CoroWare, Inc,
Form 10-K
April 16, 2013

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, 2012

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE

ACT OF 1934

FOR THE TRANSITION PERIOD FROM ________________ TO _________________

COMMISSION FILE NUMBER: 000-33231

COROWARE, INC.
(EXACT NAME OF THE COMPANY AS SPECIFIED IN ITS CHARTER)

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

1410 Market Street, Suite 200

Kirkland, WA 98033

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(800) 641-2676

(ISSUER REGISTRANT TELEPHONE NUMBER)

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

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

COMMON STOCK, PAR VALUE $.0001

(TITLE OF CLASS)

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) the Act. Yeso 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. þ Yes o 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). þ Yes o 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 April 11, 2013, was $220,284. For purposes of this computation, the registrant has excluded the market value of all shares of its common stock reported as being beneficially owned by executive officers and directors and holders of more than 10% of the common stock on a fully diluted basis of the registrant; such exclusion shall not, however, be deemed to constitute an admission that any such person is an “affiliate” of the registrant.

As of April 11, 2013 there were 2,202,838,008 shares of the issuer's $.0001 par value common stock outstanding.

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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, 2012, we had sixteen (16) 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, eight (8) full time engineers, and three (3) 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 systems integration services that help our customers deliver secure, high quality revenue generating products and solutions.

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Products and Solutions :

In 2013, we announced two new products for the cloud service providers and enterprise customers:

- CoroWare Cybersecurity for Enterprise Applications, which is built upon DSI's Spread Spectrum IPTM patented network security technology.

In 2012, we also delivered the below products:

- CoroWare Usage Reporter for Vidyo, a software package that provides usage statistics for Vidyo brand high-definition video conferencing systems.

· 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.

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

Business Intelligence

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

Content Management

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

Lab Management

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

Software Development

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

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

Robotics and Automation (R&A)

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

Custom Engineering

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

Solutions and Products

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

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

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

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.

Enterprise Collaboration Solutions (ECS)

Vidyo Reseller Business

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

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

CoroCall Subscription Services

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

In 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.

CoroCall Product Line

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

In early 2011, we expanded our range of products when the Company announced the early adopter release of CoroCall Communications, an Internet telephony, conferencing, and communications system. CoroCall Communications is a standalone appliance server with features that were previously available only to large enterprises at a much higher price, offering customers an integrated Internet telephony solution that includes phone communications, high definition (HD) audio and video conferencing, and advanced call management. 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 2012 as compared with 2011. 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 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 $38,000.

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, 2012 and December 31, 2011 were $58,949 and $122,221, 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 Jr is available with two chassis options: 3 wheeled (2 drive motor) chassis and 4 wheel (4 drive motor) chassis.

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

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

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Prices of Common Stock

Beginning in February 2002, CoroWare's common stock was eligible for listing in the OTC Bulletin Board. Our trading symbol was "SRMW" until such time as our acquisition of Hy-Tech Technology Group, Inc. on January 31, 2003 when our symbol became "HYTT". In November 2006, our name was changed to Innova Robotics & Automation, Inc. and the trading symbol was changed to INRA. In April 2008, we became CoroWare, Inc. and our trading symbol was changed to CROE. In April 2009, in conjunction with a 1-for-300 reverse stock split, our trading symbol was changed to COWI. In January 2012, we revised the par value of our Common Stock from $0.001 to $0.0001. In July 2012, 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, 2012 and December 31, 2011.

COMMON STOCK

Year Ended December 31, 2012	**High**	**Low**
First Quarter	$$0.04	$$0.02
Second Quarter	$$0.02	$$0.02
Third Quarter*	$$0.02	$$0.00
Fourth Quarter	$$0.00	$$0.00

Year Ended December 31, 2011	**High**	**Low**
First Quarter	$0.0048	$0.29
Second Quarter	$0.01	$0.04
Third Quarter	$0.046	$0.015
Fourth Quarter	$0.002	$0.0195

These quotations represent interdealer prices, without retail markup, markdown, or commission, and may not reflect actual transactions. As of April 11, 2013, there were approximately 253 record holders of the Company's common stock. This reflects a reverse 200 for 1 reverse split of the stock on July 6, 2012.

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Dividend Policy

We have never declared or paid any cash dividends on our common stock. We anticipate that any earnings will be retained for development and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. Additionally, as of December 31, 2012, we have issued and outstanding 159,666 shares of Series B Preferred Stock all of which is entitled, prior to the declaration of any dividends on common stock, to a 5% dividend, payable in either cash or common stock. The board of directors has sole discretion to declare dividends based on our financial condition, results of operations, capital requirements, contractual obligations and other relevant factors. As of December 31, 2012, $28,304 of Series B Preferred dividends had been converted into common stock. At December 31, 2012 and 2011, there were accrued unpaid dividends of $15,969, and cumulative undeclared dividends to Preferred Series B shareholders of $47,900 and $39,917, respectively, the obligation for which is contingent upon declaration by the board of directors.

Securities Authorized for Issuance under Equity Compensation Plans

The following tables set forth the information as of December 31, 2012 with respect to compensation plans under which our equity securities are authorized for issuance:

EQUITY COMPENSATION PLAN INFORMATION

DECEMBER 31, 2012

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	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, 2012, CoroWare had four stock compensation plans which provided for the issuance of 455,503,333 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	2,890
2009 Incentive Stock Plan	500,000	33,300
2010 Incentive Stock Plan (333-165768)	5,000,000	248,250
2011 Incentive Stock Plan (333-171325)	200,000,000	470,515
2012 Incentive Stock Plan (333-183512)	50,000,000	493,015
Total	455,503,333	1,247,970

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Stock Options

As of December 31, 2012, 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, 2012 is 34,831.

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

ITEM 6. SELECTED FINANCIAL DATA.

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

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

Cautionary and Forward Looking Statements

This section and other parts of this Form 10-K contain forward-looking statements that involve risks and uncertainties. Forward-looking statements can also be identified by words such as “anticipates,” “expects,” “believes,” “plans,” “predicts,” ar 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 2012 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 CoroCallTM, 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, 2012 and 2011.

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 2013 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 CoroCallTM, a managed business class HD video conferencing service that small, medium and large sized businesses - including consulting companies, non-profit groups, and distance learning companies – are considering as an alternative to purchasing and operating videoconferencing equipment and infrastructure. Product revenues are being realized partly through the sale of Vidyo's product line – including room systems and back-end infrastructure – partly through the sale of CoroWare collaboration products, 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

(a) $17,500 Asher financing:

On August 9, 2012, the Company consummated an unsecured Securities Purchase Agreement with an unrelated third party for the sale by the Company of its 8% secured convertible debentures in the aggregate principal amount of $17,500, net of deferred financing costs of $2,500.

The debenture matures on May 13, 2013, nine months from the date of issuance. The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to 50% of the market price, which is defined as the average of the lowest 3 trading prices for the Company's common stock during the 30 trading days prior to conversion.

In the Company's evaluation of this instrument in accordance with ASC 815 Derivatives and Hedging, based on the variable conversion price and lack of authorized shares, it was determined that the conversion feature was not afforded the exemption as a conventional convertible instrument and did not otherwise meet the conditions for equity classification. As such, the conversion and other features were compounded into one instrument, bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair value of the bifurcated derivative instruments using the Monte Carlo valuation model because this methodology provides for all of the necessary assumptions necessary for fair value determination; including assumptions for credit risk, interest risk and conversion/redemption behavior. Significant assumptions underlying this methodology were: effective term (using the remaining term of the host instrument); effective volatility (222.71% - 212.43%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $15,452 at inception. There was no derivative expense recognized at inception.

There were no conversions on this instrument during the year ending December 31, 2012.

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(b) $20,000 Asher financing:

On August 2, 2012, Cariou sold $20,000 of his convertible note to Asher. In connection with the sale, the Company restated the interest rate on the note from 15% to 10% and changed the conversion rate from the 5 day average closing price using the 5 trading days prior to conversion to 40% of the Market Price (defined as the average of the (1) lowest trading price for common stock during the 30 day trading period ending one trading day prior to the date of conversion). Additionally, the beneficial ownership limit was increased from 4.99% to 9.99%.

During the year ending December 31, 2012, Asher converted $400 of the convertible debenture into 1,333,333 shares of the Company's common stock.

(c) $25,000 Asher financing:

On October 10, 2012, , the Company consummated an unsecured Securities Purchase Agreement with an unrelated third party for the sale by the Company of its 8% secured convertible debentures in the aggregate principal amount of $25,000.

There were no conversions on this instrument during the year ending December 31, 2012.

(d) $11,440 Tangiers financing:

On March 7, 2012, the Company entered into an $11,440 Convertible Note Agreement with an unrelated third party ("Tangiers"). The note calls for interest at 10% through the maturity date of March 7, 2013 and default interest at 20% thereafter.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to 50% of the lowest trading price in the 7 days prior to the conversion date. Upon default, the conversion price changes to 40% of the lowest trading price in the 7 days prior to the conversion date.

(e) $9,750 Tangiers financing:

On March 7, 2012, Robert Mackie sold his note to Tangiers. The note calls for interest at 10% through the maturity date of March 7, 2013 and default interest at 15% thereafter.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to 50% of the lowest trading price in the 7 days prior to the conversion date. Upon default, the conversion price changes to 40% of the lowest trading price in the 7 days prior to the conversion date.

(f) $20,000 Panache financing:

On August 12, 2012, Cariou sold $20,000 of his convertible note to Panache. The note calls for interest at 10%.

There were no conversions on this instrument during the year ending December 31, 2012.

(g) $10,000 Magna financing:

On August 20, 2012, Cariou sold $10,000 of his convertible note to Magna Group, LLC (“Magna”). In connection with the sale, the maturity date was extended from May 4, 2011 to April 20, 2013, the Company restated the interest rate on the note from 15% to 12% and changed the conversion rate from the 5 day average closing price using the 5 trading days prior to conversion to 60% of the lowest trading price for common stock during the 3 trading days prior to the date of conversion. Additionally, if the stock is chilled by the DTC at any point in which this agreement is outstanding, the discount increases by an additional 8%.

There were no conversions on this instrument during year ending December 31, 2012.

(h) $54,060 Ridge Point financing:

On August 30, 2012, the Company entered into a $54,060 convertible note with LBB & Associates (“LBB”). The note bears interest at 10% and matures March 24, 2013. The note is convertible into common stock of the Company at a conversion rate equal to 65% of the average of the lowest two trading price for common stock during the 5 day trading period prior to the date of conversion.

On September 21, 2012, LBB sold this note to Ridge Point Capital. During the year ending December 31, 2012, there were three conversions on this debenture for 27,000,000 shares and $9,870.

(i) $6,000 Blackridge financing:

On April 4, 2012, the Company entered into a secured promissory note with Blackridge Capital, LLC. The note bears interest at 5% and matured May 25, 2012.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2012 COMPARED TO YEAR ENDED DECEMBER 31, 2011:

During the year ended December 31, 2012 (the "2012 Period") revenues were $1,309,251 compared to revenues of $1,799,352 during the year ended December 31, 2011 (the "2011 Period"). Revenues in the 2012 period were lower compared to the 2011 period. In the third quarter of the 2012 Period, two of our enterprise customers reduced their contract staffing budgets, mobile robot sales were lower than expected, and HD videoconferencing sales were delayed until later in the year. Revenues in the fourth quarter of the 2012 Period as enterprise customers purchased HD videoconferencing equipment and university customers purchased mobile robotics products.

Cost of goods sold was $846,885 and $1,214,737 for the 2012 Period and the 2011 Period, respectively. Cost of goods sold primarily represents labor and labor-related costs in addition to overhead costs.

Gross Profits decreased to $462,366 during the 2012 Period compared to $584,615 during the 2011 Period. Gross profits decreased during the 2012 Period as a result of Gross revenues declining. The Gross profit percentage in the 2012 Period was 35.3% compared to 32.5% in the 2011 Period. The increased Gross profit percentage was the result of an improved utilization of its IT consulting resources; a reduction in the cost of goods sold for mobile robots; and complementing videoconferencing equipment sales with premium deployment and support services.

Operating expenses were $1,113,120 for the 2012 Period compared to $1,321,480 for the 2011 Period. General and administrative expenses amounted to $750,211 during the 2012 Period compared to $863,299 for the 2011 Period, and represented mostly labor and related compensation costs, legal & professional fees, outside services, travel expenses, rental expense and related office expenses. Sales and marketing expenses were $291,961 for the 2012 Period compared to $314,195 for the 2011 Period. Depreciation and amortization costs were $12,000 for the 2012 Period compared to $21,765 for the 2011 Period.

Loss from operations was $650,754 for the 2012 Period compared to $736,865 for the 2011 Period. Loss from operations was lower in the 2012 Period due to a modest decrease in Cost of revenues, a modest decrease in Sales and marketing expenses, a decrease in research and development, and a decrease in General and Administrative expenses throughout the 2012 Period.

Other income (expense) was ($7,079,453) during the 2012 Period compared to ($1,291,730) in the 2011 Period. Other income (expense) is comprised primarily of derivative income (expense) and amortization of debt discount and deferred finance costs. The derivative expense for the 2012 Period was $(6,568,387) compared to expense of ($485,772) for the 2011 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. The derivative expense in the 2012 Period is the result of the decrease in our stock price on the measurement dates at the beginning and end of the year ($0.04 at December 31, 2011 versus $0.0001 at December 31, 2012). A decrease in the stock price resulted in a decreased value of the embedded conversion feature (using the Monte Carlo calculation) which resulted in derivative income. Interest expense for the 2012 Period was $568,964 compared to $804,893 for the 2011Period.

Net loss for the 2012 Period was $7,730,208 compared to net loss of $2,028,596 for the 2011 Period. The increased Net loss was the result of the increased Derivative expense incurred during the 2012 Period.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 2012 (the "2012 Period") we used $369,390 net cash from operating activities versus a reduction of $71,268 for the year ended December 31, 2011 (the "2011 Period").

Cash outflows from the Company's investing activities in the 2012 Period were $1,371, compared with $3,626 in the 2011 Period.

In the 2012 Period, the Company generated $370,934 in cash from financing activities. This primarily reflects borrowings on convertible debentures. The Company's financing activities generated $75,416 of cash during the 2011 Period.

At December 31, 2012, we had current assets of $213,194, current liabilities of $18,647,068, negative working capital of $18,433,874 and an accumulated deficit of $35,096,503.

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, 2012:

	Payments due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Convertible debt	$2,355,354	$2,206,247	$149,107	$ -	$ -
Notes payable	202,232	202,232	-	-	-
Notes payable, related parties	208,913	208,913	-	-	-
Small Business Administration loan	980,450	980,450	-	-	-
Operating leases	189,240	49,053	140,187	-	-
Total	$3,936,189	$3,646,895	$289,294	$ -	$ -

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 December 31, 2012, our principal executive officer and principal financial officer evaluated the effectiveness of the company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). This evaluation of the disclosure controls and procedures included controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Such disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Act is accumulated and communicated to our management, including our principal executive and principal financial officers, to allow timely decisions regarding required disclosure. Based on this evaluation, the company's principal executive officer and principal financial officer concluded that the company's disclosure controls and procedures were effective as of December 31, 2012.

Changes in Internal Control over Financial Reporting

No changes in the Company's internal control over financial reporting have come to management's attention during the Company's last fiscal year that have materially affected, or are likely to materially affect, the Company's internal control over financial reporting.

Limitations on Controls

Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, 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.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements.

The Company's management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework* Based on its assessment our management believes that, as of December 31, 2012, our internal control over financial reporting is effective.

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.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Our directors, principal executive officers and significant employees as of December 31, 2012 are as specified on the following table:

Name	Age	Position
Lloyd Spencer	56	Chief Executive Officer, Interim Chief Financial Officer, Director, Treasurer
Shanna Gerrard	56	Secretary
Martin Nielson	61	Director
John Kroon	72	Chairman, Director

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.

MARTIN NIELSON was the Company's Chief Executive Officer and Chairman of the Board of Directors from May 2003 until he resigned as Chairman effective June 1, 2004. Mr. Nielson is still on our Board of Directors. Mr. Nielson is a principal of Altos Bancorp, Inc., serving as its Chairman and Chief Executive Officer since November 2002. He has also served as Chief Executive Officer and director of Inclusion Inc. since September, 2000. Mr. Nielson and Altos were instrumental in assisting the Company in the negotiations that led to the Company's settlement of its litigation with SunTrust Bank and in securing the financing that funded that settlement. Mr. Nielson will continue as a director of the Company. Mr. Nielson is a senior executive with extensive experience in operations and finance. He has been a business builder for 30 years with such companies as Gap, Businessland, and Corporate Express. Altos, which is an outgrowth of Nielson's M&A practice during his ten years in London is engaged in providing investment banking and business development services to growth oriented, emerging companies throughout the United States and Europe. Altos was retained by the Company to act as its business advisor, but that contract was concluded to coincide with the acquisition of RWT. Mr. Nielson is also a director of Advanced Communications Technologies, Inc. Mr. Nielson is the founder, sole director, and chief executive officer of E-Waste Systems, Inc.

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JOHN C. KROON became our Director in April 2007 and became our Chairman of the Board in September 2010. Dr. Kroon was born in the Netherlands and his family emigrated from Amsterdam to Ottawa, Canada in 1957. He is a dual citizen of the US and Canada. He is a Life Senior Member of the Institute of Electrical & Electronics Engineers (IEEE). Dr. Kroon began his career in 1958 in Ottawa as a Tech. and then Chemist for Eldorado Mining & Refining (now Cameco Corp.), engaged in Uranium mining and processing. Dr. Kroon received both his B.Sc. (1966) and PhD degrees (1972) in Nuclear Physics from the University of Ottawa in Canada. From 1971 he worked as a Research Scientist in Candu Reactor Instrumentation at Atomic Energy of Canada in Chalk River, Ontario, Canada and joined a start-up company Reuter Stokes Canada in Cambridge, Ontario in1972. In 1974, Dr. Kroon transferred to Reuter-Stokes Electronic Components in Cleveland, Ohio as the VP of Applied Technology developing radiation sensor systems for oil-well logging, thickness gauging and in-core sensors for commercial and government nuclear reactors. General Electric acquired Reuter-Stokes in 1984 and Dr. Kroon became the President of Reuter-Stokes in 1986. This position led to a varied 17-year career with GE as a Senior Executive that included a 4-year assignment as President of GEFanuc Europe's Industrial Automation Business in 1991, headquartered in Frankfurt and Luxembourg. He became Vice-President of Corporate Strategies and Business Development in 1995 for GEFanuc North America in Charlottesville, Virginia and laid the groundwork for several acquisitions to further product diversification and top line growth. From June 2002 to May 2004, Dr. Kroon was the President of ImageGuide, Inc., a medical device start-up company in Baltimore, Maryland.

SHANNA GERRARD has been with CoroWare since 2010 and assumed the position of Corporate Secretary in April 2011. She has over 20 years of management experience and is certified in product management and marketing. Before coming to CoroWare, she worked in product management positions with The Church of Jesus Christ of Latter-day Saints and Intel, managing product launch and deployment of various conferencing and collaboration solutions. She has worked with information technology in a variety of industries including non-profit, semi-conductor, medical and medical technology, and legal. She has her Masters Degree in Management from Worcester Polytechnic Institute and her Bachelor's Degree from Dartmouth College.

Our directors 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. We expect our Board, in the future, to appoint an audit committee, nominating committee and compensation committee—none of which now exist--and to adopt a charter relative to each such committee. We intend to appoint such persons to committees of the Board as are expected to be required to meet the corporate governance requirements imposed by a national securities exchange, although we are not required to comply with such requirement until we elect to seek listing on a national securities exchange

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 John Kroon, Lloyd Spencer, Shanna Gerrard, and Martin Nielson.

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.

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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, 2012 and 2011 to our Chief Executive Officer and our two most highly compensated officers other than the Chief Executive Officer at December 31, 2012 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)	2012	$26,639	$ —	$ —	$ —	$ —	$ —	$ —	$26,639
	2011	$59,542							$59,542
David Hyams (2)	2012	$62,374							$62,374
	2011	$98,372							$98,372

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 2011, 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.

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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 Date
Lloyd Spencer (See Note 1)	25	14.2 %	$600.00	9/12/2017
David Hyams (see Note2)	25	14.2 %	$600.00	9/12/2017

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, Inc.'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 our. 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 our common stock. On September 12, 2007, Mr. Spencer was granted options to purchase restricted shares of our common stock at $12 per share. On December 31, 2007, the options were re-priced from $12 to $3. As of December 31, 2012, all 5,000 of these options have vested.

(2) Mr. Hyams entered into an employment agreement and was granted 1,667 options to purchase restricted shares of the Company's common stock at a purchase price of $54, expiring in ten years, and vesting ratably over three years. The Board of Directors voted to re-price these options to $12 at September 12, 2007 and again to $3 at December 31, 2007. On February 4, 2008 these options were converted into 1,667 share of the Company's common stock as per a directive from our board of directors. On September 12, 2007 Mr. Hyams was grated 5,000 options to

purchase restricted shares of CoroWare common stock at $12 per share. On December 31, 2007 the options were re-priced $3. At December 31, 2012, all 5,000 of those options are vested.

Except as described above no other equity awards were made in 2012 and 2011 to any of the Executive Officers.

Outstanding Equity Awards at Year End

The following table sets forth information for the named executive officers regarding the number of options and stock awards, as well as the exercise prices and expiration dates thereof, as of December 31, 2012.

Option Awards						Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable (1)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Lloyd Spencer	5,000	—	—	$ 3	9/2017	—	—	—	—
David Hyams	5,000	—	—	$ 3	9/2017	—	—	—	—

(1) These awards rest ratably over three years from the date of grant and are exercisable for ten years.

Director's Compensation

CoroWare, Inc. has not paid and does not presently propose to pay cash compensation to any director for acting in such capacity. For 2012 and 2011 services, each director was awarded 4,500,000 restricted shares of our common stock. In addition, the chairman was awarded 2,250,000 shares. Neither director has received his shares for 2011, nor for 2012 services. A liability has been established for $14,249 for the remaining board fees that have yet to be paid.

The directors received the following common stock issuances for their service in 2012 and 2011:

Director	**Restricted Common**	**Value**	**Restricted Common**	**Value**

	Stock Issued in 2012 for services		**Stock Issued in 2011 for services**	
Martin Nielson	-	$ -	-	$ -
John Kroon	-	-	-	-
Total	-	$ -	-	$ -

Employment Agreements with Executive Officers

Currently there is an employment agreement with Lloyd Spencer, CEO and interim CFO of CoroWare, Inc., and President and CEO of CoroWare Technologies, Inc. We entered into a five year employment agreement with Mr. Spencer on May 16, 2006. Under the terms of this agreement, Mr. Spencer is to serve as the President of CoroWare and to provide services as needed. His salary is $150,000 per annum. During 2011, Mr. Spencer reduced his annual salary to $59,541, of which $40,000 was deferred. During 2012, an additional $17,650 was deferred. An annual bonus may be awarded at the discretion of the board of directors. At the inception of the agreement, Mr. Spencer was awarded 16,667 stock options to purchase CoroWare, Inc. common stock at $5.40 per share. These options vest annually over three years and terminate on the tenth anniversary of the date of grant.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information regarding the beneficial ownership of our common stock as of April 2, 2013 by each person or entity known by us to be the beneficial owner of more than 5% of any class of our voting securities, each of our directors and named executive officers, and all of our directors and executive officers as a group. Beneficial ownership has been determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934, as amended. Generally, a person is deemed to be the beneficial owner of a security if he has the right to acquire voting or investment power within 60 days.

Percentage ownership in the following table is based on 2,202,838,008 shares of common stock outstanding and 100,000 shares of Series D Convertible Preferred Stock outstanding as of April 11, 2013. A person is deemed to be the beneficial owner of securities that can be acquired by that person within 60 days from April 11, 2013 upon the exercise of options, warrants or convertible securities, or other rights. Each beneficial owner's percentage ownership is determined by dividing the number of shares beneficially owned by that person by the base number of outstanding shares, increased to reflect the shares underlying options, warrants, convertible securities, or other rights included in that person's holdings, but not those underlying shares held by any other person.

Name and Address of Beneficial Owner	Amount and Nature of Common Stock Beneficial Ownership	Percent of Class
Lloyd Spencer 18529 NE 184 th Street Woodinville, WA 98072	54,216	0.003%
Shanna Gerrard		