

CoroWare, Inc,
Form 10-K/A
January 31, 2013

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

FORM 10- K/A
(Amendment No. 3)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE OF 1934 FOR
THE FISCAL YEAR ENDED DECEMBER 31, 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)

SECURITIES REGISTERED UNDER SECTION 12(B) OF THE ACT: NONE

SECURITIES REGISTERED UNDER SECTION 12(G) OF THE ACT:

COMMON STOCK, PAR VALUE \$.0001
(TITLE OF CLASS)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) the Act. Yes
No

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Indicate by check mark whether the registrant (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 registrant 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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained in this form, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

(Do not check if a 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

The aggregate market value of the of the registrant's common stock held by non-affiliates of the registrant, computed by reference to price at which the common equity was sold, or the average bid and asked price of such common stock as of April 11, 2012, was \$213,914. For purposes of this computation, the registrant has excluded the market value of all shares of its common stock reported as being beneficially owned by executive officers and directors and holders of more than 10% of the common stock on a fully diluted basis of the registrant; such exclusion shall not, however, be deemed to constitute an admission that any such person is an "affiliate" of the registrant.

As of April 11, 2012 there were 2,153,324,939 shares of the issuer's \$.0001 par value common stock outstanding.

EXPLANATORY NOTE

Coroware, Inc. is filing this Amendment No. 1 on Form 10-K/A for the sole purpose of amending Item 15 of its Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on April 16, 2012, to revise Item 15. to make minor revisions to the list of exhibits, to include Exhibits 3.1.3 (Amendment to Articles of Incorporation) and 21.1 (List of Subsidiaries) in the attached exhibits, and to also include, as an exhibit in the Financial Statements, the Report of Independent Registered Public Accounting Firm by Lake & Associates CPA's LLC dated April 16, 2012. This Amendment No. 1 does not otherwise update information in the originally filed Form 10-K to reflect facts or events occurring subsequent to the original filing date

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EXPLANATORY NOTE – AMENDMENT NO. 3

The sole purpose of this Amendment No. 3 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2011 of Coroware, Inc. (the “Company”) filed with the Securities and Exchange Commission on April 16, 2012 (the “Form 10-K”) is to correct a typographical error in the Other current assets for 2010 to 10,373 to match the number originally reported, correction of Accounts payable and accrued expenses to 4,442,906, correction of the label for the stockholders’ deficit in the balance sheet to reflect the correct years of 2011 and 2010, corrected the 2010 stockholders’ equity value on the balance sheet to 9,854,628 to match the value reported in the stockholders’ equity statement, correction of in the Statement of Operations Gain (loss) on debt redemptions to 76,583 due to a rounding error.

No other changes have been made to the Form 10-K. This Amendment No. 3 to the Form 10-K speaks as of the original filing date of the Form 10-K, does not reflect events that may have occurred subsequent to the original filing date, and does not modify or update in any way disclosures made in the original Form 10-K.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

In this annual report, references to “CoroWare,” “the Company,” “we,” “us,” and “our” refer to CoroWare, Inc.

This Annual Report on Form 10-K contains forward-looking statements regarding our business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements, but are not deemed to represent an all-inclusive means of identifying forward-looking statements as denoted in this Annual Report on Form 10-K. Additionally, statements concerning future matters are forward-looking statements.

Although forward-looking statements in this Annual Report on Form 10-K reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those specifically addressed under the heading "Risks Related to Our Business" below, as well as those discussed elsewhere in this Annual Report on Form 10-K. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K.

CoroWare undertakes no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Annual Report on Form 10-K, except as required by law. Readers are urged to carefully review and consider the various disclosures made throughout this Annual Report, which are designed to advise interested parties of the risk factors that may affect our business, financial condition, results of operations and prospects.

PART I

ITEM 1. BUSINESS

Overview

CoroWare, Inc is a public holding company whose principal subsidiary, CoroWare Technologies, Inc. (“CTI”), has expertise in information technology consulting, mobile robotics, and affordable collaboration. Through our subsidiary, CoroWare delivers custom engineering services, hardware and software products, and subscription services that benefit customers in North America, Europe, Australia, Asia and the Middle East. Our customers span multiple industry sectors and comprise universities, software and hardware product development companies, and non-profit organizations.

Employees

As of December 31, 2011, we had twenty (20) employees composed of one (1) full time Officer and CEO, one (1) full time Director of Sales, one (1) full time Finance Administrator, two (2) full time Business Unit Managers, ten (10) full time engineers, and five (5) part time engineers. Our employees are not represented by a union. We consider relations with our employees to be positive and productive.

COROWARE TECHNOLOGIES, INC.

CoroWare Technologies comprises three separately managed lines of business:

CoroWare Business Solutions IT and lab management; business intelligence, software architecture, design and development; content delivery; partner and program management.

Robotics and Automation Custom engineering such as visualization, simulation and software development; and mobile robot platforms for university, government and corporate researchers.

Enterprise Collaboration Solutions Collaboration and conferencing products, solutions and subscription services.

CoroWare Business Solutions

CoroWare Business Solutions (CBS) offers products, solutions, and IT consulting services that help our customers deliver high quality products, solutions and services.

Products and Solutions

In 2010, we announced two new products for the cloud service providers and enterprise customers:

- CoroWare Usage Reporter for Vidyo, a software package that provides usage statistics for Vidyo brand high-definition video conferencing systems.
- Billing Integration Framework™ for MetraTech and Vidyo, a software solution that integrates dynamic usage- and subscription-based billing from MetraTech Corp and high definition videoconferencing systems from Vidyo.

In early 2011, we announced CoroWare License Manager™, a software license management solution that offers Cloud Service Providers and on-premise software publishers the ability to remotely enable, monitor, and configure cloud-based applications using a centralized management server.

Business Intelligence

Our CTI's solutions development group has created a variety of business intelligence applications to enable our customers to better understand and manage the data surrounding their own products and business services.

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Release Management

Our program managers are experts in Microsoft's product and solution development tools and processes. CTI uses that experience to create product specifications, develop project plans, and perform security and release management audits – with the objective of helping Microsoft deliver its solutions and products efficiently, affordably and on schedule.

Lab Management

CTI's team of experienced hardware and software deployment engineers architect, deploy and support state-of-the-art computer lab facilities that include the latest builds of operating systems, developer tools, and servers. CTI employees currently provide lab management and systems engineering support services in three Microsoft data centers and labs.

Software Development

CTI's solutions development group has been instrumental in helping product development companies, including MetraTech, design, prototype, develop and test new products and solutions. CoroWare's consulting staff comprises a wide range of software architects with over 20 years experience, "user experience" application developers, web service software developers, database consultants, and project managers.

In order to compete with outsourcing software and IT consulting companies in India and China, CoroWare established a near shore consulting services group in 2007 as a low cost alternative with same time zone presence. CoroWare's Latin America partnerships offer superior cost dynamics and a near time zone alternative to Europe / US businesses requiring Spanish language capability. CoroWare's Near Shore Consulting Services offer a stable rate against the dollar, as well as close proximity, and a familiarity with US business processes.

Robotics and Automation (R&A)

We are a mobile robotics solutions integrator in the research community and have expertise in robotics simulation and software development. Our CoroBot and Explorer product lines are being used by over 50 corporate and academic researchers today.

Custom Engineering

We offer custom engineering expertise to customers who are looking for product realization, robotics simulation, systems architecture and design, and robotic applications development services. We believe CTI is uniquely positioned with its knowledge of robotics simulation; Player-Stage and Robotic Operating System (ROS) running on Ubuntu Linux systems; Concurrency and Coordination Runtime (CCR) and Decentralized Software Services (DSS) running on Microsoft Windows systems; embedded systems software development; and hardware and software integration services to help its customers deliver innovative product and solutions.

Solutions and Products

In May 2007, we began shipping the CoroBot Classic, an affordable and flexible mobile robot that was designed to minimize the complexity of robotic development. Combining a powerful PC-class platform with a robust, object-oriented software development system empowers researchers and robotics application developers to rapidly deploy and develop robotic solutions. Some university customers are deploying CoroBot Classics for use in various lab activities, including the development of swarm robotics applications designed to leverage groups of robots to complete complex tasks.

In June 2009, we began shipping the CoroBot Explorer. With more powerful motors, larger payload capacity, articulated suspension and enclosed electronics it is suitable for indoor or outdoor usage.

In 2010 and early 2011, we announced new features for the CoroBot Explorer II platform and support for Robot Operating System, which we believe will improve our sales into the research and education market segments.

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Enterprise Collaboration Solutions (ECS)

Vidyo Reseller Business

In early 2009, we launched our collaboration – now referred to as Enterprise Collaboration Solutions - initiative in order to address the needs of enterprise customers with distributed business operations that are turning to new technologies to address the cost of doing business in a world that is increasingly dependent on suppliers, partners and customers worldwide. In order to overcome these challenges, enterprise customers are looking for solutions that are demonstrably effective and operationally affordable. As a result, small, medium and large sized businesses, including consulting companies, non-profit groups, and distance learning companies, are all giving serious consideration to purchasing affordable high definition videoconferencing solutions.

Through our partnership with Vidyo (<http://www.vidyo.com>), we are deploying high definition video conferencing solutions, including collaboration room systems, and offering CoroCall™ Business Class HD Video Conferencing (<http://www.corocall.com>), an affordable high definition videoconferencing subscription service that is based on Vidyo's technology.

CoroCall Subscription Services

As CoroWare began selling the Vidyo product line in 2009, many customers expressed a desire to mitigate capital expenditures and purchase cloud-based communication services instead. In response to this customer demand, CoroWare announced its CoroCall Business Class HD Video Conferencing subscription service in 2009, and subsequently upgraded to support improved audio and video conferencing capabilities which are superior to many of our competitors today.

In early 2011, we expanded our range of subscription services for enterprise small business customers with the announcement of CoroCall Communications, a cloud-based Internet telephony, conferencing, and communications service. CoroCall Communications Cloud Service is a secure virtual phone system that routes incoming calls to any type of phone, at any place, and at any time. Subscribers may customize their presence with their own professional greeting, phone and fax numbers, conference calls and delivery of voice and fax messages by e-mail.

Although this business is still in its early stages of growth, we have won and are pursuing significant customer opportunities with financial consulting organizations, product development/sales companies, religious organizations, and employment recruiters. This also expands the options available to customers of the video conferencing service, providing custom dial in phone numbers.

CoroCall Product Line

In 2010, we announced our first enhanced collaboration product, CoroWare NameTag, a Windows-based application that lets desktop video conferencing users customize their webcam experience. We have had significant corporate adoption of NameTag.

In early 2011, we expanded our range of products when the Company announced the early adopter release of CoroCall Communications, an Internet telephony, conferencing, and communications system. CoroCall Communications is a standalone appliance server with features that were previously available only to large enterprises at a much higher price, offering customers an integrated Internet telephony solution that includes phone communications, high definition (HD) audio and video conferencing, and advanced call management.

Competition

Competitors in the IT consulting market comprise a combination of large and well established companies, such as Avanade and Tata Consultancy Services; and smaller, privately held consulting companies with practices in a single vertical arena such as custom software development, telecom billing, multimedia production and many other vertical industries.

We have maintained long-term relationships and have been successful in renewing contracts and in signing multi-month or yearlong contracts with key customers - including Microsoft and MetraTech, and are building similar client relationships with new customers.

Competitors in the mobile robotics and custom engineering marketplaces have comprised iRobot (IRBT), Adept / MobileRobots (ADEP), and privately held companies such as K-Team Mobile Robotics, RoboSoft, and Evolution Robotics. New entrants in this marketplace include Aethon, neato robotics, Brock Technologies, and Contineo Robotics.

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Competitors in the collaboration market include:

Legacy videoconferencing vendors such as Polycom, Tandberg/Cisco and Lifesize/Logitech
Legacy videoconferencing service providers, such as AT&T, that deploy and support legacy equipment from Polycom, Tandberg/Cisco and Lifesize/Logitech

New entrants in affordable and modest quality videoconferencing services, such as oovoo and Nefsis

Customers

All three divisions saw growth in their customer bases in 2011 as compared with 2010. CBS added additional contracts with existing customers and added additional large enterprise accounts as well. R&A engaged with a number of additional universities and research facilities. ECS added customers to its hosted solutions as well as securing product and accessory sales to a number of customers.

Regulation

Our services and products are not uniquely subject to governmental or industry regulations.

Research & Development

Our research and development activities have primarily been focused on the development of software components, mobile robot platforms such as the CoroBot Explorer, and CoroCall Communications. We intend to continue developing hardware and software products that we believe will potentially grow CoroWare's collaboration and mobile robotics products, solutions and services.

Research and development expenses from continuing operations for the years ended December 31, 2011 and 2010 were \$122,221 and \$92,959, respectively.

Products

CoroBot Classic:

CoroBot was created to minimize the complexity of robot development. By combining a powerful PC-class platform with a robust, object-oriented software development system, the CoroBot empowers users to rapidly deploy and develop robotic solutions. The CoroBot Classic also assists the hardware developer with additional physical mounting space, ports, sensors and communication devices.

CoroBot Explorer:

Our CoroBot Explorer mobile robot was created to expand on the capabilities of the CoroBot Classic and deliver a rugged indoor/outdoor platform that can withstand environmental elements such as dirt, dust, leaf debris, sand, gravel and shallow puddles. Extra ports and surface mounting space make Explorer a robust and expandable research robot.

Usage Reporter for Vidyo:

Our Usage Reporter for Vidyo is a Windows-based software package that analyzes detailed video conferencing call records, including the number of Vidyo rooms, ports, users, and conference call minutes. This software product is an affordable and effective way for customers to generate video conferencing usage statistics that can be used to distribute costs and make informed purchasing decisions.

CoroCall Communications:

CoroCall Communications is a standalone appliance server with features that were previously available only to large enterprises at a much higher price, offering customers an integrated Internet telephony solution that includes phone communications, high definition (HD) audio and video conferencing, and advanced call management.

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ITEM 1A. RISK FACTORS

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 1B. UNRESOLVED STAFF COMMENTS

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 2. PROPERTIES

Our corporate headquarters is located at 1410 Market Street, Suite 200, Kirkland, Washington 98033. We occupy 2,988 square feet located on the second floor of a commercial office building that is composed of 9 offices, 3 conference rooms, and a reception area.

We entered into a five year term lease from August 1, 2010 to July 31, 2015, at which time our lease expires. The lease provides that we pay the following monthly rent: (a) year one - \$3,735; (b) year 2 - \$3,984; (c) year 3 - \$4,233; (d) year 4 - \$4,482; and (e) year 5 - \$4,731.

ITEM 3. LEGAL PROCEEDINGS

CoroWare is not currently a party to, nor is any of our property currently the subject of, any pending legal proceeding that will have a material adverse affect on our business. None of our directors, officers or affiliates is involved in a proceeding adverse to our business or has a material interest adverse to our business.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Prices of Common Stock

Beginning in February 2002, CoroWare's common stock was eligible for listing in the OTC Bulletin Board. Our trading symbol was "SRMW" until such time as our acquisition of Hy-Tech Technology Group, Inc. on January 31, 2003 when our symbol became "HYTT". In November 2006, our name was changed to Innova Robotics & Automation, Inc. and the trading symbol was changed to INRA. In April 2008, we became CoroWare, Inc. and our trading symbol was changed to CROE. In April 2009, in conjunction with a 1-for-300 reverse stock split, our trading symbol was changed to COWI. In January 2012, we revised the par value of our Common Stock from \$0.001 to \$0.0001.

Our common stock is quoted on the OTCQB exchange under the symbol, "COWI". Accordingly, there can be no assurance as to the liquidity of any markets that may develop for our common stock, the ability of holders of our common stock to sell our common stock, or the prices at which holders may be able to sell our common stock.

The following table sets forth the quarterly high and low sales prices as reported during the last two fiscal years ended December 31, 2011 and December 31, 2010.

Common Stock

Year Ended December 31, 2011	High	Low
First Quarter	\$ 0.0048	\$ 0.0006
Second Quarter	\$ 0.0012	\$ 0.0002
Third Quarter	\$ 0.0003	\$ 0.0001
Fourth Quarter	\$ 0.0002	\$ 0.0001

Year Ended December 31, 2010	High	Low
First Quarter	\$ 0.0200	\$ 0.2900
Second Quarter	\$ 0.0100	\$ 0.0400
Third Quarter	\$ 0.0460	\$ 0.0150
Fourth Quarter	\$ 0.0020	\$ 0.0195

These quotations represent interdealer prices, without retail markup, markdown, or commission, and may not reflect actual transactions. As of April 11, 2012, there were approximately 207 record holders of the Company's common stock.

Dividend Policy

We have never declared or paid any cash dividends on our common stock. We anticipate that any earnings will be retained for development and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. Additionally, as of December 31, 2011, we have issued and outstanding 159,666 shares of Series B Preferred Stock all of which is entitled, prior to the declaration of any dividends on common stock, to a 5% dividend, payable in either cash or common stock. The board of directors has sole discretion to declare dividends based on our financial condition, results of operations, capital requirements, contractual obligations and other relevant factors. As of December 31, 2011, \$28,304 of Series B Preferred dividends had been converted into common stock. At December 31, 2011 and 2010, there were accrued unpaid dividends of \$15,969 and cumulative undeclared dividends to Preferred Series B shareholders of \$39,917 and \$31,933, respectively, the obligation for which is contingent on

declaration by the board of directors.

Securities Authorized for Issuance Under Equity Compensation Plans

The following tables set forth the information as of December 31, 2011 with respect to compensation plans under which our equity securities are authorized for issuance:

EQUITY COMPENSATION PLAN INFORMATION

DECEMBER 31, 2011

Plan Category	Number of shares to be issued upon exercise of outstanding options and warrants (a)	Weighted average exercise price of outstanding options and warrants (b)	Number of securities available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders:			
2003 Stock Option Plan	-	n/a	-
2004 Stock Option Plan	-	n/a	-
2005 Stock Option Plan	38,164	\$ 2.97	38,164
Equity Stock Compensation plan not approved by security holders:			
2006 Employee Compensation Plan	n/a	n/a	-
2008 Amended Incentive Stock Plan	n/a	n/a	2,890
2008 SIP – SEC File #333-151258	n/a	n/a	-
2009 Incentive Stock Plan	n/a	n/a	374,900
Total	38,164		415,954

Stock Plans

As of December 31, 2011, CoroWare had four stock compensation plans which provided for the issuance of 206,270,000 shares to employees of CoroWare or our subsidiaries as follows:

Plan Description	Authorized Shares	Remaining Shares
2006 Employee Compensation Plan	3,333	-
2008 Incentive Stock Plan	666,667	2,890
2009 Incentive Stock Plan	500,000	33,300
2010 Incentive Stock Plan (333-165768)	5,000,000	248,250
2011 Incentive Stock Plan (333-171325)	200,000,000	470,515
2012 Incentive Stock Plan (333-179968)	300,000,000	140,000,000
Total	506,170,000	140,754,955

Stock Options

As of December 31, 2011, we had one active Stock Option Plan known as the 2005 Stock Option Plan. The Plan was approved by our stockholders on November 3, 2006 and authorized the issuance of 66,667 shares of common stock. The Board of Directors on December 31, 2007 cancelled options for 26,367 shares previously granted to current employees prior to that date which were exercisable at various prices and issued 26,367 options to these employees at the closing price as of December 31, 2007 or \$3.00. The number of options issued and outstanding under the 2005 plan on December 31, 2011 is 34,831.

In addition to the options issued under the 2005 Stock Option Plan, 26,560 options were issued outside of the Plan. For services rendered, 443 options were issued at a purchase price of \$51 per share, 3,833 options were issued at \$39 per share, 4,040 options were issued at \$15 per share 14,909 options were issued at \$33 per share and 3,333 options were issued at \$1.86 per share. The only options that remain outstanding are the 3,333 options that were issued at \$1.86 per share.

ITEM 6. SELECTED FINANCIAL DATA.

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

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Cautionary and Forward Looking Statements

This section and other parts of this Form 10-K contain forward-looking statements that involve risks and uncertainties. Forward-looking statements can also be identified by words such as “anticipates,” “expects,” “believes,” “plans,” “predicts,” and similar terms. Forward-looking statements are not guarantees of future performance and CoroWare’s actual results may differ significantly from the results discussed in the forward-looking statements. The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included in Item 8 of this Form 10-K. We assume no obligation to revise or update any forward-looking statements for any reason, except as required by law.

There is no assurance that we will be profitable, we may not be able to successfully develop, manage or market our products and services, we may not be able to attract or retain qualified executives and technology personnel, our products and services may become obsolete, government regulation may hinder our business, additional dilution in

outstanding stock ownership may be incurred due to the issuance of more shares, warrants and stock options, or the exercise of warrants and stock options, and other risks inherent in the our businesses.

We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the factors described in other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q and Annual Report on Form 10-K filed by us in 2011 and any Current Reports on Form 8-K filed by us.

CRITICAL ACCOUNTING POLICIES

General

consolidated financial statements and notes included in our quarterly and annual financial statements contain information that is pertinent to this management's discussion and analysis. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of our assets and liabilities, and affect the disclosure of any contingent assets and liabilities. We believe these accounting policies involve judgment due to the sensitivity of the methods, assumptions, and estimates necessary in determining the related asset and liability amounts. The significant accounting policies are described in the notes to our financial statements and notes included elsewhere in this Form 10-K.

Revenue Recognition

We derive our software system integration services revenue from short-duration, time and material contracts. Generally, such contracts provide for an hourly-rate and a stipulated maximum fee. Revenue is recorded only on executed arrangements as time is incurred on the project and as materials, which are insignificant to the total contract value, are expended. Revenue is not recognized in cases where customer acceptance of the work product is necessary, unless sufficient work has been performed to ascertain that the performance specifications are being met and the customer acknowledges that such performance specifications are being met. We periodically review contractual performance and estimate future performance requirements. Losses on contracts are recorded when estimable. No contractual losses were identified during the periods presented.

We recognize revenue for our software and software professional services when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectability is probable. Product sales are recognized by us generally at the time product is shipped. Shipping and handling costs are included in cost of goods sold.

We account for arrangements that contain multiple elements in accordance with FASB ASC 605-25, Revenue Recognition, Multiple Element Arrangements. When elements such as hardware, software and consulting services are contained in a single arrangement, or in related arrangements with the same customer, we allocate revenue to each element based on its relative fair value, provided that such element meets the criteria for treatment as a separate unit of accounting. The price charged when the element is sold separately generally determines fair value. In the absence of fair value for a delivered element, we allocate revenue first to the fair value of the underlying elements and allocate the residual revenue to the delivered elements. In the absence of fair value for an undelivered element, the arrangement is accounted for as a single unit of accounting, resulting in a delay of revenue recognition for the delivered elements until the undelivered elements are fulfilled. We limit the amount of revenue recognition for delivered elements to the amount that is not contingent on future delivery of products or services or subject to customer-specified return or refund privileges.

We recognize revenue from the sale of manufacturer's maintenance and extended warranty contracts in accordance with FASB ASC 605-45, Revenue Recognition, Principal Agent Considerations net of its costs of purchasing the related contracts.

Our ECS revenue is comprised of both services and products. ECS subscription service revenues are generated through the sale of CoroCall™, a managed video conferencing service and CoroCall Communications, a managed telephone service. Our contracts provide for usage pricing or when paid for pre-paid service. We recognize this revenue in the period that the services or minutes are used and prepaid. Product revenues are realized partly through the sale of Vidyo's product line, including room systems and back-end infrastructure, partly through the sale of

CoroWare collaboration products, including CoroWare Usage Reporter for Vidyo, a software package that provides usage statistics for Vidyo brand high-definition video conferencing systems, and partly through the sales of related accessories. Revenues for these products are recognized upon delivery to the customer.

Share-based payment

Stock based compensation expense is recorded in accordance with FASB ASC 718, Compensation – Stock Compensation, for stock and stock options awarded in return for services rendered. The expense is measured at the grant-date fair value of the award and recognized as compensation expense on a straight line basis over the service period, which is the vesting period. We estimate forfeitures that we expect will occur and record expense based upon the number of awards expected to vest.

There were no options issued during the years ending December 31, 2011 and 2010.

Derivative Financial Instruments

Derivative financial instruments, as defined in FASB ASC 815, Derivatives and Hedging, consist of financial instruments or other contracts that contain a notional amount and one or more underlying variables (e.g. interest rate, security price or other variable), require no initial net investment and permit net settlement. The caption Derivative Liability consists of (i) the fair values associated with derivative features embedded in various convertible note financings and (ii) the fair values of the detachable warrants that were issued in connection with those financing arrangements.

We generally do not use derivative financial instruments to hedge exposures to cash-flow, market or foreign-currency risks. However, we have entered into certain other financial instruments and contracts, such as debt financing arrangements and freestanding warrants with features that are either (i) not afforded equity classification, (ii) embody risks not clearly and closely related to host contracts, or (iii) may be net-cash settled by the counterparty. As required by FASB ASC 815, these instruments are required to be carried as derivative liabilities, at fair value, in our financial statements.

We estimate fair values of derivative financial instruments using various techniques (and combinations thereof) that are considered to be consistent with the objective of measuring fair values. In selecting the appropriate technique, we consider, among other factors, the nature of the instrument, the market risks that it embodies and the expected means of settlement. For less complex derivative instruments, such as free-standing warrants, we generally use the Black-Scholes-Merton option valuation technique because it embodies all of the requisite assumptions (including trading volatility, estimated terms and risk free rates) necessary to value these instruments. For complex derivative instruments, such as embedded conversion options, we generally use the Flexible Monte Carlo valuation technique because it embodies all of the requisite assumptions (including credit risk, interest-rate risk and exercise/conversion behaviors) that are necessary to value these more complex instruments. Estimating fair values of derivative financial instruments requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. In addition, option-based techniques are highly volatile and sensitive to changes in the trading market price of our common stock, which has a high-historical volatility. Since derivative financial instruments are initially and subsequently carried at fair values, our income will reflect the volatility in these estimate and assumption changes.

PLAN OF OPERATION

CoroWare is well positioned for managed growth in Fiscal Year 2012 through continued growth of our CoroWare Business Solutions and Robotics & Automation business units, and rapid growth of our Enterprise Collaboration Solutions business unit.

The CoroWare Business Solutions (CBS) business unit anticipates growing its revenues by delivering business intelligence, software development, IT consulting, lab management and release management professional services through its long term clients, including Microsoft and MetraTech. As well, it anticipates growing its revenues more rapidly through the sales of products and solutions – such as CoroWare Billing Integration Framework and CoroWare License Manager - that help cloud service providers recognize revenues by delivering conferencing and application services.

The Robotics & Automation (R&A) business unit expects to achieve its revenue objectives by offering affordable mobile robotics platforms, products and custom solutions to researchers in the university, commercial and homeland security market segments. As well, the Robotics & Automation group is well positioned to pursue custom engineering opportunities with clients who are developing innovative software services, solutions and products that leverage our expertise in simulation, visualization, mobile robotics, and product realization.

The Enterprise Collaboration Solutions (ECS) business unit plans to rapidly grow its revenues by selling a combination of services and products. Collaboration service revenues are generated through the sale of CoroCall™, a managed business class HD video conferencing service that small, medium and large sized businesses - including consulting companies, non-profit groups, and distance learning companies – are considering as an alternative to purchasing and operating videoconferencing equipment and infrastructure. Product revenues are being realized partly through the sale of Vidyo's product line – including room systems and back-end infrastructure – partly through the sale of CoroWare collaboration products, including CoroWare NameTag and CoroCall Communications appliance servers, partly through the sales of related accessories, and partly through the sales of VidyoCast products and services.

In order to achieve revenue and margin objectives in an increasingly global and competitive market, all of CoroWare's business units offer their customers the option of using CoroWare's near-shore resources, which comprise a team of highly capable IT architects, developers and testers with experience in software application development and integration, rich internet applications development (including Microsoft Silverlight), partner management portal development, IT infrastructure, and Quality Assurance.

We do not expect to sell any of CoroWare's fixed assets, including property or equipment in the next twelve months, nor do we expect to purchase any real property in the next twelve months. During the next twelve months we expect to purchase certain equipment to support software development, testing and continued deployment of CoroWare technologies. Additionally, we expect to purchase office equipment, computer equipment and laboratory development and testing equipment to support our planned personnel increase.

We are internally developing an investor relations program that will help the company communicate more effectively and actively with CoroWare shareholders, and generate greater awareness of CoroWare and our services, solutions and products.

Recent Financing Transactions

(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.

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. 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.

(g) \$25,000 Tangiers financing:

In May and June 2011, an unrelated third party ("Tangiers") purchased a \$25,000 note payable from one of CoroWare's note holders. The transaction was completed in 2 Tranches of \$10,000 and \$15,000. The terms of the note were changed such that the conversion rate was changed from a fixed \$1 per share to a variable rate of 65% of the lowest trading price during the 7 days prior to conversion. The interest rate was changed from 8% to 10% and the maturity date was extended from June 2003 to March 19, 2012, thus taking the note out of default.

The modification was analyzed in accordance with current accounting standards and was determined not to be a troubled debt restricting but rather an extinguishment of debt as there was a substantial difference in terms on the new debt. As the old debt was being carried at face value, there was no gain or loss recognized on the extinguishment.

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 \$11,662 and \$10,800, respectively, at inception for the \$10,000 tranche and the \$15,000 tranche.

During 2011, the entire \$25,000 was converted into 96,153,846 shares of CoroWare common stock. CoroWare recognized a loss of \$16,923 and \$13,846, respectively, on the conversion of the \$10,000 tranche and the \$15,000 tranche.

(h) \$10,000 Tangiers financing:

On May 16, 2011, the Company entered into a \$10,000 Convertible Note Agreement with an unrelated third party ("Tangiers"). The note calls for interest at 10% through the maturity date of May 16, 2012 and default interest at 20% thereafter. Loan fees of \$1,300 were withheld at closing. These have been classified as deferred finance costs and are being amortized over the term of the loan on a straight line basis.

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 trading price in the 7 days prior to the conversion date. Upon default, the conversion price changes to 40% of the lowest trading price in the 7 days prior to the conversion date.

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 \$5,877 at inception.

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

(i) \$15,000 Tangiers financing:

On June 10, 2011, the Company entered into a \$15,000 Convertible Note Agreement with an unrelated third party ("Tangiers"). The note calls for interest at 10% through the maturity date of May 16, 2012 and default interest at 20% thereafter. Loan fees of \$1,300 were withheld at closing. These have been classified as deferred finance costs and are being amortized over the term of the loan on a straight line basis.

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 trading price in the 7 days prior to the conversion date. Upon default, the conversion price changes to 40% of the lowest trading price in the 7 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 (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 \$10,800 at inception.

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

(j) \$65,000 Panache financing:

On June 2, 2011, an unrelated third party (“Panache”) purchased an aggregate \$65,000 (representing \$30,000 of outstanding principal and \$35,000 accrued interest) from one of CoroWare’s note holders. The terms of the note were changed such that the conversion rate was changed from a fixed \$1 per share to a variable rate of an agreed to discount to market not to fall below a 50% discount to the average of the 3 lowest trading prices during the 20 days prior to conversion. The interest rate was changed from 8% to 15% and the maturity date was extended from June 2003 to June 1, 2012, thus taking the note out of default.

The modification was analyzed in accordance with current accounting standards and was determined not to be a troubled debt restricting but rather an extinguishment of debt as there was a substantial difference in terms on the new debt. As the old debt was being carried at face value, there was no gain or loss recognized on the extinguishment.

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 \$100,880 at inception. Derivative expense of \$35,880 was recognized at inception.

During 2011, Panache converted \$8,400 of principal into 42,000,000 shares of the Company’s common stock.

(k) \$15,000 Panache financing:

On April 2, 2011, the Company entered into a \$15,000 Convertible Note Agreement with an unrelated third party (“Panache”). The note calls for interest at 8% through the maturity date of June 29, 2012. The note can be renewed for an additional 10 years under 6 month extensions at \$100 per extension.

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 an agreed to discount to market not to fall below a 15% discount to the average of the 3 lowest trading prices during the 20 days prior to conversion.

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 \$13,500 at inception.

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

(l) \$567,200 Westmount financing:

On January 12, 2011, Yorkville assigned 100% of Tranche 2 of its \$2,825,000 debenture (aggregating \$567,200 in principal and \$317,510 in interest) to an unrelated third party (“Westmount”). The terms of the note did not change. As such, there was no accounting impact for CoroWare as it was merely an assignment between debt holders. The note calls for interest at 14%. This note matured August 22, 2009 and is currently in default.

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 lower of \$0.02 per share or 85% of the lowest volume weighted average price in the 30 days prior to the conversion date. The Company's obligations under the purchase agreement are secured by substantially all of the assets of the Company and those of its wholly owned subsidiary, CoroWare Technologies, Inc.

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, \$29,882 of principal was converted into 66,682,665 shares of the Company's common stock.

(m) \$170,561 Redwood financing:

On March 21, 2011, Ratzker (see Note 9(h)) transferred 50% of his ownership interest in his convertible debenture to another unrelated party ("Redwood"). The terms of the note did not change. As such, there was no accounting impact for CoroWare as it was merely an assignment between debt holders. The note calls for interest at 5% through the maturity date of March 18, 2013.

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 volume weighted average price for the Company's stock for the 30 trading days prior to conversion. The Company's obligations under the purchase agreement are secured by substantially all of the assets of the Company and those of its wholly owned subsidiary, CoroWare Technologies, Inc.

During 2011, Redwood converted \$36,700 of principal into 101,666,663 shares of the Company's common stock.

(n) \$21,962 Premier financing:

On October 5, 2011, the Company entered into a \$21,962 Convertible Note Agreement with an unrelated third party ("Premier"). The note calls for interest at 10% through the maturity date of March 5, 2012.