CoroWare, Inc,
Form 10-Q
August 20, 2012

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE OF 1934

For the quarterly period ended June 30, 2012

o 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<br>(State or Other Jurisdiction of Incorporation) | 95-4868120<br>(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. x Yes o 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. x Yes o 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.

| | |
|---|---|
| Large accelerated filer o | Accelerated filer o |
| Non-accelerated filer o (Do not check if a smaller reporting company | Smaller reporting company x |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yeso No x

As of August 15, 2012 there were 13,118,653 shares of the issuer's $.0001 par value common stock outstanding.

COROWARE, INC.
June 30, 2012 QUARTERLY REPORT ON FORM 10-Q

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COROWARE, INC.
CONSOLIDATED BALANCE SHEETS

| | June 30, 2012 (Unaudited) | December 31, 2011 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash | $ 494 | $ 522 |
| Accounts receivable, net | 154,141 | 129,438 |
| Inventory | 5,451 | 3,783 |
| Other current assets | 8,109 | 7,518 |
| Total current assets | 168,195 | 141,261 |
| | | |
| Property and equipment, net | 19,704 | 24,333 |
| Other assets, net | 11,398 | 6,927 |
| | | |
| TOTAL ASSETS | $ 199,297 | $ 172,521 |
| | | |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| | | |
| Current liabilities: | | |
| Lines of credit | $ 126,882 | $ 125,456 |
| Obligations collateralized by receivables | 96,347 | 107,730 |
| Accounts payable and accrued expenses | 4,894,441 | 4,442,906 |
| Accrued expenses, related parties | 148,109 | 111,466 |
| Notes payable | 211,232 | 202,232 |
| Notes payable, related parties | 203,445 | 208,913 |
| Derivative liability | 2,903,757 | 2,798,366 |
| Current maturities of convertible debt, net of discount | 2,413,537 | 2,206,247 |
| Redeemable preferred stock, Series B, $.001 par value, 10,000,000 shares authorized, 159,666 shares issued and outstanding as of June 30, 2012 and December 31, 2011 | 212,887 | 106,443 |
| Redeemable preferred stock, Series D, $.001 par value, 500,000 shares authorized, 100,000 shares issued and outstanding as of June 30, 2012 and December 31, 2011 | 117,647 | 75,901 |
| Redeemable preferred stock, Series E, $.001 par value, 1,000,000 shares authorized, 10,000 and -0- shares issued and outstanding, respectively, as of June 30, 2012 and December 31, 2011 | 10,000 | - |
| Small Business Administration Loan | 980,450 | 980,450 |
| Total current liabilities | 12,318,734 | 11,366,110 |
| | | |
| Long term liabilities: | | |
| Convertible debt, net of discount and current portion | - | 149,107 |
| Total liabilities | 12,318,734 | 11,515,217 |
| | | |
| Commitments | | |
| | | |
| Stockholders' deficit: | | |

| | | |
|---|---|---|
| Common stock, $.0001 par value, 3,000,000,000 shares authorized, 11,466,829 and 3,980,589 shares issued and 11,466,825 and 3,980,585 outstanding at June 30, 2012 and December 31, 2011, respectively | 1,147 | 398 |
| Additional paid-in capital | 16,396,164 | 16,159,171 |
| Accumulated deficit | (28,481,048 ) | (27,466,565 ) |
| Treasury stock | (35,700 ) | (35,700 ) |
| Total stockholders' deficit | (12,119,437 ) | (11,342,696 ) |
| | | |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | $ 199,297 | $ 172,521 |

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

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

| | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| Revenues | $ 321,745 | $ 517,765 | $ 675,121 | $ 888,269 |
| Cost of revenues | 199,530 | 297,088 | 412,019 | 559,402 |
| Gross profit | 122,215 | 220,677 | 263,102 | 328,867 |
| Operating expenses: | | | | |
| General and administrative | 179,347 | 226,109 | 342,476 | 475,495 |
| Sales and marketing | 82,125 | 103,825 | 131,615 | 182,498 |
| Research and development | 31,591 | 40,451 | 45,082 | 86,190 |
| Depreciation and amortization | 3,000 | 7,431 | 6,000 | 17,081 |
| Total operating expenses | 296,063 | 377,816 | 525,173 | 761,264 |
| Loss from operations | (173,848) | (157,139) | (262,071) | (432,397) |
| Other income (expense): | | | | |
| Derivative expense | (150,136) | (1,359,527) | (339,493) | (459,958) |
| Interest expense, net | (172,097) | (193,985) | (379,389) | (369,082) |
| Gain (Loss) on settlement of liabilities and mortgage note | 2,100 | (1,449) | 2,100 | (76,583) |
| Gain (Loss) on convertible debt redemptions | | 59,941 | (35,630) | 75,403 |
| Total other expense | (320,133) | (1,495,020) | (752,412) | (830,220) |
| Net loss | $ (493,981) | $ (1,652,159) | $ (1,014,483) | $ (1,262,617) |
| Net loss per share: | | | | |
| Basic | $ (0.04) | $ (0.65) | $ (0.11) | $ (0.71) |
| Weighted average shares outstanding: | | | | |
| Basic | 11,382,014 | 2,549,333 | 9,186,530 | 1,788,533 |

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

| | 2012 | 2011 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | $(1,014,483) | $(1,262,617) |
| Adjustments to reconcile net income to net cash flows from operating activities: | | |
| Depreciation and amortization | 6,000 | 17,081 |
| Amortization of debt discount | 131,064 | 116,928 |
| Amortization of deferred financing costs | 3,370 | 3,083 |
| Derivative (income) expense | 339,493 | 459,958 |
| (Gain) loss on convertible debt redemptions | 35,630 | (75,403) |
| Common stock issued for services | 8,000 | 3,300 |
| (Gain) loss on settlement of liabilities with stock | (2,100) | 76,583 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (24,703) | 8,190 |
| Other current assets, net | (2,258) | (3,091) |
| Accounts payable and accrued expenses | 468,122 | 636,440 |
| Accrued expenses, related parties | 36,643 | (8,155) |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | (15,222) | (27,703) |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (1,371) | - |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | (1,371) | - |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Obligations collateralized by receivables | (11,382) | (36,024) |
| Proceeds from lines of credit, net | 1,425 | 144 |
| Payments on notes payable | - | (8,692) |
| Payments on notes payable, related parties | (5,468) | (1,415) |
| Payments on long-term debt | - | (2,000) |
| Proceeds from convertible debentures, net of financing costs | 12,990 | 80,000 |
| Proceeds from notes payable | 9,000 | 15,000 |
| Proceeds from sale of preferred stock, Series E | 10,000 | - |
| NET CASH FLOWS FROM FINANCING ACTIVITIES | 16,565 | 47,013 |
| | | |
| NET INCREASE IN CASH | (28) | 19,310 |
| Cash, beginning of period | 522 | - |
| Cash, end of period | $494 | $19,310 |

Continued.

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

| | 2012 | 2011 |
|---|---|---|
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Interest paid | $- | $- |
| Income taxes paid | $- | $- |
| | | |
| NON-CASH INVESTING AND FINANCING TRANSACTIONS | | |
| Common stock issued for redemption of convertible debentures | $207,859 | $324,003 |
| Common stock issued in satisfaction of accrued liabilities | $21,000 | $280,851 |

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, 2011. 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"). 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, 2011 as reported in Form 10-K have been omitted.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsequent Events

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

Recent Accounting Pronouncements

Management does not expect the impact of any other recently issued accounting pronouncements to have a material impact on its financial condition or results of operations.

Reclassifications

Certain 2011 balances have been restated to conform to current year presentation.

NOTE 3 – FINANCIAL CONDITION AND GOING CONCERN

The Company has a loss from operations for the six months ended June 30, 2012 of $1,014,483. Because of this loss, the current working capital deficit, and the projection of additional losses for the remainder of 2012, 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%. The combined balance due to factors as of June 30, 2012 and December 31, 2011 was $96,347 and $107,730. Factor expense charged to operations for the three and six month periods ended June 30, 2012 aggregated $7,647and $19,016.

NOTE 5 - CONVERTIBLE DEBT

The following table illustrates the carrying value of convertible debt:

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| $2,825,000 Yorkville financing | $ 471,543 | $ 478,258 |
| $ 600,000 Yorkville financing | 600,000 | 600,000 |
| $ 300,000 Yorkville financing | 300,000 | 300,000 |
| $ 75,000 Collins financing | 39,169 | 34,679 |
| $ 27,500 Asher financing | 21,696 | 19,951 |
| $ 10,750 Barclay financing | 10,750 | 10,750 |
| $ 9,750 Tangiers financing | 7,812 | 8,524 |
| $ 170,562 Ratzker financing | 103,140 | 79,319 |
| $ 67,042 Harvey financing | 67,043 | 62,675 |
| $ 89,383 Cariou financing | 84,838 | 83,077 |
| $ 10,000 Tangiers financing | - | 7,895 |
| $ 15,000 Tangiers financing | - | 10,764 |
| $ 65,000 Panache financing | 52,500 | 29,602 |
| $ 15,000 Panache financing | 15,000 | 5,612 |
| $ 567,200 Westmount financing | 537,318 | 537,318 |
| $ 170,561 Redwood financing | 74,989 | 69,788 |
| $ 21,962 Premier financing | 21,805 | 17,142 |
| $ 21,000 Tangiers financing | 3,434 | - |
| $ 5,000 Tangiers financing | 2,500 | - |
| | 2,413,537 | 2,355,354 |
| Less: Current portion of convertible debt | (2,413,537 ) | (2,206,247 ) |
| Long term portion of convertible debt | $ - | $ 149,107 |

There were no modifications to any terms nor any conversions on these debentures during the three month period ending June 30, 2012.

The following tables illustrate the fair value adjustments that were recorded related to the derivative financial instruments associated with the convertible debenture financings:

| | Three Months ended June 30, 2012 | | | |
|---|---|---|---|---|
| Derivative income (expense): | Inception | Fair Value Adjustments | Redemptions | Total |
| $2,825,000 Yorkville financing (a) | - | 6,837 | - | 6,837 |
| $ 600,000 Yorkville financing | - | (231,635) | - | (231,635) |
| $ 300,000 Yorkville financing | - | - | - | - |
| $ 75,000 Collins financing | - | (7,358) | - | (7,358) |
| $ 27,500 Asher financing (b) | - | (3,026) | - | (3,026) |
| $ 10,750 Barclay financing (c) | - | (10,054) | - | (10,054) |
| $ 9,750 Tangiers financing (d) | - | (221) | - | (221) |
| $ 170,562 Ratzker financing (e) | - | (2,239) | - | (2,239) |
| $ 67,042 Harvey financing (f) | - | 4,101 | - | 4,101 |
| $ 89,383 Cariou financing (g) | - | 5,333 | - | 5,333 |
| $ 10,000 Tangiers financing (i) | - | - | - | - |
| $ 15,000 Tangiers financing (j) | - | - | - | - |
| $ 65,000 Panache financing (k) | - | (6,570) | - | (6,570) |
| $ 15,000 Panache financing (l) | - | (130) | - | (130) |
| $ 567,200 Westmount financing (m) | - | 102,857 | - | 102,857 |
| $ 170,561 Redwood financing (n) | - | 18,127 | - | 18,127 |
| $ 21,962 Premier financing | - | (1,632) | - | (1,632) |
| $ 21,000 Tangiers financing | - | 11,915 | - | 11,915 |
| $ 5,000 Tangiers financing | - | 70 | - | 70 |
| Preferred stock, Series B | - | - | - | - |
| Preferred stock, Series D | - | (36,511) | - | (36,511) |
| | - | 150,136 | - | 150,136 |

| | Three Months ended June 30, 2011 | | | |
|---|---|---|---|---|
| Derivative income (expense): | Inception | Fair Value Adjustments | Redemptions | Total |
| $2,825,000 Yorkville financing | $ - | $ (295,509) | $ (12,825) | $ (308,334) |
| $ 600,000 Yorkville financing | - | 40,020 | - | 40,020 |
| $ 300,000 Yorkville financing | - | - | - | - |
| $ 75,000 Collins financing | - | 7,220 | (5,616) | 1,604 |
| $ 27,500 Asher financing | - | (3,603) | - | (3,603) |
| $ 10,750 Barclay financing | - | (2,055) | - | (2,055) |
| $ 9,750 Mackie financing | - | 2,278 | - | 2,278 |
| $ 170,562 Ratzker financing | - | (176,285) | - | (176,285) |
| $ 67,042 Harvey financing | - | (491) | - | (491) |
| $ 89,383 Cariou financing | - | 3,879 | - | 3,879 |
| $ 10,000 Tangiers financing | - | (9,615) | - | (9,615) |
| $ 15,000 Tangiers financing | - | (12,287) | - | (12,287) |
| $ 25,000 Tangiers financing | (1,662) | 22,462 | - | 20,800 |
| $ 65,000 Panache financing | (35,880) | 23,460 | (11,352) | (23,772) |
| $ 15,000 Panache financing | | 3,836 | - | 3,836 |

| | | | | |
|---|---|---|---|---|
| $ 567,200 Westmount financing | - | (529,205) | (42,054) | (571,259) |
| $ 170,561 Redwood financing | - | (341,906) | (67,492) | (409,398) |
| Preferred stock, Series B | | 85,155 | - | 85,155 |
| | $(37,542) | $(1,182,646) | $ (139,339) | $(1,359,527) |

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| | Six Months ended June 30, 2012 | | | |
|---|---|---|---|---|
| Derivative income (expense): | Inception | Fair Value Adjustments | Redemptions | Total |
| $2,825,000 Yorkville financing | - | (69,619) | (6,029) | (75,648) |
| $ 600,000 Yorkville financing | - | (127,350) | - | (127,350) |
| $ 300,000 Yorkville financing | - | - | - | - |
| $ 75,000 Collins financing | - | (7,964) | - | (7,964) |
| $ 27,500 Asher financing | - | (3,090) | - | (3,090) |
| $ 10,750 Barclay financing | - | (10,265) | - | (10,265) |
| $ 9,750 Tangiers financing | - | (9,918) | - | (9,918) |
| $ 170,562 Ratzker financing | - | (963) | (2,429) | (3,392) |
| $ 67,042 Harvey financing | - | (11,247) | - | (11,247) |
| $ 89,383 Cariou financing | - | (11,379) | - | (11,379) |
| $ 10,000 Tangiers financing | - | 18,941 | (7,213) | 11,728 |
| $ 15,000 Tangiers financing | - | 15,822 | (12,450) | 3,372 |
| $ 65,000 Panache financing | - | 5,734 | (5,881) | (147) |
| $ 15,000 Panache financing | - | 1,122 | - | 1,122 |
| $ 567,200 Westmount financing | - | 87,145 | - | 87,145 |
| $ 170,561 Redwood financing | - | 57,302 | (68,201) | (10,899) |
| $ 21,962 Premier financing | - | (8,236) | - | (8,236) |
| $ 21,000 Tangiers financing | (18,480) | 11,741 | - | 11,741 |
| $ 5,000 Tangiers financing | (9,417) | 5,729 | (4,708) | (8,396) |
| Preferred stock, Series B | - | (106,444) | - | (106,444) |
| Preferred stock, Series D | - | (41,746) | - | (41,746) |
| | $ (27,897) | $ (204,685) | $ (106,911) | $ (339,493) |

| | Six Months ended June 30, 2011 | | | |
|---|---|---|---|---|
| Derivative income (expense): | Inception | Fair Value Adjustments | Redemptions | Total |
| $2,825,000 Yorkville financing | $ - | $ 306,603 | $ (23,917) | $ 282,686 |
| $ 600,000 Yorkville financing | - | 197,253 | - | 197,253 |
| $ 300,000 Yorkville financing | - | 26 | - | 26 |
| $ 75,000 Collins financing | - | 4,585 | (22,742) | (18,157) |
| $ 27,500 Asher financing | (9,229) | (4,189) | - | (13,418) |
| $ 10,750 Barclay financing | (1,619) | 985 | - | (634) |
| $ 9,750 Mackie financing | - | (1,388) | - | (1,388) |
| $ 170,562 Ratzker financing | - | (41,245) | - | (41,245) |
| $ 67,042 Harvey financing | - | (491) | - | (491) |
| $ 89,383 Cariou financing | - | 3,879 | - | 3,879 |
| $ 10,000 Tangiers financing | - | (9,615) | - | (9,615) |
| $ 15,000 Tangiers financing | - | (12,287) | - | (12,287) |
| $ 25,000 Tangiers financing | (1,662) | 22,462 | - | 20,800 |
| $ 65,000 Panache financing | (35,880) | 23,460 | (11,352) | (23,772) |
| $ 15,000 Panache financing | | 3,836 | - | 3,836 |
| $ 567,200 Westmount financing | - | (529,205) | (42,054) | (571,259) |
| $ 170,561 Redwood financing | - | (341,906) | (67,492) | (409,398) |
| Preferred stock, Series B | - | 133,226 | - | 133,226 |
| | $ (48,390) | $ (244,011) | $ (167,557) | $ (459,958) |

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The following table illustrates the components of derivative liabilities:

| | As of June 30, 2012 | | |
|---|---|---|---|
| | Compound Derivative | Warrant Liability | Total |
| $2,825,000 Yorkville financing | $ 677,629 | $ - | $ 677,628 |
| $ 600,000 Yorkville financing | 715,494 | 3,990 | 719,484 |
| $ 300,000 Yorkville financing | - | - | - |
| $ 75,000 Collins financing | 48,636 | - | 48,636 |
| $ 27,500 Asher financing | 36,418 | - | 36,418 |
| $ 10,750 Barclay financing | 18,207 | - | 18,207 |
| $ 9,750 Mackie financing | 15,180 | - | 15,180 |
| $ 170,562 Ratzker financing | 204,697 | - | 204,697 |
| $ 67,042 Harvey financing | 50,044 | - | 50,044 |
| $ 89,383 Cariou financing | 63,328 | - | 63,328 |
| $ 65,000 Panache financing | 80,415 | - | 80,415 |
| $ 15,000 Panache financing | 11,721 | - | 11,721 |
| $ 567,200 Westmount financing | 698,755 | - | 698,755 |
| $ 170,561 Redwood financing | 230,026 | - | 230,026 |
| $ 21,962 Premier financing | 17,790 | - | 17,790 |
| $ 21,000 Tangiers financing | 27,739 | - | 27,739 |
| $ 5,474 Tangiers financing | 3,688 | - | 3,688 |
| | $ 2,899,767 | $ 3,990 | $2,903,757 |

The following table illustrates the components of derivative liabilities at December 31, 2011:

| | Compound derivative | Warrant liability | Total |
|---|---|---|---|
| $2,825,000 Yorkville financing | $ 608,013 | $ - | $ 608,013 |
| $ 600,000 Yorkville financing | 586,883 | 5,250 | 592,133 |
| $ 300,000 Yorkville financing | - | - | - |
| $ 75,000 Collins financing | 40,672 | - | 40,672 |
| $ 27,500 Asher financing | 33,328 | - | 33,328 |
| $ 10,750 Barclay financing | 7,942 | - | 7,942 |
| $ 9,750 Mackie financing | 5,262 | - | 5,262 |
| $ 170,562 Ratzker financing | 203,734 | - | 203,734 |
| $ 67,042 Harvey financing | 38,797 | - | 38,797 |
| $ 89,383 Cariou financing | 51,949 | - | 51,949 |
| $ 10,000 Tangiers financing | 18,941 | - | 18,941 |
| $ 15,000 Tangiers financing | 15,821 | - | 15,821 |
| $ 65,000 Panache financing | 86,149 | - | 86,149 |
| $ 15,000 Panache financing | 12,843 | - | 12,843 |
| $ 567,200 Westmount financing | 785,900 | - | 785,900 |
| $ 170,561 Redwood financing | 287,328 | - | 287,328 |
| $ 21,962 Premier financing | 9,554 | - | 9,554 |
| | $ 2,793,116 | $ 5,250 | $ 246,872,862 |

The following table summarizes the number of common shares indexed to the derivative financial instruments as of June 30, 2012:

| Financing or other contractual arrangement: | Conversion Features | Warrants | Total |
|---|---|---|---|
| $2,825,000 Yorkville financing | 55,042,498 | - | 55,042,498 |
| $ 600,000 Yorkville financing | 58,118,292 | 262,500 | 58,380,792 |
| $ 300,000 Yorkville financing | 398 | 167 | 565 |
| $ 75,000 Collins financing | 3,486,994 | - | 3,486,994 |
| $ 27,500 Asher financing | 2,786,393 | - | 2,786,393 |
| $ 10,750 Barclay financing | 1,392,287 | - | 1,392,287 |
| $ 9,750 Tangiers financing | 1,174,895 | - | 1,174,895 |
| $ 170,562 Ratzker financing | 14,563,986 | - | 14,563,986 |
| $ 67,042 Harvey financing | 3,854,915 | - | 3,854,915 |
| $ 89,383 Cariou financing | 4,878,185 | - | 4,878,185 |
| $ 65,000 Panache financing | 6,149,326 | - | 6,149,326 |
| $ 15,000 Panache financing | 952,168 | - | 952,168 |
| $ 567,200 Westmount financing | 56,758,585 | - | 56,758,585 |
| $ 170,561 Redwood financing | 16,633,635 | - | 16,633,635 |
| $ 21,962 Premier financing | 1,370,388 | - | 1,370,388 |
| $ 21,000 Tangiers financing | 2,136,406 | - | 2,136,406 |
| $ 5,000 Tangiers financing | 284,091 | - | 284,091 |
| Preferred Stock, Series B | 10,644,400 | - | 10,644,400 |
| Preferred Stock, Series D | 5,882,353 | - | 5,882,353 |
| Preferred Stock, Series E | 500,000 | - | 500,000 |
| | 246,610,195 | 262,667 | 246,872,862 |

The embedded conversion features associated with our convertible debentures are valued based on the number of shares that are indexed to that liability. Keeping the number of shares constant, the liability associated with the embedded conversion features increases as our share price increases and, likewise, decreases when our share price decreases. In the same manner, derivative expense is created when our share price increases and derivative income is created when our share price decreases.

During the six months ended June 30, 2012, conversions were as follows:

| Financing or other contractual arrangement: | Principal converted | Shares Issued | Gain (Loss) Recorded |
|---|---|---|---|
| $2,825,000 Yorkville convertible note financing | $6,715 | 79,000,000 | $4,844 |
| $ 65,000 Panache convertible note financing | 4,100 | 82,000,000 | (7,316) |
| $ 170,562 Ratzker convertible note financing | 3,900 | 60,000,000 | (2,531) |
| $ 10,000 Tangiers convertible note financing | 10,000 | 100,000,000 | 2,033 |
| $ 15,000 Tangiers convertible note financing | 15,000 | 150,000,000 | 7,715 |
| $ 170,561 Redwood convertible note financing | 38,900 | 599,230,765 | (27,108) |
| $ 5,474 Tangiers convertible note financing | 2,500 | 100,000,000 | (13,267) |
| | $81,115 | 1,170,230,765 | $(35,630) |

As noted above, the following notes are in default: the remaining balance of the $2,825,000 financing, the $600,000 and $300,000 Yorkville financings, the $75,000 Collins financing, the $27,500 Asher 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 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.

NOTE 6 - OTHER STOCKHOLDERS' EQUITY

a) Stock Options:

The following table summarizes stock option activity:

| | Total Options | Weighted Average Price |
|---|---|---|
| Outstanding, December 31, 2011 | 38,164 | $ 2.97 |
| Granted | - | - |
| Cancelled | - | - |
| Forfeited | - | - |
| Exercised | - | - |
| Outstanding, June 30, 2012 | 38,164 | $ 2.97 |
| Exercisable at June 30, 2012 | 38,164 | $ 2.97 |

b) Outstanding warrants:

At June 30, 2012, the Company had the following warrants outstanding:

| | Grant Date | Expiration Date | Warrants Granted | Exercise Price |
|---|---|---|---|---|
| $ 300,000 financing | 03/19/08 | 03/19/13 | 167 | $1,200 |

c) Issuance of common stock:

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

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Shares | Value | Shares | Value |
| Employee compensation | - | $- | 5,000 | $3,300 |
| Legal services | 400,000 | 8,000 | | |
| | 400,000 | $8,000 | 5,000 | $3,300 |

The following table summarizes other common stock issued during the six month period ended June 30:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Shares | Value | Shares | Value |
| Satisfaction of payables | 300,000 | $6,000 | 718,157 | $246,401 |
| Redemption of convertible debenture | - | - | 203,174 | 79,056 |
| Notes payable | - | - | 366,824 | 78,604 |
| | 300,000 | $6,000 | 1,288,155 | $404,061 |

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

d) Dividends on preferred stock:

At June 30, 2012 and December 31, 2011, there were cumulative undeclared dividends to Preferred Series B shareholders of $43,908 and $39,917, respectively, the obligation for which is contingent on declaration by the board of directors.

e) Preferred Stock, Series E:

On March 9, 2012 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 1,000,000 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.

During the quarter ending June 30, 2012, 10,000 shares of Series E preferred shares were sold for $10,000.

f) Increase in Authorized Shares and Change in Par Value:

On November 11, 2011, the Majority Stockholders authorized an increase in the number of authorized shares of common stock from nine hundred million (900,000,000) shares of common stock to three billion (3,000,000,000) shares of common stock. In addition, the par value of common stock changed from a par value $0.001 per share to a par value $0.0001 per share. This change was effective January 3, 2012. All common share amounts within this document have been adjusted to reflect this change.

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 facilitates 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, | |
|---|---|
| 2012 | 37,101 |
| 2013 | 52,041 |
| 2014 | 55,029 |
| 2015 | 33,117 |
| | $177,288 |

NOTE 8 – SUBSEQUENT EVENTS

(a) $17,500 Asher financing:

On August 9, 2012, the Company entered into a $17,500 Convertible Note Agreement with an unrelated third party (“Asher”). The note calls for interest at 8% through the maturity date of May 13, 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 50% of the average of the lowest 3 trading price in the 30 days prior to the conversion date.

(b) $20,000 Asher financing:

On August 2, 2012, Cariou sold a $20,000 tranche of his convertible debenture to Asher. The Company then executed a new $20,000 Convertible Note Agreement with Asher. The note calls for interest at 10%. 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 40% of the average of the lowest trading price in the 30 days prior to the conversion date.

(c) $7,000 Cariou financing:
On August 3, 2012, the Company entered into a $7,000 Convertible Note Agreement with an ex-employee (“Cariou”). The note calls for interest at 10% through the maturity date February 3, 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 the average closing bid prices for the Common Stock for the 5 trading days prior to the conversion date.

(d) 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.

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 telepresence. 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:

- 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..
- Enhanced Collaboration Solution: Collaboration and conferencing products, solutions and subscription services.

The Company’s revenues are principally derived from standing contracts that include Microsoft (partner management and IT professional services), 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.

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RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2012 COMPARED TO THREE MONTHS ENDED JUNE 30, 2011:

During the three-month period ended June 30, 2012 (the "2012 Period") revenues were $321,745 compared to revenues of $517,765 during the three-month period ended June 30, 2012 (the "2011 Period"). Our revenues were significantly 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 $199,530 for the 2012 Period compared to $297,088 for the 2011 Period. Cost of revenues represents primarily labor and labor-related costs in addition to overhead costs. Gross profit on these 2012 revenues amounted to $122,215 (38.0% gross profit percentage) compared to $220,677 (42.6% gross profit percentage) for the 2011 Period.

Research and development was $31,951 (9.9% of gross revenues) for the 2012 Period compared to $40,451 (7.8% of gross revenues) in the 2011 Period. The increased research and development investment resulted from new software development and testing initiatives, including CoroWare Analytics and Reporting for Vidyo which was announced in July 2012.

Operating expenses were $296,063 during the 2012 Period compared to $377,816 during the 2011 Period. General and Administration expenses were reduced by 21%, to $179,347 in the 2012 Period compared to $226,109 for the 2011 Period as the Company continued to reduce its executive compensation and public company expenses. Sales and marketing expenses were reduced by 21% to $82,125 in the 2012 Period compared to $103,825 for the 2011 Period as the Company further refined sales compensation plans to bring them in line with the Company’s cost of sales objectives. Loss from operations was $173,848 during the 2012 Period compared to $157,139 in the 2011 Period.

Total other expense was $320,133 during the 2012 Period compared to Total other expense of $1,495,020 in the 2011 Period. Other income (expense) is comprised primarily of derivative income and amortization of debt discount and deferred finance costs. Derivative expense in the 2012 Period was $150,136 compared to Derivative expense of $1,359,527 in the 2011 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. During the 2012 Period, the share price remained consistent ($0.02 at March 31, 2012 versus $0.02 at June 30, 2012) with a slight increase in the volatility which resulted in an insignificant change in the calculated Monte Carlo values. The derivative expense in the 2012 Period is primarily due to Fair value adjustments to the embedded conversion features. Interest expense for the three month 2012 Period is $172,097 compared to $193,985 for the three month 2011 Period. The debt discount was amortized using the effective interest method. Under this method, the amount of amortization increases exponentially as the underlying carrying value of the amortized debt increases.

Net Loss for the 2012 Period was $493,981 compared to a net loss of $1,652,159 for the 2011 Period.

Basic weighted average shares outstanding were 11,382,014 during the 2012 Period compared to 2,549,333 in the 2011 Period. There is no fully diluted calculation for the 2012 Period or the 2011 Period as the effect would be anti-dilutive.

SIX MONTHS ENDED JUNE 30, 2012 COMPARED TO SIX MONTHS ENDED JUNE 30, 2011:

During the six-month period ended June 30, 2012 (the "2012 Period") revenues were $675,121 compared to revenues of $888,269 during the six-month period ended June 30, 2012 (the "2011 Period"). Our revenues were 24% 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 $412,019 for the 2012 Period compared to $559,402 for the 2011 Period. Cost of revenues represents primarily labor and labor-related costs in addition to overhead costs. Gross profit on these 2012 revenues amounted to $263,102 (39% gross profit percentage) compared to $328,867 (37% gross profit percentage) for the 2011 Period.

Research and development was $45,082 (6.7% of gross revenues) for the 2012 Period compared to $86,190 (9.7% of gross revenues) in the 2011 Period.

Operating expenses were $525,173 during the 2012 Period compared to $761,264 during the 2011 Period. General and Administration expenses were reduced by 28% to $342,476 in the 2012 Period compared to $475,495 for the 2011 Period as the Company reduced its executive compensation and public company auditing expenses. Sales and marketing expenses were reduced by 28% to $131,615 in the 2012 Period compared to $182,498 for the 2011 Period as the Company further adjusted sales compensation plans to bring them in line with the Company's cost of sales objectives. Loss from operations was $262,071 during the 2012 Period compared to $432,397 in the 2011 Period.

Total other expense was $752,412 during the 2012 Period compared to other expense of $830,220 in the 2011 Period. Other income (expense) is comprised primarily of derivative income and amortization of debt discount and deferred finance costs. Derivative expense in the 2012 Period was $339,493 compared to derivative expense of $459,958 in the 2011 Period. Keeping the number of shares constant, the liability associated with the embedded conversion features increases as our share price and volatility increases and, likewise, decreases when our share price and share price volatility decreases. Derivative income (expense) displays the inverse relationship. During the 2012 Period, the share price remained consistent ($.02 at December 31, 2011 versus $0.02 at June 30, 2012) with a slight increase in the volatility which resulted in an insignificant change in the calculated Monte Carlo values. The derivative expense in the 2012 Period is primarily due to expense recognized in connection with redemptions on various debentures during the Period. Interest expense for the six month 2012 Period is $379,389 compared to $369,082 for the six month 2011 Period. The debt discount was amortized using the effective interest method. Under this method, the amount of amortization increases exponentially as the underlying carrying value of the amortized debt increases.

Net Loss for the 2012 Period was $1,014,483 compared to a net loss of $1,262,617 for the 2011 Period.

Basic weighted average shares outstanding were 9,186,530 during the 2012 Period compared to 1,788,533 in the 2011 Period. There is no fully diluted calculation for the 2012 Period or the 2011 Period as the effect would be anti-dilutive.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2012, we had current assets of $168,195, current liabilities of $12,318,734, negative working capital of ($12,150,539) and an accumulated deficit of $28,481,048. For the six months ending June 30, 2012, we had net cash flows used in operating activities of ($15,222), net cash flows used in investing activities of ($1,371), and net cash flows provided by financing activities of $16,565.

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, 2011:

| | Payments due by Period | | | | |
|---|---|---|---|---|---|
| Contractual Obligations | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Convertible debt, net | $2,292,410 | $ 2,292,410 | $- | $- | $ - |
| Notes payable | 263,133 | 263,133 | - | - | - |
| Notes payable, related parties | 292,812 | 292,812 | - | - | - |
| Operating leases | 235,305 | 46,065 | 101,094 | 88,146 | - |
| Long –term debt | 982,450 | 982,450 | - | - | - |
| Total | $4,066,110 | $ 3,876,870 | $101,094 | $88,146 | $ - |

EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

Refer to Form 10-K for the year ended December 31, 2011.

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

None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

(a) 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.

(b) At June 30, 2012, 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 trance 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.

(c) As of June 30, 2012, 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.

(d) As of June 30, 2012, 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.

(e) As of June 30, 2012, 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.

(f) As of June 30, 2012, 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.

(g) As of June 30, 2012, 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.

(h) As of June 30, 2012, we are in default on our Unsecured Convertible Debenture presently held by Premier IT Solutions in the face amount of $21,962. The debenture accrues interest at 10% through the maturity date of March 5, 2012 and accrues default interest at 15% thereafter. The note is convertible at the option of the holder into shares of CoroWare, Inc., common stock.

(i) As of June 30, 2012, 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.

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.

| | | |
|---|---|---|
| | /s/ | Lloyd T. Spencer |
| Dated: August 20, 2012 | Lloyd T. Spencer, | Chief Executive Officer and<br>Interim Chief Financial Officer<br>(Principal Executive Officer and<br>Principal<br>Accounting and Financial Officer) |