

CoroWare, Inc,
Form 10-Q
November 19, 2013

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, 2013

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 18, 2013 there were 4,497,031,528 shares of the issuer's \$.0001 par value common stock outstanding.

COROWARE, INC.
September 30, 2013 QUARTERLY REPORT ON FORM 10-Q

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COROWARE, INC.
Consolidated Balance Sheets

ASSETS

	September 30, 2013 (unaudited)	December 31, 2012
CURRENT ASSETS		
Cash	\$ -	\$ 2,754
Accounts receivable, net	232,475	176,123
Inventory, net	9,939	15,267
Other current assets	1,109	21,109
Total Current Assets	243,523	215,253
PROPERTY AND EQUIPMENT, net	4,358	15,454
OTHER ASSETS		
Other assets, net	9,078	12,873
Total Other Assets	9,078	12,873
TOTAL ASSETS	\$ 256,959	\$ 243,580

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 5,196,880	\$ 5,155,860
Lines of credit	123,328	121,369
Obligations collateralized by receivables	224,810	177,455
Current portion of notes payable	252,082	232,332
Accrued expenses- related parties	199,898	183,929
Notes payable-related parties	197,069	202,612
Derivative liability	22,362,392	77,655,809
Current maturities of convertible debt, net of discount	2,277,181	2,258,830
Redeemable preferred stock, Series B, \$.001 par value, 525,000 shares authorized, 159,666 shares issued and outstanding	212,886	70,961
Redeemable preferred stock, Series D, \$.001 par value, 500,000 shares authorized, 100,000 shares issued and outstanding	117,647	34,602
Redeemable preferred stock, Series E, \$.001 par value, 500,000 shares authorized, 100,000 shares issued and outstanding	-	50
Small business administration loan	980,450	980,450

Total Current Liabilities	32,144,623	87,074,259
LONG TERM LIABILITIES		
Convertible debentures, net of current maturities	221,805	221,805
Total Liabilities	32,366,428	87,296,064
Commitments and contingencies		
STOCKHOLDERS' DEFICIT		
Common stock; 13,000,000,000 shares authorized at \$0.0001 par value, 4,497,031,528 and 306,542,857 shares issued and outstanding, respectively	449,703	30,654
Additional paid-in capital	16,416,659	16,537,112
Non controlling interest	67,792	39,298
Treasury stock	(35,700)	(35,700)
Accumulated deficit	(49,007,923)	(103,623,848)
Total Stockholders' Deficit	(32,109,469)	(87,052,484)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 256,959	\$ 243,580

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

COROWARE, INC.
Consolidated Statements of Operations
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
REVENUES	\$ 274,821	\$ 224,136	\$ 833,005	\$ 910,655
COST OF SALES	188,755	179,098	565,575	595,459
GROSS PROFIT	86,066	45,038	267,430	315,196
OPERATING EXPENSES				
Depreciation and amortization	3,000	3,000	11,462	9,000
General and administrative	188,549	247,181	750,662	766,375
Total Operating Expenses	191,549	250,181	762,124	775,375
LOSS FROM OPERATIONS	(105,483)	(205,143)	(494,694)	(460,179)
OTHER INCOME (EXPENSE)				
Gain (loss) on derivative valuation	(2,684,118)	(6,228,894)	55,068,497	(6,568,388)
Gain (loss) on convertible debt redemptions	-	106,700	-	71,070
Interest expense	75,789	(157,303)	(332,766)	(527,021)
Loss on settlement of debt	-	(15,272)	347,680	(13,172)
TOTAL OTHER INCOME (EXPENSE)	(2,608,329)	(6,294,769)	55,083,411	(7,037,511)
LOSS BEFORE NON CONTROLLING INTEREST	(2,713,812)	(6,499,912)	54,588,717	(7,497,690)
Net loss attributable to non controlling interest	4,382	-	27,208	-
LOSS BEFORE INCOME TAXES	(2,709,430)	(6,499,912)	54,615,925	(7,497,690)
INCOME TAX EXPENSE	-	-	-	-
NET LOSS	\$ (2,709,430)	\$ (6,499,912)	\$ 54,615,925	\$ (7,497,690)
BASIC AND DILUTED LOSS PER SHARE				
	\$ (0.00)	\$ (0.27)	\$ 0.02	\$ (0.53)

WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED	4,314,782,998	23,689,883	3,041,823,440	14,126,220
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The accompanying notes are an integral part of these consolidated financial statements

COROWARE, INC.
Consolidated Statements of Cash Flows
(unaudited)

For the Nine Months Ended
September 30,
2013 2012

OPERATING ACTIVITIES

Net loss	\$54,623,325	\$(7,497,690)
Adjustments to reconcile net loss to net cash used in operating activities:		
(Gain) loss on derivative valuation	(55,068,497)	6,568,387
Loss on settlement of debt	-	13,172
Amortization of deferred financing costs	-	5,370
(Gain) loss on convertible debt redemptions	-	(71,070)
Stock issued for services	37,878	13,000
Depreciation and amortization	11,462	9,000
Amortization of debt discount	-	166,618
Changes in operating assets and liabilities:		
Accounts receivable	(56,352)	(11,727)
Other current assets	23,795	1,002
Inventory	5,328	-
Accrued expenses-related parties	15,969	72,463
Accounts payable and accrued expenses	41,020	642,638
Net Cash Used in Operating Activities	(373,472)	(88,837)

INVESTING ACTIVITIES

Purchase of property and equipment	(366)	(1,371)
Net Cash Used in Investing Activities	(366)	(1,371)

FINANCING ACTIVITIES

Obligations collateralized by receivables	47,355	62,392
Proceeds from related party loans	-	-
Proceeds from convertible debentures	279,069	17,990
Proceeds from line of credit	1,959	(2,097)
Proceeds from non controlling interest	28,494	-
Proceeds from sale of preferred stock, Series E	-	10,000
Proceeds from notes payable	19,750	9,000
Repayment of notes payable	-	(1,500)
Repayment of related party loans	(5,543)	(3,172)

Net Cash Provided by Financing Activities	371,084	92,613
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NET INCREASE (DECREASE) IN CASH	(2,754)	2,405
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CASH AT BEGINNING OF PERIOD	2,754	522
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CASH AT END OF PERIOD	\$-	\$2,927
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The accompanying notes are an integral part of these consolidated financial statements.

COROWARE, INC.
 Consolidated Statements of Cash Flows (Continued)
 (unaudited)

For the Nine Months Ended
 September 30,
 2013 2012

SUPPLEMENTAL DISCLOSURES OF
 CASH FLOW INFORMATION

CASH PAID FOR:

Interest	\$ -	\$ -
Income taxes	-	-

NON CASH FINANCING ACTIVITIES:

Common stock issued upon conversion of debt	\$ 260,642	\$ 278,705
Common stock issued for accrued liabilities	-	34,540
Common stock issued as contribution into joint venture	-	49,400

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, 2012. 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, 2012 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.

Non-controlling Interests

The Company accounts for non-controlling interests pursuant to ASC 810 whereby gains or losses in a subsidiary with a non-controlling interest are allocated to the non-controlling interest based on the ownership percentage of the non-controlling interest, even if that allocation results in a deficit non-controlling interest balance.

During the nine months ended September 30, 2013 the Company received proceeds of \$28,494 from non-controlling interests (see Note 8).

NOTE 3 – FINANCIAL CONDITION AND GOING CONCERN

The Company has net loss from operations for the nine months ended September 30, 2013 of \$54,623,325. Because of the current working capital deficit, and the projection of losses for the remainder of 2013, 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 outstanding balances of the convertible debt, net of debt discount:

\$ 17,500 Asher financing (k)	18,750	3,547
\$20,000 Asher financing (k)	37,500	18,775
\$ 27,500 Asher financing (k)	33,750	18,900
\$10,750 Barclay financing	10,750	10,750
\$ 9,750 Tangiers (formerly Mackie) financing (i)		3,059
\$170,562 Ratzker financing (b)	17,734	152,007
\$ 67,042 Harvey financing	52,042	67,042
\$ 89,383 Cariou financing (c)	22,465	54,838
\$ 65,000 Panache financing (d)	24,253	41,860
\$ 15,000 Panache financing	15,000	15,000
\$567,200 Westmount financing (l)	534,055	537,318
\$170,561 Redwood financing (e)	54,127	89,377
\$21,962 Premier financing	21,962	21,962
\$21,000 Tangiers financing (i)	-	11,424
\$5,474 Tangiers financing (i)	-	2,500
\$ 10,000 Magna financing (m)	-	10,000
\$13,000 Kellburgh financing (n)	13,000	-
\$54,060 Ridge Point financing (f)	27,465	9,117
\$42,200 AGS financing (s)	17,192	-
\$131,377 AGS financing (g)	116,474	-
\$25,000 Yorkville financing (r)	7,717	-
\$12,372.60 Tangiers financing (h)	-	-
\$14,000 Tangiers financing (o)	14,000	-
\$24,893.17 Tangiers financing (p)	24,897	-
\$20,000 Tangiers financing (q)	20,000	-
\$36,250 Ridge Point financing (j)	36,250	-
\$3,000 Blackridge financing	-	-
	2,498,986	2,480,635
Less: Current portion of convertible debt	(2,277,181)	(2,258,830)
Long-term portion of convertible debt	\$221,805	\$221,805

(a) \$2,825,000 Yorkville financing:

During the nine month period ending September 30, 2013, Yorkville converted \$31,110 of principal from Tranche 3 into 304,037,255 shares of the Company's common stock.

(b) \$170,562 Ratzker financing:

During the nine month period ending September 30, 2013, Ratzker converted \$17,550 of interest into 220,000,000 shares of the Company's common stock.

(c) \$89,383 Cariou financing:

On May 1, Cariou sold a \$20,000 portion of his convertible note plus 4,893.17 of interest to an unrelated third party ("Tangiers.").

(d) \$65,000 Panache financing:

During the nine month period ending September 30, 2013, Panache converted \$17,607 of principal into 262,490,000 shares of the Company's common stock.

(e) \$170,561 Redwood financing:

During the nine month period ending September 30, 2013, Redwood converted \$35,250 of principal into 279,048,581 shares of the Company's common stock.

(f) \$54,060 Ridge Point financing:

During the nine month period ending September 30, 2013, Ridge Point converted \$27,925 of principal into 405,000,076 shares of the Company's common stock. Ridge Point also reversed the conversion of \$9,660 of principal, returning 102,000,000 shares of the Company's common stock.

(g) \$131,377 AGS financing:

During the nine month period ending September 30, 2013, AGS converted \$11,987 of principal into 934,774,466 shares of the Company's common stock.

(h) \$12,372.60 Tangiers financing:

During the nine month period ending September 30, 2013, Tangiers converted \$12,509 of principal and interest into 57,528,200 shares of the Company's common stock extinguishing the debt.

(i) Tangiers financing:

During the nine month period ending September 30, 2013, Tangiers converted \$55,966 of principal into 700,347,145 shares of the Company's common stock.

(j) \$36,250 Ridge Point financing

On June 6, 2013, a note holder, Interface Group, sold their note in the amount of \$36,250 to an unrelated third party ("Ridge Point"). CoroWare then entered into a Convertible Note Agreement with Ridge Point for that debt. The note calls for 20% interest through the maturity date of June 7, 2014, with a late payment fee of \$500 per week for any week in which a payment is missed.

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 35% of the low two of five closing bid prices for the sixty (60) days immediately prior to a conversion.

(k) Asher \$25,000, \$22,500, \$17,500 financings

As of September 30, 2013, we are in default on our Unsecured Convertible Debentures presently held by Asher Enterprises in the aggregate face amount of \$90,000. The debenture accrues interest at 22% (the default rate) and is convertible at the option of the holder into shares of CoroWare, Inc. common stock. The default penalty increased the outstanding principal balance by 150%. During the nine months ended September 30, 2013 Asher converted \$15,700 into 242,222,222 shares of the Company's common stock.

(l) Westmount financing:

During the nine month period ending September 30, 2013, Westmount converted \$3,263 of principal into 19,196,530 shares of the Company's common stock.

(m) Magna financing:

During the nine month period ending September 30, 2013, Magna converted \$10,000 of principal into 94,000,000 shares of the Company's common stock extinguishing the debt.

(n) \$13,000 Kellburgh financing

On May 14, 2013, CoroWare entered into a Convertible Note Agreement with an unrelated third party. The note calls for 10% interest through the maturity date of September 30, 2013.

(o) \$14,000 Tangiers financing:

On April 19, 2013, the Company entered into a \$14,000 Convertible Note Agreement with an unrelated third party ("Tangiers"). The note calls for interest at 10% through the maturity date of April 19, 2014.

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 lowest closing bid in the 10 days prior to the conversion date.

(p) \$24,893.17 Tangiers financing:

On May 1, 2013, Raphael Cariou sold a \$24,893.17 of his convertible debenture to an unrelated third party ("Tangiers"). The Company entered into a \$24,893.17 Convertible Note Agreement with Tangiers. The note calls for interest at 10% through the maturity date of May 1, 2014.

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 lowest closing bid in the 10 days prior to the conversion date.

(q) \$20,000 Tangiers financing:

On May 17, 2013, the Company entered into a \$20,000 Convertible Note Agreement with an unrelated third party ("Tangiers"). The note calls for interest at 10% through the maturity date of May 17, 2014.

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 lowest closing bid in the 10 days prior to the conversion date.

(r) \$25,000 Yorkville financing:

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On March 7, 2013, the Company entered into a \$25,000 Convertible Note Agreement with an unrelated third party. The note calls for interest at 14% through the maturity date of March 7, 2014.

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 80% of the lowest volume weighted average closing price in the 30 days prior to the conversion date.

(s) \$42,000 AGS financing:

On February 25, 2013, the Company entered into a \$42,000 Convertible Note Agreement with an unrelated third party. The note calls for interest at 18% through the maturity date of February 25, 2014. The default interest rate is 22%.

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 65% of the lowest closing price in the 20 days prior to the conversion date.

(t) \$3,000 Blackridge financing:

On July 10, 2013, the Company entered into a \$3,000 Convertible Note Agreement with an unrelated third party. The note calls for interest at 10% through the maturity date of January 2, 2014. Blackbridge converted \$3,000 of principal into 85,714,285 shares of the Company's common stock and extinguished the debt.

(u) Harvey financing:

On July 9, the company issued 172,500,000 shares of Common Stock to Harvey for a net decrease of principal of \$15,000

As noted above, the following notes are in default: the remaining balances of the \$2,825,000, \$600,000 and \$300,000 Yorkville financings, the \$75,000 Collins financing, the \$10,750 Barclay financing, the \$567,200 Westmount financing, the \$67,042 Harvey financing, the \$65,000 and \$15,000 Panache financings, the \$21,962 Premier financings, the \$25,000, \$22,500, and \$17,500, Asher financing, and the \$89,383 Cariou financing. However, the terms of the agreements allow conversion of the debt during periods of default. In computing the derivative liability associated with the conversion, one of the inputs is maturity of the instruments which, in this case, is technically in the past. Accordingly, management has estimated a debt maturity date of ten months from the period-end date for purposes of the derivative liability calculations.

At September 30, 2013 and 2012 the derivative liability balance associated with the convertible debenture financings was 22,362,392 and 77,655,809, respectively. During the nine months ended September 30, 2013 the Company recorded a gain on derivative valuation related to fair value adjustments of the derivative liability of 55,068,497. 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 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 (492.09% - 527.94%); and Effective Risk Adjusted Yield (15.97% - 33.59%).

NOTE 6 - OTHER STOCKHOLDERS' EQUITY

a) Stock Options:

The following table summarizes stock option activity:

	Total Options	Weighted Average Price
Outstanding, December 31, 2012	38,164	\$ 2.97
Granted	-	-
Cancelled	-	-
Forfeited	-	-
Exercised	-	-
Outstanding, September 30, 2013	38,164	\$ 2.97
Exercisable at September 30, 2013	38,164	\$ 2.97

b) Outstanding warrants:

The following table summarizes warrant activity:

	Total Options	Weighted Average Price
Outstanding, December 31, 2012	167	\$ 2.97
Granted	-	-
Cancelled	-	-
Forfeited	-	-
Expired	(167)	-
Outstanding, September 30, 2013	-	\$ 2.97
Exercisable at September 30, 2013	-	\$ 2.97

c) Issuance of common stock:

The following table summarizes common stock issued for services during the nine month period ended September 30:

	2013		2012	
	Shares	Value	Shares	Value
Stock issued for services	193,429,987	\$37,878	468,000,000	\$46,000
Legal services			400,000	8,000
	193,429,987	\$37,878	400,000	\$8,000

The following table summarizes other common stock issued during the nine month period ended September 30:

	2013		2012	
	Shares	Value	Shares	Value
Satisfaction of payables			300,000	\$6,000
Redemption of convertible debenture	3,997,058	260,642		
Notes payable			300,000	\$6,000

As a result of the issuances noted above, substantial dilution of existing stockholders' interests has occurred.

d) Dividends on preferred stock:

At September 30, 2013 and December 31, 2012, there were cumulative undeclared dividends to Preferred Series B shareholders of \$43,908 and \$47,900, respectively, the obligation for which is contingent on declaration by the board of directors.

e) Preferred Stock, Series E:

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On March 9, 2013 the Board approved by unanimous written consent an amendment to the Corporation's Certificate of Incorporation to designate the rights and preferences of Series E Preferred Stock. There are 500,000 shares of Series E Preferred Stock authorized with a par value of \$0.001. Each share of Series E Preferred Stock has a stated value equal to \$1.00 and shall be entitled to receive dividends at the rate of 5% per annum on the stated value before dividends are declared on any other outstanding shares of stock of the Company. These preferred shares rank higher than the common shares and pari passu with all other classes of preferred stock. Each outstanding share of Series E Preferred Stock shall be convertible into the number of shares of the Corporation's common stock determined by dividing the Stated Value by the Conversion Price which is defined as \$0.0001. Mandatory conversion can be demanded by the Company prior to October 1, 2013. The holders of the Series E Preferred Stock shall have no voting power.

f) Increase in Authorized Shares:

On February 22, 2013, the Majority Stockholders authorized an increase in the number of authorized shares of common stock from three billion (3,000,000,000) shares of common stock to thirteen billion (13,000,000,000) shares of common stock. This change was effective March 25, 2013.

g) Reverse split:

On July 6, 2012, the Company effected a one-for-two hundred (1:200) reverse split of the Company's Common Stock. All common share amounts within this document have been adjusted to reflect this change.

NOTE 7 – COMMITMENTS

The Company leases its principal operating facilities in Kirkland, Washington under a 5 year operating lease which runs through July 31, 2015 and provides for monthly payments of \$3,735 with a built in annual escalation clause increasing monthly rent by \$249 at each anniversary date.

Future non-cancelable minimum lease payments are as follows:

Years Ending December 31,	
2013	40,836
2014	55,029
2015	33,117
	\$ 140,187

NOTE 8 – INVESTMENT IN JOINT VENTURE

On September 27, 2012, the Company partnered with a private investor to launch a joint venture – Aricon, LLC to develop and market mobile robot platforms, applications, and solutions for the construction industry.

The joint venture is currently comprised of CoroWare (51% ownership), who agreed to contribute 38,000,000 shares of restricted CoroWare common stock, (1) mobile robot for prototype development, \$10,000 cash, and mobile robotics development expertise; and Lucas Snyder (49% ownership), a private investor who agreed to contribute \$50,000 cash, construction industry expertise, and customer relationships. The Company received \$28,494 from the private investor during the nine months ended September 30, 2013.

Through its combined expertise in construction and robotics, ARiCON intends to address the growing need for Computer Aided Production (CAP) solutions, with its initial focus on the development of robotic layout systems.

NOTE 9 – SUBSEQUENT EVENTS

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may" "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative of such terms, or other comparable terminology. These statements are only predictions. Actual events or results may differ materially from those in the forward-looking statements as a result of various important factors. Although we believe that the expectations reflected in the forward-looking statements are reasonable, they should not be regarded as a representation by CoroWare, Inc., or any other person, that such expectations will be achieved. The business and operations of CoroWare, Inc. are subject to substantial risks, which increase the uncertainty inherent in the forward-looking statements contained in this report.

BACKGROUND

CoroWare, Inc ("CoroWare" or "the Company") is a public holding company whose principal subsidiary, CoroWare Technologies, Inc. ("CTI"), has expertise in information technology consulting, mobile robotics, and affordable collaboration. Through its subsidiary, the Company delivers custom engineering services, hardware and software products, and subscription services that benefit customers in North America, Europe, Asia, Australia and the Middle East. Their customers span multiple industry sectors and are comprised of universities, software and hardware product development companies, and non-profit organizations. The company also maintains a Near Shore practice which is comprised of multiple subcontracting companies with whom the company maintains close working relationships. Through these relationships, the Company is able to provide services in South America.

COROWARE TECHNOLOGIES, INC.

CTI is a software professional services company with a strong focus on Information Technology integration and robotics integration, business automation solutions, and unmanned systems solutions to its customers in North America and Europe. CTI's expertise includes the deployment and integration of computing platforms and applications, as well as the development of unmanned vehicle software and solutions for customers in the research, commercial, and homeland security market segments. CTI shall continue to offer its high value software systems development and integration services that complement the growing trend in outsourced software development services in Asia, Latin America, and Eastern Europe.

CoroWare Technologies comprises three separately managed lines of business:

The Company's revenues are principally derived from standing contracts that include Microsoft (partner management and IT professional services), a European auto manufacturer (simulation software custom development), and other customers whose product development groups require custom software development and consulting companies. Existing contract revenues vary month by month based on the demands of the clients. The Company's collaboration effort is in the early stages of growth and will require additional working capital to compete effectively against new entrants in this rapidly growing market.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2013 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2012:

During the three-month period ended September 30, 2013 (the "2013 Period") revenues were \$274,821 compared to revenues of \$224,136 during the three-month period ended September 30, 2012 (the "2012 Period"). Our revenues were higher compared to the previous year as customers renewed spending on software development services for IT consulting and software development projects as well as capital expenditures until later in the calendar year.

Cost of revenues was \$188,755 for the 2013 Period compared to \$179,098 for the 2012 Period. Cost of revenues represents primarily labor and labor-related costs in addition to overhead costs. Gross profit on these 2013 revenues amounted to \$86,066 (31% gross profit percentage) compared to \$45,038 (20.1% gross profit percentage) for the 2012 Period.

General and administrative expense was \$188,549 (69% of gross revenues) for the 2013 Period compared to \$247,181 (110% of gross revenues) in the 2012 Period. General and Administration expenses were reduced by 24% as the Company continued to reduce its executive compensation and public company expenses.

Operating expenses were \$191,549 during the 2013 Period compared to \$250,181 during the 2012 Period. Loss from operations was \$105,483 during the 2013 Period compared to \$205,143 in the 2012 Period. The decrease was primarily due to a decrease of General and Administration expenses which were reduced by 24% as the Company continued to reduce its executive compensation and public company expenses.

Total other expense was \$2,608,329 during the 2013 Period compared to other expense of \$6,294,769 in the 2012 Period. Other income is comprised primarily of derivative revaluation gain and loss. Derivative valuation expense in the 2013 Period was \$2,684,118 compared to derivative valuation expense of \$6,228,894 in the 2012 Period. Keeping the number of shares constant, the liability associated with the embedded conversion features increases as our share price and volatility increases and, likewise, decreases when our share price and share price volatility decreases. Derivative income (expense) displays the inverse relationship. Interest gain for the three month 2013 Period is \$75,789 compared to expense of \$157,303 for the three month 2012 Period.

Net loss for the 2013 Period was \$2,709,430 compared to a net loss of \$6,499,912 for the 2012 Period.

Basic weighted average shares outstanding were 4,283,881,899 during the 2013 Period compared 23,689,883 in the 2012 Period. There is no fully diluted calculation for the 2013 Period or the 2012 Period as the effect would be anti-dilutive.

NINE MONTHS ENDED SEPTEMBER 30, 2013 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2012:

During the nine-month period ended September 30, 2013 (the "2013 Period") revenues were \$833,005 compared to revenues of \$910,655 during the nine-month period ended September 30, 2012 (the "2012 Period"). Our revenues were 8.53% lower compared to the previous year as customers delayed spending on software development services for IT consulting and software development projects as well as capital expenditures until later in the calendar year.

Cost of revenues was \$ 565,575 for the 2013 Period compared to \$595,459 for the 2012 Period. Cost of revenues represents primarily labor and labor-related costs in addition to overhead costs. Gross profit on these 2013 revenues amounted to \$ 267,430 (35% gross profit percentage) compared to \$315,196 (34.6% gross profit percentage) for the 2012 Period.

Operating expenses were \$ 754,724 during the 2013 Period compared to \$ 775,375 during the 2012 Period. General and Administration expenses were \$ 750,662 in the 2013 Period compared to \$ 766,375 for the 2012 Period. Loss from operations was \$ 494,694 during the 2013 Period compared to \$ 460,179 in the 2012 Period.

Total other income was \$55,083,411 during the 2013 Period compared to other expense of \$ 7,037,511 in the 2012 Period. Other income (expense) is comprised primarily of derivative income and amortization of debt discount and deferred finance costs. Derivative revaluation gain in the 2013 Period was \$ 55,068,497 compared to derivative revaluation loss of \$ 6,568,388 in the 2012 Period. Keeping the number of shares constant, the liability associated with the embedded conversion features increases as our share price and volatility increases and, likewise, decreases when our share price and share price volatility decreases. Derivative income (expense) displays the inverse relationship. Interest expense for the nine month 2013 Period is \$ 332766 compared to \$527,021 for the nine month 2012 Period.

Net income for the 2013 Period was \$54,588,717 compared to a net loss of \$ 7,497,690 for the 2012 Period.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2013, we had current assets of \$ 243,523, current liabilities of \$ 32,144,623, negative working capital of (\$31,901,100) and an accumulated deficit of \$ 49,000,523. For the nine months ending September 30, 2013, we had net cash flows used in operating activities of (\$ 373,472), net cash flows used in investing activities of (\$366), and net cash flows provided by financing activities of \$ 371,084.

We will need to obtain additional capital in order to expand operations and become profitable. In order to obtain capital, we may need to sell additional shares of our common stock or borrow funds from private lenders. There can be no assurance that we will be successful in obtaining additional funding. We will still need additional capital in order to continue operations until we are able to achieve positive operating cash flow. Additional capital is being sought, but we cannot guarantee that we will be able to obtain such investments. Financing transactions may include the issuance of equity or debt securities, obtaining credit facilities, or other financing mechanisms. If we do not obtain additional capital, we may cease operations.

However, even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses, fail to collect significant amounts owed to us, or experience unexpected cash requirements that would force us to seek alternative financing. Furthermore, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. If additional financing is not available or is not available on acceptable terms, we will have to curtail our operations.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, results of operations, liquidity or capital expenditures.

CONTRACTUAL OBLIGATIONS

The following table sets forth the contractual obligations of the Company as of December 31, 2012:

Contractual Obligations	Payments due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Convertible debt, net	\$ 2,498,986	\$ 2,277,181	\$ 221,805	\$ -	\$ -
Notes payable	252,082	252,082	-	-	-
Notes payable, related parties	197,069	197,069	-	-	-
Small Business					
Administration loan	980,450	980,450	-	-	-
Total	\$ 3,928,587	\$ 3,706,782	\$ 221,805	\$ -	\$ -

EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

Refer to Form 10-K for the year ended December 31, 2012.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we are not required to provide the information required by this item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

With the participation of Lloyd T. Spencer, who serves as the Chief Executive Officer (the principal executive officer) and Interim Chief Financial Officer (the principal financial officer); the Company's management has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the quarterly period covered by this Quarterly Report on Form 10-Q. As of the end of the period covered by this Report, we conducted an evaluation, under the supervision and with the participation of our chief executive officer and interim chief financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, our chief executive officer and interim chief financial officer concluded that our disclosure controls and procedures are not effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. The ineffectiveness of our disclosure controls and procedures is the result of certain deficiencies in internal controls constituting material weaknesses as discussed below.

The Company has historically had limited operating revenue and, as such, all accounting and financial reporting operations have been and are currently performed by a limited number of individuals. The parties that perform the accounting and financial reporting operations are the only parties with any significant knowledge of generally accepted accounting principles. Thus, we lack segregation of duties in the period-end financial reporting process. This lack of additional accounting/auditing staff with significant knowledge of generally accepted accounting principles in order to properly segregate duties could result in ineffective oversight and monitoring and the possibility of a misstatement within the consolidated financial statements. However, the material weaknesses identified did not result in the restatement of any previously reported financial statements or any other related financial disclosure, nor does management believe that it had any effect on the accuracy of the Company's consolidated financial statements for the current reporting period.

The Company is currently reviewing its policies and is evaluating its disclosure controls and procedures so that it will be able to determine the changes it can and should make to make such controls more effective.

Changes in Internal Controls over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the Company's last fiscal quarter that have materially affected, or are likely to materially affect, the Company's internal control over financial reporting.

Part II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

As a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act, we are not required to provide the information required by this item.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF FUNDS

During the nine months ended September 30, 2013 the Company issued 4,048,748,227 shares of its common stock for an aggregate valued at \$250,097 as described in Note 5 – Convertible Debt.

The shares were issued in reliance upon an exception from registration under Section 4(2) of the Securities Act and the rules and regulations promulgated thereunder, including Regulation D.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

- (a) No material default in the payment of principal, interest, a sinking fund or purchase fund installment, or any other material default not cured within 30 days exists as of the balance sheet date.
- (b) As of the balance sheet date the company is in arrears in the payment of dividends related to its Series B preferred stock in the amount of \$15,969.
- (c) At September 30, 2013, we are in default on the remaining of the original \$2,825,000 Secured Convertible Debenture presently held by Yorkville Advisors, LLC. Yorkville currently holds \$395,628 of the first tranche and \$82,630 of the third tranche. The remainder of the first tranche was assigned to a third party (“Ratzker”) who amended the terms in March 2011 extending the maturity date to March 2013. During the second quarter of 2011, Ratzker assigned 50% of his note to another third party (“Redwood”). The second tranche was assigned to a third party who did not amend the terms. The note is still in default. The debenture accrued interest at 10% per annum thru March 25, 2008 at which time the interest rate was increased to 14% per annum. The debenture is convertible at the option of the holder into shares of CoroWare, Inc. common stock.
- (d) As of September 30, 2013, we are in default on our Secured Convertible Debenture presently held by Yorkville Advisors, LLC in the face amount of \$600,000. The debenture accrued interest at 14% per annum and is convertible at the option of the holder into shares of CoroWare, Inc. common stock.
- (e) As of September 30, 2013, we are in default on our Secured Convertible Debenture presently held by Yorkville Advisors, LLC in the face amount of \$300,000. The debenture accrued interest at 14% per annum and is convertible at the option of the holder into shares of CoroWare, Inc. common stock.

- (f) As of September 30, 2013, we are in default on our Unsecured Convertible Debenture presently held by Barclay Lyons in the face amount of \$10,750. The debenture accrued interest at 21% through the maturity date of July 28, 2011 with default interest at 35% thereafter. The debenture is convertible at the option of the holder into shares of CoroWare, Inc. common stock.
- (g) As of September 30, 2013, we are in default on our Unsecured Convertible Debenture presently held by Martin Harvey in the face amount of \$67,042. The debenture accrued interest at 10% through the maturity date of May 2, 2011 with default interest at 15% thereafter. The debenture is convertible at the option of the holder into shares of CoroWare, Inc. common stock.
- (h) As of September 30, 2013, we are in default on our Unsecured Convertible Debenture presently held by Thomas Collins in the face amount of \$39,170. The debenture accrues interest at 15% and is convertible at the option of the holder into shares of CoroWare, Inc. common stock.
- (i) As of September 30, 2013, we are in default on two notes payable aggregating \$100,000. The notes accrued interest at 8% through the maturity date of February 2003 with default interest at 15% thereafter. The notes are convertible at the option of the holder into shares of CoroWare, Inc. common stock.
- (j) As of September 30, 2013, we are in default on our Unsecured Convertible Debentures presently held by Asher Enterprises in the aggregate face amount of \$90,000. The debenture accrues interest at 22% (the default rate) and is convertible at the option of the holder into shares of CoroWare, Inc. common stock.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31 Certification of Periodic Financial Reports by Lloyd Spencer in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002

32 Certification of Periodic Financial Reports by Lloyd Spencer in satisfaction of Section 906 of the Sarbanes-Oxley Act of 2002 and 18 U.S.C. Section 1350

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CoroWare, Inc.

Dated: November 18, 2013

/s/ Lloyd T. Spencer
Lloyd T. Spencer, Chief Executive Officer
and
Interim Chief Financial Officer
(Principal Executive Officer
and
Principal
Accounting and Financial
Officer)