

CoroWare, Inc,
Form 10-Q
November 19, 2012

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 September 30, 2012

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.)

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 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.

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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 November 16, 2012 there were 211,102,389 shares of the issuer's \$.0001 par value common stock outstanding.

COROWARE, INC.

September 30, 2012 QUARTERLY REPORT ON FORM 10-Q

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COROWARE, INC.
CONSOLIDATED BALANCE SHEETS

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash	\$ 2,927	\$ 522
Accounts receivable, net	141,165	129,438
Inventory	2,190	3,783
Other current assets	21,109	7,518
Total current assets	167,391	141,261
Property and equipment, net	16,704	24,333
Other assets, net	56,273	6,927
TOTAL ASSETS	\$ 240,368	\$ 172,521
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Lines of credit	\$ 123,359	\$ 125,456
Obligations collateralized by receivables	170,122	107,730
Accounts payable and accrued expenses	5,004,259	4,442,906
Accrued expenses, related parties	183,929	111,466
Notes payable	209,732	202,232
Notes payable, related parties	205,741	208,913
Derivative liability	8,766,164	2,798,366
Current maturities of convertible debt, net of discount	2,205,350	2,206,247
Redeemable preferred stock, Series B, \$.001 par value, 10,000,000 shares authorized, 159,666 shares issued and outstanding as of September 30, 2012 and December 31, 2011	397,390	106,443
Redeemable preferred stock, Series D, \$.001 par value, 500,000 shares authorized, 100,000 shares issued and outstanding as of September 30, 2012 and December 31, 2011	223,330	75,901
Redeemable preferred stock, Series E, \$.001 par value, 1,000,000 shares authorized, 10,000 and -0- shares issued and outstanding, respectively, as of September 30, 2012 and December 31, 2011	1,400	-
Small Business Administration Loan	980,450	980,450
Total current liabilities	18,471,226	11,366,110
Long term liabilities:		
Convertible debt, net of discount and current portion	221,805	149,107
Total liabilities	18,693,031	11,515,217
Commitments		

Stockholders' deficit:		
Common stock, \$.0001 par value, 3,000,000,000 shares authorized, 101,813,955 and 3,980,589 shares issued and 101,813,951 and 3,980,585 outstanding at September 30, 2012 and December 31, 2011, respectively	10,182	398
Additional paid-in capital	16,537,111	16,159,171
Accumulated deficit	(34,964,256)	(27,466,565)
Treasury stock	(35,700)	(35,700)
Total stockholders' deficit	(18,452,663)	(11,342,696)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$240,368	\$172,521

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

COROWARE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Nine Months ended September 30, 2012 and 2011
(Unaudited)

	Three Months Ended September		Nine Months Ended September	
	2012	30, 2011	2012	30, 2011
Revenues	\$ 224,136	\$ 389,089	\$ 910,655	\$ 1,277,358
Cost of revenues	179,098	289,945	595,459	849,347
Gross profit	45,038	99,144	315,196	428,011
Operating expenses:				
General and administrative	177,636	182,588	516,109	658,083
Sales and marketing	57,236	68,824	192,875	251,322
Research and development	12,309	20,372	57,391	106,562
Depreciation and amortization	3,000	3,000	9,000	20,081
Total operating expenses	250,181	274,784	775,375	1,036,048
Loss from operations	(205,143)	(175,640)	(460,179)	(608,037)
Other income (expense):				
Derivative expense	(6,228,894)	(2,561,925)	(6,568,388)	(3,021,883)
Interest expense, net	(157,303)	(198,518)	(527,021)	(567,600)
Gain (Loss) on settlement of liabilities and mortgage note	(15,272)	-	(13,172)	(76,582)
Gain (loss) on convertible debt redemptions	106,700	114	71,070	75,517
Total other expense	(6,294,769)	(2,760,329)	(7,037,511)	(3,590,548)
Net loss	\$ (6,499,912)	\$ (2,935,969)	\$ (7,497,690)	\$ (4,198,586)
Net loss per share:				
Basic	\$ (0.27)	\$ (0.62)	\$ (0.53)	\$ (1.68)
Weighted average shares outstanding:				
Basic	23,689,883	4,705,474	14,126,220	2,503,438

COROWARE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2012 and 2011
(Unaudited)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$(7,497,690)	\$(4,198,586)
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	9,000	20,081
Amortization of debt discount	166,618	205,123
Amortization of deferred financing costs	5,370	5,499
Derivative expense	6,568,387	3,021,883
Gain on convertible debt redemptions	(71,070)	(75,516)
Common stock issued for services	13,000	3,300
Loss on settlement of liabilities with stock	13,172	75,134
Changes in operating assets and liabilities:		
Accounts receivable, net	(11,727)	36,123
Other current assets, net	1,002	(2,909)
Accounts payable and accrued expenses	642,638	860,101
Accrued expenses, related parties	72,463	(8,155)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(88,837)	(57,922)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,371)	(3,626)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(1,371)	(3,626)
CASH FLOWS FROM FINANCING ACTIVITIES		
Obligations collateralized by receivables	62,392	(6,593)
(Repayment of) proceeds from lines of credit, net	(2,097)	3,789
Payments on notes payable	(1,500)	(8,692)
Payments on notes payable, related parties	(3,172)	(3,342)
Payments on long-term debt	-	(2,000)
Proceeds from convertible debentures, net of financing costs	17,990	80,000
Proceeds from notes payable	9,000	15,000
Proceeds from sale of preferred stock, Series E	10,000	-
NET CASH FLOWS FROM FINANCING ACTIVITIES	92,613	78,162
NET INCREASE IN CASH	2,405	16,614
Cash, beginning of period	522	-
Cash, end of period	\$2,927	\$16,614

Continued.