financing     | 29,602            |
| \$ 15,000 Panache financing     | 5,612             |
| \$ 567,200 Westmount financing  | 537,318           |
| \$ 170,561 Redwood financing    | 69,788            |
| \$ 21,962 Premier financing     | 17,142            |
|                                 | 2,254,820         |

(a) \$27,500 Asher financing:

On February 1, 2011, the Company consummated an unsecured Securities Purchase Agreement with an unrelated third party for the sale by the Company of its 8% secured convertible debentures in the aggregate principal amount of \$27,500, net of deferred financing costs of \$2,500.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to 51% of the market price, which is defined as the lowest 3 trading prices for the Company's common stock during the 10 trading days prior to conversion.

In the Company's original evaluation of this instrument in accordance with ASC 815 Derivatives and Hedging, based on the variable conversion price and lack of authorized shares, it was determined that the conversion feature was not afforded the exemption as a conventional convertible instrument and did not otherwise meet the conditions for equity classification. As such, the conversion and other features were compounded into one instrument, bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair value of the bifurcated derivative instruments using the Monte Carlo valuation model because this methodology provides for all of the necessary assumptions necessary for fair value determination; including assumptions for credit risk, interest risk and conversion/redemption behavior. Significant assumptions underlying this methodology were: effective term (using the remaining term of the host instrument); effective volatility (145.01% - 130.17%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of \$36,729 at inception. Derivative expense of \$9,229 was recognized at inception.

This convertible debenture matured in November 2011 and is currently in default. In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

During 2011, Asher converted \$2,000 of the convertible debenture into 33,333,333 shares of the Company's common stock. The Company recognized a loss on redemption of \$114.

(b) \$10,750 Barclay financing:

On January 28, 2011, the Company consummated an unsecured convertible promissory note with an unrelated third party for \$10,750, net of deferred financing costs of \$2,500.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to 50% of the fair market value, but not to exceed \$0.05/share or be less than \$0.0001/share. Fair market value is defined as the lower of i) the closing bid price for the date immediately preceding the date of conversion (excluding trades that are not arms-length) or ii) the average of last 5 trading days volume weighted average price. The Company's obligations under the convertible promissory note are secured by substantially all of the assets of the Company and those of its wholly owned subsidiary, CoroWare Technologies, Inc.

In the Company's original evaluation of this instrument in accordance with ASC 815 Derivatives and Hedging, based on the variable conversion price and lack of authorized shares, it was determined that the conversion feature was not afforded the exemption as a conventional convertible instrument and did not otherwise meet the conditions for equity classification. As such, the conversion and other features were compounded into one instrument, bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair value of the bifurcated derivative instruments using the Monte Carlo valuation model because this methodology provides for all of



the necessary assumptions necessary for fair value determination; including assumptions for credit risk, interest risk and conversion/redemption behavior. Significant assumptions underlying this methodology were: effective term (using the remaining term of the host instrument); effective volatility (155.39% - 117.57%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of \$12,369 at inception. Derivative expense of \$1,619 was recognized at inception.

This convertible debenture matured July 28, 2011 and is currently in default. In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

As of December 31, 2011, there have been no conversions on this convertible debenture.

(c) \$9,750 Mackie financing:

On February 3, 2011, the Company consummated an unsecured convertible promissory note with an unrelated third party for \$9,750.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to 85% of the 5 day average closing price using the 5 trading days prior to the conversion date.

In the Company's evaluation of this instrument in accordance with ASC 815 Derivatives and Hedging, based on the variable conversion price and lack of authorized shares, it was determined that the conversion feature was not afforded the exemption as a conventional convertible instrument and did not otherwise meet the conditions for equity classification. As such, the conversion and other features were compounded into one instrument, bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair value of the bifurcated derivative instruments using the Monte Carlo valuation model because this methodology provides for all of the necessary assumptions necessary for fair value determination; including assumptions for credit risk, interest risk and conversion/redemption behavior. Significant assumptions underlying this methodology were: effective term (using the remaining term of the host instrument); effective volatility (155.39% - 117.57%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of \$3,491 at inception. The remaining balance of \$6,259 was allocated to the carrying value of the debenture.

This convertible debenture matured February 18, 2011 and is currently in default. In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

As of December 31, 2011, there have been no conversions on this convertible debenture.

(d) \$ 170,562 Ratzker financing:

Yorkville Advisors transferred a 46.3% portion of Tranche 1 of the \$2,825,000 debenture to a third party ("Ratzker") effective December 31, 2010. The assignment aggregated \$568,263, representing \$341,123 of unpaid principal and \$227,140 of accrued interest. At that time, there was no accounting impact for CoroWare as it was merely an assignment between debt holders. On March 18, 2011, Ratzker modified the terms of the debenture such that the interest rate was lowered from 14% to 5% and the maturity date was extended until March 18, 2013. Simultaneously, the conversion rate on the debenture was modified from 85% of the 30 day Volume Weighted Average Price ("VWAP") to 65% of the 30 day VWAP.

The modification was analyzed in accordance with current accounting standards and was determined not to be a troubled debt restricting or an extinguishment of debt. As such, it was accounted for as a modification and no gain or loss was recognized on the transaction. A debt discount of \$236,779 was recognized for the difference in the fair value of the embedded conversion feature before and after the modification date. A new effective rate was calculated for the new debenture and the related debt discount is being amortized using the effective interest rate over the new 2 year term of the underlying loan. Amortization for the year ended December 31, 2011 was \$32,864.

On March 21, 2011, Ratzker transferred 50% of his ownership interest in this debenture to another unrelated party ("Redwood"). The terms of the debenture did not change with that transfer. As such, this transfer was also considered an assignment between debt holders and did not have an accounting impact on the Company. See discussion below in Note 9(q) for Redwood financing.

With the extension of the maturity date, this debenture is no longer in default and has been reclassified to long-term liabilities on the accompanying balance sheet.

As of December 31, 2011, there have been no conversions on this convertible debenture.

(e) \$67,042 Harvey financing:

On April 2, 2011, the Company entered into an unsecured convertible promissory note with a vendor. The vendor converted \$67,042 of outstanding payables into this convertible note. The note calls for interest at 10% through the maturity date of May 2, 2011 and default interest at 15% thereafter.

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The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to the average closing bid price for the 5 trading days prior to, but not including, the conversion date. The number of shares of common stock to be issued upon each conversion shall be determined by dividing that portion of the principal to be converted by the conversion price then multiplying by 115%.

In the Company's evaluation of this instrument in accordance with ASC 815 Derivatives and Hedging, based on the variable conversion price and lack of authorized shares, it was determined that the conversion feature was not afforded the exemption as a conventional convertible instrument and did not otherwise meet the conditions for equity classification. As such, the conversion and other features were compounded into one instrument, bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair value of the bifurcated derivative instruments using the Monte Carlo valuation model because this methodology provides for all of the necessary assumptions necessary for fair value determination; including assumptions for credit risk, interest risk and conversion/redemption behavior. Significant assumptions underlying this methodology were: effective term (using the remaining term of the host instrument); effective volatility (132.38%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of \$30,011 at inception.

This convertible debenture matured May 2, 2011 and is currently in default. In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

As of December 31, 2011, there have been no conversions on this convertible debenture.

(f) \$89,383 Cariou financing:

On April 4, 2011, the Company entered into unsecured convertible promissory note with an employee. The employee converted \$56,700 of outstanding principal on related party notes payable and \$32,683 of accrued interest into this convertible note. The note calls for interest at 10% through the maturity date of May 4, 2011 and default interest at 15% thereafter.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to the average closing bid price for the 5 trading days prior to, but not including, the conversion date. The number of shares of common stock to be issued upon each conversion shall be determined by dividing that portion of the principal to be converted by the conversion price then multiplying by 115%.

In the Company's original evaluation of this instrument in accordance with ASC 815 Derivatives and Hedging, based on the variable conversion price and lack of authorized shares, it was determined that the conversion feature was not afforded the exemption as a conventional convertible instrument and did not otherwise meet the conditions for equity classification. As such, the conversion and other features were compounded into one instrument, bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair value of the bifurcated derivative instruments using the Monte Carlo valuation model because this methodology provides for all of the necessary assumptions necessary for fair value determination; including assumptions for credit risk, interest risk and conversion/redemption behavior. Significant assumptions underlying this methodology were: effective term (using the remaining term of the host instrument); effective volatility (132.38%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of \$44,720 at inception.

This convertible debenture matured May 4, 2011 and is currently in default. In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt