CoroWare, Inc,
Form 10-K
May 18, 2009

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, 2008

¨ 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

(Issuer registrant Telephone Number)

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

INNOVA ROBOTICS & AUTOMATION, INC.

(Former Name or Former Address, If Changed From Last Report)

Securities registered pursuant to Section 12(b) of the Act: None

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

COMMON STOCK, PAR VALUE $.001

(TITLE OF CLASS)

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

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

Indicate by check mark whether the Company (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K contained in this form, and no disclosure will be contained, to the best of the Company's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer ¨

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 ¨ 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 March 31, 2009, was $527,251. For purposes of this computation, the registrant has excluded the market value of all shares of its common stock reported as being beneficially owned by executive officers and directors and holders of more than 10% of the common stock on a fully diluted basis of the registrant; such exclusion shall not, however, be deemed to constitute an admission that any such person is an affiliate of the registrant.

As of March 31, 2009 there were 878,752,920 shares of the issuer's $.001 par value common stock issued and outstanding.

INDEX

PART I

PART II

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.

The Company undertake 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 the entirety of this Annual Report, which are designed to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

PART I

ITEM 1.

BUSINESS

Overview

CoroWare, Inc (CoroWare or the Company) is a software and software professional services company with a strong focus on Information Technology integration and Robotics that delivers professional services, solutions and products that benefit customers in the software development, information technology, education, Homeland Security, military defense and automotive industry sectors. The Company has four subsidiaries: CoroWare Technologies, Inc. (CTI), Innova Robotics, Inc, Robotics Software Services, Inc., and Robotic Workspace Technologies, Inc.(RWT). The operating plan of the Company is to focus on its subsidiary CTI which delivers high value services and innovative solutions that maximize technology investments and achieve customer goals.

During 2007 and 2008 the Company s subsidiary Innova Robotics Inc. had no business operations, no revenues, no assets, no liabilities and no expenditures; however it still remains a wholly owned subsidiary of the Company. CTI has consolidated and assumed all of the Company s and its other subsidiaries development and engineering initiatives. In 2007, the Company purchased then subsequently sold the assets subject to its liabilities of Altronics Service, Inc, which was re-named Robotics Software Services, Inc. In 2007, RWT ceased all operations including manufacturing, sales and service of the Universal Robot Controller. The Company intends to sell RWT s robotic control technology patents to interested parties. However, there is no guaranty that there is a market for them.

Employees

As of March 31, 2009, the Company had a total of twenty four (24) employees (of which 15 are full time) and several independent contractors providing services. None of our employees are covered by the by collective bargaining agreements. The Company believes that its relations with its employees are good.

Three of the subsidiaries are described below. The fourth subsidiary has been inactive from inception.

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. In addition, CTI is investigating the potential of offering software solutions that complement its High Value Software Systems Development and Integration Services, especially in the areas of Interactive Multimedia Tools and Innovation Collaboration Portals.

CTI is comprised of two principal solutions delivery groups:

.

Business Solutions

.

Robotics and Automation

Business Solutions

CTI provides release management, software systems development, and product integration services that help our customers deliver high quality products, solutions and services.

Release and Project Management

CTI's 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. CTI's senior consultants design complex testing and demonstration environments using the latest Microsoft virtualization technology, ensuring rapid, scalable and low-fault deployments.

Technology Adoption 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 engineers work side-by-side with Microsoft employees and partners to ensure that they can deploy and test applications on pre-release and newly released Microsoft platforms. CTI employees currently offer these services in two Microsoft data centers and labs.

Interactive Multimedia Solutions

CTI possesses the tools and experience to produce highly customizable electronic publications, providing Microsoft and other companies the opportunity to collect and publish electronic information in compelling, media-rich formats.

Solution Delivery

CTI is focused on delivering solutions around a key set of Microsoft products. CTI offers solutions, envisioning, design, development and testing services through architects and developers who are experienced in a range of Microsoft solutions and technologies.

Telepresence

In early 2009, CTI launched its telepresence initiative in order to address the needs of enterprise customers with distributed business operations that and are turning to new technologies to address the cost of doing business in a world that is increasing dependent on suppliers and partners and customers worldwide. In order to overcome these challenges, enterprise customers are looking for solutions that are demonstrably effective and operationally affordable.

Consistent with this apparent demand, International Data Corporation, ABI Research and Gartner Group listed telepresence as one of their 10 top growth areas in 2009 that promises to grow into a $1B marketplace in the upcoming decade.

To begin addressing this growing market segment, CTI began selling an affordable and scalable high-definition multi-point telepresence solution that can be deployed in conference rooms and on individuals desktops/laptops through its reseller partnership with Vidyo.

Moreover, CTI has proposed acquiring LTC International to leverage its in-depth knowledge of application services that we believe will help the Company more expeditiously enter the personal telepresence marketplace. LTC was formed in 1992 with the goal of helping service providers and telecommunications companies meet their growing needs for dependable systems and software solutions.

Robotics and Automation

Professional Services

CTI is focused on the global market for service robots and offers its robotic integration expertise to customers who are looking for product realization, robotics simulation, systems architecture and design, and robotic applications development services. The Company believes CTI is uniquely positioned with its knowledge of robotics simulation, Microsoft Robotics Studio, software systems development, and hardware and software integration services to help its customers deliver innovative product and solutions. For example, CTI has been working on projects that help customers simulate and develop complex robots based on Microsoft Robotic Studio.

Solutions and Products

In May 2007, CTI began shipping the CoroBot, an affordable and flexible mobile robot for researchers, hobbyists and developers in the industrial and service robot segments. Some university customers are deploying CoroBots for use in various lab activities, including the development of swarm robotics applications designed to leverage groups of robots to complete complex tasks.

CTI designed the CoroBot to meet the need for affordable and flexible mobile robot platforms within the academic and commercial mobile robotics research and development community. Based on customer feedback, CTI believes that the availability of pre-installed Microsoft Robotics Studio® services will be viewed as a major advantage for users.

ROBOTIC WORKSPACE TECHNOLOGIES, INC.

During the third quarter of 2007 RWT ceased all operations including manufacturing, sales and service of the Universal Robot Controllers (URC). The Company intends to sell RWT s robotic control technology patents. There is no guarantee that there is a market for them.

Trademarks and Patents

RWT holds three pioneer patents issued by the United States Patent and Trademark Office that cover all applications pertaining to the interface of a general use computer and the mobility of robots, regardless of specific applications. During the third quarter of 2007 the Company discontinued the manufacturing of the URC and refocused that business on obtaining licenses for the RWT robotic motion control patents.

First Patent number 6,442,451 - awarded September 5, 2002 - Versatile robot control system - Abstract - An improved, versatile robot control system comprises a general purpose computer with a general purpose operating system in electronic communication with a real-time computer subsystem. The general-purpose computer includes a program execution module to selectively start and stop processing of a program of robot instructions and to generate a plurality of robot move commands. The real-time computer subsystem includes a move command data buffer for storing the plurality of move commands, a robot move module linked to the data buffer for sequentially processing the moves and calculating a required position for a robot mechanical joint. The real-time computer subsystem also includes a dynamic control algorithm in software communication with the move module to repeatedly calculate a required actuator activation signal from a robot joint position feedback signal.

Second Patent number 6,675,070 - awarded April 5, 2004 - Automation equipment control system Abstract - An automation equipment control system comprises a general-purpose computer with a general-purpose operating system in electronic communication with a real-time computer subsystem. The general-purpose computer includes a program execution module to selectively start and stop processing of a program of equipment instructions and to generate a plurality of move commands. The real-time computer subsystem includes a move command data buffer for storing the plurality of move commands, a move module linked to the data buffer for sequentially processing the moves and calculating a required position for a mechanical joint. The real-time computer subsystem also includes a dynamic control algorithm in software communication with the move module to repeatedly calculate a required actuator activation signal from a joint position feedback signal.

Third Patent number 6,922,611 awarded July 26, 2005 - Reflects the company s continuing R&D efforts in open-architecture PC control technology spearheaded by RWT. Each of the Company s patents pertains to RWT s versatile PC control system suitable for controlling robots of various electromechanical configurations, other automation equipment, and its common programmer/operator interface.

ROBOTICS SOFTWARE SERVICES, INC.

During 2007 the Company purchased Altronics Service, Inc., then, subsequently, sold the assets subject to its liabilities. At the time of the sale the Company changed the name to Robotics Software Services Inc. which is no longer an operating company; however, it remains a wholly owned subsidiary of the Company.

On March 16, 2007, RWT, completed the purchase of all of the issued and outstanding shares of common stock of Altronics Service, Inc. (Altronics) pursuant to a certain Stock Purchase Agreement which RWT entered into with

Alfred Fleming and Andrea Fleming, being all of the shareholders of Altronics. In September 2007, the assets of Altronics Service were sold in exchange for $100,000 in the form of a promissory note payable within 35 days secured by the assets of the buyer, the buyer s assumption of liabilities totaling $365,000, the forgiveness of a promissory note for $100,000 payable by the Company to the buyer, and the assignment of 250,000 shares of the Company s restricted Common Stock for cancellation. Except for an employment agreement between Altronics and Mr. Fleming which was terminated as a result of his resignation at closing of the sale of the assets, no material relationship exists between the Company and the Purchaser and/or its affiliates, directors, officers or any associate of an officer or director.

Competition

Competitors in the Professional Services market are both large and well established, such as Avanade, Tata Consultancy Services; and smaller, privately held consulting companies with practices in a single vertical arena such as multimedia production. We have maintained long-term relationships with our customers and have been successful in renewing contracts and in signing multi-month or year-long contracts.

Competitors in the Telepresence market include resellers and integrators, most of whom have been smaller, privately held consulting companies with practices in video conferencing. Recently, Cisco and Tandberg have been establishing reseller and service provider relationships with Tier 1 service providers, such as AT&T British Telecom.

Competitors in the Mobile Robotics for Research market have comprised iRobot and privately held companies such as Mobile Robots, RoboSoft, and Evolution Robotics.

Customers

CoroWare's professional services are dependent on a small number of tier 1 customers in Europe and North America, and on a growing number of smaller, privately held software and hardware product companies in North America principally through our software development resources in North America and Latin America.

Regulation

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

Research & Development

CoroWare's research and development activities have primarily been focused on the development of software components, such as JAUS, in support of its CoroBot and ClassPack product lines. The company began working on early investigative research in telepresence that we believe will complement CoroWare's telepresence and mobile robotics products, solutions and services.

Products

CoroBot:

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

Classpack:

CoroWare ClassPack for Microsoft Robotics Studio is a simulation software package for the CoroBot development platform. The simulation CoroBot is physics based and supports the features of the real CoroBot model CB-WA. It has nearly identical functionality to the real CoroBot. ClassPack allows educators to put a virtual robot in the hands of every student while maintaining their department s budget.

Intellectual Property

RWT holds three pioneer patents issued by the United States Patent and Trademark Office that cover all applications pertaining to the interface of a general use computer and the mobility of robots, regardless of specific applications.

During the third quarter of 2007 the Company discontinued the manufacturing of the URC and refocused that business on obtaining licenses for the RWT robotic motion control patents.

First Patent number 6,442,451 - awarded September 5, 2002 - Versatile robot control system - Abstract - An improved, versatile robot control system comprises a general purpose computer with a general purpose operating system in electronic communication with a real-time computer subsystem. The general-purpose computer includes a program execution module to selectively start and stop processing of a program of robot instructions and to generate a plurality of robot move commands. The real-time computer subsystem includes a move command data buffer for storing the plurality of move commands, a robot move module linked to the data buffer for sequentially processing the moves and calculating a required position for a robot mechanical joint. The real-time computer subsystem also includes a dynamic control algorithm in software communication with the move module to repeatedly calculate a required actuator activation signal from a robot joint position feedback signal.

Second Patent number 6,675,070 - awarded April 5, 2004 - Automation equipment control system Abstract - An automation equipment control system comprises a general-purpose computer with a general-purpose operating system in electronic communication with a real-time computer subsystem. The general-purpose computer includes a program execution module to selectively start and stop processing of a program of equipment instructions and to generate a plurality of move commands. The real-time computer subsystem includes a move command data buffer for storing the plurality of move commands, a move module linked to the data buffer for sequentially processing the moves and calculating a required position for a mechanical joint. The real-time computer subsystem also includes a dynamic control algorithm in software communication with the move module to repeatedly calculate a required actuator activation signal from a joint position feedback signal.

Third Patent number 6,922,611   awarded July 26, 2005 - Reflects the company s continuing R&D efforts in open-architecture PC control technology spearheaded by RWT. Each of the Company s patents pertains to RWT s versatile PC control system suitable for controlling robots of various electromechanical configurations, other automation equipment, and its common programmer/operator interface.

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 Exchange Act, we are not required to provide the information required by this item.

ITEM 2.

PROPERTIES

On May 5, 2006 the Company leased 1,400 square feet of space at 4074 148th Avenue, Redmond, Washington. The lease was with Yett Family Partnership, LP, with monthly payments of $1,944 through May 31, 2007. The Company subsequently entered into a lease with PS Business Park at the same location beginning on June 1, 2007 for a period of three (3) years. The monthly rent is currently $1,584 and will increase annually by 3%. The Company has subleased a portion of this space for $1,500 a month running from September 1, 2008 through May 31, 2009.

On July 10, 2007 the Company leased 1,800 square feet of space at 4056 148th Avenue, Redmond, Washington, which serves as the Company s sole operating facility. The lease is with PS Business Park for a period of five (5) years. Monthly rental payments are $2,057 and will increase annually by 3%.

Rental expense for the operating leases for the years ending December 31, 2008 and 2007 was $55,876 and $96,798, respectively.

ITEM 3.

LEGAL PROCEEDINGS

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

ITEM 4.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None

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, the Company was eligible to participate in the OTC Bulletin Board, an electronic quotations medium for securities traded outside of the NASDAQ Stock Market. 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 the name of the Company was changed to Innova Robotics & Automation, Inc. and the trading symbol was changed to INRA. In April 2008, the Company s name was changed to CoroWare, Inc. and the trading symbol was changed to CROE. In April 2009, in conjunction with a 1-for-300 reverse stock split, the Company s trading symbol was changed to COWI.

The following table sets forth, for the fiscal quarters indicated, the high and low closing sales price of our Common Stock as reported on the NASD Over-the-Counter Bulletin Board for each quarterly period during fiscal years ended December 31, 2008 and 2007.

COMMON STOCK

Year Ended December 31, 2008	**High**	**Low**
First Quarter	$ 0.0180	$ 0.0045
Second Quarter	$ 0.0085	$ 0.0015
Third Quarter	$ 0.0022	$ 0.0003
Fourth Quarter	$ 0.0003	$ 0.0001
Year Ended December 31, 2007	**High**	**Low**
First Quarter	$ 0.310	$ 0.100
Second Quarter	$ 0.130	$ 0.056
Third Quarter	$ 0.080	$ 0.017
Fourth Quarter	$ 0.025	$ 0.007

There are approximately 218 record holders (not including beneficial owners holding shares in street name) of our common stock as of March 31, 2009. The closing sale price of our common stock as reported on the Over-the-Counter Bulletin Board on May 13, 2009 was $0.19 per share.

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, 2008 the Company has issued and has outstanding 159,666 shares of Series B Preferred Stock all of which earns a 5% dividend, payable in either cash or common stock of the Company. Such dividends on these Preferred Stocks will be paid before any dividends on common stock. The Board of Directors has sole discretion to pay cash dividends based on the Company's financial condition, results of operations, capital requirements, contractual obligations and other relevant factors. As of December 31, 2008, $24,684 of Series B Preferred dividends had been converted into common stock.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table set forth the information as of December 31, 2008 with respect to compensation plans under which equity securities of the Company are authorized for issuance:

EQUITY COMPENSATION PLAN INFORMATION

DECEMBER 31, 2008

Plan Category	Number of shares to be issued upon exercise of outstanding options and warrants	Weighted average exercise price of outstanding options and warrants	Number of securities available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders:			
2003 Stock Option Plan		n/a	
2004 Stock Option Plan		n/a	
2005 Stock Option Plan	10,955,154	$0.05	9,004,846
Equity Stock Compensation plan not approved by security holders:			
2006 Employee Compensation Plan	n/a	n/a	24,534
2008 Incentive Stock Plan		n/a	2,900,845
2008 Amended Incentive Stock Plan		n/a	18,321,701
Total	10,955,154		30,251,926

Stock Plans

As of December 31, 2008, the Company had three stock compensation plans which provided for the issuance of 231,000,000 shares to employees of the Company or its subsidiaries as follows:

Plan Description	**Authorized Shares**
2006 Employee Compensation Plan	1,000,000
2008 Incentive Stock Plan	30,000,000
2008 Amended Incentive Stock Plan	200,000,000
Total	231,000,000

Stock Options

As of December 31, 2008 the Company had one active Stock Option Plan known as the 2005 Stock Option Plan. The Plan was approved by the stockholders of the Company on November 3, 2006 and authorized the issuance of 20,000,000 shares of common stock. The Board of Directors on December 31, 2007 cancelled 7,910,000 options for 7,910,000 shares previously granted to current employees prior to that date which were exercisable at various prices and issued 7,910,000 options to these employees at the closing price as of December 31, 2007 or $.01. The number of options issued and outstanding under the 2005 plan on December 31, 2008 is 10,955,154.

In addition to the options issued under the 2005 Stock Option Plan, 7,967,853 options were issued outside of the Plan. For services rendered, Agora Investor Relations Corp received 133,000 options to purchase restricted common stock at a purchase price of $.17 per share, Friedland Capital received 1,150,000 options to purchase restricted common stock at $0.13 per share, Stratex Solutions (a consulting company founded by Eugene Gartlan) received 1,212,128 options to purchase restricted common stock at $0.05 per share. Members of the Board of Directors were issued an aggregate of 4,472,725 options to purchase common stock at $0.11. Also, Maureen Gartlan received 1,000,000 options to purchase restricted common stock at $.0062 per share. Those options were issued in accordance with an employment agreement with her late husband Eugene Gartlan who was the interim Chief Executive Officer of the Company prior to his passing.

In the fourth quarter of 2007, the 1,212,128 Stratex options were cancelled. In February 2008 the 4,472,725 options granted to the Board of Directors were converted into common stock using a one-to-one ratio. The 133,000 options issued to Agora, the 1,150,000 issued to Friedland Capital and the 1,000,000 issued to Maureen Gartlan remain outstanding at December 31, 2008.

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 similar terms. Forward-looking statements are not guarantees of future performance and the Company 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. All information presented herein is based on the Company s fiscal calendar. The Company assumes 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 its 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-KSB filed by us in 2008 and any Current Reports on Form 8-K filed by us.

OVERVIEW

On August 25, 2004, the Company completed a reverse merger into Robotic Workspace Technologies, Inc. (RWT), a robotics software technology provider, in which RWT was deemed the "accounting acquirer." On May 16, 2006, the Company completed the purchase of all of the assets of CoroWare, Inc. pursuant to a certain Asset Purchase Agreement we and CoroWare entered into with Coroware Technologies, Inc., a wholly owned subsidiary of our company dated as of May 12, 2006. Under the terms of the Asset Purchase Agreement, the Company purchased, and CoroWare sold, all of its assets including, without limitation, all hardware, software, employee relations, customer contacts in the military and homeland security markets, contacts with Microsoft, Inc. and all other customers.

During 2008 and 2007 the Company s subsidiary Innova Robotics Inc. had no business operations, no revenues, no assets, no liabilities and no expenditures; however, it continues to be a subsidiary of the Company. CTI has consolidated and assumed all of the Company s and its other subsidiaries development and engineering initiatives. The Company also purchased then subsequently sold the assets subject to its liabilities of Altronics Service, Inc. Robotic Workspace Technologies (RWT) ceased all operations including manufacturing, sales and service of the Universal Robot Controllers. The Company intends to license RWT s robotic control technology patents to original equipment manufacturers (OEMs), software development companies, and other interested parties.

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 its 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 its financial statements and notes included in its Form 10-K filed with the Securities and Exchange Commission.

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 as well as patents on motion control 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 EITF 00-21, Revenue Arrangements with Multiple Deliverables . 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 of refund privileges.

We recognize revenue from the sale of manufacturer s maintenance and extended warranty contracts in accordance with EITF 99-19 net of its costs of purchasing the related contracts.

Share-based payment

Stock based compensation expense is recorded in accordance with SFAS 123R (Revised 2004), *Share-Based Payment*, 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. The Company estimates forfeitures that it expects will occur and records expense based upon the number of awards expected to vest.

The Company has estimated fair value at the date of grant using the Black-Scholes-Merton option-pricing-model with the following weighted average assumptions:

	2008	**2007**
Expected Volatility	75.10%	75.10%
Dividend yield	-0-	-0-
Expected term (in years)	0-10	0-5
Risk-free interest rate	4.41%	4.41%
Forfeiture rate	5.00%	5.00%

Derivative Financial Instruments

Derivative financial instruments, as defined in Financial Accounting Standard No. 133, Accounting for Derivative Financial Instruments and Hedging Activities (FAS 133), 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 the YA Global Investments, L.P. (f/k/a Cornell Capital Partners, L.P.) (Yorkville) financings and (ii) the fair values of the detachable warrants that were issued in connection with those financing arrangements. In addition, this caption includes the fair values of other pre-existing derivative financial instruments that were reclassified from stockholders equity when net-share settlement was no longer within our control.

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 FAS 133, 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 fair 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 fair 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

Looking forward, the Company through its CTI subsidiary is well positioned to continue strong growth into Fiscal Year 2009. CTI will continue to expand its Microsoft Practice and Robotics and Automation Practice, and will further grow its Enterprise Solutions Practice largely due to the launch of CTI s Near-shore Outsourcing Practice.

CTI intends to grow its Microsoft Practice by delivering release management, lab management and program management professional services to product, solutions and field sales groups across Microsoft. The Company anticipates growth in this business segment as it scales up its consulting team and recruiting initiatives.

CTI s Near-Shore Outsourcing group offers its customers the option of dedicating their internal resources to other purposes while maintaining control of outsourced offshore projects during standard business hours, and provides an attractive and equally affordable alternative to other outsourcing vendors in India and China. CTI s Near-Shore Outsourcing group comprises architects, developers and testers with experience in Microsoft Solutions Framework, software application development, software application integration, interactive web site development (including Microsoft Silverlight), service oriented architecture (SOA), collaboration portal development, IT infrastructure, and

Quality Assurance.

The Robotics and Automation group expects to accomplish its rapid growth by continuing to offer expert systems development services that address robotic simulation, Microsoft Robotics Studio and embedded systems development opportunities, and by addressing the rapidly expanding mobile robot marketplace through the introduction of hardware and software products that are built upon and compatible with Microsoft Robotics Studio.

The Company does not expect to sell any of its fixed assets, including its property or equipment in the next twelve months, nor does it expect to purchase any real property in the next twelve months. During the next twelve months the Company expects to purchase certain equipment to support software development, testing and continued deployment of its technologies. Additionally, the Company expects to purchase office equipment, computer equipment and laboratory development and testing equipment to support the planned increase of the number of employees of the Company.

The Company has begun to implement a more comprehensive investor relations plan to communicate more effectively and actively with its shareholders, and create greater awareness of CTI and of CTI s services, solutions and products.

Recent Financing Transactions

On July 22, 2005 the Company borrowed $30,000 from a beneficial shareholder and entered into a short term note for that amount, the terms of which are: interest at the annual rate of 5%, due date in six months, and principal and accrued interest are convertible into common stock of the Company at $.015 per share. The lender has agreed to a repayment plan that extends the term to December 31, 2008. The note is currently in default.

On July 21, 2006, the Company consummated a Securities Purchase Agreement dated July 21, 2006 with Yorkville providing for the sale by the Company to Yorkville of its 10% secured convertible debentures in the aggregate principal amount of $2,825,000, net of deferred financing costs of $263,143 of which $1,250,000 was advanced immediately and $575,000 was advanced in August concurrent with its filing of the Registration Statement with the Securities and Exchange Commission (SEC). The last installment of $1,000,000 was advanced on December 7, 2006.

The Debentures mature on the third anniversary of the date of issuance. The holder of the Debentures may, at any time, convert amounts outstanding under the Debentures into shares of common stock of the Company at a fixed conversion price per share equal to $0.04. The Company's obligations under the Purchase Agreement are secured by substantially all of the assets of the Company and those of its wholly owned subsidiary, CTI.

Under the Purchase Agreement, the Company also issued to Yorkville five-year warrants to purchase 1,000,000 and 1,500,000 shares of Common Stock at prices equal to $0.50 and $1.00, respectively, together with three-year warrants to purchase 2,300,000, 2,000,000 and 2,500,000 shares of Common Stock at prices equal to $0.25, $0.65 and $0.75, respectively.

The Company has the right to redeem a portion or all amounts outstanding under the Debenture prior to the Maturity Date at a 10% redemption premium plus accrued interest provided that the closing bid price of the Common Stock is less than the Conversion Price and there is an effective Registration Statement covering the shares of Common Stock issuable upon conversion of the Debentures and exercise of the Warrants (as defined below). In addition, beginning on the earlier of: (i) the first trading day following the day which the Registration Statement is declared effective by the Commission, or (ii) December 1, 2006, and continuing on the first trading day of each calendar month thereafter, Cornell may require the Company to redeem up to $500,000 of the remaining principal amount of the Debentures per calendar month. However, Cornell may not require the Company to redeem the Debentures if the closing bid price of the Common Stock exceeds the Conversion Price for each of the five consecutive trading days immediately prior to the redemption date, and the Registration Statement has been declared effective and remains effective on the redemption date. The Company has the option, in its sole discretion, to settle any requested redemptions by either paying cash plus a 10% redemption premium plus accrued interest or issuing the number of shares of the Company s common stock equal to the cash amount owed divided by a stock price equal to 95% of the lowest daily volume weighted average price of the Company s common stock during the thirty (30) trading days immediately preceding the date of the redemption.

On October 25, 2007, the Company consummated a Securities Purchase Agreement dated October 25, 2007 with Yorkville for the sale by the Company to Yorkville of its 12% secured convertible debentures in the aggregate principal amount of $600,000, net of deferred financing costs of $75,000.

The Debentures mature on the third anniversary of the date of issuance. The holder of the Debentures may, at any time, convert amounts outstanding under the Debentures into shares of common stock of the Company at a fixed conversion price per share equal to $0.02 or 85% of the lowest volume weighted average price for the 30 days preceding the conversion date. The Company may elect to pay in cash plus a conversion premium of 12% plus accrued interest. The Company's obligations under the Purchase Agreement are secured by substantially all of the assets of the Company and those of its wholly owned subsidiary, CTI.

The Company has the right to redeem a portion or all amounts outstanding under the Debenture prior to the Maturity Date at a 12% redemption premium provided that the closing bid price of the Common Stock is less than the Conversion Price and there is an effective Registration Statement covering the shares of Common Stock issuable upon conversion of the Debentures and exercise of the Warrants (as defined below). In addition, beginning on the earlier of: (i) the first trading day following the day which the Registration Statement is declared effective by the Commission, or (ii) December 1, 2006, and continuing on the first trading day of each calendar month thereafter, Yorkville may require the Company to redeem up to $500,000 of the remaining principal amount of the Debentures per calendar month. However, Yorkville may not require the Company to redeem the Debentures if the closing bid price of the Common Stock exceeds the Conversion Price for each of the five consecutive trading days immediately prior to the redemption date, and the Registration Statement has been declared effective and remains effective on the redemption date. The Company has the option, in its sole discretion, to settle any requested redemptions by either paying cash or issuing the number of shares of the Company s common stock equal to the cash amount owed divided by a stock price equal to 95% of the lowest daily volume weighted average price of the Company s common stock during the thirty (30) trading days immediately preceding the date of the redemption. If the Company elects to pay a requested redemption in cash, Yorkville will receive warrants to purchase 35,000 shares of common stock with an exercise price of $0.025 per share for each $100,000 redeemed.

On March 20, 2008, the Company entered into a Securities Purchase Agreement (the Purchase Agreement) with Yorkville providing for the sale by the Company to Yorkville of (i) 14% Secured Convertible Debentures in the aggregate principal amount of $300,000 (the Debentures) due on March 20, 2010 (the Repayment Date) and (ii) warrants to purchase 10,000,000 shares of common stock (the Warrants). Terms defined will have the same meaning as in the Purchase Agreement or the Debenture.

The Debentures are convertible into shares of the Company s common stock at $0.02. On each Installment Date, the Company shall pay to Yorkville an amount equal to the lesser of (a) $13,044 and (b) the Principal amount under the Debenture as of such Installment Date. On the Repayment Date, the Company shall pay to the Holder an amount in cash representing all outstanding Principal, accrued and unpaid Interest.

The Warrants to purchase 10,000,000 shares of Common Stock have an exercise price of $0.02 per share. The Warrants have a term of five (5) years and shall be exercised on a cash basis.

Additionally, the Company entered into an amendment agreement (the Amendment Agreement) with Yorkville, which amends all outstanding debentures, including (i) Secured Convertible Debenture due July 20, 2009 (#IVHG-2-1) issued on July 20, 2006, as amended in the original principal amount of $1,250,000, (ii) Secured Convertible Debenture due August 22, 2009 (#IVHG-2-2) issued on August 22, 2006, as amended in the original principal amount of $575,000. (iii) Secured Convertible Debenture due December 7, 2009, (#IVHG-2-3) issued on December 7, 2006, as amended in the original principal amount of $1,000,000., and (iv) Secured Convertible Debenture due November 2, 2010, (#INRA-1-1) issued on November 2, 2007, as amended in the original principal amount of $600,000 (collectively, the Prior Debentures) held by Yorkville with the following:

a.

Interest will accrue on the outstanding principal balance of each of the Prior Debentures at an annual rate equal to fourteen percent (14%) effective as of the date hereof;

b.

The conversion price shall be the lower of .02 or eighty-five percent (85%) of the lowest Volume Weighted Average Price in the thirty (30) trading days prior to the conversion date.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2008 COMPARED TO YEAR ENDED DECEMBER 31, 2007:

During the year ended December 31, 2008 (the "2008 Period") revenues were $2,392,681 compared to revenues of $3,866,869 during the year ended December 31, 2007 (the "2007 Period"). Revenues in the 2008 period were lower than in the 2007 period as customers began to delay or reduce spending on software development, multimedia production and infrastructure deployments. In response to this growing trend, the Company made a strategic decision to enter the telepresence marketplace as potential customers expressed an interest in reducing operational expenses. CoroBot sales remained consistent during the first three quarters of the 2008 period, but experienced a downturn in the fourth quarter of the 2008 period.

Cost of goods sold was $1,906,705 and $3,088,306 for the 2008 Period and the 2007 Period, respectively. Cost of goods sold primarily represents labor and labor-related costs in addition to overhead costs. All sales and cost of goods sold totals for 2008 and 2007 represent the operations of CoroWare.

Operating expenses were $1,831,025 for the 2008 Period compared to $3,989,835 for the 2007 Period. General and administrative expenses amounted to $1,449,115 during the 2008 Period compared to $3,599,197 for the 2007 Period, and represented mostly labor and related compensation costs, legal & professional fees, outside services, travel expenses, rental expense and related office expenses. General and Administrative expenses were significantly reduced in the third and fourth quarter 2008 periods as the Company renewed its focus and attention on aligning expenses with revenues. Sales and marketing expenses were $119,310 for the 2008 Period compared to $102,451 for the 2007 Period.. A portion of the Company s Sales, General and Administrative expenses in the 2008 fourth quarter period was spent on market research and planning as the Company stepped up its efforts to enter the telepresence marketplace. Research and Development costs were $20,188 and $49,396 from continuing operations during the 2008 Period compared to the 2007 Period, respectively. Depreciation and amortization costs were $242,412 for the 2008 Period compared to $238,791 for the 2007 Period.

Net loss for the 2008 Period was $1,805,852 compared to net loss of $2,304,517 for the 2007 period. The loss during the 2008 Period consisted of $1,773,207 from continuing operations and $32,645 from discontinued operations. The loss during 2007 consisted of $974,265 from continuing operations and $1,330,252 from discontinued operations.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 2008 (the 2008 Period) we used $542,954 of cash for operating activities versus $1,050,085 for the year ended December 31, 2007 (the 2007 Period). The usage in the 2008 Period is the result of decreased revenues. The usage of cash for operating activities has decreased from the 2007 Period as the direct result of cost reductions, especially general and administrative expenses at the parent company.

The Company s investing activities used $43,551 in the 2008 Period and consisted primarily of purchases of office and computer equipment. The Company s investing activities in the 2007 Period used $3,315 and was the net result of office and computer equipment purchases of $62,171, a stock investment purchase of $5,000, $143,671 net outlay for the purchase of our subsidiary Altronics (now known as Robotics Software Services, Inc.) and $207,527 loss on the subsequent sale of the assets of that subsidiary.

The Company s financing activities generated $413,950 of cash during the 2008 Period. This primarily reflected borrowings under a convertible debenture that was executed in March 2008 of $240,000 and proceeds from related party financings of $173,300. In the 2007 Period, the Company generated $674,109 of cash from financing activities. This primarily reflected borrowings under a convertible debenture that was executed in October 2007 of $600,000, the net proceeds from third-party notes payable of $39,139, the proceeds from the sale of common stock of $60,000.

At December 31, 2008, we had current assets of $93,759, current liabilities of $3,775,756, negative working capital of $3,681,997 and an accumulated deficit of $19,225,572.

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.

The Company does 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, 2008:

		Payments due by Period			
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years