UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **September 30, 2009**

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

4056 148th Avenue NE, Redmond, WA 98052

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(800) 641-2676

(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. þ Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨		Accelerated filer	¨
Non-accelerated filer	¨	(Do not check if a smaller reporting company	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 þ No

As of November 20, 2009 there were 3,583,380 shares of the issuer s $.001 par value common stock issued and outstanding.

EXPLANATORY NOTE

All common share amounts and per share amounts in the accompanying financial statements and in this Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2009 reflect the one-for-three hundred reverse stock split of the issued and outstanding shares of common stock of the Company, effective on April 8, 2009.

COROWARE, INC.
September 30, 2009 QUARTERLY REPORT ON FORM 10-Q

TABLE OF CONTENTS

PART II OTHER INFORMATION

PART I FINANCIAL INFORMATION

ITEM 1.

CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

COROWARE, INC.

CONSOLIDATED BALANCE SHEETS

	September 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash	$ 46	$ 32,142
Accounts receivable, net	116,974	52,796
Other current assets	7,870	8,821
Total current assets	124,890	93,759
Property and equipment, net	48,661	65,462
Intangible assets, net	44,331	148,343
Other assets, net	4,815	4,815
Deferred financing costs, net	22,986	130,173
TOTAL ASSETS	$ 245,683	$ 442,552
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Lines of credit	$ 124,371	$ 29,210
Accounts payable and accrued expenses	2,505,931	1,985,112
Accrued expenses, related parties	224,876	166,513
Notes payable	317,732	322,500
Notes payable, related parties	408,229	189,600
Derivative liability (Note 4)	1,741,676	284,745

Current maturities of convertible debt, net of discount (Note 4)	2,102,467	585,188
Redeemable preferred stock, Series B, $.001 par value, 10,000,000 shares authorized, 159,666 shares issued and outstanding as of September 30, 2009 and December 31, 2008	383,198	212,888
Total current liabilities	7,808,480	3,775,756
Convertible debt, net of discount		241,678
Long-term debt	989,100	989,100
Total liabilities	8,797,580	5,006,534
Stockholders deficit:		
Common stock, $.001 par value, 900,000,000 shares authorized,		
3,063,741 and 2,929,176 shares issued and outstanding at		
September 30, 2009 and December 31, 2008, respectively	3,064	2,929
Additional paid-in capital	14,753,416	14,694,361
Accumulated deficit	(23,272,677)	(19,225,572)
Treasury stock	(35,700)	(35,700)
Total stockholders deficit	(8,551,897)	(4,563,982)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	$ 245,683	$ 442,552

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

F-1

COROWARE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three and Nine Months ended September 30, 2009 and 2008

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenues	$ 386,903	$ 495,688	$ 1,461,009	$ 1,934,004
Cost of revenues	313,723	326,307	982,800	1,512,125
Gross profit	73,180	169,381	478,209	421,879
Operating expenses:				
General and administrative	272,692	322,628	685,781	1,551,217
Sales and marketing	30,127	61,247	76,455	95,475
Depreciation and amortization	10,297	59,862	119,767	179,476
Total operating expenses	313,116	443,737	882,003	1,826,168
Loss from operations	(239,936)	(274,356)	(403,794)	(1,404,289)
Other income (expense): (Note 4)				
Derivative income (expense)	654,399	40,620	(1,622,863)	1,376,743
Interest expense, net	(1,026,141)	(135,295)	(2,016,069)	(435,287)
Loss on debt redemptions		(105,662)		(447,750)
Total other income (expense)	(371,742)	(200,337)	(3,638,932)	493,706
Net loss	$ (611,678)	$ (474,693)	$ (4,042,726)	$ (910,583)
Net loss per share:				
Basic and diluted, continuing operations	$ (0.21)	$ (0.29)	$ (1.38)	$ (0.89)

Weighted average shares outstanding:				
Basic and diluted	2,953,870	1,618,371	2,931,369	1,018,789

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

COROWARE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months ended September 30, 2009 and 2008

(Unaudited)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (4,042,726)	$ (910,583)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	119,767	179,476
Stock option expense	40,075	81,187
Amortization of debt discount	1,776,676	213,963
Amortization of deferred financing costs	107,186	121,369
Derivative (income) loss	1,622,863	(1,376,743)
Loss on debt redemptions		447,750
Common stock issued for services	9,418	423,170
Write off of software development costs	35,842	
Imputed interest		2,400
Gain on settlement of liabilities with stock	(6,453)	(9,529)
Changes in operating assets and liabilities:		
Accounts receivable, net	(64,178)	(38,006)
Other current assets, net	951	12,556
Accounts payable and accrued expenses	93,086	323,446
NET CASH FLOWS FROM OPERATING ACTIVITIES	(307,493)	(529,544)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(33,625)	(41,844)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(33,625)	(41,844)
CASH FLOWS FROM FINANCING ACTIVITIES		

Proceeds from convertible debt financing		240,000
Proceeds from lines of credit, net	95,161	7,048
Payments on notes payable	(5,268)	
Payments on notes payable, related party	(30,000)	(13,700)
Proceeds from notes payable	500	
Proceeds from notes payable, related party	248,629	135,400
NET CASH FLOWS FROM FINANCING ACTIVITIES	309,022	368,748
NET DECREASE IN CASH	(32,096)	(202,640)
Cash, beginning of period	32,142	205,058
Cash, end of period	$ 46	$ 2,418

Continued.

COROWARE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

For the Nine Months ended September 30, 2009 and 2008

(Unaudited)

	2009	2008
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 24,065	$ 19,963
Income taxes paid	$	$
NON-CASH INVESTING AND FINANCING TRANSACTIONS		
Common stock issued for Series B preferred stock dividends	$	$ 3,750
Common stock issued in satisfaction of note payable	$	$ 44,925
Common stock issued for redemption of convertible debentures	$	$ 462,141
Common stock issued in satisfaction of accrued liabilities	$ 19,116	$ 301,585
Common stock issued for conversion of Series C preferred stock	$	$ 35

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, 2008 and prior quarterly reports on Form 10-Q for 2009. 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, 2008 as reported in Form 10-K have been omitted. In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through November 23, 2009, the date the financial statements were issued.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adopted Accounting Pronouncements:

Effective July 1, 2009, we adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 105-10, Generally Accepted Accounting Principles. ASC 105-10 establishes the FASB Accounting Standards Codification™ (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority. The Codification supersedes all existing non-SEC accounting and reporting standards. The FASB will now issue new standards in the form of Accounting Standards Updates (ASUs). The FASB will not consider ASUs as authoritative in their own right. ASUs will serve only to update the Codification, provide background information about the guidance and provide the bases for conclusions on the changes in the Codification. References made to FASB guidance have been updated for the Codification throughout this document.

On January 1, 2009, the Company adopted FASB ASC 815-40. This section of the Codification provides that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument s contingent exercise and settlement provisions. The adoption of this pronouncement required the Company to perform additional analyses on both its freestanding equity derivatives and embedded equity derivative features. The adoption of FASB ASC 815-40 affected the Company s accounting for the warrants associated with the $600,000 convertible debenture resulting in the Company recording a derivative liability of $4,379 representing the fair value of the warrants as of January 1, 2009. FASB ASC 815-40 requires the Company to recognize the cumulative effect of the change in accounting principle as an adjustment to the opening balance of retained earnings.

Reclassifications:

Certain 2008 balances have been reclassified to conform to current year presentation.

NOTE 3 FINANCIAL CONDITION AND GOING CONCERN

The Company has incurred losses for the nine months ended September 30, 2009 and 2008 of $4,042,726 and $910,583, respectively. Because of these losses, the Company will require additional working capital to develop its business operations.

The Company intends to raise additional working capital through the use of private placements, public offerings, bank financing 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 CONVERTIBLE DEBT

The following table illustrates the carrying value of convertible debt:

	September 30, 2009		December 31, 2008	
$2,825,000 financing	$	1,392,298	$	585,188
$ 600,000 financing		468,773		85,602
$ 300,000 financing		241,396		156,076
	$	2,102,467	$	826,866

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 September 30, 2009					
			Fair Value			
Derivative income (expense)	Inception		Adjustments		Redemptions	Total
$2,825,000 financing	$	$	142,564			