CoroWare, Inc,
Form 10-K
November 24, 2014

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

FORM 10- K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

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 (State or Other Jurisdiction of Incorporation)	95-4868120 (I.R.S. Employer Identification No.)

601 108th Avenue Northeast, Suite 1900
Bellevue, WA 98004

(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 $0.0001
(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 o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) the Act. Yes o

No þ

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. o Yes þ 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). o Yes þ 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. o

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 (Do not check if a smaller reporting company)	o	Smaller reporting company	þ

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

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 September 30, 2014, was $0.0001. 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.

Number of shares of common stock ($0.0001 par value) outstanding as of November 21, 2014: 8,414,279,084 shares.

INDEX

	PART I	
Item 1.	Business.	1
Item 1A.	Risk factors	6
Item 1B.	Unresolved Staff Comments	6
Item 2.	Properties.	6
Item 3.	Legal Proceedings.	6
Item 4.	Mine Safety Disclosures.	6
	PART II	
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Registrant Purchases of Equity Securities.	6
Item 6.	Selected Financial Data	9
Item 7.	Management's Discussion and Analysis or Financial Condition and Results of Operations	9
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	17
Item 8.	Financial Statements.	17
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.	17
Item 9A.	Controls and Procedures.	17
Item 9B.	Other Information.	18
	PART III	
Item 10.	Directors, Executive Officers, and Corporate Governance.	19
Item 11.	Executive Compensation.	20
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.	23
Item 13.	Certain Relationships and Related Transactions, and Director Independence.	24
Item 14.	Principal Accounting Fees and Services	25
	PART IV	
Item 15.	Exhibits.	27
SIGNATURES		35

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, large enterprises and small businesses, software and hardware product development companies, and non-profit organizations.

Employees

As of December 31, 2013, we had eighteen (18) 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, eleven (11) full-time engineers, and two (2) 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.

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.
>
> 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), a European auto manufacturer (simulation software custom development), and other customers whose product development groups require custom software development and consulting companies. Existing contract revenues vary month by month based on the demands of the clients. The Company's collaboration effort is in the early stages of growth and will require additional working capital to compete effectively against new entrants in this rapidly growing market.

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 2012, we announced CoroWare License Manager™, a software license management solution that offers Cloud Service Providers and on-premises software publishers the ability to remotely enable, monitor, and configure cloud-based applications using a centralized management server.

In 2012, we announced Billing Integration Framework for Accumulus and Vidyo, a software solution that integrates flexible billing from Accumulus Corp with the call detail records from Vidyo to create more flexible video conferencing subscription services.

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.

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 2012, 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.

In 2012, we reorganized our robotics division and moved the facility to Charlotte, North Carolina, to take better advantage of strategic partnerships with the University of North Carolina Charlotte.

In February 2013 we released the CoroBot Junior as a new lower cost research unmanned ground vehicle. In September 2013, we released the CoroBot Pro, a much more powerful unmanned ground vehicle. In November 2013, the High Capacity Robotic Arm was released, providing both a long reach and large payload.

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 TM 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 2012, we expanded the CoroCall Business Class HD Video Conferencing service with the addition of integrated call recording and webcast. In addition, we also enhanced the security of the offering by implementing 128 bit AES encryption. In 2012, we also became a reseller of VidyoCast, a broadcast service that incorporates Vidyo's network tolerant video streaming into the broadcast arena.

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.

In 2013, we solidified a presence in the area of tele-health with a focus on providing HIPAA compliant video conferencing, particularly for mental tele-health facilities.

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 2012, 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. 2102 and the beginning of 2013 have brought several enhancements and additions to our CoroCall service. Recording and streaming capabilities were added to the platform allowing users to record and or stream video conferences on the fly without administrative intervention or support. Additionally our service is now deployed in a secure manner utilizing HTTPS and AES encryption, insuring that our customers' calls and data are secure from hackers and potential eavesdroppers of sensitive information. By providing these new capabilities and managing customized solutions with API management, we have developed customers in vertical markets to include Health care, Education and legal applications. Law firms are utilizing our platforms for remote depositions and more. Schools are conducting virtual field trips and extended care facilities are connecting patients with care providers via our CoroCall Videoconferencing platform.

We have expanded our distribution model by developing a network of Value Added Service Providers (VASP's). By adding CoroCall cloud based subscription services to their existing telephony, data management and other telecom services, there resellers are developing new recurring revenue streams without having to build out infrastructure to do so.

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.

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
- New entrants into cloud based bridging and multipoint services such as Blue Jeans, Vidtel and others
- Upgrades to existing Data conferencing platforms to include multi party video within the collaboration tool. i.e. Go to Meeting, Webex.

Customers

All three divisions saw growth in their customer bases in 2013 as compared with 2012. 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 and additional resellers, as well as securing product and accessory sales to a number of customers.

ARiCON Joint Venture

CoroWare, Inc. ("Company") entered into a joint venture agreement ("Joint Venture Agreement") with Lucas Snyder ("Snyder") as of September 24, 2012, whereby the parties have formed a North Carolina limited liability company, ARiCON, LLC, to implement a joint venture that will develop and market mobile robot platforms, applications, and solutions for the construction industry.

The Company will contribute mobile robotics development capabilities and certain equipment to the joint venture; and Snyder will contribute his construction industry knowledge, expertise and customer relationships.

Pursuant to the Joint Venture Agreement, on September 27, 2012, the Company contributed $10,000 cash and 38,000,000 shares of its common stock to ARiCON, LLC, at a price of $0.001 per share in a private placement exempt from registration under the Securities Act of 1933 in reliance on Section 4(2) of the Securities Act. The aggregate proceeds of the contribution into the formation of the joint venture were valued at $59,400.

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 Business Class HD Video Conferencing. 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, 2013 and 2012 were $23,415 and $58,948, respectively.

Products

CoroBot Classic:

CoroBot Classic 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 Classic 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.

CoroBot Junior:

Our CoroBot Junior mobile robot is an affordable smart UGV that includes a water resistant chassis with an integrated PC-class CPU, on-board infrared sensors, an HD 1080p camera, and a wireless controller for teleoperation. The CoroBot Junior is available with two chassis options: 3 wheeled (2 drive motor) chassis and 4 wheel (4 drive motor) chassis.

CoroBot Pro:

Our CoroBot Pro mobile robot is the most powerful member of the CoroBot family of smart unmanned ground vehicles (Smart UGV) and robotics development platforms for researchers and educators. The CoroBot Pro expands CoroWare’s affordable and flexible robotics product line by offering a more powerful Intel i7 processor and supporting a wider range of sensor options, including the Point Grey Bumblebee® stereo vision camera, Microsoft Kinect sensor, and a wide variety of high definition webcams.

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.

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

Corporate Headquarters

On August 1, 2011, the Company entered into a lease agreement on corporate offices located at 1410 Market Street, Kirkland, WA which terminated on December 23, 2013. Under this lease, the Company was obligated to pay an average monthly rent of $4,088 in 2012 and $4,233 in 2013. Since the termination of this lease, the Company is entered into a monthly lease agreement at a cost of $1,038.

Our corporate headquarters is located at 601 108th Avenue Northeast, Suite 1900, Bellevue, WA 98004.

Robotics Division

On January 1, 2013, the Company entered into a lease agreement on corporate offices located at 8701 Mallard Creed Rd., Charlotte, NC which terminated on December 31, 2013. Under this lease, the Company was obligated to pay monthly rent of $2,000 in 2013. As of August 14, 2013, the Company terminated this lease with no further obligations in order to sign a new lease at 1064 Van Buren Avenue, Indian Trail, NC. This lease continues through August 31, 2014 at a monthly cost of $1,247 per month. The Company signed a new lease as of April 1, 2014 through March 31, 2016 at an average monthly cost of $1,300 in 2014, $1,317 in 2015 and $1,350 in 2016.

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 effect 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. In July 2012, we effected a reverse split of 1-for-200. In January 2014, we effected a reverse split of 1-for-200.

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, 2013 and December 31, 2012.

COMMON STOCK

Year Ended December 31, 2013	High	Low
First Quarter	$ 0.84	$ 0.02
Second Quarter	$ 0.04	$ 0.02
Third Quarter*	$ 0.02	$ 0.02
Fourth Quarter	$ 0.02	$ 0.02

Year Ended December 31, 2012	High	Low
First Quarter	$ 8.00	$ 4.00
Second Quarter	$ 4.00	$ 4.00
Third Quarter*	$ 4.00	$ 0.20
Fourth Quarter	$ 0.60	$ 0.04

These quotations represent interdealer prices, without retail markup, markdown, or commission, and may not reflect actual transactions. As of January 29, 2014, there were approximately 230 record holders of the Company's common stock. This reflects a reverse 200 for 1 reverse split of the stock on July 6, 2012 and on January 6, 2014.

Dividend Policy

The Company has never declared or paid any cash dividends on its common stock. The Company anticipates that any earnings will be retained for development and expansion of its business and does not anticipate paying any cash dividends in the foreseeable future. Additionally, as of December 31, 2013 and 2012 the Company has issued and has outstanding shares of Series B Preferred Stock which are entitled, prior to the declaration of any dividends on common stock, to earn a 5 percent dividend, payable in either cash or common stock of the Company. The Board of Directors has sole discretion to declare dividends based on the Company's financial condition, results of operations, capital requirements, contractual obligations and other relevant factors. At December 31, 2013 and 2012, there were cumulative undeclared dividends to Preferred Series B shareholders of $71,852 and $63,868, respectively, the obligation for which is contingent on declaration by the board of directors. At December 31, 2013 and 2012, there were accrued unpaid dividends of $15,969 and $15,969, respectively. These balance have been recorded as part of accounts payable and accrued expenses.

Securities Authorized for Issuance under Equity Compensation Plans

The following tables set forth the information as of December 31, 2013 with respect to compensation plans under which our equity securities are authorized for issuance:

EQUITY COMPENSATION PLAN INFORMATION

DECEMBER 31, 2013

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, 2013, CoroWare had four stock compensation plans which provided for the issuance of 505,503,333 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	200,000,000	-
2009 Incentive Stock Plan	500,000	-
2010 Incentive Stock Plan (333-165768)	5,000,000	-
2012 Incentive Stock Plan (333-171325)	200,000,000	-
2012 Incentive Stock Plan (333-183512)	50,000,000	-
2013 Incentive Stock Plan (333-186247)	50,000,000	1

Total	505,503,333	1

Stock Options

As of December 31, 2013, 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, 2013 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 non-plan options that remain outstanding are the 3,333 options that were issued at $1.86 per share.

The following table summarizes stock option activity:

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

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,” a 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 2013 and any Current Reports on Form 8-K filed by us.

CRITICAL ACCOUNTING POLICIES

General

The 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, 2013 and 2012.

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 2014 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. As well, it anticipates growing its revenues 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. Additional revenue growth is expected through the sales of enterprise and cloud cyber security solutions.

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 –particularly those in the area of tele-health – 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, 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, 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

As of December 31, 2013 and 2012 the Company had an aggregate total of $515,082 and $504,832, respectively, in notes payable. These notes bear interest at rates ranging from five percent per annum to 21 percent per annum. As of December 31, 2013 all notes payable were in default. Accrued interest on notes payable totaled $617,509 and $532,050 at December 31, 2013 and 2012, respectively.

Notes Payable

(a) Notes payable - Merger:

In February 2003, the Company issued $230,000 of notes payable which matured in June 2003. The notes earn interest at 8% per annum unless they are in default, in which case they earn default interest at a rate of 15%; the notes are currently in default. Additionally, the notes had warrants attached to purchase 11,500 shares of common stock at $15.00 per share and were exercisable through February 12, 2005. None of these warrants were exercised prior to their expiration. During the fourth quarter of 2010, one of these notes with an outstanding balance of $75,000 was sold to a third party by the original investor. The terms of the note were changed such that the note became a convertible debenture [see the $75,000 Collins financing in Note 12(f)]. During 2011, two additional merger notes with an aggregate total of $55,000 were sold to third parties by the original investors and simultaneously converted to convertible debentures [see the $25,000 Tangiers financing in Note 12(p) and the $65,000 Panache financing in Note 12(i)].

(b) Notes payable - Shareholders:

During September through December 2005, the Company entered into short-term debt obligations with shareholders of the Company totaling $257,000. These notes bore interest at rates ranging from 5 to 10 percent per annum and were due between ninety (90) and one hundred twenty (120) days. During the fourth quarter of 2010, the remaining $40,000 of these notes was sold to a third party by the original investor. That third party subsequently converted those notes along with the accrued interest of $7,509 into 15,560,455 shares of common stock of the Company.

Additionally, during 2011 and 2010, the Company entered into various unsecured notes with shareholders with aggregate totals of $5,000 and $45,000, respectively. The notes bear interest at 18% and matured at various dates through June 2011. Repayments of $14,699 and $106,218 ($60,000 in stock) were made during 2011 and 2010, respectively. During 2011, $74,200 of these notes were sold to third parties and simultaneously re-stated as convertible debentures. See Notes 12(b) and 12(e).

(c) Notes payable – Yorkville:

During August 2008, the Company entered into two (2) short-term notes with Yorkville that bear interest at 18% and matured in December 2008. This transaction was recorded as an inducement expense of $3,750 during the year ended December 31, 2008. These instruments are in default.

(d) Other notes payable

Other notes payable consist of two notes to third parties. The note bear interest at rates ranging from 0.8 percent to 21 percent and matured through December 31, 2011. Both of these notes are in default.

Convertible Notes Payable

(a) AGS Capital Group, LLC:

On February 25, 2013 the Company borrowed $131,377 from AGS Capital Group, LLC ("AGS"). On April 1, 2013 the Company borrowed an additional $42,000. The notes accrued interest at a rate of 14 percent per annum and became due on February 25, 2014. During the year ended December 31, 2013 the Company made cash payments on the note totaling $2,916. Additionally, AGS converted $12,774 in note principal into 1,159,626,042 shares of the Company's common stock. Pursuant to the terms of the notes the principal balance is convertible at the option of the note holder into shares of the Company's common stock at a 35 percent discount to the lowest closing price during the 20-day trading period prior to conversion. Accrued interest on the notes totaled $15,877 and $-0- at December 31, 2013 and 2012, respectively.

(b) Asher Enterprises, Inc.:

On February 1, 2011 the Company borrowed $27,500 from Asher Enterprises, Inc. ("Asher"). On August 2, 2012, the Company borrowed an additional $20,000. On August 9, 2012 the Company borrowed an additional $17,500. On October 10, 2012 the Company borrowed an additional $25,000. On January 15, 2013 the Company borrowed an additional $22,500. The notes accrue interest at rates ranging from eight percent to ten percent per annum. At December 31, 2013 each of the notes was past due. During the year ended December 31, 2012 Asher converted $26,725 in note principal into 101,372,149 shares of the Company's common stock. During the year ended December 31, 2013 Asher converted $18,000 in note principal and $1,100 in accrued interest into 242,222,222 shares of the Company's common stock. During the year ended December 31, 2013 the Company recognized $37,020 in penalties relating to unpaid principal past maturity dates. Pursuant to the terms of the notes the principal balance is convertible at the option of the note holder into shares of the Company's common stock at a 51 percent discount to the average of the three lowest closing price during the 10-day trading period prior to conversion. Accrued interest on the notes totaled $16,974 and $6,026 at December 31, 2013 and 2012, respectively.

(c) Barclay Lyons, LLC:

On January 28, 2011 the Company borrowed $10,750 from Barclay Lyons, LLC ("Barclay"). The note accrues interest at a rate of eight percent per annum and is due on demand. Pursuant to the terms of the note the principal balance is convertible at the option of the note holder into shares of the Company's common stock at a 50 percent discount to the lesser of the closing price on the day prior to conversion and the volume-weighted-average closing price of the five day trading period prior to conversion. Accrued interest on the note totaled $9,724 and $7,479 at December 31, 2013 and 2012, respectively.

(d) Blackbridge Capital, LLC:

On July 10, 2013 the Company borrowed $3,000 from Blackbridge Capital, LLC ("Blackbridge"). During the year ended December 31, 2013 Blackbridge purchased a $67,042 convertible note for which the Company is the borrower. The notes accrue interest at a rate of ten percent per annum. During the year ended December 31, 2013 Blackbridge converted $18,000 in note principal into 258,214,285 shares of the Company's common stock. The remaining unpaid principal is past due. Pursuant to the terms of the notes the principal balance is convertible at the option of the note holder into shares of the Company's common stock at a price equal to the average closing price during the 20-day trading period prior to conversion. Accrued interest on the notes totaled $27,108 and $17,868 at December 31, 2013 and 2012, respectively.

(e) Cariou, Raphael:

On April 4, 2011 the Company borrowed $89,383 from Raphael Cariou ("Cariou"). On August 3, 2012 the Company borrowed an additional $7,000 and made payments on the note totaling $28,239. During the year ended During the year ended December 31, 2013 the Company made payments of $30,000 against note principal. The notes accrue interest at a rate of ten percent per annum. As of December 31, 2013 the unpaid principal is past due. Pursuant to the terms of the notes the principal balance is convertible at the option of the note holder into shares of the Company's common stock at a price equal to the average closing price during the five-day trading period prior to conversion, multiplied by 115 percent. Accrued interest on the notes totaled $23,375 and $21,216 at December 31, 2013 and 2012, respectively.

(f) Collins, Thomas:

On December 6, 2010 the Company borrowed $84,168 from Thomas Collins ("Collins"). The Company made payments on the note totaling $44,998. The note accrues interest at a rate of eight percent per annum and is due on demand. Pursuant to the terms of the notes the principal balance is convertible at the option of the note holder into shares of the Company's common stock at a 70 percent discount to the average of the three lowest closing price during the ten-day trading period prior to conversion. Accrued interest on the notes totaled $18,389 and $12,545 at December 31, 2013 and 2012, respectively.

(g) Kellburgh, Ltd.:

On February 21, 2012 the Company borrowed $13,000 from Kellburgh, Ltd ("Kellburgh"). The note accrues interest at a rate of ten percent per annum and became due on March 22, 2012. Pursuant to the terms of the notes the principal balance is convertible at the option of the note holder into shares of the Company's common stock at a 15 percent discount to the average of the three lowest closing price during the five-day trading period prior to conversion. Accrued interest on the notes totaled $1,289 and $-0- at December 31, 2013 and 2012, respectively.

(h) Magna Group, LLC:

On August 20, 2012 the Company borrowed $10,000 from Magna Group, LLC ("Magna"). During the year ended December 31, 2013 the Company converted the entire principal balance into 94,000,000 shares of the Company's common stock. Pursuant to the terms of the notes the principal balance was convertible at the option of the note holder into shares of the Company's common stock at a 60 percent discount to the lowest closing price during the three-day trading period prior to conversion. As of December 31, 2013 the note had been satisfied in full.

(i) Panache Capital, LLC:

On June 2, 2011 the Company borrowed $65,000 from Panache Capital, LLC ("Panache"). On June 29, 2011 the Company borrowed an additional $15,000. The notes accrue interest at a rate of eight percent per annum and became due in June, 2012. During the year ended December 31, 2012 the Company converted $16,719 of the principal into 28,275,000 shares of the Company's common stock. During the year ended December 31, 2013 the Company converted $22,197 of the principal into 298,600,000 shares of the Company's common stock. Pursuant to the terms of the notes the principal balance was convertible at the option of the note holder into shares of the Company's common stock at a 15 percent discount to the average of the three lowest closing prices during the 20-day trading period prior to conversion. Accrued interest on the notes totaled $14,532 and $10,367, respectively.

(j) Premier I.T. Solutions Corp.:

On October 5, 2011 the Company borrowed $21,962 from Premier I.T. Solutions Corp. ("Premier"). The note accrues interest at a rate of 10 percent per annum and became due on March 5, 2012. Pursuant to the terms of the notes the principal balance is convertible at the option of the note holder into shares of the Company's common stock at the average of the closing prices during the five-day trading period prior to conversion, multiplied by 115 percent. Accrued interest on the notes totaled $6,958 and $3,555, respectively.

(k) Ratzker, David:

On July 20, 2009 the Company borrowed $568,263 from David Ratzker ("Ratzker"). The note accrues interest at a rate of 14 percent per annum and became due on December 31, 2010. During the year ended December 31, 2012 the Company made payments on the note totaling $128,224 and converted $3,900 of the principal balance into 60,000,000 shares of the Company's common stock. During the year ended December 31, 2013 the Company made payments on the note totaling $112,823 and converted $17,550 of accrued interest into 220,000,000 shares of the Company's common stock. Pursuant to the terms of the notes the principal balance is convertible at the option of the note holder into shares of the Company's common stock at the lowest volume-weighted-average closing price during the 20-day trading period prior to conversion. Accrued interest on the notes totaled $124,554 and $125,021, respectively.

(l) Redwood Management, LLC:

On March 21, 2011 the Company borrowed $284,132 from Redwood Management, LLC ("Redwood"). The note accrues interest at a rate of 14 percent per annum and became due on March 18, 2013. During the year ended December 31, 2012 the Company converted $44,935 of the principal balance into 608,596,847 shares of the Company's common stock. During the year ended December 31, 2013 the Company converted $35,250 of note principal into 279,048,581 shares of the Company's common stock. Pursuant to the terms of the notes the principal balance is convertible at the option of the note holder into shares of the Company's common stock at a 35 percent discount to the lowest volume-weighted-average closing price during the 20-day trading period prior to conversion. Accrued interest on the notes totaled $12,855 and $9,947, respectively.

(m) Ridgepoint Capital:

On August 30, 2012 the Company borrowed $54,060 from Ridgepoint Capital ("Ridgepoint"). The notes accrue interest at rates of 20 percent per annum and become due on June 7, 2014. On June 7, 2013 the Company borrowed an additional $36,250. This note accrues interest at a rate of ten percent per annum and became due on March 24, 2013. During the year ended December 31, 2012 the Company converted $4,970 of the principal balance 25,000,000 shares of the Company's common stock. During the year ended December 31, 2013 the Company converted $21,625 of note principal into 425,000,000 shares of the Company's common stock. Pursuant to the terms of the notes the principal balance is convertible at the option of the note holder into shares of the Company's common stock at a 65 percent discount to the average of the two lowest closing prices during the five-day trading period prior to conversion. Accrued interest on the notes totaled $8,032 and $1,639, respectively.

(n) Sobeck, Michael:

On October 9, 2012 the Company borrowed $35,000 from Michael Sobeck ("Sobeck"). The note accrues interest at a rate of $500 per week and becomes due on November 30, 2012. During the year ended December 31, 2012 the Company made cash payments totaling $6,500 against note principal. During the year ended December 31, 2013 the Company converted $13,962 of note principal into 279,248,800 shares of the Company's common stock. Pursuant to the terms of the notes the principal balance is convertible at the option of the note holder into shares of the Company's common stock at a 50 percent discount to the lowest closing price during the ten-day trading period prior to conversion. Accrued interest on the notes totaled $28,000 and $2,000, respectively.

(o) Tangiers Investment Group, LLC:

On March 9, 2013 the Company borrowed $17,000 from Tangiers Investment Group, LLC ("Tangiers Investments"). On March 11, 2013 the Company borrowed an additional $12,373. On April 19, 2013 the Company borrowed an additional $14,000. On May 1, 2013 the Company borrowed an additional $24,893 and on May 17, 2013 borrowed an additional $20,000. The notes accrue interest at a rate of ten percent per annum and becomes due one year from the note date. During the year ended December 31, 2013 the Company converted $25,375 of note principal into 510,234,000 shares of the Company's common stock. Pursuant to the terms of the notes the principal balance is convertible at the option of the note holder into shares of the Company's common stock at a 50 percent discount to the lowest closing price during the ten-day trading period prior to conversion. Accrued interest on the notes totaled $4,442 and $-0- as of December 31, 2013 and 2012, respectively.

(p) Tangiers Investors, LP:

On May 16, 2011 the Company borrowed $10,000 from Tangiers Investors, LP ("Tangiers Investors"). On June 10, 2011 the Company borrowed an additional $15,000. On March 7, 2012 the Company borrowed an additional $16,915. On March 8, 2012 the Company borrowed an additional $21,000. The notes accrue interest at rates from seven to ten percent per annum and became due one year from the note date. At December 31, 2013 each of the notes was overdue. During the year ended December 31, 2012 the Company converted $38,246 of note principal and $1,748 of accrued interest into 23,609,250 shares of the Company's common stock. During the year ended December 31, 2013 the Company converted $24,669 of note principal and $2,045 of accrued interest into 198,041,345 shares of the Company's common stock. Pursuant to the terms of the notes the principal balance is convertible at the option of the note holder into shares of the Company's common stock at a 50 percent discount to the lowest closing price during the ten-day trading period prior to conversion. At December 31, 2013 each of the notes, including accrued interest, had been satisfied in full.

(q) Westmount International Holdings:

On January 12, 2010 the Company borrowed $884,710 from Westmount International Holdings ("Westmount"). The note accrues interest at a rate of 14 percent per annum and is due on demand. During the year ended December 31, 2013 the Company converted $3,263 of note principal into 19,196,530 shares of the Company's common stock. Pursuant to the terms of the notes the principal balance is convertible at the option of the note holder into shares of the Company's common stock at a 15 percent discount to the lower of $0.02 per share and the lowest volume-weighted-average closing price during the 30-day trading period prior to conversion. Accrued interest on the notes totaled $541,236 and $469,275 as of December 31, 2013 and 2012, respectively.

(r) Y.A. Global Investments, LP:

On December 7, 2006 the Company borrowed $1,000,000 from Y.A. Global Investments, LP ("Y.A. Global"). On November 2, 2007 the Company borrowed an additional $600,000. Both of these notes became due in 2009. On March 7, 2013 the Company borrowed an additional $25,000, becoming due on March 7, 2014. The notes accrue interest at a rate of 14 percent per annum. During the year ended December 31, 2012 the Company converted $6,715 of note principal into 79,000,000 shares of the Company's common stock. During the year ended December 31, 2013 the Company converted $31,110 of note principal into 304,037,255 shares of the Company's common stock. Pursuant to the terms of the notes the principal balance is convertible at the option of the note holder into shares of the Company's common stock at a 20 percent discount to the lowest volume-weighted-average closing price during the 30-day trading period prior to conversion. Accrued interest on the notes totaled $1,073,806 and $962,533 as of December 31, 2013 and 2012, respectively.

(s) Zoom Marketing Corporation:

On August 23, 2013 the Company borrowed $140,000 from Zoom Marketing Corporation ("Zoom"). The note accrues interest at a rate of five percent per annum and became due on January 23, 2014. Pursuant to the terms of the notes the principal balance is convertible at the option of the note holder into shares of the Company's common stock at a 15 percent discount to the lowest closing price during the ten-day trading period prior to conversion. Accrued interest on the notes totaled $2,436 and $-0- as of December 31, 2013 and 2012, respectively.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2013 COMPARED TO YEAR ENDED DECEMBER 31, 2012:

During the year ended December 31, 2013 (the "2013 Period") revenues were $1,067,229 compared to revenues of $1,276,022 during the year ended December 31, 2012 (the "2012 Period"). Revenues in the 2013 period were lower compared to the 2012 period as the Company reorganized its business management and sales teams in order to grow sales in the following fiscal year.

Cost of goods sold was $761,413 and $851,385 for the 2013 Period and the 2012 Period, respectively. Cost of goods sold primarily represents labor and labor-related costs in addition to overhead costs. The increased cost of goods sold was principally due to product returns in the 4th quarter of the 2013 Period. The Company began to reorganize its product development and business management teams at the end of the 2013 Period in order to improve sales and product quality in the following fiscal year

Gross Profits decreased to $305,816 during the 2013 Period compared to $424,637 during the 2012 Period. Gross profits decreased during the 2013 Period as a result of Gross revenues declining. The Gross profit percentage in the 2013 Period was 29% compared to 33% in the 2012 period.

Operating expenses were $1,678,207 for the 2013 period compared to $788,355 for the 2012 period. General and administrative expenses amounted to $1,439,421 during the 2013 Period compared to $425,446 for the 2012 period, and represented mostly labor and related compensation costs, legal and professional fees, outside services, travel expenses, rental expense and related office expenses. Sales and marketing expenses were $212,371 for the 2013 period compared to $291,961 for the 2012 period. Research and developments costs totaled $23,415 for the 2013 period compared to $58,948 during the 2012 period. Depreciation and amortization costs were $3,000 for the 2013 period compared to $12,000 for the 2012 period.

Loss from operations was $1,372,391 for the 2013 period compared to $363,718 for the 2012 period. Loss from operations was lower in the 2013 Period due primarily to a significant decrease in general and administrative expenses and, a modest decrease in sales revenues throughout the 2013 period.

Other income (expense) was $923,580 during the 2013 period compared to other expense of $3,647,270 in the 2012 period. Other income (expense) is comprised primarily of gain/loss on derivative and amortization of debt discount and deferred finance costs. The gain on derivative for the 2013 period was $4,985,720 compared to a loss of $2,597,552 for the 2012 period. 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. Derivative income (expense) displays the inverse relationship. Interest expense for the 2013 period was $5,909,300 compared to $1,068,507 for the 2012 period. The Company also recognized a $71,069 gain on extinguishment of debt during the 2012 period. The increase in interest expense is principally a result of an increase in the amount of debt discount that was amortized and derivative valuations in excess of debt discount amounts. The debt discount is being 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 2013 period was $2,323,226 compared to net loss of $3,980,286 for the 2012 period.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 2013 (the "2013 period") we used $434,618 net cash from operating activities compared to $57,191 for the year ended December 31, 2012 (the "2012 period").

During the year ended December 31, 2013 (the "2013 period") we used $367 net cash from investing activities compared to $3,121 for the year ended December 31, 2012 (the "2012 period") for purchases of property and equipment.

In the 2013 period, the Company generated $432,231 in cash from financing activities. This primarily reflects borrowings on convertible debentures. The Company's financing activities generated $62,544 of cash during the 2012 period.

At December 31, 2013, we had current assets of $24,710, current liabilities of $14,434,511, negative working capital of $14,409,801 and an accumulated deficit of $41,373,974. At December 31, 2012, we had current assets of $129,766, current liabilities of $13,947,222, negative working capital of $13,817,456 and an accumulated deficit of $39,050,748.

We presently do not have any available credit, bank financing or other external sources of liquidity. 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. 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, 2013:

	Payments due by Period				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Convertible debt	$ 2,452,430	$ 2,452,430	$ -	$ -	$ -
Notes payable	515,082	515,082	-	-	-
Notes payable, related parties	218,275	218,275	-	-	-
Small Business Administration loan	980,450	980,450	-	-	-
	$ 3,896,029	$ 3,896,029	$ -	$	$

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 8. FINANCIAL STATEMENTS

All financial information required by this Item is attached hereto at the end of this report beginning on page F-1 and is hereby incorporated by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A-(T). CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this annual report on Form 10-K, management performed, with the participation of our Chief Executive Officer and our Chief Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based on the evaluation and the identification of the material weaknesses in internal control over financial reporting described below our Chief Executive Officer and our Chief Financial Officer concluded that, as of December 31, 2013, our disclosure controls and procedures were not effective in ensuring that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and (ii) accumulated and communicated to our management, including our principal executive and financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange Act.) Internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive officer and principal financial officer and effected by an entity's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and directors of the entity; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the entity's assets that could have a material effect on its consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the Company's management conducted an assessment of the effectiveness of our internal control over financial reporting based on the criteria set forth in the Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

Based upon this assessment, as of December 31, 2013 the Company's management concluded that there are material weaknesses affecting our internal control over financial reporting and have concluded that our internal control over financial reporting was not effective as of the end of the period covered by this report.

The matters involving internal controls and procedures that our management considers to be material weaknesses under COSO and Commission rules are: (1) lack of a functioning audit committee and lack of independent directors on our board of directors, resulting in potentially ineffective oversight in the establishment and monitoring of required internal controls and procedures; (2) inadequate segregation of duties consistent with control objectives; (3) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of US GAAP and SEC disclosure requirements; and (4) ineffective controls over period end financial disclosure and reporting processes. The aforementioned potential material weaknesses were identified by our Chief Financial Officer in connection with the preparation of our financial statements as of December 31, 2013 who communicated the matters to our management and board of directors.

Management believes that the material weaknesses set forth in items (2), (3) and (4) above did not have an effect on our financial results. However, the lack of a functioning audit committee and lack of a majority of independent directors on our board of directors, resulting in potentially ineffective oversight in the establishment and monitoring of required internal controls and procedures, can impact our financial statements.

Attestation Report of Independent Registered Public Accounting Firm

This annual report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to an exemption for non-accelerated filers set forth in Section 989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Management's Remediation Initiatives

Although we are unable to meet the standards under COSO because of the limited resources available to a company of our size, we are committed to improving our financial organization. As funds become available, we will undertake to: (1) create a position to segregate duties consistent with control objectives, (2) increase our personnel resources and technical accounting expertise within the accounting function (3) appoint one or more outside directors to our board of directors who shall be appointed to a Company audit committee resulting in a fully functioning audit committee who will undertake the oversight in the establishment and monitoring of required internal controls and procedures; and (4) prepare and implement sufficient written policies and checklists which will set forth procedures for accounting and financial reporting with respect to the requirements and application of US GAAP and SEC disclosure requirements.

We will continue to monitor and evaluate the effectiveness of our disclosure controls and procedures and our internal control over financial reporting on an ongoing basis and are committed to taking further action and implementing additional enhancements or improvements, as necessary and as funds allow. However, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks.

The implementation of these and other initiatives will be largely contingent on our ability to expand our board of directors and create audit and compensation committees. As we build an independent board-majority, comprised of a number of financial professionals, we anticipate the planning and implementation of internal controls to be expedited and improved.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Auditor's Attestation

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

ITEM 9B. OTHER INFORMATION

None.

18

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Our directors, principal executive officers and significant employees as of December 31, 2013 are as specified on the following table:

Name	Age	Position
Lloyd Spencer	57	Chief Executive Officer, Interim Chief Financial Officer, Director, Treasurer, Secretary

The principal occupations for each of our current executive officers and directors are as follows:

LLOYD T. SPENCER became our Chief Executive Office on January 28, 2008, interim Chief Financial Officer on November 17, 2008 and a member of the board of directors and Vice President since September 20, 2007. Beginning in May 2006, Mr. Spencer has served as President and CEO of our subsidiary, CoroWare Technologies, Inc. Beginning in October 2004, Mr. Spencer was co-founder and President of CoroWare, Inc., a Washington State private company that was acquired by Innova Holdings, Inc., which is now known as CoroWare, Inc. From June 2002 to September 2004, Mr. Spencer was Vice President of Sales at Planet Technologies, a systems integration company based in Germantown, MD. From November 1996 to August 2001, Mr. Spencer was Solutions Unit Manager and Group Product Manager at Microsoft in Redmond, Washington. Prior to Microsoft, Mr. Spencer served as Assistant Vice-President and Business Unit Manager at Newbridge Networks; and Product Line Manager at Sun Microsystems. He is an active contributor to the robotics community in the Seattle area through his participation in the Seattle Robotics Society. He is also instrumental in initiating and fostering 4H robotics clubs and programs in Washington State. Mr. Spencer received his Bachelors degree from Cornell University in 1980 with a major in Biology and Animal Science and with an emphasis in Immunogenetics.

On February 14, 2014, Ms. Shanna Gerrard resigned as Corporate Secretary of CoroWare, Inc. (the “Company”), effective immediately. There was no disagreement between the Company and Ms. Gerrard which led to her resignation.

On February 14, 2014, Mr. Lloyd Spencer,,Chairman of the Board of Directors, was appointed as Interim Corporate Secretary. Mr. Spencer continues to serve as President and Chief Executive Officer.

Our director will serve until the next annual meeting of stockholders. Our executive officers are appointed by our Board of Directors and serve at the discretion of the Board of Directors.

Section 16(a) of the Securities and Exchange Act of 1934

Section 16 (a) of the Securities and Exchange Act of 1934 requires the Company’s officers and directors and persons who beneficially own more than 10% of the Company’s common stock (collectively, “Reporting Persons”) to file reports of beneficial ownership and changes in beneficial ownership with the SEC. Reporting Persons are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. We believe that all Reporting Persons complied with all applicable reporting requirements, except for the late filings of Form 3 (Initial Statement of Beneficial Ownership of Securities), and 4 (Statement of Changes of Beneficial Ownership of Securities) filings of Lloyd Spencer and Shanna Gerrard.

CODE OF ETHICS DISCLOSURE COMPLIANCE

CoroWare has adopted a Code of Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer and other employees performing similar functions. The Code of Ethics was revised and updated in 2007 and approved by the board on December 6, 2007. The Code of Ethics is in the investor section of our website at www.coroware.com .

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth the cash compensation (including cash bonuses) paid or accrued and equity awards granted by CoroWare for years ended December 31, 2013 and 2012 to our Chief Executive Officer and our two most highly compensated officers other than the Chief Executive Officer at December 31, 2013 whose total compensation exceeded $100,000.

Name & Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards	Non-equity Incentive Plan Compensation	Change in Pension Value and Non-Qualified Deferred Compensation Earnings	All other Compensation	Totals
Lloyd Spencer (1)	2013	34,858	$ -	$ -	$ -	$ -	$ -	$ -	$ 34,858
	2012	$ 26,639							$ 26,639
David Hyams (2)	2013	$ 49,883		$ 3,417					$ 53,300
	2012	$ 62,374		$ 11,879					$ 74,253

Notes:

(1) Lloyd Spencer has served as CEO since January 28, 2008 and interim CFO since November 17, 2008. Prior to that, he was Vice President of Business Development and Director. Mr. Spencer is President of our subsidiary, CoroWare Technologies, Inc. with an annual salary of $150,000. On May 16, 2006, Mr. Spencer entered into an employment agreement which granted him 1,667 stock options to purchase restricted shares of CoroWare's common stock at $54 which were cancelled on December 31, 2007 and converted into restricted common stock one-for-one and issued in lieu thereof by action of the Board of Directors. Mr. Spencer was granted 1,667 options to purchase restricted shares of CoroWare common stock at $12 on May 16, 2006. These options have a ten year term and vest ratably over three years. On December 31, 2007 the options were re-priced from $12 to $3. In February 2008, these options were converted to 1,667 shares of CoroWare common stock. On September 12, 2007, Mr. Spencer was granted options to purchase restricted shares of the CoroWare common stock at $12 per share. On December 31, 2007, the options were re-priced from $12 to $3. As of December 31, 2010, all 5,000 of these options have vested.

(2) David Hyams is Chief Technology Officer with a salary of $150,000. On May 16, 2006, Mr. Hyams entered into an employment agreement which granted him 1,667 stock options to purchase restricted shares of CoroWare's common stock at $54 which were cancelled on December 31, 2007 and converted into restricted common stock

one-for-one and issued in lieu thereof by action of the Board of Directors. Mr. Hyams was granted 1,667 options to purchase restricted shares of CoroWare common stock at $12 on May 16, 2006. These options have a ten year term and vest ratably over three years. On December 31, 2007 the options were re-priced from $12 to $3. In February 2008, these options were converted to 1,667 shares of CoroWare common stock. On September 12, 2007, Mr. Hyams was granted options to purchase restricted shares of the CoroWare common stock at $12 per share. On December 31, 2007, the options were re-priced from $12 to $3. As of December 31, 2010, all 5,000 of these options have vested. In 2012, Mr. Hyams agreed to a modification of his employment contract which changed his salary to an hourly rate resulting in gross income of $126,000 per year of which a portion is paid in cash as noted in the table above and a portion is deferred.

Stock Option Plans

CoroWare's 2005 Stock Option Plan was ratified by the Stockholders of the Corporation at a Special Meeting of the Stockholders on November 3, 2006. The plan is presently administered by our board of directors, which selects the eligible persons to whom options shall be granted, determines the number of common shares subject to each option, the exercise price therefore and the periods during which options are exercisable, interprets the provisions of the plan and, subject to certain limitations, may amend the plan. Each option granted under the plan shall be evidenced by a written agreement between the company and the optionee. Options may be granted to employees (including officers) and directors and certain consultants and advisors. Options granted under the plan are not transferable, except by will and the laws of descent and distribution.

Name	Number of Shares Underlying Options	% of Total Options Granted to Employees	Exercise Price	Expiration