

CoroWare, Inc,
Form 10-Q
May 11, 2015

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, 2014

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 108th Avenue NE, Suite 1900
Bellevue, WA 98004
(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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
Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer
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 May 8, 2015 there were 8,414,279,084 shares of the issuer's \$0.0001 par value common stock outstanding.

COROWARE, INC.
September 30, 2014 QUARTERLY REPORT ON FORM 10-Q

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PART I – FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

COROWARE, INC.
CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30, 2014 (Unaudited)	December 31, 2013
CURRENT ASSETS		
Accounts receivable, net	\$67,095	\$-
Inventory, net	19,802	23,601
Other current assets	1,109	1,109
Total Current Assets	88,006	24,710
PROPERTY AND EQUIPMENT, net	10,421	12,820
OTHER ASSETS		
Other assets, net	11,934	10,356
Total Other Assets	11,934	10,356
TOTAL ASSETS	\$110,361	\$47,886

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$5,851,824	\$6,133,491
Accrued expenses- related parties	171,090	183,929
Obligations collateralized by receivables	149,124	149,637
Bank overdraft	2,164	1,635
Notes payable	540,082	515,082
Notes payable-related parties	221,534	218,275
Dividend payable	15,969	-
Derivative liability	4,484,991	4,780,032
Current maturities of convertible debt, net of discount	1,977,038	2,452,430
Total Current Liabilities	13,413,816	14,434,511

LONG-TERM LIABILITIES

Small business administration loan	980,450	980,450
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Total Long-Term Liabilities	980,450	980,450
Total Liabilities	14,394,266	15,414,961
Commitments and contingencies	-	-
STOCKHOLDERS' DEFICIT		
Redeemable preferred stock, Series A, \$.001 par value, 125,000 shares authorized, 0 shares issued and outstanding	-	-
Redeemable preferred stock, Series B, \$.001 par value, 525,000 shares authorized, 159,666 shares issued and outstanding	160	160
Redeemable preferred stock, Series C, \$.001 par value, 500,000 shares authorized, 0 shares issued and outstanding	-	-
Redeemable preferred stock, Series D, \$.001 par value, 500,000 shares authorized, 100,000 shares issued and outstanding	100	100
Redeemable preferred stock, Series E, \$.001 par value, 1,000,000 shares authorized, 788,084 and 339,559 shares issued and outstanding, respectively	788	340
Redeemable preferred stock, Series F, \$.001 par value, 500,000 shares authorized, 190,000 and 0 shares issued and outstanding, respectively	190	-
Redeemable preferred stock, Series G, \$.001 par value, 500,000 shares authorized, 250,000 and 0 shares issued and outstanding, respectively	25	-
Common stock; 13,000,000,000 shares authorized at \$.0001 par value, 8,443,081,976 and 23,842,518 shares issued and outstanding, respectively	844,310	2,383
Additional paid-in capital	28,260,425	25,948,063
Non controlling interest	92,281	91,553
Treasury stock	(35,700)	(35,700)
Accumulated deficit	(43,446,484)	(41,373,974)
Total Stockholders' Deficit	(14,283,905)	(15,367,075)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 110,361	\$ 47,886

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

COROWARE, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014 (Unaudited)	2013 (Unaudited)	2014 (Unaudited)	2013 (Unaudited)
REVENUES	\$603,063	\$274,821	\$1,285,814	\$833,005
COST OF SALES	367,527	188,755	960,828	565,575
GROSS PROFIT	235,536	86,066	324,986	267,430
OPERATING EXPENSES				
General and administrative	247,442	188,549	676,058	750,662
Sales and marketing	40,530	-	72,539	-
Research and Development	22,452	-	77,312	-
Depreciation and amortization	1,604	3,000	5,435	11,462
Total Operating Expenses	312,028	191,549	831,344	762,124
INCOME (LOSS) FROM OPERATIONS	(76,492)	(105,483)	(506,358)	(494,694)
OTHER INCOME (EXPENSE)				
Derivative Income (Expense)	668,033	(2,684,118)	(487,493)	55,068,497
Interest Income (Expense)	(117,637)	75,789	(1,126,891)	(332,766)
Gain (loss) on extinguishment of debt	-	-	45,513	347,680
TOTAL OTHER INCOME (EXPENSE)	550,396	(2,608,329)	(1,568,871)	55,083,411
INCOME (LOSS) BEFORE NON CONTROLLING INTEREST	473,904	(2,713,812)	(2,075,229)	54,588,717
Net income (loss) attributable to non controlling interest	(37)	4,382	2,719	27,208
INCOME (LOSS) BEFORE INCOME TAXES	473,867	(2,709,430)	(2,072,510)	54,615,925
INCOME TAX EXPENSE	-	-	-	-
NET INCOME (LOSS)	\$473,867	\$(2,709,430)	\$(2,072,510)	\$54,615,925
BASIC INCOME (LOSS) PER SHARE				
BASIC INCOME (LOSS) PER SHARE	\$0.00	\$(0.00)	\$(0.00)	\$0.02
DILUTED INCOME (LOSS) PER SHARE				
DILUTED INCOME (LOSS) PER SHARE	\$0.00	\$(0.00)	\$(0.00)	\$0.02
WEIGHTED AVERAGE NUMBER OF COMMON				

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SHARES OUTSTANDING - BASIC	8,146,927,227	4,314,782,998	7,302,897,741	3,041,823,440
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	16,083,835,216	4,314,782,998	7,302,897,741	3,041,823,440

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

COROWARE, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

For the Nine Months Ended
September 30,
2014 2013
(Unaudited) (Unaudited)

OPERATING ACTIVITIES

Net income (loss)	\$(2,075,229)	\$54,615,925
Net income (loss) attributable to non controlling interest	2,719	27,208
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,435	11,462
(Gain) loss on derivative valuation	1,193,060	(55,068,497)
(Gain) loss on forgiveness of debt	(45,513)	-
Amortization of debt discount	39,065	-
Preferred Stock issued for services and compensation	924,832	-
Common Stock issued for services and compensation	-	37,878
Changes in operating assets and liabilities:		
Accounts receivable	(67,095)	(56,352)
Other current assets	-	23,795
Other assets	(1,578)	-
Inventory	3,799	5,328
Dividends payable	15,969	-
Accounts payable and accrued expenses	(294,506)	56,989
Net Cash Used in Operating Activities	(299,042)	(346,264)

INVESTING ACTIVITIES

Purchase of property and equipment	(3,036)	(366)
Net Cash Used in Investing Activities	(3,036)	(366)

FINANCING ACTIVITIES

Net proceeds from obligations collateralized by receivables	(513)	47,355
Bank overdraft	529	
Proceeds from related party loans	1,250	-
Payments on related party loans	(8,730)	(5,543)
Proceeds from convertible debt financings	283,814	279,069
Net payments on line of credit	-	1,959
Proceeds from non controlling interest	728	28,494
Proceeds from notes payable	25,000	19,750
Net Cash Provided by Financing Activities	302,078	371,084
NET INCREASE (DECREASE) IN CASH	-	24,454
CASH AT BEGINNING OF PERIOD	-	2,754

CASH AT END OF PERIOD	\$-	\$27,208
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The accompanying notes are an integral part of these consolidated financial statements.

COROWARE, INC.
 CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
 (Unaudited)

For the Nine Months
 Ended
 September 30
 2014 2013
 (Unaudited) (Unaudited)

SUPPLEMENTAL DISCLOSURES OF
 CASH FLOW INFORMATION

CASH PAID FOR:

Interest	\$-	\$-
Income taxes	-	-

NON CASH FINANCING ACTIVITIES:

Debt discounts on derivative liability	\$5,699	\$-
Common stock issued upon conversion of debt	\$1,527,193	\$260,642
Conversion of Preferred E stock in to common stock	\$29,205	\$-
Cancellation of common stock	\$22,341	\$-

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

COROWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2013. 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”). The Company also consolidates its 51% interest in Aricon, LLC. All significant inter-company balances and transactions have been eliminated in the consolidated financial statements. 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, 2013 as reported in Form 10-K have been omitted.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsequent Events

The Company evaluated events occurring between the end of the current period and the date these financial statements were issued for potential subsequent event disclosures.

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.

Reclassifications

None

Basic and Diluted Loss per Share

Basic loss per share is calculated by dividing the Company’s net loss applicable to shareholders by the weighted average number of shares outstanding during the period. Diluted loss per share is calculated by dividing the Company’s net loss available to shareholders by the diluted weighted average number of shares outstanding during the year. The diluted weighted average number of shares outstanding is adjusted for any potentially dilutive debt or equity instruments. As of September 30, 2014 there were 7,710,868,240 common stock equivalents outstanding which were excluded from the calculation of diluted loss per unit as their effect would have been anti-dilutive.

Inventories

Inventories consist of the following:

	September 30, 2014	December 31, 2013
Raw materials	\$ -	\$ -
Work in process	-	-
Finished goods	19,802	23,601
Subtotal	19,802	23,601
Less: Inventory reserve	-	-
Inventory, net	\$ 19,802	\$ 23,601

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NOTE 3 – FINANCIAL CONDITION AND GOING CONCERN

The Company had a net loss for the nine months ended September 30, 2014 of \$2,072,510. Because of this loss, the current working capital deficit, and the projection of additional losses for the remainder of 2014, the Company will require additional working capital to develop its business operations.

The Company intends to raise additional working capital through the use of public offerings 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

On March 21, 2010, the Company established a \$200,000 factoring line with an asset-based lender, CapeFirst Funding, LLC (“Capefirst”) that is secured by accounts receivable that the Lender may accept and purchase from the Company. 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%.

NOTE 5 - CONVERTIBLE DEBT

The following table illustrates the carrying value of convertible debt:

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Lender Name	Reference		September 30, 2014	December 31, 2013
AGS Capital Group, LLC	5	(a)	\$ 91,906	\$ 157,687
Asher Enterprises, Inc.	5	(b)	-	102,795
Barclay Lyons, LLC			10,750	10,750
Blackbridge Capital, LLC	5	(d)	28,937	52,042
Burrington Capital, LLC	5	(e)	-	-
Cariou			31,838	31,838
Collins, Thomas			39,170	39,170
Dakota Capital	5	(h)	200,000	-
Ferro, Patrick	5	(i)	50,000	-
IBC Funds	5	(j)	5,550	-
Kellburgh, Ltd.			13,000	13,000
LG Capital Funding, LLC	5	(l)	56,000	-
Liben, Barry	5	(m)	-	-
Magna Group, LLC	5	(n)	8,500	-
Panache Capital, LLC			32,685	32,685
Premier IT Solutions Corp.			21,962	21,962
Ratzker, David	5	(q)	-	39,184
Redwood Management, LLC	5	(r)	122,611	169,647
Reserve Capital	5	(s)	-	-
Ridgepoint Capital	5	(t)	5,852	63,715
Sobeck, Michael	5	(u)	-	14,538
Tangiers Investment Group, LLC	5	(v)	31,795	62,891
Tuohy	5	(w)	-	-
Westmount International Holdings	5	(x)	537,318	537,318
YA Global Investments, LP	5	(y)	646,628	1,065,433
Zoom Marketing Corporation	5	(z)	65,000	140,000
			1,999,502	2,554,655
Discount			(22,464)	(102,225)
Less: Current portion of convertible debt			(1,977,038)	(2,452,430)
Long term portion of convertible debt			\$ -	\$ -

(a) AGS Capital financing:

During the nine month period ending September 30, 2014, AGS converted \$66,160 of principal into 860,915,586 shares of the Company's common stock.

(b) Asher financing:

During the nine month period September 30, 2014, Asher converted \$102,795 of principal and \$4,480 of interest into 343,639,834 shares of the Company's common.

(d) Blackbridge financing:

On February 21, 2014 the Company entered into a \$40,000 Convertible Note Agreement with Blackbridge Capital. The note calls for 5% interest through the maturity date of August 21, 2014. On February 21, 2014 the Company entered into a \$5,000 Convertible Note Agreement with Blackbridge Capital. The note calls for 8% interest through the maturity date of September 21, 2014. During the nine month period ended September 30, 2014, Blackbridge converted \$68,105 of principal into 521,790,033 shares of the Company's common stock.

(e) Burrington financing:

On April 8, 2014, a note holder, YA Global, sold a portion of their note in the amount of \$93,250 to an unrelated third party ("Burrington"). CoroWare then entered into a Convertible Note Agreement with Burrington for that debt. The note calls for 14% interest through the maturity date and is due upon demand. During the nine month period ended September 30, 2014, Burrington converted \$93,250 of principle into 625,000,000 shares of the Company's common stock.

(h) Dakota Capital financing:

On April 8, 2014, a note holder, YA Global, sold a portion of their note in the amount of \$200,000 to an unrelated third party ("Dakota Capital"). CoroWare then entered into a Convertible Note Agreement with Dakota Capital for that debt. The note calls for 14% interest through the maturity date December 31, 2014.

(i) Ferro financing:

On April 8, 2014, a note holder, YA Global, sold a portion of their note in the amount of \$50,000 to an unrelated third party ("Ferro"). CoroWare then entered into a Convertible Note Agreement with Dakota Capital for that debt. The note calls for 14% interest through the maturity date December 31, 2014.

(j) IBC financing:

On April 2, 2014 the Company entered into a \$96,800 Settlement Agreement with IBC Capital. The amount is due upon demand and the discount is increased 5% for each delinquency up to a maximum of 90%. During the nine month period September 30, 2014, IBC converted \$91,250 of principal into 800,000,000 share of the Company's common stock.

(l) LG Capital financing:

On March 11, 2014 the Company entered into a \$40,000 Convertible Note Agreement with LG Capital. The note calls for 12% interest through the maturity date of March 11, 2015. On March 11, 2014 the Company entered into a

\$32,000 Convertible Note Agreement with LG Capital. The note calls for 12% interest through the maturity date of March 11, 2015. During the nine month period ended September 30, 2014, LG converted \$16,000 of principal and \$160 of interest into 46,171,428 shares of the Company's common stock.

(m) Liben financing:

On April 1, 2014 the Company entered into a \$25,000 Convertible Note Agreement with Barry Liben. The note calls for 10% interest through the maturity date of March 11, 2015. On March 11, 2014 the Company entered into a \$32,000 Convertible Note Agreement with LG Capital. The note calls for 12% interest through the maturity date of October 1, 2014. During the nine month period ended September 30, 2014, Liben converted \$25,000 of principal and \$160 of interest into 147,058,823 shares of the Company's common stock.

(n) Magna financing:

On February 7, 2014, a note holder, Cariou, sold their note in the amount of \$36,514 to an unrelated third party ("Magna"). CoroWare then entered into a Convertible Note Agreement with Magna for that debt. The note calls for 10% interest through the maturity date of February 7, 2015. On February 7, 2014 the Company entered into an \$8,500 Convertible Note Agreement with Magna. The note calls for 1% interest through the maturity date of February 7, 2015. During the nine month period ended September 30, 2014, Magna converted \$36,514 of principal and \$164 of interest into 97,436,053 shares of the Company's common stock.

(q) Ratzker financing :

During the nine month period ended September 30, 2014, Ratzker converted \$3,350 of principal and \$19,185 of interest into 31,524,412, shares of the Company's common stock.

(r) Redwood financing:

During the nine month period ending September 30, 2014, Redwood converted \$47,036 of principal into 210,147,424 shares of the Company's common stock.

(s) Reserve Capital financing:

During the nine month period ending September 30, 2014, Reserve Capital converted \$10,000 of principal into 100,000,000 shares of the Company's common stock.

(t) Ridge Point financing:

During the nine month period ended September 30, 2014, Ridge Point converted \$60,503 of principal into 650,085,000 shares of the Company's common stock.

(u) Sobeck financing:

During the nine month period ended September 30, 2014, Sobeck converted \$14,538 of principal and \$17,921 of interest into 44,934,636 shares of the Company's common stock.

(v) Tangiers financing:

On March 27, 2014, a note holder, Zoom Marketing, sold their note in the amount of \$75,000 to an unrelated third party ("Tangiers"). CoroWare then entered into a Convertible Note Agreement with Tangiers for that debt. The note calls for 5% interest through the maturity date of March 27, 2015. During the nine month period ended September 30, 2014, Tangiers converted \$185,686 of principal and \$1,357 of interest into 1,561,412,909 shares of the Company's common stock.

(w) Tuohy financing:

On April 1, 2014, a note holder, YA Global, sold a \$40,000 of their original note of in the amount \$1,250,000 to an unrelated third party ("Tuohy"). CoroWare then entered into a Convertible Note Agreement with Tangiers for that debt. The note calls for 14% interest through the maturity date of December 31, 2014. During the nine month period ended September 30, 2014, Tuohy converted \$40,000 of principal into 171,117,647 shares of the Company's common stock.

(x) Westmount financing:

During the nine month period ended September 30, 2014, Westmount converted \$261,259 of interest into 571,291,829 shares of the Company's common stock.

(y) YA Global Investments Global, LP financing:

During the nine month period ended September 30, 2014, YA Global converted \$43,805 of principal and \$269,223 of interest into 1,264,167,158 shares of the Company's common stock.

(z) Zoom Marketing financing:

See Tangiers financing note above.

During the nine month period ended September 30, 2014, conversions were as follows:

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Financing or other contractual arrangement:	Principal converted	Interest Converted	Shares Issued
AGS Capital Group convertible note financing	\$ 66,160		0