CoroWare, Inc,
Form 10-K
April 16, 2012

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, 2011

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM ________________ TO _________________

COMMISSION FILE NUMBER: 000-33231

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

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

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, 2012, was $213,914. 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, 2012 there were 2,153,324,939 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, software and hardware product development companies, and non-profit organizations.

Employees

As of December 31, 2011, we had twenty (20) 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, ten (10) full time engineers, and five (5) 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.

CoroWare Technologies comprises three separately managed lines of business:

CoroWare Business Solutions	IT and lab management; business intelligence, software architecture, design and development; content delivery; partner and program management.
Robotics and Automation	Custom engineering such as visualization, simulation and software development; and mobile robot platforms for university, government and corporate researchers.
Enterprise Collaboration Solutions	Collaboration and conferencing products, solutions and subscription services.

CoroWare Business Solutions

CoroWare Business Solutions (CBS) offers products, solutions, and IT consulting services that help our customers deliver high quality products, solutions and services.

Products and Solutions

In 2010, we announced two new products for the cloud service providers and enterprise customers:

- CoroWare Usage Reporter for Vidyo, a software package that provides usage statistics for Vidyo brand high-definition video conferencing systems.
- Billing Integration Framework™ for MetraTech and Vidyo, a software solution that integrates dynamic usage- and subscription-based billing from MetraTech Corp and high definition videoconferencing systems from Vidyo.

In early 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.

Release Management

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

Lab Management

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

Software Development

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

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

Robotics and Automation (R&A)

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

Custom Engineering

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

Solutions and Products

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

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

In 2010 and early 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.

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 CoroCallTM 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 early 2011, we expanded our range of subscription services for enterprise small business customers with the announcement of CoroCall Communications, a cloud-based Internet telephony, conferencing, and communications service. CoroCall Communications Cloud Service is a secure virtual phone system that routes incoming calls to any type of phone, at any place, and at any time. Subscribers may customize their presence with their own professional greeting, phone and fax numbers, conference calls and delivery of voice and fax messages by e-mail.

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.

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

Customers

All three divisions saw growth in their customer bases in 2011 as compared with 2010. 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 as well as securing product and accessory sales to a number of customers.

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 Communications. 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, 2011 and 2010 were $122,221 and $92,959, respectively.

Products

CoroBot Classic:

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 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.

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.

CoroCall Communications:

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.

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.

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, 2011 and December 31, 2010.

Common Stock

Year Ended December 31, 2011	High		Low	
First Quarter	$	0.0048	$	0.0006
Second Quarter	$	0.0012	$	0.0002
Third Quarter	$	0.0003	$	0.0001
Fourth Quarter	$	0.0002	$	0.0001

Year Ended December 31, 2010	High		Low	
First Quarter	$	0.0200	$	0.2900
Second Quarter	$	0.0100	$	0.0400
Third Quarter	$	0.0460	$	0.0150
Fourth Quarter	$	0.0020	$	0.0195

These quotations represent interdealer prices, without retail markup, markdown, or commission, and may not reflect actual transactions. As of April 11, 2012, there were approximately 207 record holders of the Company's common stock.

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, 2011, 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, 2011, $28,304 of Series B Preferred dividends had been converted into common stock. At December 31, 2011 and 2010, there were accrued unpaid dividends of $15,969 and cumulative undeclared dividends to Preferred Series B shareholders of $39,917 and $31,933, respectively, the obligation for which is contingent on 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, 2011 with respect to compensation plans under which our equity securities are authorized for issuance:

EQUITY COMPENSATION PLAN INFORMATION

DECEMBER 31, 2011

Plan Category	Number of shares to be issued upon exercise of outstanding options and warrants (a)	Weighted average exercise price of outstanding options and warrants (b)	Number of securities available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders:			
2003 Stock Option Plan	-	n/a	-
2004 Stock Option Plan	-	n/a	-
2005 Stock Option Plan	38,164	$ 2.97	38,164
Equity Stock Compensation plan not approved by security holders:			
2006 Employee Compensation Plan	n/a	n/a	-
2008 Amended Incentive Stock Plan	n/a	n/a	2,890
2008 SIP – SEC File #333-151258	n/a	n/a	-
2009 Incentive Stock Plan	n/a	n/a	374,900
Total	38,164		415,954

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Stock Plans

As of December 31, 2011, CoroWare had four stock compensation plans which provided for the issuance of 206,270,000 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	666,667	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 (333-179968)	300,000,000	140,000,000
Total	506,170,000	140,754,955

Stock Options

As of December 31, 2011, 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, 2011 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,” a similar terms. Forward-looking statements are not guarantees of future performance and CoroWare’s actual results may differ significantly from the results discussed in the forward-looking statements. The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included in Item 8 of this Form 10-K. We assume no obligation to revise or update any forward-looking statements for any reason, except as required by law.

There is no assurance that we will be profitable, we may not be able to successfully develop, manage or market our products and services, we may not be able to attract or retain qualified executives and technology personnel, our products and services may become obsolete, government regulation may hinder our business, additional dilution in outstanding stock ownership may be incurred due to the issuance of more shares, warrants and stock options, or the exercise of warrants and stock options, and other risks inherent in the our businesses.

We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the factors described in other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q and Annual Report on Form 10-K filed by us in 2011 and any Current Reports on Form 8-K filed by us.

CRITICAL ACCOUNTING POLICIES

General

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, 2011 and 2010.

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 2012 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 and MetraTech.   As well, it anticipates growing its revenues more rapidly 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.

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, including CoroWare NameTag and CoroCall Communications appliance servers, 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 (including Microsoft Silverlight), 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) $27,500 Asher financing:

On February 1, 2011, 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 $27,500, net of deferred financing costs of $2,500.

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 51% of the market price, which is defined as the lowest 3 trading prices for the Company's common stock during the 10 trading days prior to conversion.

In the Company's original 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 (145.01% - 130.17%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $36,729 at inception. Derivative expense of $9,229 was recognized at inception.

This convertible debenture matured in November 2011 and is currently in default. In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

During 2011, Asher converted $2,000 of the convertible debenture into 33,333,333 shares of the Company's common stock. The Company recognized a loss on redemption of $114.

(b) $10,750 Barclay financing:

On January 28, 2011, the Company consummated an unsecured convertible promissory note with an unrelated third party for $10,750, net of deferred financing costs of $2,500.

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 fair market value, but not to exceed $0.05/share or be less than $0.0001/share. Fair market value is defined as the lower of i) the closing bid price for the date immediately preceding the date of conversion (excluding trades that are not arms-length) or ii) the average of last 5 trading days volume weighted average price. The Company's obligations under the convertible promissory note are secured by substantially all of the assets of the Company and those of its wholly owned subsidiary, CoroWare Technologies, Inc.

In the Company's original 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 (155.39% - 117.57%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $12,369 at inception. Derivative expense of $1,619 was recognized at inception.

This convertible debenture matured July 28, 2011 and is currently in default. In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

As of December 31, 2011, there have been no conversions on this convertible debenture.

(c) $9,750 Mackie financing:

On February 3, 2011, the Company consummated an unsecured convertible promissory note with an unrelated third party for $9,750.

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 85% of the 5 day average closing price using the 5 trading days prior to the conversion date.

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 (155.39% - 117.57%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $3,491 at inception. The remaining balance of $6,259 was allocated to the carrying value of the debenture.

This convertible debenture matured February 18, 2011 and is currently in default. In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

As of December 31, 2011, there have been no conversions on this convertible debenture.

(d) $ 170,562 Ratzker financing:

Yorkville Advisors transferred a 46.3% portion of Tranche 1 of the $2,825,000 debenture to a third party ("Ratzker") effective December 31, 2010. The assignment aggregated $568,263, representing $341,123 of unpaid principal and $227,140 of accrued interest. At that time, there was no accounting impact for CoroWare as it was merely an assignment between debt holders. On March 18, 2011, Ratzker modified the terms of the debenture such that the interest rate was lowered from 14% to 5% and the maturity date was extended until March 18, 2013. Simultaneously, the conversion rate on the debenture was modified from 85% of the 30 day Volume Weighted Average Price ("VWAP") to 65% of the 30 day VWAP.

The modification was analyzed in accordance with current accounting standards and was determined not to be a troubled debt restricting or an extinguishment of debt. As such, it was accounted for as a modification and no gain or loss was recognized on the transaction. A debt discount of $236,779 was recognized for the difference in the fair value of the embedded conversion feature before and after the modification date. A new effective rate was calculated for the new debenture and the related debt discount is being amortized using the effective interest rate over the new 2 year term of the underlying loan. Amortization for the year ended December 31, 2011 was $32,864.

On March 21, 2011, Ratzker transferred 50% of his ownership interest in this debenture to another unrelated party ("Redwood"). The terms of the debenture did not change with that transfer. As such, this transfer was also considered an assignment between debt holders and did not have an accounting impact on the Company. See discussion below in Note 9(q) for Redwood financing.

With the extension of the maturity date, this debenture is no longer in default and has been reclassified to long-term liabilities on the accompanying balance sheet.

As of December 31, 2011, there have been no conversions on this convertible debenture.

(e) $67,042 Harvey financing:

On April 2, 2011, the Company entered into an unsecured convertible promissory note with a vendor. The vendor converted $67,042 of outstanding payables into this convertible note. The note calls for interest at 10% through the maturity date of May 2, 2011 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 the average closing bid price for the 5 trading days prior to, but not including, the conversion date. The number of shares of common stock to be issued upon each conversion shall be determined by dividing that portion of the principal to be converted by the conversion price then multiplying by 115%.

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 (132.38%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $30,011 at inception.

This convertible debenture matured May 2, 2011 and is currently in default. In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

As of December 31, 2011, there have been no conversions on this convertible debenture.

(f) $89,383 Cariou financing:

On April 4, 2011, the Company entered into unsecured convertible promissory note with an employee. The employee converted $56,700 of outstanding principal on related party notes payable and $32,683 of accrued interest into this convertible note. The note calls for interest at 10% through the maturity date of May 4, 2011 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 the average closing bid price for the 5 trading days prior to, but not including, the conversion date. The number of shares of common stock to be issued upon each conversion shall be determined by dividing that portion of the principal to be converted by the conversion price then multiplying by 115%.

In the Company's original 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 (132.38%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $44,720 at inception.

This convertible debenture matured May 4, 2011 and is currently in default. In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

As of December 31, 2011, there have been no conversions on this convertible debenture.

(g) $25,000 Tangiers financing:

In May and June 2011, an unrelated third party ("Tangiers") purchased a $25,000 note payable from one of CoroWare's note holders. The transaction was completed in 2 Tranches of $10,000 and $15,000. The terms of the note were changed such that the conversion rate was changed from a fixed $1 per share to a variable rate of 65% of the lowest trading price during the 7 days prior to conversion. The interest rate was changed from 8% to 10% and the maturity date was extended from June 2003 to March 19, 2012, thus taking the note out of default.

The modification was analyzed in accordance with current accounting standards and was determined not to be a troubled debt restricting but rather an extinguishment of debt as there was a substantial difference in terms on the new debt. As the old debt was being carried at face value, there was no gain or loss recognized on the extinguishment.

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 (132.38%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $11,662 and $10,800, respectively, at inception for the $10,000 tranche and the $15,000 tranche.

During 2011, the entire $25,000 was converted into 96,153,846 shares of CoroWare common stock. CoroWare recognized a loss of $16,923 and $13,846, respectively, on the conversion of the $10,000 tranche and the $15,000 tranche.

(h) $10,000 Tangiers financing:

On May 16, 2011, the Company entered into a $10,000 Convertible Note Agreement with an unrelated third party ("Tangiers"). The note calls for interest at 10% through the maturity date of May 16, 2012 and default interest at 20% thereafter. Loan fees of $1,300 were withheld at closing. These have been classified as deferred finance costs and are being amortized over the term of the loan on a straight line basis.

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 65% 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.

In the Company's original 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 (132.38%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $5,877 at inception.

As of December 31, 2011, there have been no conversions on this convertible debenture.

(i) $15,000 Tangiers financing:

On June 10, 2011, the Company entered into a $15,000 Convertible Note Agreement with an unrelated third party ("Tangiers"). The note calls for interest at 10% through the maturity date of May 16, 2012 and default interest at 20% thereafter. Loan fees of $1,300 were withheld at closing. These have been classified as deferred finance costs and are being amortized over the term of the loan on a straight line basis.

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 65% 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.

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 (132.38%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $10,800 at inception.

As of December 31, 2011, there have been no conversions on this convertible debenture.

(j) $65,000 Panache financing:

On June 2, 2011, an unrelated third party ("Panache") purchased an aggregate $65,000 (representing $30,000 of outstanding principal and $35,000 accrued interest) from one of CoroWare's note holders. The terms of the note were changed such that the conversion rate was changed from a fixed $1 per share to a variable rate of an agreed to discount to market not to fall below a 50% discount to the average of the 3 lowest trading prices during the 20 days prior to conversion. The interest rate was changed from 8% to 15% and the maturity date was extended from June 2003 to June 1, 2012, thus taking the note out of default.

The modification was analyzed in accordance with current accounting standards and was determined not to be a troubled debt restricting but rather an extinguishment of debt as there was a substantial difference in terms on the new debt. As the old debt was being carried at face value, there was no gain or loss recognized on the extinguishment.

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 (132.38%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $100,880 at inception. Derivative expense of $35,880 was recognized at inception.

During 2011, Panache converted $8,400 of principal into 42,000,000 shares of the Company's common stock.

(k) $15,000 Panache financing:

On April 2, 2011, the Company entered into a $15,000 Convertible Note Agreement with an unrelated third party ("Panache"). The note calls for interest at 8% through the maturity date of June 29, 2012. The note can be renewed for an additional 10 years under 6 month extensions at $100 per extension.

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 an agreed to discount to market not to fall below a 15% discount to the average of the 3 lowest trading prices during the 20 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 (132.38%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $13,500 at inception.

As of December 31, 2011, there have been no conversions on this convertible debenture.

(l) $567,200 Westmount financing:

On January 12, 2011, Yorkville assigned 100% of Tranche 2 of its $2,825,000 debenture (aggregating $567,200 in principal and $317,510 in interest) to an unrelated third party ("Westmount"). The terms of the note did not change. As such, there was no accounting impact for CoroWare as it was merely an assignment between debt holders. The note calls for interest at 14%. This note matured August 22, 2009 and is currently in default.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to the lower of $0.02 per share or 85% of the lowest volume weighted average price in the 30 days prior to the conversion date. 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, CoroWare Technologies, Inc.

In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

During 2011, $29,882 of principal was converted into 66,682,665 shares of the Company's common stock.

(m) $170,561 Redwood financing:

On March 21, 2011, Ratzker (see Note 9(h)) transferred 50% of his ownership interest in his convertible debenture to another unrelated party ("Redwood"). The terms of the note did not change. As such, there was no accounting impact for CoroWare as it was merely an assignment between debt holders. The note calls for interest at 5% through the maturity date of March 18, 2013.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to 65% of the volume weighted average price for the Company's stock for the 30 trading days prior to conversion. 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, CoroWare Technologies, Inc.

During 2011, Redwood converted $36,700 of principal into 101,666,663 shares of the Company's common stock.

(n) $21,962 Premier financing:

On October 5, 2011, the Company entered into a $21,962 Convertible Note Agreement with an unrelated third party ("Premier"). The note calls for interest at 10% through the maturity date of March 5, 2012.

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 the average closing bid prices for the Company's common stock for the 5 trading days prior to but not including the date of 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 (288.54%); and effective risk adjusted yield (6.25%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $10,844 at inception.

As of December 31, 2011, there have been no conversions on this convertible debenture.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2011 COMPARED TO YEAR ENDED DECEMBER 31, 2010:

During the year ended December 31, 2011 (the "2011 Period") revenues were $1,799,352 compared to revenues of $2,009,563 during the year ended December 31, 2010 (the "2010 Period"). Revenues in the 2011 period were lower compared to the 2010 period as customers spent conservatively on software development, video conferencing, infrastructure deployments, and mobile robotics projects. Revenues were comparatively stronger in the second quarter of 2011 as enterprise customers increased spending on business intelligence professional services, and in the second quarter as customers deployed HD videoconferencing equipment and purchased mobile robotics products and professional services.

Cost of goods sold was $1,214,737 and $1,502,230 for the 2011 Period and the 2010 Period, respectively. Cost of goods sold primarily represents labor and labor-related costs in addition to overhead costs.

Gross Profits increased to $584,615 during the 2011 Period compared to $507,333 during the 2010 Period. Gross profits improved during the 2011 Period as CoroWare improved utilization of its IT and business intelligence consulting resources, further reduced the cost of goods sold for mobile robots, and complemented its videoconferencing equipment sales with premium deployment and support services.

Operating expenses were $1,321,480 for the 2011 Period compared to $1,427,925 for the 2010 Period. General and administrative expenses amounted to $863,299 during the 2011 Period compared to $954,001 for the 2010 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 $314,195 for the 2011 Period compared to $339,032 for the 2010 Period. Depreciation and amortization costs were $21,765 for the 2011 Period compared to $41,933 for the 2010 Period.

Loss from operations was $736,865 for the 2011 Period compared to $920,592 for the 2010 Period. This continued decline in the loss was due to a modest decrease in Cost of Goods Sold, a decrease in sales and marketing expenses, and modest decrease in General and Administrative expenses throughout the 2011 Period.

Other income (expense) was ($1,291,730) during the 2011 Period compared to ($88,292) in the 2010 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 2011 Period was $(485,772) compared to income of $453,921for the 2010 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 (income) expense is primarily the result of the change in our stock price. For the 2011 Period, a decrease in our stock price on the measurement dates at the beginning and end of the year ($0.0038 at December 31, 2010 versus $0.0001 at December 31, 2011) resulted in a decreased value of the embedded conversion feature (using the Monte Carlo calculation) which resulted in derivative income. However, this derivative income was offset by derivative expense which occurred with the change in conversion terms on 2 of the largest debentures. Interest expense for the 2011 Period was $804,893 compared to $624,204 for the 2010 Period. This increase in interest expense is principally a result of the amortization of debt discount on the new convertible debentures. The debt discount is being amortized using the effective interest method. Under this method, the amount of amortization increases exponentially as the underlying carrying value of the amortized debt increases.

Net loss for the 2011 Period was $2,028,596 compared to net loss of $1,008,884 for the 2010 Period.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 2011 (the "2011 Period") we used $71,268 net cash from operating activities versus a reduction of $84,651 for the year ended December 31, 2010 (the "2010 Period").

Cash outflows from the Company's investing activities in the 2011 Period were $3,626, compared with $0 in the 2010 Period.

In the 2011 Period, the Company generated $ 75,416 in cash from financing activities. This primarily reflects borrowings on convertible debentures. The Company's financing activities generated $81,158 of cash during the 2010 Period.

At December 31, 2011, we had current assets of $141,261, current liabilities of $11,366,110, negative working capital of $11,224,849 and an accumulated deficit of $27,466,565.

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, 2011:

	Payments due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual Obligations					
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	-	-	-
	189,240	49,053	140,187	-	-
Operating leases					
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, 2011, 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, 2011.

Changes in Internal Control over Financial Reporting

During 2010, the Company engaged an external consultant to assist in reviewing and improving its existing internal control over financial reporting with the intent of improving the design and operating effectiveness of controls and procedures. The Company believes that these changes have improved its 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, 2011. 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, 2011, 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

On November 11, 2011, shareholders holding in the aggregate a majority of the total voting power of the Company, by written consent in lieu of a shareholders meeting, authorized an increase in the number of authorized shares of common stock from nine hundred million (900,000,000) shares of common stock to three billion (3,000,000,000) shares of common stock. In addition, the par value of common stock changed from par value $0.001 per share to par value $0.0001 per share. This change was effective January 3, 2012.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Our directors, principal executive officers and significant employees as of December 31, 2011 are as specified on the following table:

Name	Age	Position
Lloyd Spencer	55	Chief Executive Officer, Interim Chief Financial Officer, Director, Treasurer
Shanna Gerrard	55	Secretary
Martin Nielson	60	Director
John Kroon	71	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.

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 University.

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.

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.

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, 2011 and 2010 to our Chief Executive Officer and our two most highly compensated officers other than the Chief Executive Officer at December 31, 2011 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)	2011	$59,542	$ -	$ -	$ -	$ -	$ -	$ -	$ 59,542
	2010	$ 150,000							$150,000
Jon Mandrell (2)	2010	$ 110,000	$ -	$ -	$ -	$ -	$ -	$ -	$ $110,000

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) Jon Mandrell was appointed Corporate Secretary of CoroWare on July 2, 2008 and was appointed to the Board of Directors in March 2009. Mr. Mandrell resigned from his position as Vice President on November 12, 2010 and from his position as Corporate Secretary and from the Board of Directors on April 8, 2011. Mr. Mandrell worked for our subsidiary, CTI, as Director and Business Unit Manager for the Robotics and Automation team for 3 years. On January 29, 2007, CoroWare entered into a three year employment agreement with Mr. Mandrell calling for an annual salary of $110,000. The agreement also granted Mr. Mandrell 1,333 options to purchase restricted shares of CoroWare common stock at $51 per share. At its September 12, 2007 meeting, our board of directors approved a reduction in the exercise price of all outstanding options to $12 per share. On December 31, 2007 the options were again re-priced from $12 to $3. At December 31, 2010, all of those options are vested. On September 12, 2007, Mr. Mandrell was granted options to purchase 2,000 restricted shares of CoroWare's common stock at $12 per share. On December 31, 2007, the options were re-priced from $12 to $3. At December 31, 2010, all 2,000 of those options are vested.

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)	5,000	14.2%	$ 3.00	9/12/2017
David Hyams (see Note2)	5,000	14.2%	$ 3.00	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, 2011, 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, 2011, all 5,000 of those options are vested.

Except as described above no other equity awards were made in 2011 and 2010 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, 2011.

	Option Awards					Stock Awards		
Name	Number	Number	Equity	Option	Option	Number	Market	Equity

	of Securities Underlying Unexercised Options (#) Exercisable	of Securities Underlying Unexercised Options (#) Unexercisable (1)	Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Exercise Price ($)	Expiration Date	of Shares or Units of Stock That Have Not Vested (#)	Value of Shares or Units of Stock That Have Not Vested ($)	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 2011 and 2010 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 services. A liability has been established for $9,374 for the remaining board fees that have yet to be paid.

The directors received the following common stock issuances for their service in 2011 and 2010:

Director	Restricted Common Stock Issued in 2011 for services		Value	Restricted Common Stock Issued in 2010 for services		Value
Martin Nielson	-	$	-	803,592	$	2,250
	-		-	-		-
John Kroon						
Total	-	$	-	803,592	$	2,250

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, of which $125,281 was deferred in 2010. During 2011, Mr. Spencer reduced his annual salary to 59,541, of which $40,000 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 March 31, 2011 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 2,153,324,939 shares of common stock outstanding and 100,000 shares of Series D Convertible Preferred Stock outstanding as of April 11, 2012. A person is deemed to be the beneficial owner of securities that can be acquired by that person within 60 days from April 11, 2012 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.

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Name and Address of Beneficial Owner	Amount and Nature of Common Stock Beneficial Ownership	Percent of Class
Lloyd Spencer		
18529 NE 184th Street	10,842,917	0.504%
Woodinville, WA 98072		
Shanna Gerrard		
131 Wildwood Dr	1,000,000	0.046%
Prescott AZ 86305		
Martin Nielsen		
12111 Hilltop Drive	2,317,412	0.108%
Los Altos, CA 94024		
John Kroon		
PO Box 3846	28,739	0.001%
Rancho Santa Fe, CA 92067		
Directors and Officers as a Group (4 persons)	14,189,068	0.659%

Name of Series D Stockholder	Number of Shares of Common Stock Held	Number of Shares of Series D Preferred held	Number of Votes held by such Series D Stockholder(1)	Number of Votes	Percentage of the Voting Equity
Lloyd Spencer	10,842,917	60,000	6,000,000,000	6,010,841,917	48.9%
Shanna Gerrard	1,000,000	20,000	2,000,000,000	2,001,000,000	16.3%
Jared Robert	103,448,276	20,000	2,000,000,000	2,103,448,276	17.1%

(1) Each share of Series D Convertible Preferred Stock (“Series D Preferred”) has the equivalent of one hundred thousand (100,000) votes of common stock. Currently, there are 3 holders of Series D Preferred Stock, namely Lloyd Spencer (60,000 shares), Shanna Gerrard (20,000 shares) and Jared Robert (20,000 shares)_ (together, the “ Series D Stockholders”), collectively holding 100,000 shares of Series D Preferred, resulting in the Series D Stockholders holding in the aggregate a majority of the total voting power of all issued and outstanding voting shares of the Company.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

No director, executive officer or nominee for election as a director of our company, and no owner of five percent or more of our outstanding shares or any member of their immediate family has entered into or proposed any transaction in which the amount involved exceeds $60,000 except as set forth below.

During October 2007, several current directors and officers invested $35,000 in Series C preferred stock, which is described in Note 12 in the notes to financial statements. In April 2008, all of the Series C preferred shareholders converted their investments into CoroWare common stock.

We also entered into short-term debt obligations other than in the ordinary course of business. The following table sets forth the pertinent information relating to the obligations:

Lender	Interest Rate	Original Amount of Loan	Outstanding Balance at December 31, 2011	Date of Loan	Due Date
Rick Wynns	5%	$ 27,500	$ -	Jul 22, 2005	Dec 31, 2007
Rick Wynns	21%	$ 25,000	$ 25,000	Jul 27, 2010	Jan 23, 2011
Amy Spencer	18%	$ 50,000	$ 50,000	Jul 3, 2008	Dec 20, 2008
Raphael Cariou	18%	$ 87,900	$ -	Jul 3–Dec 19, 2008	Various dates thru Jun 30, 2009
John Kroon	18%	$ 10,000	$ 10,000	Mar 17, 2010	Sep 13, 2010
Lloyd Spencer	18%	$ 223,629	$ 118,913	Feb 2 – Aug 14, 2009	Various dates thru Mar 16, 2010

On July 22, 2005 CoroWare borrowed $30,000 from a beneficial shareholder and then-director, Rick Wynns, and entered into a short term note requiring interest at the annual rate of 5%, maturing in six months, and principal and accrued interest are convertible into CoroWare common stock at $0.15 per share. A payment of $2,500 was made during the 4th quarter of 2006. The due date of the note was extended to December 31, 2008. To date there have been no conversions. In addition in October 2005 we entered into a second short-term obligation with Mr. Wynns for $30,000. The note bears interest at 10% and matured in April 2006. A $20,000 principal payment was made on this note in May 2006. The due date of the note was extended to December 31, 2007. In October 2005, we entered into a third short-term obligation with Mr. Wynns for $30,000. This note bears interest at 10% and also matured in April 2006. This note was also extended through December 31, 2007. During the 4th quarter of 2010, Mr. Wynns sold $40,000 of these notes to an outside third party and then made an additional loan to the Company of $25,000 bearing interest at 21% and maturing January 23, 2011. That note is currently in default.

In July 2008 CTI entered into a short-term debt obligation totaling $50,000 with Amy Spencer. The entire balance of the loan plus accrued interest at 1.5% per month was due on December 20, 2008. The note was not paid at maturity and is currently accruing late fees of 0.5% per month in addition to the interest.

During 2008, CoroWare borrowed an aggregate $62,900 from Raphael Cariou, a shareholder and employee of CoroWare. The notes bear interest at 18% and mature on various dates beginning December 20, 2008 and running through June 30, 2009. Cash payments of $6,200 were made during 2010. All of the notes are currently in default and accruing late fees of 0.5% per month in addition to the interest.

During 2009, CoroWare borrowed an aggregate $223,629 from Lloyd Spencer, our CEO and a shareholder. The notes bear interest at 18% and mature on various dates from July 2009 through March 2010. During 2010, the Company made cash payments of $40,018 towards these loans and issued 10,000,000 shares of stock valued at $50,000. All of the remaining notes are currently in default and accruing late fees of 0.5% per month in addition to the interest.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

(1) Audit Fees

The aggregate fees billed for professional services rendered by LBB & Associates Ltd., LLP and Lake & Associates CPAs LLC for the audit of the Registrant's annual financial statements and review of the financial statements included in the Registrant's Forms 10-Q or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for fiscal years 2011 and 2010, were $70,848 and $68,000, respectively.

(2) Audit Related Fees

The aggregate fees billed for professional services rendered by LBB & Associates Ltd., LLP and Lake & Associates CPAs LLC for audit related fees for fiscal years 2011 and 2010 were $0 and $2,000, respectively.

(3) Tax Fees

The aggregate fees billed for professional services rendered by LBB & Associates Ltd., LLP and Lake & Associates CPAs LLC for the preparation of the Registrant's tax returns, including tax planning for fiscal years 2011 and 2010 were $0 and $0, respectively.

(4) All Other Fees

No other fees were paid to LBB & Associates Ltd., LLP and Lake & Associates CPAs LLC for fiscal years 2011 and 2010.

(5) Audit Committee Policies and Procedures

The Registrant does have an audit committee. The Board of Directors of the Registrant approved all of the services rendered to the Registrant by LBB & Associates Ltd., LLP and Lake & Associates for fiscal years 2011 and 2010.

(6) Audit Work Attributed to Persons Other than LBB & Associates Ltd., LLP and Lake & Associates CPAs LLC

Not applicable.

PART IV

ITEM 15. EXHIBITS

Exhibit	Description
2.4	Agreement and Plan of Merger among the Company, RWT Acquisition, Inc and Robotic Workspace Technologies, Inc. dated July 21, 2004. (5)
3.1	Articles of Incorporation (2)
3.1.1	Amendment to Articles of Incorporation as of January 3, 2012
3.2	Bylaws (2)
4.1	Certificate of Designation of Series D Convertible Preferred Stock dated November 10, 2011 ( )
4.2	Certificate of Designation of Series E Convertible Preferred Stock dated March 9, 2012 ( )
10.17	Registration Rights Agreement with Cornell Capital Partners, LP dated June 14, 2005 (10)
10.18	Escrow Agreement with Cornell Capital Partners, LP and David Gonzalez, Esq. dated June 14, 2005 (10)
10.19	Promissory Note for $300,000 issued to Cornell Capital Partners, LP dated June 14, 2005 (10)
10.21	Securities Purchase Agreement with Cornell Capital Partners, LP dated October 7, 2005 (11)
10.22	Registration Rights with Cornell Capital Partners, LP dated October 7, 2005 (11)
10.23	Convertible Debenture issued to Cornell Capital Partners, LP dated October 7, 2005 (11)
10.24	Security Agreement with Cornell Capital Partners, LP dated October 7, 2005 (11)
10.25	Escrow Agreement with David Gonzalez and Cornell Capital Partners, LP dated October 7, 2005 (11)

10.28	Stock Option Plan adopted on April 12, 2005 and amended on April 12, 2006 (14)
10.29	Amended and Restated Stock Option Plan amended on July 24, 2006 (15)
10.30	Convertible Debenture dated July 21, 2006 (16)
10.31	Form of $0.05 Warrant (16)
10.32	Form of $0.10 Warrant (16)
10.33	Form of $0.025 Warrant (16)
10.34	Form of $0.065 Warrant (16)
10.35	Form of $0.075 Warrant (16)
10.36	Securities Purchase Agreement dated July 21, 2006 between the Company and Cornell (16)
10.37	Investor Registration Rights Agreement dated July 21, 2006 between the Company and Cornell (16)
10.38	Security Agreement dated July 21, 2006 by and between the Company and Cornell (16)
10.39	Subsidiary Security Agreement dated July 21, 2006 by and between CoroWare Technologies, Inc. and Cornell (16)
10.41	Asset Purchase Agreement by and among Innova Holdings, Inc., CoroWare Technologies Inc. and CoroWare, Inc. dated May 12, 2006. (18)
10.42	Form of Executive Employment Agreement. (18)

10.44	Conversion Agreement dated as of October 19, 2007, by and between Innova Robotics and Automation, Inc. and Jerry Horne (22)
10.45	Securities Purchase Agreement, dated October 25t, 2007 (22)
10.46	Secured Convertible Debenture, dated October 25th, 2007 (22)
10.47	Redemption Warrant, dated October 25th , 2007 (22)
10.48	Registration Rights Agreement, dated October 25th, 2007 (22)
10.49	Security Agreement, dated October 25th, 2007 (22)
10.50	Robotic Workspace Technologies, Inc. Patent and Trademark Agreement, dated October 25th, 2007 (22)
10.51	Form of Series C Convertible Preferred Stock Subscription Agreement, dated October 13, 2007 (22)
10.52	Form of Warrant, dated October 13, 2007 (22)
10.53	Certificate of Designation (22)
10.54	Employment Termination and Retirement Agreement, dated December 18, 2007 (21)
10.55	Consulting Agreement, dated December 18, 2007 (21)
10.56	Securities Purchase Agreement, dated March 20th, 2008 (23)
10.57	Secured Convertible Debenture, dated March 20th, 2008 (23)
10.58	Warrant, dated March 20th, 2008 (23)
10.59	Registration Rights Agreement, dated March 20th, 2008 (23)
10.60	Security Agreement, dated November 2nd, 2007 (23)
10.61	Patent and Trademark Security Agreement, dated October 29th, 2007 (23)
10.62	Amendment Agreement, dated March 20th, 2008 (23)
10.63	Amendment to Articles of Incorporation dated April 23, 2008

10.64	2008 Incentive Stock Plan
10.65	Amended 2008 Incentive Stock Plan
10.66	Amendment to Articles of Incorporation dated January 23, 2009
10.67	Joint Venture Agreement
14.1	Code of Ethics
21.1	List of Subsidiaries *
31	Rule 13(a) -14(a)/15d-14(a) Certification of Principal Executive Officer and Principal Financial Officer*
32	Section 1350 Certification of Chief Executive Officer and Principal Financial Officer*

* Filed herewith

(1) Incorporated by reference to the Form 8-K filed on February 4, 2003.

(2) Incorporated by reference to the Form SB-2 filed on August 7, 2001.

(3) Incorporated by reference to the Form 10-KSB filed on April 24, 2003.

(4) Incorporated by reference to the Form 8-K filed on May 13, 2003.

(5) Incorporated by reference to the Form 8-K filed on August 8, 2004.

(6) Incorporated by reference to the Form 14C filed on June 30, 2004.

(7) Incorporated by reference to the Form 8-K filed on September 28, 2004.

(8) Incorporated by reference to the Form 8-K filed on January 11, 2005.

(9) Incorporated by reference to the Form 10-KSB filed on April 19, 2005.

(10) Incorporated by reference to the Form 8-K filed on June 16, 2005.

(11) Incorporated by reference to the Form 8-K filed on October 19, 2006.

(12) Incorporated by reference to the Form 8-K filed on July 6, 2005.

(13) Incorporated by reference to the Form 8-K filed on January 27, 2006.

(14) Incorporated by reference to the Form 10-KSB filed on April 19, 2006.

(15) Incorporated by reference to Amendment 1 to the Schedule 14A filed on July 31, 2006.

(16) Incorporated by reference to the Form 8-K filed on July 25, 2006.

(17) Incorporated by reference to the Form 8-K filed on June 22, 2006.

(18) Incorporated by reference to the Form 8-K filed on May 22, 2006.

(19) Incorporated by reference to the Form 8-K filed on May 3, 2006.

(20) Incorporated by reference to the Registration Statement on Form SB-2 filed on November 9, 2007.

(21) Incorporated by reference to the Form 8-K filed on December 26, 2007.

(22) Incorporated by reference to the Registration Statement on Form S-1 filed on February 13, 2008

(23) Incorporated by reference to the Form 8-K filed on March 26, 2008.

(24) Incorporated by reference to the Form 10-KSB filed April 15, 2008

(25) Incorporated by reference to the Form 8-K filed on May 14, 2008.

(26) Incorporated by reference to the Form 10-Q filed on May 20, 2008.

(27) Incorporated by reference to the Form S-8 filed on May 29, 2008.

(28) Incorporated by reference to the Form S-8 filed on July 30, 2008.

(29) Incorporated by reference to the Form 10-Q filed on August 19, 2008.

(30) Incorporated by reference to the Form 8-K filed on November 19, 2008.

(31) Incorporated by reference to the Form 10-Q filed on November 19, 2008.

(32) Incorporated by reference to the Form 8-K filed on March 18, 2009.

(33) Incorporated by reference to the Form 8-K filed on April 7, 2009.

(34) Incorporated by reference to the Form 5 filed on May 12, 2009.

(35) Incorporated by reference to the Form 10-K filed on May 18, 2009.

(36) Incorporated by reference to the Form 10Q filed on May 20, 2009.

(37) Incorporated by reference to the Form 8-K filed on August 7, 2009.

(38) Incorporated by reference to the Form 10Q filed on August 19, 2009.

(39) Incorporated by reference to the Form 8-K filed on August 28, 2009.

(40) Incorporated by reference to the Form 8-K filed on October 22, 2009.

(41) Incorporated by reference to the Form 10Q filed on November 23, 2009.

(42) Incorporated by reference to the Form S-8 filed on December 16, 2009.

(43) Incorporated by reference to the Form 8-K filed on January 10, 2010.

(44) Incorporated by reference to the Form S-8 filed on March 29, 2010.

(45) Incorporated by reference to the Form 10K filed on May 12, 2010.

(46) Incorporated by reference to the Form 10Q filed on May 24, 2010.

(47) Incorporated by reference to the Form 10Q filed on August 23, 2010.

(48) Incorporated by reference to the Form 8K filed on September 17, 2010.

(49) Incorporated by reference to the Form 10Q filed on November 22, 2010.

(50) Incorporated by reference to the Form SC 13G filed on December 2, 2010.

(51) Incorporated by reference to the Form S-8 filed on December 21, 2010.

(52) Incorporated by reference to the Form 10K/A filed on January 5, 2011.

(53) Incorporated by reference to the Form S-8 POS filed on February 22, 2011.

(54) Incorporated by reference to the Form 8K filed on March 16, 2011.

(55) Incorporated by reference to the Form NT 10-K filed on March 30, 2011.

(56) Incorporated by reference to the Form 8K filed on April 14, 2011.

(57) Incorporated by reference to the Form 10K filed on April 15, 2011.

(58) Incorporated by reference to the Form NT 10-Q filed on May 16, 2011.

(59) Incorporated by reference to the Form 10-Q filed on June 6, 2011.

(60) Incorporated by reference to the Form Pre 14C filed on June 24, 2011.

(61) Incorporated by reference to the Form Def 14A filed on July 29, 2011.

(62) Incorporated by reference to the Form NT 10-Q filed on August 15, 2011.

(63) Incorporated by reference to the Form Defr 14A filed on August 18, 2011.

(64) Incorporated by reference to the Form 10-Q filed on August 19, 2011.

(65) Incorporated by reference to the Form 10-Q/A filed on September 22, 2011.

(66) Incorporated by reference to the Form 8K filed on September 23, 2011.

(67) Incorporated by reference to the Form 3 filed on October 3, 2011.

(68) Incorporated by reference to the Form 4 filed on October 3, 2011.

(69) Incorporated by reference to the Form 8K filed on November 9, 2011.

(70) Incorporated by reference to the Form 8KA filed on November 14, 2011.

(71) Incorporated by reference to the Form NT 10-Q filed on November 14, 2011.

(72) Incorporated by reference to the Form 8K filed on November 16, 2011.

(73) Incorporated by reference to the Form Pre 14C filed on November 16, 2011.

(74) Incorporated by reference to the Form 10-Q filed on November 21, 2011.

(75)

(76)

(77)

(78) Incorporated by reference to the Form 8K/A filed December 12, 2011.

(79) Incorporated by reference to the Form 8K/A filed on December 12, 2011.

(80) Incorporated by reference to the Form Pre 14C filed on December 12, 2011.

(81) Incorporated by reference to the Form Def 14C filed on December 12, 2011

(82) Incorporated by reference to the Form 8K/A filed on December 13, 2011.

(83) Incorporated by reference to the Form S-8 filed on March 7, 2012.

(84) Incorporated by reference to the Form 8-K filed on March 7, 2012.

(85) Incorporated by reference to the Form NT-10K filed on March 30, 2012.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: April 16, 2012

COROWARE, INC.

By: /s/ Lloyd T. Spencer
Lloyd T. Spencer
Chief Executive Officer and
Interim Chief Financial Officer
(Principal Executive Officer and
Principal Accounting and Financial
Officer)

In accordance with the Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Lloyd T. Spencer Lloyd T. Spencer	Chief Executive Officer and Interim Chief Financial Officer, Director (Principal Executive Officer and Principal Accounting and Financial Officer),	April 16, 2012
/s/ John Kroon John Kroon	Chairman of the Board of Directors	April 16, 2012
/s/ Martin Nielson Martin Nielson	Director	April 16, 2012

Index to Financial Statements

LBB & ASSOCIATES LTD., LLP
10260 Westheimer Road, Suite 310
Houston, TX 77042
Phone: (713) 800-4343 Fax: (713) 456-2408

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
CoroWare, Inc.
Kirkland, WA

We have audited the accompanying consolidated balance sheet of CoroWare, Inc. (the "Company") as of December 31, 2010 and the related consolidated statements of operations, stockholders' deficit, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CoroWare, Inc. as of December 31, 2010 and the consolidated results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company's recurring losses from operations, and its need for additional financing in order to fund its projected loss in 2011 raise substantial doubt about its ability to continue as a going concern. The 2010 consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ LBB & Associates Ltd., LLP
LBB & Associates Ltd., LLP

Houston, Texas
April 14, 2011

COROWARE, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2011 and 2010

ASSETS

	2011	2010
Current assets:		
Cash	$ 522	$ -
Accounts receivable, net	129,438	188,988
Inventory	3,783	4,818
Other current assets	7,518	3,673
Total current assets	141,261	204,479
Property and equipment, net	24,333	31,391
Intangible assets, net	-	11,081
Other assets, net	6,927	4,731
TOTAL ASSETS	172,521	251,682
LIABILITIES AND STOCKHOLDERS’ DEFICIT		
Current liabilities:		
Lines of credit	$ 125,456	$ 124,991
Obligations collateralized by receivables	107,730	102,389
Accounts payable and accrued expenses	4,442,905	3,811,415
Accrued expenses, related parties	111,466	150,536
Notes payable	202,232	263,133
Notes payable, related parties	208,913	292,812
Derivative liability	2,798,366	1,825,216
Current maturities of convertible debt, net of discount	2,206,247	2,292,410
Redeemable preferred stock, Series B, $.001 par value, 525,000 shares authorized, 159,666 shares issued and outstanding	106,443	260,958
Redeemable preferred stock, Series D, $.001 par value, 500,000 shares authorized, 100,000 shares issued and outstanding	75,901	-
Small business administration loan	980,450	982,450
Total current liabilities	11,366,110	10,106,310
Convertible debentures, net of current maturities	149,107	-
Total liabilities	11,515,217	10,106,310
Commitments		
Stockholders’ deficit:		
Common stock, $.001 par value, 900,000,000 shares authorized,		

796,117,874 and 88,590,637 shares issued and 796,117,040 and 88,589,803 outstanding at December 31, 2010 and 2009, respectively	796,118	88,591
Additional paid-in capital	15,363,451	15,530,450
Accumulated deficit	(27,466,565)	(25,437,969)
Treasury stock	(35,700)	(35,700)
Total stockholders' deficit	(11,342,696)	(9,854,629)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 172,521	$ 251,682

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

COROWARE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2011 and 2010

	2011	2010
Revenues	$ 1,799,352	$ 2,009,563
Cost of revenues	1,214,737	1,502,230
Gross profit	584,615	507,333
Operating expenses:		
General and administration	863,299	954,001
Sales and marketing	314,195	339,032
Research and development	122,221	92,959
Depreciation and amortization	21,765	41,933
Total operating expenses	1,321,480	1,427,925
Loss from operations before other income (expense)	(736,865)	(920,592)
Other income (expense):		
Gain on sale of patents	-	-
Interest expense	(804,893)	(624,204)
Derivative income (expense)	(485,772)	453,921
Other income		31,265
Gain (loss) on debt redemptions	(76,582)	50,726
Gain (Loss) on extinguishment of debt	75,517	
Total other income (expense)	(1,291,730)	(88,292)
Net loss	$ (2,028,596)	$ (1,008,884)
Net loss per share:		
Basic and diluted	$ (0.00)	$ (0.05)
Weighted average shares outstanding – Basic and diluted	43,152,766,014	22,266,735

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

COROWARE, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
For the Year Ended December 31, 2011

	Common Stock		Additional	Accumulated		
	Shares	Amount	Paid-in Capital	Deficit	Treasury Stock	Total
Balances, December 31, 2010	88,590,637	$ 88,591	$ 15,530,450	$ (25,437,969)	$ (35,700)	$ (9,854,628)
Common stock issued in satisfaction of payables	196,789,147	196,789	84,062	-	-	280,851
Common stock issued for services and compensation	1,000,000	1,000	2,300	-	-	3,300
Common stock issued for redemption of convertible debenture	436,373,253	436,373	(184,308)	-	-	252,065
Common stock issued for notes payable	73,364,837	73,365	5,239	-	-	78,604
Transfer preferred stock to liability			(74,292)			(74,292)
Net loss				(2,028,596)	-	(2,028,596)
Balances, December 31, 2011	796,118,874	$ 796,118	$ 15,363,451	$ ($27,466,565)	$ (35,700)	$ (11,342,696)

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

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COROWARE, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
For the Year Ended December 31, 2010

	Common Stock					
	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
Balances, December 31, 2009	4,506,191	$ 4,506	$ 14,901,673	$ (24,429,085)	$ (35,700)	$ (9,558,606)
Common stock issued in satisfaction of payables	50,541,118	50,541	310,787	-	-	361,328
Common stock issued for services and compensation	11,432,471	11,433	130,220	-	-	141,653
Common stock issued for redemption of convertible debenture	20,360,857	20,361	162,386	-	-	182,747
Stock option expense	-	-	20,134	-	-	20,134
Common stock issued for investment in joint venture	1,750,000	1,750	5,250	-	-	7,000
Net loss	-	-	-	(1,008,884)	-	(1,008,884)
Balances, December 31, 2010	88,590,637	$ 88,591	$ 15,530,450	$ (25,437,969)	$ (35,700)	$ (9,854,628)

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

COROWARE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (2,028,596)	$ (1,008,884)
Adjustments to reconcile net loss to cash flows from operating activities:		
Depreciation and amortization	21,765	41,933
Stock issued for services and compensation	3,300	141,653
Stock option expense		20,134
Amortization of debt discount	297,209	62,005
Amortization of deferred financing costs	6,805	6,250
Derivative (income) loss	485,772	(453,921)
(Gain) loss on debt redemptions	(75,516)	(50,726)
Changes in operating assets and liabilities:		
Accounts receivable, net	59,550	127
Inventory	1,035	1,939
Other assets	2,155	25,305
Accounts payable and accrued expenses	1,161,640	1,067,436
Accrued expenses, related parties	(6,387)	62,098
NET CASH FLOWS FROM OPERATING ACTIVITIES	(71,268)	(84,651)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(3,626)	-
NET CASH FLOWS FROM INVESTING ACTIVITIES	(3,626)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from obligations collateralized by receivables	5,341	102,389
Net proceeds from lines of credit	465	1,295
Proceeds from convertible debt financings	80,000	-
Payments on long-term debt	(2,000)	-
Payments on notes payable	(8,692)	(101,948)
Payments on notes payable, related parties	(14,698)	(46,218)
Proceeds from notes payable	15,000	80,640
Proceeds from notes payable, related parties	-	45,000
NET CASH FLOWS FROM FINANCING ACTIVITIES	75,416	81,158
NET CHANGE IN CASH	522	(3,493)
Cash, beginning of year	-	3,493
Cash, end of year	$ 522	$ -

Continued.

COROWARE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
For the Years Ended December 31, 2011 and 2010

	2011	2010
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ -	$ 500
Income taxes paid	$ -	$ -
NON CASH INVESTING AND FINANCING TRANSACTIONS		
Common stock issued for joint venture contribution	$ -	$ 7,000
Common stock issued in satisfaction of accounts and notes payable	$ 280,849	$ 361,328
Common stock issued for redemption of convertible debentures	$ 330,669	$ 182,747

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

COROWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1 - NATURE OF THE COMPANY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation policy:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, CoroWare Technologies, Inc. ("CTI"), Innova Robotics, Inc. ("IR"), Robotic Workspace Technologies, Inc. ("RWT"), and Robotics Software Services, Inc. ("RSS") (Herein are referred to as the "Subsidiaries"). All significant inter-company balances and transactions have been eliminated in the consolidated financial statements.

Nature of the Company:

CoroWare, Inc ("CoroWare" or "the Company") is a public holding company whose principal subsidiary, CoroWare Technologies, Inc. ("CTI"), has expertise in information technology consulting, mobile robotics, and affordable collaboration. Through its subsidiary, the Company delivers custom engineering services, hardware and software products, and subscription services that benefit customers in North America, Europe, Australia, Asia and the Middle East. Their customers span multiple industry sectors and comprise universities, software and hardware product development companies, and non-profit organizations. The company also maintains a Near Shore practice which is comprised of multiple subcontracting companies with whom the company maintains close working relationships. Through these relationships, the Company is able to provide services in South America.

COROWARE TECHNOLOGIES, INC.

CoroWare Technologies comprises three separately managed lines of business:

- CoroWare Business Solutions: (CBS) IT and lab management; business intelligence, software architecture, design and development; content delivery; partner and program management.
- Robotics and Automation: (R&A) Custom engineering such as visualization, simulation and software development; and mobile robot platforms for university, government and corporate researchers.
- Enhanced Collaboration Solutions: (ECS) High definition video conferencing and communications products, solutions and subscription services.

NOTE 1 - NATURE OF THE COMPANY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of significant accounting policies:

Cash and cash equivalents:

Cash and cash equivalents include cash and all highly liquid financial instruments with original purchased maturities of three months or less.

Accounts receivable:

The Company's accounts receivable are exposed to credit risk. During the normal course of business, the Company extends unsecured credit to its customers with normal and traditional trade terms. Typically credit terms require payments to be made by the thirtieth day following the sale. The Company regularly evaluates and monitors the creditworthiness of each customer. The Company provides an allowance for doubtful accounts based on our continuing evaluation of its customers' credit risk and its overall collection history. At December 31, 2011 and December 31, 2010, no allowance was deemed necessary.

Property and equipment:

Property and equipment are stated at cost less accumulated depreciation. Major renovations, renewals and improvements are capitalized; minor replacements, maintenance and repairs are charged to current operations. Depreciation is computed by applying the straight-line method over the estimated useful lives which are generally five to ten years.

Intangible assets:

The Company's intangible assets, which are recorded at cost, consist primarily of the unamortized cost basis of employment contracts and customer lists. These assets were amortized on a straight line basis over the estimated useful lives ranging from 3 to 5 years and are fully amortized as of December 31, 2011.

Impairment of long-lived assets:

The Company evaluates the carrying value and recoverability of its long-lived assets when circumstances warrant such evaluation by applying the provisions of FASB ASC 360-35, Property, Plant and Equipment, Subsequent Measurement. FASB ASC 360-35 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value.

Deferred finance costs:

Deferred finance costs are associated with the convertible debenture financings (see Note 9) and are being amortized on a straight line basis over the term of the underlying debt instrument. Upon conversion, the deferred finance cost associated with the converted amount is amortized.

Income taxes:

Income taxes are computed using the asset and liability method. Under the asset and liability method, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the currently enacted tax rates and laws. A valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, are not expected to be realized. Additionally, taxes are calculated and expensed in accordance with applicable tax code.

NOTE 1 - NATURE OF THE COMPANY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments:

Financial instruments, as defined in FASB ASC 825, Financial Instruments, consist of cash, accounts receivable, accounts payable, accrued expenses, notes payable, derivative financial instruments, and debt.

The Company carries cash, accounts receivable, accounts payable and accrued expenses at historical costs; their respective estimated fair values approximate carrying values due to their current nature. The Company also carries notes payable and convertible debt. The fair values of these notes payable and convertible debt instruments approximate carrying values based on the comparable market interest rates applicable to similar 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 the convertible debt financings and (ii) the fair values of the detachable warrants that were issued in connection with those financing arrangements.

The Company generally does not use derivative financial instruments to hedge exposures to cash-flow, market or foreign-currency risks. However, the Company has 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 its financial statements.

Share-based payments:

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. The Company estimates forfeitures that it expects will occur and records expense based upon the number of awards expected to vest.

There were no options granted during the years ending December 31, 2011 and 2010.

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 of refund privileges.

NOTE 1 - NATURE OF THE COMPANY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 collaboration revenue is comprised of both services and products. Collaboration service revenues are generated through the sale of CoroCallTM, a managed collaboration 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, and 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 sales of accessories. Revenues for these products are recognized when the product is delivered to the customer.

Research and development:

Research and development costs relate to the development of new products, including significant improvements and refinements to existing products, and are expensed as incurred. Research and development expenses from continuing operations for the years ended December 31, 2011 and 2010 were $122,221 and $92,959 respectively.

Advertising expense:

The Company expenses advertising costs as they are incurred. Advertising expense for the years ending December 31, 2011 and 2010 were $7,400 and $14,134, respectively.

Concentration of Credit Risk:

Financial instruments which potentially expose the Company to concentrations of credit risk are cash and cash equivalents and trade accounts receivable.

The Company maintains its cash and cash equivalents in deposit accounts with high quality, credit-worthy financial institutions.

At December 31, 2011 and 2010, the Company's revenues and receivables were comprised of the following customer concentrations:

	2011		2010	
	% of Revenues	% of Receivables	% of Revenues	% of Receivables
Customer 1	23%	24%	36%	61%
Customer 2	51%	24%	34%	2%
Customer 3	-	-	5%	0%

Basic and diluted loss per share:

The Company is required to provide basic and dilutive earnings (loss) per common share information. The basic net loss per common share is computed by dividing the net loss applicable to common stockholders by the weighted average number of common shares outstanding.

Diluted net loss per common share is computed by dividing the net loss applicable to common stockholders, adjusted on an "as if converted" basis, by the weighted average number of common shares outstanding plus potential dilutive securities. For the years ended December 2011 and 2010, potential dilutive securities had an anti-dilutive effect and were not included in the calculation of diluted net loss per common share.

NOTE 1 - NATURE OF THE COMPANY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2011 and 2010 the Company has issued and has outstanding shares of Series B Preferred Stock which are entitled, prior to the declaration of any dividends on common stock, to earn a 5% dividend, payable in either cash or common stock of the Company. The Board of Directors has sole discretion to declare dividends based on the Company's financial condition, results of operations, capital requirements, contractual obligations and other relevant factors. At December 31, 2011 and 2010, there were cumulative undeclared dividends to Preferred Series B shareholders of $39,917 and $31,933, respectively, the obligation for which is contingent on declaration by the board of directors. At December 31, 2011 and 2010, there were accrued unpaid dividends of $15,969, respectively. This balance is part of accounts payable and accrued expenses.

Recent Accounting Pronouncements:

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

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

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Among the more significant estimates included in the Company’s financial statements are the following:

- estimating future bad debts on accounts receivable that are carried at net realizable values;
- estimating the fair value of its financial instruments that are required to be carried at fair value; and
- estimating the recoverability of its long-lived assets.

The Company uses all available information and appropriate techniques to develop its estimates. However, actual results could differ from its estimates.

NOTE 2 - FINANCIAL CONDITION AND GOING CONCERN

The Company has incurred losses for the years ended December 31, 2011 and 2010 of $2,028,596 and $1,008,884, respectively. Because of these losses and the Company's working capital deficit, the Company will require additional working capital to develop its business operations.

The Company intends to raise additional working capital through the use of private placements, public offerings and/or bank financing.

There are no assurances that the Company will be able to either (1) achieve a level of revenues adequate to generate sufficient cash flow from operations; or (2) obtain additional financing through either private placements, public offerings and/or bank financing necessary to support the Company's working capital requirements. To the extent that funds generated from operations, any private placements, public offerings and/or bank financing are insufficient, the Company will have to raise additional working capital. No assurance can be given that additional financing will be available, or if available, will be on terms acceptable to the Company.

NOTE 2 - FINANCIAL CONDITION AND GOING CONCERN (Continued)

These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 3 – ACCOUNTS RECEIVABLE FACTORING

On March 21, 2010, the Company established a $200,000 factoring line with an asset-based lender, CapeFirst Funding, LLC (“Capefirst”) that is secured by accounts receivable that the Lender may accept and purchase from the Company. The agreement calls for Capefirst to advance up to 80% of the net face amount of each assigned account or up to 50% of eligible assigned purchase orders. The agreement calls for a maximum facility amount of $200,000 with a purchase fee of 2% of the net face amount of each assigned account and a collection fee of 0.1% compounded daily. In the event of a dispute or in the event of fraud, misrepresentation, willful misconduct or negligence on the part of the Company, Capefirst may require the Company to immediately repurchase the assigned accounts at a purchase price that includes the amount of the assigned account plus the discount fee, interest and collection fee and may include a processing fee of 10%. The combined balance due to factors as of December 31, 2011 and 2010 was $107,730 and $102,389. Factor expense charged to operations for the years ended December 31, 2011 and 2010 amounted to, $44,155 and $27,335, respectively.

We have adopted the FASB’s amended authoritative guidance which was issued in June 2009 and which became effective January 1, 2010 as it relates to distinguishing between transfers of financial assets that are sales from transfers that are secured borrowings. Under this new guidance as adopted by the Company effective January 1, 2010, the reporting of the sale of accounts receivable is treated as a secured borrowing rather than as a sale. As a result, affected accounts receivable are reported under Current Assets within the Company’s balance sheet as “Trade receivables” subject to reserves for doubtful accounts, returns and other allowances. Similarly, the net liability owing to Capefirst appears as “Obligations collateralized by receivables” within the Current Liabilities section of the Company’s balance sheet. Net proceeds received from the sale of accounts receivable appear as cash provided or used by financing activities within the Company’s Consolidated Statements of Cash Flows. Early adoption of this amended guidance was not permitted. Under the authoritative guidance in effect prior to the amended guidance noted above, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2011 and 2010:

	2011	2010
Computer equipment	$ 82,260	$ 78,634
Furniture and fixtures	7,862	7,862
	90,122	86,496
Less: accumulated depreciation	(65,789)	(55,105)
	$ 24,333	$ 31,391

Depreciation expense for the years ended December 31, 2011 and 2010 was $10,684 and $15,333, respectively.

NOTE 5 - INTANGIBLE ASSETS

Intangible assets, which arose during the Company's business acquisitions activities, consisted of the following at December 31, 2011 and 2010:

		2011	2010	Life
Employment contracts	$	132,977	$ 132,977	5 Years
Customer lists		605,242	605,242	3 Years
		738,219	738,219	
Less: accumulated amortization		(738,219)	(727,138)	
	$	-	$ 11,081	

Amortization expense amounting to $11,081 and $26,600 during the years ended December 31, 2011 and 2010, respectively is reflected as a component of operating expenses in the accompanying consolidated financial statements.

NOTE 6 - NOTES PAYABLE

Notes payable consist of the following at December 31, 2011 and 2010:

		2011		2010	
		Related Party	Other	Related Party	Other
Notes payable – Merger	6(a)	$	$ 100,000	$ -	$ 155,000
Notes payable – Shareholders	6(b)	208,913		275,312	-
Note payable – Third party	6(c)		45,000	-	45,000
Notes payable – Yorkville	6(d)		37,500	-	37,500
Other notes payable	6(e)	-	19,732	17,500	25,633
		$ 208,913	$ 202,232	$ 292,812	$ 263,133

(a) Notes payable - Merger:

In February 2003, the Company issued $230,000 of notes payable which matured in June 2003. The notes earn interest at 8% per annum unless they are in default, in which case they earn default interest at a rate of 15%; the notes are currently in default. Additionally, the notes had warrants attached to purchase 11,500 shares of common stock at $15.00 per share and were exercisable through February 12, 2005. None of these warrants were exercised prior to their expiration. This instrument is in default. During the 4th quarter of 2010, one of these notes with an outstanding balance of $75,000 was sold to a third party by the original investor. The terms of the note were changed such that the note became a convertible debenture. See the $75,000 Collins financing in Note 9(d). During 2011, two additional merger notes aggregating $55,000 were sold to third parties by the original investors and simultaneously converted to convertible debentures. See the $25,000 Tangiers financing in Note 9(k) and the $65,000 Panache financing in Note 9(n).

(b) Notes payable - Shareholders:

During September through December 2005, the Company entered into short-term debt obligations totaling $257,000. These notes bore interest at rates ranging from 5 to 10% per annum and were due between ninety and one hundred twenty days. All of the lenders were shareholders of the Company. During the 4th quarter of 2010, the remaining $40,000 of these notes was sold to a third party by the original investor. That third party subsequently converted those notes along with the accrued interest of $7,509 into 15,560,455 shares of common stock of the Company.

Additionally, during 2011 and 2010, the Company entered into various unsecured notes with shareholders aggregating $5,000 and $45,000, respectively. The notes bear interest at 18% and matured at various dates through June 2011. Repayments of $14,699 and $106,218 ($60,000 in stock) were made during 2011 and 2010, respectively. During 2011, $74,200 of these notes were sold to third parties and simultaneously re-stated as convertible debentures. See Note 9(e) and 9(j).

(c) Notes payable – Third party:

Note payable to a third party bearing interest at 5%; payable in 9 monthly installments of $5,000; matured March 2008. The note is currently in default and is accruing default interest at 18% ($29,450 through December 31, 2011).

(d) Notes payable – Yorkville:

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

(e) Other notes payable

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

NOTE 7 – LINES OF CREDIT

The Company has numerous unsecured lines of credit with various financial institutions bearing annual interest at rates ranging from 4.75% to 36.00%. At December 31, 2011 and 2010 the company had aggregate outstanding balances on these lines of $125,456 and $124,991, respectively. These lines of credit have no collateral and are payable monthly.

NOTE 8 - LONG-TERM DEBT

On April 17, 2002, the Company borrowed $989,100 under a note agreement with the Small Business Administration. The note bears interest at 4% and is secured by the equipment and machinery assets of the Company. The balance outstanding at December 31, 2011 and 2010 was $980,450 and $982,450, respectively. The note calls for monthly installments of principal and interest of $4,813 beginning September 17, 2002 and continuing until April 17, 2032. The Company and the Small Business Administration reached an agreement in November 2010 whereby the Small Business Administration would accept $500 per month for 12 months with payment reverting back to $4,813 in November 2011. The Company only made four payments under the modification agreement. The Company continues to carry the loan as a current term liability because current payments are not being made, resulting in a default. Contractual maturities of long term debt are as follows:

For the year ending December 31,	Convertible debt (1)	Combined

	Small business administration loan		
2012	$ 980,450	$ 2,206,247	$ 3,186,697
2013	-	149,107	149,107
	$ 980,450	$ 2,355,354	$ 3,335,804

(1) Carried at face value, net of discount. See Note 9.

NOTE 9 - CONVERTIBLE DEBT

The following table illustrates the carrying value of convertible debt at December 31, 2011 and 2010:

Financing	Note	2011	2010
$2,825,000 Yorkville financing	9(a)	$ 478,258	$ 1,380,141
$ 600,000 Yorkville financing	9(b)	600,000	600,000
$ 300,000 Yorkville financing	9(c)	300,000	300,000
$ 75,000 Collins financing	9(d)	34,679	12,269
$ 27,500 Asher financing	9(e)	19,951	-
$ 10,750 Barclay financing	9(f)	10,750	-
$ 9,750 Mackie financing	9(g)	8,524	-
$ 170,562 Ratzker financing	9(h)	79,319	-
$ 67,042 Harvey financing	9(i)	62,675	-
$ 89,383 Cariou financing	9(j)	83,077	-
$ 10,000 Tangiers financing	9(l)	7,895	-
$ 15,000 Tangiers financing	9(m)	10,764	-
$ 65,000 Panache financing	9(n)	29,602	-
$ 15,000 Panache financing	9(o)	5,612	-
$ 567,200 Westmount financing	9(p)	537,318	-
$ 170,561 Redwood financing	9(q)	69,788	-
$ 21,962 Premier financing	9(r)	17,142	
		2,355,354	2,292,410
Less: Current portion of convertible debt		(2,206,247)	(2,292,410)
Long-term portion of convertible debt		$ 149,107	$ -

(a) $2,825,000 Convertible debenture financing:

The Company is party to a convertible debenture with Yorkville which provided for the sale of its 14% secured convertible debentures in the original aggregate principal amount of $2,825,000, net of deferred financing costs of $263,143. The note was originally executed in three tranches as follows: Tranche 1 for $1,250,000 on July 21, 2006, Tranche 2 for $575,000 on August 21, 2006 and Tranche 3 for $1,000,000 on December 7, 2006.

The Debenture matures on the third anniversary of the date of issuance (see Note 8 for debt maturity schedule). The holder of the Debenture may, at any time, convert amounts outstanding under the Debentures into shares of common stock of the Company at the lesser of $6.00 or 85% of the 30-day VWAP. 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, CoroWare Technologies, Inc.

Under the Purchase Agreement, the Company also issued to Yorkville five-year warrants to purchase 3,333 and 5,000 shares of Common Stock at prices equal to $150 and $300, respectively, together with three-year warrants to purchase 7,667, 6,667 and 8,333 shares of Common Stock at prices equal to $75, $195 and $225, respectively. All of these warrants have expired unexercised.

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, 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 and 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 30 day VWAP (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).

The following redemptions have occurred in conjunction with this debenture financing:

Date of Redemption	Principal Redeemed		Number of shares issued
2006	$	25,000	629
2007	$	930,000	59,946
2008	$	280,051	925,794
2009	$	30,000	573,220
2010	$	137,300	20,360,857
2011	$	50,170	55,536,746

In the Company's evaluation of this instrument in accordance with FASB ASC 815, Derivatives and Hedging (pre-codification FAS 133 "Accounting for Derivative Financial Instruments and Hedging Activities"), 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 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 (89.08% - 123.72%); and Effective Risk Adjusted Yield (15.97% - 33.59%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $1,798,350 at inception. The Company also determined that the warrants did not meet the conditions for equity classification because share settlement and maintenance of an effective registration statement are not within its control. The fair value allocated to the warrants instruments was $637,700 at inception. The remaining $388,950 was allocated to the carrying value of the debenture.

On December 31, 2010, Yorkville assigned 46.3% of Tranche 1 (aggregating $341,123 principal and $227,140 interest) to an unrelated third party ("Ratzker"). See discussion below in Note 9(h). On January 12, 2011, Yorkville assigned 100% of Tranche 2 (aggregating $567,200 in principal and $317,510 in interest) to an unrelated third party ("Westmount"). See discussion below in Note 9(p).

The remaining portions of Tranche 1 ($395,628 principal) and Tranche 3 ($82,630 principal) remain with Yorkville and are currently in default. Management is working with Yorkville to develop a plan for repayment of this debt. In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

(b) $600,000 Convertible debenture financing:

The Company is party to a convertible debenture with Yorkville which provided for the sale of its 14% secured convertible debentures in the aggregate principal amount of $600,000, net of deferred financing costs of $75,000.

The holder of the Debentures may, at any time, convert amounts outstanding under the Debentures into shares of common stock of the Company at the lesser of $6.00 or 85% of the 30-day VWAP. 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, CoroWare Technologies, Inc.

The Company had the right to redeem a portion or all amounts outstanding under the Debenture prior to the Maturity Date at a 12% 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 issuance date, Yorkville may require the Company to convert any amounts owed. 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 conversions by either paying cash and a 12% 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 85% of the 30 day VWAP.

In the Company's original 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 (89.08% - 123.72%); and Effective Risk Adjusted Yield (15.97% - 33.59%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $706,800 at inception.

This convertible debenture matured in 2009 and is currently in default. Management is working with Yorkville to develop a plan for repayment of this debt. In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

(c) $300,000 Convertible debenture financing:

On March 19, 2008, the Company consummated a Securities Purchase Agreement dated March 19, 2008 with Y.A. Global Investments ("Yorkville") for the sale by the Company to Yorkville of its 14% secured convertible debentures in the aggregate principal amount of $300,000, net of deferred financing costs of $60,000 which was advanced immediately in March 2008.

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 $6.00. 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, CoroWare Technologies, Inc. Under the Purchase Agreement, the Company also issued to Yorkville five-year warrants to purchase 33,333 shares of Common Stock at a price equal to $6.

The Company has the right to redeem a portion or all amounts outstanding under the Debenture prior to the Maturity Date at a 14% 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 issuance date, Yorkville may require the Company to convert any amounts owed. 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 conversions by either paying cash and a 14% 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 85% of the 30 day VWAP.

In the Company's original 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 (89.08% - 123.72%); and Effective Risk Adjusted Yield (15.97% - 33.59%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $150,000 at inception. The Company also determined that the warrants did not meet the conditions for equity classification because share settlement and maintenance of an effective registration statement are not within its control. The fair value allocated to the warrants instruments was $50,000 at inception. The remaining $100,000 was allocated to the carrying value of the debenture.

This convertible debenture matured in 2010 and is currently in default. Management is working with Yorkville to develop a plan for repayment of this debt. In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

(d) $75,000 Collins financing:

On December 9, 2010, the Company amended a note payable that has been outstanding from February 11, 2003. The amended terms of the note call for a variable conversion price of 70% of the market price. The market price is defined as the average of the lowest three trading prices for the common stock during the 10 trading day period prior to the date the conversion notice is sent by the holder. The Debenture matured on June 27, 2003 and remains in default.

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 feature was bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair value of the bifurcated derivative instrument 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 estimated remaining term of the host instrument); Effective Volatility (141.39%); and Effective Risk Adjusted Yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $61,039 at inception. The remaining $13,961 was allocated to the carrying value of the debenture. As of December 31, 2010, this note carried a discount of $53,341 which is being amortized using the effective interest method over the estimated life of 10 months.

During December 2010, the original holder of the note sold it to a third party investor ("Collins") with all of the terms remaining the same. Collins subsequently made the following conversions:

Date of Redemption	Principal Redeemed		Number of shares issued
2010	$	9,300	3,100,000
2011	$	20,290	21,500,000

(a) $27,500 Asher financing:

On February 1, 2011, 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 $27,500, net of deferred financing costs of $2,500.

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 51% of the market price, which is defined as the lowest 3 trading prices for the Company's common stock during the 10 trading days prior to conversion.

In the Company's original 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 (145.01% - 130.17%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $36,729 at inception. Derivative expense of $9,229 was recognized at inception.

This convertible debenture matured in November 2011 and is currently in default. In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

During 2011, Asher converted $2,000 of the convertible debenture into 33,333,333 shares of the Company's common stock. The Company recognized a loss on redemption of $114.

(b) $10,750 Barclay financing:

On January 28, 2011, the Company consummated an unsecured convertible promissory note with an unrelated third party for $10,750, net of deferred financing costs of $2,500.

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 fair market value, but not to exceed $0.05/share or be less than $0.0001/share. Fair market value is defined as the lower of i) the closing bid price for the date immediately preceding the date of conversion (excluding trades that are not arms-length) or ii) the average of last 5 trading days volume weighted average price. The Company's obligations under the convertible promissory note are secured by substantially all of the assets of the Company and those of its wholly owned subsidiary, CoroWare Technologies, Inc.

In the Company's original 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 (155.39% - 117.57%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $12,369 at inception. Derivative expense of $1,619 was recognized at inception.

This convertible debenture matured July 28, 2011 and is currently in default. In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

As of December 31, 2011, there have been no conversions on this convertible debenture.

(c)$9,750 Mackie financing:

On February 3, 2011, the Company consummated an unsecured convertible promissory note with an unrelated third party for $9,750.

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 85% of the 5 day average closing price using the 5 trading days prior to the conversion date.

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 (155.39% - 117.57%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $3,491 at inception. The remaining balance of $6,259 was allocated to the carrying value of the debenture.

This convertible debenture matured February 18, 2011 and is currently in default. In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

As of December 31, 2011, there have been no conversions on this convertible debenture.

(h) $ 170,562 Ratzker financing:

Yorkville Advisors transferred a 46.3% portion of Tranche 1 of the $2,825,000 debenture to a third party ("Ratzker") effective December 31, 2010. The assignment aggregated $568,263, representing $341,123 of unpaid principal and $227,140 of accrued interest. At that time, there was no accounting impact for CoroWare as it was merely an assignment between debt holders. On March 18, 2011, Ratzker modified the terms of the debenture such that the interest rate was lowered from 14% to 5% and the maturity date was extended until March 18, 2013. Simultaneously, the conversion rate on the debenture was modified from 85% of the 30 day Volume Weighted Average Price ("VWAP") to 65% of the 30 day VWAP.

The modification was analyzed in accordance with current accounting standards and was determined not to be a troubled debt restricting or an extinguishment of debt. As such, it was accounted for as a modification and no gain or loss was recognized on the transaction. A debt discount of $236,779 was recognized for the difference in the fair value of the embedded conversion feature before and after the modification date. A new effective rate was calculated for the new debenture and the related debt discount is being amortized using the effective interest rate over the new 2 year term of the underlying loan. Amortization for the year ended December 31, 2011 was $32,864.

On March 21, 2011, Ratzker transferred 50% of his ownership interest in this debenture to another unrelated party ("Redwood"). The terms of the debenture did not change with that transfer. As such, this transfer was also considered an assignment between debt holders and did not have an accounting impact on the Company. See discussion below in Note 9(q) for Redwood financing.

With the extension of the maturity date, this debenture is no longer in default and has been reclassified to long-term liabilities on the accompanying balance sheet.

As of December 31, 2011, there have been no conversions on this convertible debenture.

(i) $67,042 Harvey financing:

On April 2, 2011, the Company entered into an unsecured convertible promissory note with a vendor. The vendor converted $67,042 of outstanding payables into this convertible note. The note calls for interest at 10% through the maturity date of May 2, 2011 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 the average closing bid price for the 5 trading days prior to, but not including, the conversion date. The number of shares of common stock to be issued upon each conversion shall be determined by dividing that portion of the principal to be converted by the conversion price then multiplying by 115%.

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 (132.38%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $30,011 at inception.

This convertible debenture matured May 2, 2011 and is currently in default. In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

As of December 31, 2011, there have been no conversions on this convertible debenture.

(j) $89,383 Cariou financing:

On April 4, 2011, the Company entered into unsecured convertible promissory note with an employee. The employee converted $56,700 of outstanding principal on related party notes payable and $32,683 of accrued interest into this convertible note. The note calls for interest at 10% through the maturity date of May 4, 2011 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 the average closing bid price for the 5 trading days prior to, but not including, the conversion date. The number of shares of common stock to be issued upon each conversion shall be determined by dividing that portion of the principal to be converted by the conversion price then multiplying by 115%.

In the Company's original 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 (132.38%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $44,720 at inception.

This convertible debenture matured May 4, 2011 and is currently in default. In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

As of December 31, 2011, there have been no conversions on this convertible debenture.

(k) $25,000 Tangiers financing:

In May and June 2011, an unrelated third party ("Tangiers") purchased a $25,000 note payable from one of CoroWare's note holders. The transaction was completed in 2 Tranches of $10,000 and $15,000. The terms of the note were changed such that the conversion rate was changed from a fixed $1 per share to a variable rate of 65% of the lowest trading price during the 7 days prior to conversion. The interest rate was changed from 8% to 10% and the maturity date was extended from June 2003 to March 19, 2012, thus taking the note out of default.

The modification was analyzed in accordance with current accounting standards and was determined not to be a troubled debt restricting but rather an extinguishment of debt as there was a substantial difference in terms on the new debt. As the old debt was being carried at face value, there was no gain or loss recognized on the extinguishment.

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 (132.38%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $11,662 and $10,800, respectively, at inception for the $10,000 tranche and the $15,000 tranche.

During 2011, the entire $25,000 was converted into 96,153,846 shares of CoroWare common stock. CoroWare recognized a loss of $16,923 and $13,846, respectively, on the conversion of the $10,000 tranche and the $15,000 tranche.

(l) $10,000 Tangiers financing:

On May 16, 2011, the Company entered into a $10,000 Convertible Note Agreement with an unrelated third party ("Tangiers"). The note calls for interest at 10% through the maturity date of May 16, 2012 and default interest at 20% thereafter. Loan fees of $1,300 were withheld at closing. These have been classified as deferred finance costs and are being amortized over the term of the loan on a straight line basis.

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 65% 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.

In the Company's original 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 (132.38%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $5,877 at inception.

As of December 31, 2011, there have been no conversions on this convertible debenture.

(m) $15,000 Tangiers financing:

On June 10, 2011, the Company entered into a $15,000 Convertible Note Agreement with an unrelated third party ("Tangiers"). The note calls for interest at 10% through the maturity date of May 16, 2012 and default interest at 20% thereafter. Loan fees of $1,300 were withheld at closing. These have been classified as deferred finance costs and are being amortized over the term of the loan on a straight line basis.

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 65% 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.

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 (132.38%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $10,800 at inception.

As of December 31, 2011, there have been no conversions on this convertible debenture.

(n) $65,000 Panache financing:

On June 2, 2011, an unrelated third party ("Panache") purchased an aggregate $65,000 (representing $30,000 of outstanding principal and $35,000 accrued interest) from one of CoroWare's note holders. The terms of the note were changed such that the conversion rate was changed from a fixed $1 per share to a variable rate of an agreed to discount to market not to fall below a 50% discount to the average of the 3 lowest trading prices during the 20 days prior to conversion. The interest rate was changed from 8% to 15% and the maturity date was extended from June 2003 to June 1, 2012, thus taking the note out of default.

The modification was analyzed in accordance with current accounting standards and was determined not to be a troubled debt restricting but rather an extinguishment of debt as there was a substantial difference in terms on the new debt. As the old debt was being carried at face value, there was no gain or loss recognized on the extinguishment.

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 (132.38%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $100,880 at inception. Derivative expense of $35,880 was recognized at inception.

During 2011, Panache converted $8,400 of principal into 42,000,000 shares of the Company's common stock.

(o) $15,000 Panache financing:

On April 2, 2011, the Company entered into a $15,000 Convertible Note Agreement with an unrelated third party ("Panache"). The note calls for interest at 8% through the maturity date of June 29, 2012. The note can be renewed for an additional 10 years under 6 month extensions at $100 per extension.

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 an agreed to discount to market not to fall below a 15% discount to the average of the 3 lowest trading prices during the 20 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 (132.38%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $13,500 at inception.

As of December 31, 2011, there have been no conversions on this convertible debenture.

(p) $567,200 Westmount financing:

On January 12, 2011, Yorkville assigned 100% of Tranche 2 of its $2,825,000 debenture (aggregating $567,200 in principal and $317,510 in interest) to an unrelated third party ("Westmount"). The terms of the note did not change. As such, there was no accounting impact for CoroWare as it was merely an assignment between debt holders. The note calls for interest at 14%. This note matured August 22, 2009 and is currently in default.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to the lower of $0.02 per share or 85% of the lowest volume weighted average price in the 30 days prior to the conversion date. 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, CoroWare Technologies, Inc.

In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

During 2011, $29,882 of principal was converted into 66,682,665 shares of the Company's common stock.

(q) $170,561 Redwood financing:

On March 21, 2011, Ratzker (see Note 9(h)) transferred 50% of his ownership interest in his convertible debenture to another unrelated party ("Redwood"). The terms of the note did not change. As such, there was no accounting impact for CoroWare as it was merely an assignment between debt holders. The note calls for interest at 5% through the maturity date of March 18, 2013.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to 65% of the volume weighted average price for the Company's stock for the 30 trading days prior to conversion. 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, CoroWare Technologies, Inc.

During 2011, Redwood converted $36,700 of principal into 101,666,663 shares of the Company's common stock.

(r) $21,962 Premier financing:

On October 5, 2011, the Company entered into a $21,962 Convertible Note Agreement with an unrelated third party ("Premier"). The note calls for interest at 10% through the maturity date of March 5, 2012.

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 the average closing bid prices for the Company's common stock for the 5 trading days prior to but not including the date of 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 (288.54%); and effective risk adjusted yield (6.25%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $10,844 at inception.

As of December 31, 2011, there have been no conversions on this convertible debenture.

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

	Note	Compound derivative	Warrant liability	Total
$2,825,000 Yorkville financing	9(a)	608,013	-	608,013
$ 600,000 Yorkville financing	9(b)	586,883	5,250	592,133
$ 300,000 Yorkville financing	9(c)	-	-	-
$ 75,000 Collins financing	9(d)	40,672	-	40,672
$ 27,500 Asher financing	9(e)	33,328	-	33,328
$ 10,750 Barclay financing	9(f)	7,942	-	7,942
$ 9,750 Mackie financing	9(g)	5,262	-	5,262
$ 170,562 Ratzker financing	9(h)	203,734	-	203,734
$ 67,042 Harvey financing	9(i)	38,797	-	38,797
$ 89,383 Cariou financing	9(j)	51,949	-	51,949
$ 10,000 Tangiers financing	9(l)	18,941	-	18,941
$ 15,000 Tangiers financing	9(m)	15,821	-	15,821
$ 65,000 Panache financing	9(n)	86,149	-	86,149
$ 15,000 Panache financing	9(o)	12,843	-	12,843
$ 567,200 Westmount financing	9(p)	785,900	-	785,900
$ 170,561 Redwood financing	9(q)	287,328	-	287,328
	9(r)	9,554	-	9,554

$ 21,962 Premier financing			
	2,793,116	5,250	2,798,366

The following table illustrates the components of derivative liabilities at December 31, 2010:

	Note		Compound derivative	Warrant liability	Total
$2,825,000 financing	9	(a)	$1,414,222	$6	$1,414,228
$ 600,000 financing	9	(b)	366,434	6,300	372,734
$ 300,000 financing	9	(c)	-	27	27
			38,227	-	38,227
			$1,818,883	$6,333	$1,825,216

The Company estimates 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, the Company considers, 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, the Company generally uses 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, the Company 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 its 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.

The following table summarizes the number of common shares indexed to the derivative financial instruments as of December 31, 2011:

Financing or other contractual arrangement:	Note		Conversion Features	Warrants	Total
$2,825,000 Yorkville financing	9	(a)	9,436,474,855	-	9,436,474,855
$ 600,000 Yorkville financing	9	(b)	9,465,863,014	52,500,000	9,518,363,014
$ 300,000 Yorkville financing	9	(c)	76,121	33,333	109,454
$ 75,000 Collins financing	9	(d)	656,005,930	-	656,005,930
$ 27,500 Asher financing	9	(e)	537,552,511	-	537,552,511
$ 10,750 Barclay financing	9	(f)	128,095,822	-	128,095,822
$ 9,750 Mackie financing	9	(g)	84,873,548	-	84,873,548
$ 170,562 Ratzker financing	9	(h)	2,910,474,184	-	2,910,474,184
$ 67,042 Harvey financing	9	(i)	746,105,076	-	746,105,076
$ 89,383 Cariou financing	9	(j)	999,032,264	-	999,032,264
$ 10,000 Tangiers financing	9	(l)	163,287,671	-	163,287,671
$ 15,000 Tangiers financing	9	(m)	243,414,120	-	243,414,120
$ 65,000 Panache financing	9	(n)	1,230,695,890	-	1,230,695,890
$ 15,000 Panache financing	9	(o)	183,471,394	-	183,471,394
$ 567,200 Westmount financing	9	(p)	10,915,281,489	-	10,915,281,489
$ 170,561 Redwood financing	9	(q)	3,882,816,312	-	3,882,816,312
$ 21,962 Premier financing	9	(r)	140,496,630	-	140,496,630
Preferred Stock, Series B	12	(b)	1,064,440,000		1,064,440,000
Preferred Stock, Series D	12	(d)	759,013,283		759,013,283
			43,547,470,114	52,533,333	43,600,003,447

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The following table summarizes the number of common shares indexed to the derivative financial instruments as of December 31, 2010:

Financing or other contractual arrangement:	Note	Conversion Features	Warrants	Total
$2,825,000 Convertible Note Financing	9(a)	407,468,034	8,333	407,476,367
$ 600,000 Convertible Note Financing	9(b)	147,899,063	1,141,304	149,040,367
$ 300,000 Convertible Note Financing	9(c)	67,490	33,333	100,823
$ 75,000 Convertible Note Financing	9(d)	21,524,026	-	21,524,026
		576,958,613	1,182,970	578,141,583

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

	Year ended December 31, 2011			
Derivative income (expense):	Inception	Fair Value Adjustments	Redemptions	Total
$2,825,000 Yorkville financing	-	367,903	(23,917)	$343,986
$ 600,000 Yorkville financing	-	(219,399)	-	(219,399)
$ 300,000 Yorkville financing	-	26	-	26
$ 75,000 Collins financing	-	(2,437)	(22,742)	(25,179)
$ 27,500 Asher financing	(9,229)	3,400	(2,975)	(8,804)
$ 10,750 Barclay financing	(1,619)	4,427	-	2,808
$ 9,750 Mackie financing	-	(1,772)	-	(1,772)
$ 170,562 Ratzker financing	-	53,337	-	53,337
$ 67,042 Harvey financing	-	(8,786)	-	(8,786)
$ 89,383 Cariou financing	-	(7,229)	-	(7,229)
$ 25,000 Tangiers financing	(1,662)	22,462	-	(20,800)
$ 10,000 Tangiers financing	-	(13,064)	-	(13,064)
$ 15,000 Tangiers financing	-	(5,021)	-	(5,021)
$ 65,000 Panache financing	(35,880)	14,731	(11.352)	(32,501)
$ 15,000 Panache financing	-	657	-	657
$ 567,200 Westmount financing	-	(564,723)	(42,054)	(606,777)
$ 170,561 Redwood financing	-	(165,558)	(67,492)	(233,050)
$ 21,962 Premier financing	-	1,290	-	1,290
Preferred stock, Series B	-	154,515	-	154,515
Preferred stock, Series D	-	98,391	-	98,391
	$(48,390)	$ (266,850)	$ (170,532)	$(485,772)

	Year ended December 31, 2010			
Derivative income (expense)	Inception	Fair Value Adjustments	Redemptions	Total
$2,825,000 financing	$-	$ 222,738	$ (39,442)	$183,296
$ 600,000 financing	-	237,984	-	237,984

$ 300,000 financing	-	1,503	-	1,503
$ 75,000 financing		22,812	(4,967)	17,845
Preferred stock, Series B		13,293	-	13,293
	$-	$ 498,330	$ (44,409)	$453,921

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Changes in the fair value of the compound derivative and, therefore, derivative income (expense) related to the compound derivative is significantly affected by changes in the Company's trading stock price and the credit risk associated with its financial instruments. The fair value of the warrant derivative is significantly affected by changes in the Company's trading stock prices.

During the years ended December 31, 2011 and 2010, the company incurred gains/(losses) in conjunction with the applicable redemptions of the convertible debt of $75,517 and $50,726, respectively. The gain/(loss) on redemption was recorded by the Company as the difference between the fair value of the shares issued ($252,066 and $182,747 during 2011 and 2010, respectively) and the carrying value of the debt redeemed ($327,583 and $233,473 for 2011 and 2010, respectively.)

NOTE 10 - INCOME TAXES

The Company follows ASC 740, "Income Taxes". Deferred income taxes reflect the net effect of (a) temporary difference between carrying amounts of assets and liabilities for financial purposes and the amounts used for income tax reporting purposes, and (b) net operating loss carry forwards. No net provision for refundable Federal income tax has been made in the accompanying statements of operations because no recoverable taxes were paid previously. Similarly, no deferred tax asset attributable to the net operating loss carry forward has been recognized, as it is not deemed likely to be realized.

The current year provision for refundable Federal income tax consists of the following at December 31, 2011 and 2010:

	2011	2010
Refundable income tax attributable to:		
Current operations	$ 723,000	$ 360,000
Less, change in valuation allowance	(723,000)	(360,000)
Net refundable amount	$ -	$ -

The cumulative tax effect at the expected rate of 34% of significant items comprising the Company's net deferred tax amount is as follows at December 31, 2011 and 2010:

	2011	2010
Deferred tax asset attributable to:		
Net operating loss carryover	$9,370,000	$8,660,000
Less, valuation allowance	(9,370,000)	(8,660,000)
Net deferred tax asset	$-	$-

At December 31, 2011, the Company had an unused net operating loss carryover approximating $25,500,000 that, subject to certain utilization limitations, is available to offset future taxable income, if any. The net operating losses expire from 2024 through 2031.

NOTE 11 - STOCK BASED COMPENSATION

Employee stock options:

The Company has a 2005 Stock Option Plan which is authorized to issue 66,667 options. There are currently 34,831 options outstanding under this plan.

Compensation cost of $-0- and $20,134 was recognized during the years ended December 31, 2011 and 2010, respectively, for grants under the 2005 Stock Option Plan.

During 2011 and 2010, -0- and 364 unvested options were forfeited by employees upon termination.

No options were issued during 2011 or 2010.

Nonemployee stock options:

During 2008 there were 3,333 options granted to nonemployees to purchase shares of the Company's common stock at $3. These options expire in ten years and vested immediately.

The following table summarizes stock option activity for the years ending December 31, 2011 and 2010:

	Number	Weighted Average Exercise Price	Weighted Average Life (years)
Outstanding, January 1, 2010	38,528	$ 2.97	
Granted	-		
Forfeited	(364)	$ 3.00	
Exercised	-		
Outstanding, December 31, 2010	38,164	$ 2.97	6.47
Granted	-		
Forfeited	-		
Exercised	-		
Outstanding, December 31, 2011	38,164	$ 2.97	5.47
Warrants exercisable at			
December 31, 2011	38,164	$ 2.97	5.47

Directors' compensation:

The Company has not paid and does not presently propose to pay cash compensation to any director for acting in such capacity. For 2011 and 2010 services, each director is to be compensated with 15,000 shares of the Company's restricted common stock. In addition, the chairman is to be awarded 7,500 shares. Neither director has received his shares for 2011 services. A liability has been established for $9,374 for the remaining board fees that have yet to be paid.

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The directors received the following common stock issuances for their service in 2011 and 2010:

Director	Restricted Common Stock Issued in 2011 for 2010 services	Value	Restricted Common Stock Issued in 2010 for 2009 services	Value
Martin Nielson	-	$ -	803,592	$ 2,250
John Kroon			-	-
Total	-	$ -	803,592	$ 2,250

The following table summarizes stock based compensation for services during the years ended December 31, 2011 and 2010:

	2011		2010	
	Shares	Value	Shares	Value
Employee bonus	1,000,000	$ 3,300	6,894,000	$105,452
Professional fees	-		4,538,471	$ 36,201
	1,000,000	$ 3,300	11,432,471	$141,653

NOTE 12 - OTHER STOCKHOLDERS' EQUITY

a) Preferred stock Series A:

The Company has authorized 125,000 shares of Series A Preferred Stock. Each share of Series A Preferred Stock i) pays a dividend of 5%, payable at the discretion of the Company in cash or common stock (ii) is convertible immediately after issuance into the Company's common stock at the lesser of $.005 per share or 75% of the average closing bid prices over the 20 trading days immediately preceding the date of conversion (iii) has a liquidation preference of $1.00 per share, (iv) may be redeemed by the Company at any time up to five years after the issuance date for $1.30 per share plus accrued and unpaid dividends, (v) has no voting rights except when mandated by Delaware law.

There were no shares of Series A Preferred Shares outstanding at any time during the years ended December 31, 2011 and 2010.

b) Preferred stock Series B:

The Company has authorized 525,000 shares of Series B Preferred Stock. Each share of Series B Preferred Stock i) pays a dividend of 5%, payable at the discretion of the Company in cash or common stock, (ii) is convertible immediately after issuance into the Company's common stock at the lesser of $15 per share or 75% of the average closing bid prices over the 20 trading days immediately preceding the date of conversion (iii) has a liquidation preference of $1.00 per share, (iv) may be redeemed by the Company at any time up to five years

There were no conversions of Series B stock during the years ended December 31, 2011 and 2010.

Based upon the Company's evaluation of the terms and conditions of the Series B Preferred Stock, the Company concluded that their features are more akin to a debt instrument than an equity instrument, which means that the Company's accounting conclusions are generally based upon standards related to a traditional debt security. The Company's evaluation concluded that the embedded conversion feature was not afforded the exemption as a conventional convertible instrument due to certain variability in the conversion price, and it further did not meet the conditions for equity classification. Therefore, the Company is required to bifurcate the embedded conversion feature and carry it as a liability.

The Company estimated the fair value of the compound derivative using a common stock equivalent and the current share price of the Company's common stock. As a result of this estimate, the Company's valuation model resulted in a compound derivative balance associated with the Series B preferred stock of $106,443 and $260,958 as of December 31, 2011 and 2010, respectively. This amount is included in mandatorily redeemable preferred stock as a liability on the Company's balance sheet. Fair value adjustments of $154,515 and $13,292 were charged to derivative income (expense) for the years ended December 31, 2011 and 2010, respectively.

c) Preferred stock Series C:

The Company has authorized 500,000 shares of Series C Preferred Stock. During 2007 the Company initiated a private offering under Regulation D of the Securities Act of 1933 (the "Private Offering"), of an aggregate 500,000 units (collectively referred to as the "Units") at a price of $1,00 (one dollar) per unit, with each unit consisting of one share of Series C Convertible Preferred Stock at the lesser of eighty five Percent (85%) of the average closing bid price of the Common Stock over the twenty (20) trading days immediately preceding the date of conversion or $0.04 and stock purchase warrants equal to the number of shares of common stock converted from the Series C Convertible Preferred Stock, exercisable at $0.06 per share and which expire five (5) years from the conversion date.

d) Preferred stock Series D:

On November 10, 2011 the Board approved by unanimous written consent an amendment to the Corporation's Certificate of Incorporation to designate the rights and preferences of Series D Preferred Stock. There are 500,000 shares of Series D Preferred Stock authorized with a par value of $0.001. Each share of Series D Preferred Stock has a stated value equal to $1.00. These preferred shares rank higher than all other securities. Each outstanding share of Series D Preferred Stock shall be convertible into the number of shares of the Corporation's common stock determined by dividing the Stated Value by the Conversion Price which is defined as eighty five percent (85%) of the average closing bid price of the Common Stock over the twenty (20) trading days immediately preceding the date of conversion, (ii) but no less than Par Value of the Common Stock. Mandatory conversion can be demanded by the Company prior to October 1, 2013. Each one share of the Series D Preferred Stock shall have voting rights equal to 100,000 votes of Common Stock.

There were no conversions of Series D stock during the years ended December 31, 2011.

Based upon the Company's evaluation of the terms and conditions of the Series D Preferred Stock, the Company concluded that their features are more akin to a debt instrument than an equity instrument, which means that the Company's accounting conclusions are generally based upon standards related to a traditional debt security. The Company's evaluation concluded that the embedded conversion feature was not afforded the exemption as a conventional convertible instrument due to certain variability in the conversion price, and it further did not meet the conditions for equity classification. Therefore, the Company is required to bifurcate the embedded conversion feature and carry it as a liability.

The Company estimated the fair value of the compound derivative using a common stock equivalent and the current share price of the Company's common stock. As a result of this estimate, the Company's valuation model resulted in a compound derivative balance associated with the Series D preferred stock of $75,901as of December 31, 2011. This amount is included in mandatorily redeemable preferred stock as a liability on the Company's balance sheet. Fair value adjustments of $98,391 were charged to derivative income (expense) for the year ended December 31, 2011.

d) Outstanding warrants:

At December 31, 2011, the Company had the following warrants outstanding:

		Grant Date	Expiration Date	Warrants Granted	Exercise Price
$ 300,000 financing	9(b)	03/19/08	3/19/13	33,333	$ 6
				33,333	

The following table summarizes warrant activity for the years ending December 31, 2011 and 2010:

	Number	Weighted Average Exercise Price	Weighted Average Life (years)
Outstanding, January 1, 2010	41,667	$ 6.00	
Granted	-		
Forfeited	-		
Exercised	-		
Outstanding, December 31, 2010	41,667	$ 6.00	
			1.92
Granted	-		
Forfeited	(8,334)	$ 6.00	
Exercised	-		
Outstanding, December 31, 2011	33,333	$ 6.00	1.25
Warrants exercisable at			
December 31, 2011	33,333	$ 6.00	1.25

NOTE 13 - COMMITMENTS

Lease Agreements:

As of May 30, 2010 and July 31, 2010, the Company ended its lease agreements with PS Business Park for the properties at 4074 148th Avenue NE and 4056 Avenue NE in Redmond, Washington.

In July 2010, we entered a 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.

Our corporate headquarter office 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.

Future minimum rentals on non-cancelable leases are as follows:

For the year ending December 31,	
2012	$ 49,053
2013	52,041
2014	55,029
2015	33,117
	$ 189,240

Employment Agreements:

On May 16, 2006, Mr. Spencer entered into an employment agreement and was granted 1,667 options to purchase restricted shares of CoroWare, Inc. common stock at a purchase price of $54, expiring in ten years, and vesting ratably over three years. Our 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 the Board of Directors. On September 12, 2007, Mr. Spencer was granted 5,000 options to purchase restricted shares of our common stock at $12. On December 31, 2007 the options were re-priced to $3. As of December 31, 2011, all 5,000 of these options are vested.

Mr. Hyams entered into an employment agreement and was granted 1,667 options to purchase restricted shares of CoroWare, Inc. 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 our common stock as per a directive from our board of directors. On September 12, 2007 Mr. Hyams was granted 5,000 options to purchase restricted shares of our common stock at $12 per share. On December 31, 2007 the options were re-priced $3. At December 31, 2011, all 5,000 of those options are vested.

Mr. Mandrell was employed as Director and then Vice President of CoroWare, Inc. from January 29, 2007, until his resignation November 12, 2010. Mr. Mandrell entered into an employment agreement and was granted 1,667 options to purchase restricted shares of our common stock at a purchase price of $51, expiring in ten years, and vesting ratably over three years. Our board of directors voted to re-price these options to $12 at September 12, 2007 and again to $3 at December 31, 2007. At December 31, 2011, all of these options are vested. On September 12, 2007 Mr. Mandrell was granted 2,000 options to purchase restricted shares of our common stock at $12 per share. On December 31, 2007 the options were re-priced to $3. At March 31, 2010, all 2,000 of those options are vested.

Walter K. Weisel was employed as our CEO from August 25, 2004, until his resignation August 21, 2007 and from all other positions in December 2007. On April 12, 2005, Mr. Weisel was granted 5,000 options to purchase restricted shares of our common stock at an exercise price of $30, expiring in ten years and vesting ratably over three years. Upon his termination on December 13, 2007, 3,333 of the 5,000 options had vested and remain exercisable until their termination date.

In February 2008, Mr. Gartlan was granted 10,040 shares of restricted common stock in exchange for 10,040 common stock options that were outstanding. Subsequent to his passing, the Company granted fully vested, ten-year options to Mr. Gartlan's surviving spouse to buy up to 3,333 restricted shares of our common stock at $3 per share.

NOTE 14- SUBSEQUENT EVENTS

Recent financings:

(a) $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.

Stock Issuances:

The Company issued the following shares subsequent to December 31, 2011:

Shares issued for employee compensation	160,000,000
Shares issued in connection with redemptions on convertible debentures	1,197,207,065
	1,357,207,065

Increase in Authorized Shares and Change in Par Value:

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

Designation of Preferred stock, Series E:

On March 9, 2012, the Corporation filed the Certificate of Designation of the Rights and Preferences of Series E Convertible Preferred Stock of CoroWare, Inc. with the Delaware Secretary of the State pursuant to which the Corporation set forth the designation, powers, rights, privileges, preferences and restrictions of 1,000,000 authorized shares of Series E Convertible Preferred Stock, par value $.001 per share.

Issuance of Preferred Stock, Series E:

In April 2012, the Company entered into a subscription agreement to sell 10,000 shares of Preferred stock, Series E for proceeds of $10,000.