

CoroWare, Inc,
Form 10-Q
November 21, 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 September 30, 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
(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 | <input type="radio"/> | Accelerated filer | <input type="radio"/> |
| Non-accelerated filer | | | |
| (Do not check if a smaller reporting company) | <input type="radio"/> | Smaller reporting company | <input checked="" type="radio"/> |

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 14, 2011 there were 796,117,874 shares of the issuer's \$.001 par value common stock outstanding.

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COROWARE, INC.
September 30, 2011 QUARTERLY REPORT ON FORM 10-Q

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SIGNATURES

COROWARE, INC.
CONSOLIDATED BALANCE SHEETS

ASSETS

| | September 30, 2011 (Unaudited) | December 31, 2010 |
|-----------------------------|--------------------------------------|----------------------|
| Current assets: | | |
| Cash | \$16,614 | \$- |
| Accounts receivable, net | 152,865 | 188,988 |
| Inventory | 3,967 | 4,818 |
| Other current assets | 13,434 | 10,673 |
| Total current assets | 186,880 | 204,479 |
| Property and equipment, net | 26,017 | 31,391 |
| Intangible assets, net | - | 11,081 |
| Other assets, net | 8,233 | 4,731 |
| TOTAL ASSETS | \$221,130 | \$251,682 |

LIABILITIES AND STOCKHOLDERS' DEFICIT

| | | |
|--|--------------|--------------|
| Current liabilities: | | |
| Lines of credit | \$128,780 | \$124,991 |
| Obligations collateralized by receivables | 95,796 | 102,389 |
| Accounts payable and accrued expenses | 4,334,579 | 3,811,415 |
| Accrued expenses, related parties | 110,916 | 150,536 |
| Notes payable | 202,232 | 263,133 |
| Notes payable, related parties | 220,269 | 292,812 |
| Derivative liability | 4,905,910 | 1,825,216 |
| Current maturities of convertible debt, net of discount | 2,127,447 | 2,292,410 |
| Redeemable preferred stock, Series B, \$.001 par value, 10,000,000 shares authorized, 159,666 shares issued and outstanding as of September 30, 2011 and December 31, 2010 | 425,775 | 260,958 |
| Small Business Administration Loan | 980,450 | 982,450 |
| Total current liabilities | 13,532,153 | 10,106,310 |
| Long term liabilities: | | |
| Convertible debt, net of discount and current portion | 127,373 | - |
| Total liabilities | 13,659,526 | 10,106,310 |
| Commitments | | |
| Stockholders' deficit: | | |
| Common stock, \$.001 par value, 900,000,000 shares authorized, 796,117,874 and 88,590,637 shares issued and 796,117,040 and outstanding at September 30, 2011 and December 31, 2010, respectively | 88,589,803 | 88,591 |
| Additional paid-in capital | 15,437,740 | 15,530,450 |
| Accumulated deficit | (29,636,555) | (25,437,969) |
| Treasury stock | (35,700) | (35,700) |

| | | |
|--|------------------|------------------|
| Total stockholders' deficit | (13,438,396) | (9,854,628) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$221,130 | \$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 and Nine Months ended September 30, 2011 and 2010
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------------|------------------------------------|----------------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenues | \$389,089 | \$376,648 | \$1,277,358 | \$1,555,270 |
| Cost of revenues | 289,945 | 243,621 | 849,347 | 1,176,497 |
| Gross profit | 99,144 | 133,027 | 428,011 | 378,773 |
| Operating expenses: | | | | |
| General and administrative | 182,588 | 241,093 | 658,083 | 730,606 |
| Sales and marketing | 68,824 | 176,636 | 251,322 | 271,759 |
| Research and development | 20,372 | 51,097 | 106,562 | 86,904 |
| Depreciation and amortization | 3,000 | 10,550 | 20,081 | 31,350 |
| Total operating expenses | 274,784 | 479,376 | 1,036,048 | 1,120,619 |
| Loss from operations | (175,640) | (346,349) | (608,037) | (741,846) |
| Other income (expense): | | | | |
| Derivative income (expense) | (2,561,925) | (923,670) | (3,021,883) | 76,772 |
| Interest expense, net | (198,518) | (142,061) | (567,600) | (559,615) |
| Other income | - | - | - | 30,156 |
| Gain (Loss) on settlement of liabilities and mortgage note | - | - | (76,582) | - |
| Gain on convertible debt redemptions | 114 | 4,015 | 75,517 | 36,575 |
| Total other income (expense) | (2,760,329) | (1,061,716) | (3,590,548) | (416,112) |
| Net income (loss) | \$(2,935,969) | \$(1,408,065) | \$(4,198,586) | \$(1,157,958) |
| Net income (loss) loss per share: | | | | |
| Basic | \$(0.01) | \$(0.06) | \$(0.01) | \$0.08 |
| Diluted | \$(0.01) | \$(0.06) | \$(0.01) | \$0.08 |
| Weighted average shares outstanding: | | | | |
| Basic | 780,662,179 | 24,634,725 | 498,096,006 | 15,356,860 |
| Diluted | 780,662,179 | 24,634,725 | 498,096,006 | 15,356,860 |

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

COROWARE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2011 and 2010
(Unaudited)

| | 2011 | 2010 |
|---|---------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | \$(4,198,586) | \$(1,157,958) |
| Adjustments to reconcile net income to net cash flows from operating activities: | | |
| Depreciation and amortization | 20,081 | 31,350 |
| Stock option expense | - | 19,313 |
| Amortization of debt discount | 205,123 | 59,444 |
| Amortization of deferred financing costs | 5,499 | 6,250 |
| Derivative (income) expense | 3,021,883 | (76,772) |
| Gain on convertible debt redemptions | (75,516) | (47,724) |
| Common stock issued for services | 3,300 | 132,037 |
| (Gain) loss on settlement of liabilities with stock | 75,134 | - |
| Gain on partial settlement of mortgage note | | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | 36,123 | 22,157 |
| Other current assets, net | (2,909) | 20,630 |
| Accounts payable and accrued expenses Accrued expenses, related parties | 860,101 (8,155) | 305,052 683,328 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | (57,922) | (2,893) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to property and equipment | (3,626) | - |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | (3,626) | - |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Obligations collateralized by receivables | (6,593) | 43,066 |
| Proceeds from lines of credit, net | 3,789 | 1,387 |
| Payments on notes payable | (8,692) | (70,000) |
| Payments on notes payable, related parties | (3,342) | (35,053) |
| Payments on long-term debt | (2,000) | - |
| Proceeds from convertible debentures, net of financing costs | 80,000 | - |
| Proceeds from notes payable | 15,000 | 40,000 |
| Proceeds from notes payable, related party | - | 20,000 |
| NET CASH FLOWS FROM FINANCING ACTIVITIES | 78,162 | (600) |
| NET INCREASE IN CASH | 16,614 | (3,493) |
| Cash, beginning of period | - | 3,493 |
| Cash, end of period | \$16,614 | \$- |

Continued.

COROWARE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
For the Nine Months Ended September 30, 2011 and 2010
(Unaudited)

| | 2011 | 2010 |
|------------------------------------|------|------|
| SUPPLEMENTAL CASH FLOW INFORMATION | | |