CoroWare, Inc,
Form 10-K
April 15, 2011

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, 2010

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

FOR THE TRANSITION PERIOD FROM ________________ TO _________________

COMMISSION FILE NUMBER: 000-33231

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

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

1410 Market Street, Suite 200
Kirkland, WA 98033

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(800) 641-2676
(ISSUER REGISTRANT TELEPHONE NUMBER)

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

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

COMMON STOCK, PAR VALUE $.001
(TITLE OF CLASS)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. 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 March 31, 2011, was $194,397. 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 13, 2011 there were 342,923,686 shares of the issuer's $.001 par value common stock outstanding.

EXPLANATORY NOTE

All common share amounts and per share amounts in the accompanying financial statements and in this Annual Report on Form 10-K for the years ended December 31, 2010 and 2009 reflect the one-for-three hundred reverse stock split of the issued and outstanding shares of common stock of the CoroWare, Inc., effective April 8, 2009.

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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 telepresence. Through our subsidiary, the CoroWare delivers custom engineering services, hardware and software products, and subscription services that benefit customers in North America, Europe, 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, 2010, we had nineteen (19) employees composed of one (1) full time officer and CEO, one (1) full time Director of Sales, one (1) full time Finance Administrator, ten (10) full time engineers, and six (6) 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; 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 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.

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

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

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 20 corporate and academic researchers today, and the CoroBot product line was specified in at least one Request for Proposal in 2009.

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, 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 CoroBots 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 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 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

Vidyo Reseller Business

In early 2009, we launched our telepresence – 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 telepresence room systems, and offering CoroCallTM (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 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.

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.

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 affordable telepresence 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

In fiscal year 2010, approximately 70% of our revenues were derived from standing contracts with Microsoft (partner management and IT professional services), MetraTech (software development and testing), and a European auto manufacturer (simulation and custom software development).

Approximately 2% of our revenues in fiscal year 2010 were generated by 8 university customers that purchased mobile robots for research and education. Our telepresence effort is in the early stages of growth and will require additional working capital to compete effectively against new entrants in this rapidly growing market.

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, such as CoroWare Usage Reporter for Vidyo, and mobile robot platforms such as the CoroBot Explorer. We intend to continue developing hardware and software products that we believe will potentially grow CoroWare's telepresence and mobile robotics products, solutions and services.

Research and development expenses from continuing operations for the years ended December 31, 2010 and 2009 were $92,959 and $87, respectively.

Products

CoroBot:

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

Explorer:

Our Explorer mobile robot was created to expand on the capabilities of the CoroBot 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.

ROBOTIC WORKSPACE TECHNOLOGIES, INC.

During the third quarter of 2007, RWT ceased all operations including manufacturing, sales and service of the Universal Robot Controllers (URC). In 2009, we completed the sale of the following robotic control technology patents through a patent auction:

First Patent number 6,442,451 - awarded September 5, 2002 - Versatile robot control system - Abstract - An improved, versatile robot control system comprises a general purpose computer with a general purpose operating system in electronic communication with a real-time computer subsystem.

Second Patent number 6,675,070 - awarded April 5, 2004 - Automation equipment control system Abstract - An automation equipment control system comprises a general-purpose computer with a general-purpose operating system in electronic communication with a real-time computer subsystem.

Third Patent number 6,922,611 – awarded July 26, 2005 - Reflects the Company’s R&D efforts in open-architecture PC control technology spearheaded by RWT.

Gross proceeds on the sale of these patents in 2009 was $100,000.

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

None

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.

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.

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, 2010 and December 31, 2009.

COMMON STOCK

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
Year Ended December 31, 2009	High	Low
First Quarter	$ 0.3303	$ 0.0300
Second Quarter	$ 0.5000	$ 0.0550
Third Quarter	$ 0.1790	$ 0.0500
Fourth Quarter	$ 0.2400	$ 0.0470

These quotations represent interdealer prices, without retail markup, markdown, or commission, and may not reflect actual transactions. As of March 31, 2011, there were approximately 252 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, 2010, 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, 2010, $28,304 of Series B Preferred dividends had been converted into common stock. At

December 31, 2010 and 2009, there were accrued unpaid dividends of $15,969 and cumulative undeclared dividends to Preferred Series B shareholders of $31,933 and $23,949, 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, 2010 with respect to compensation plans under which our equity securities are authorized for issuance:

EQUITY COMPENSATION PLAN INFORMATION

DECEMBER 31, 2010

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

Stock Plans

As of December 31, 2010, 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	100,000	-
2008 Amended 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) (Amended)	200,000,000	179,906,500
Total	206,270,000	180,190,940

Stock Options

As of December 31, 2010, 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, 2010 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 2009 and any Current Reports on Form 8-K filed by us.

OVERVIEW

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

During 2009 and 2008, our subsidiary Innova Robotics Inc. had no business operations, no revenues, no assets, no liabilities and no expenditures; however, it continues to be a subsidiary of CoroWare. CTI has consolidated and assumed all of CoroWare's and its other subsidiaries' development and engineering initiatives. During 2007, CoroWare also purchased, then subsequently sold, the assets subject to its liabilities of Altronics Service, Inc. Robotic Workspace Technologies (RWT) has ceased all operations including manufacturing, sales and service of the Universal Robot Controllers. In 2009, we sold all of RWT's robotic control patents at auction for gross proceeds of $100,000.

CRITICAL ACCOUNTING POLICIES

General

The consolidated financial statements and notes included in our quarterly and annual financial statements contain information that is pertinent to this management's discussion and analysis. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of our assets and liabilities, and affect the disclosure of any contingent assets and liabilities. We believe these accounting policies involve judgment due to the sensitivity of the methods, assumptions, and estimates necessary in determining the related asset and liability amounts. The significant accounting policies are described in the notes to our financial statements and notes included elsewhere in this Form 10-K.

Revenue Recognition

We derive our software system integration services revenue from short-duration, time and material contracts. Generally, such contracts provide for an hourly-rate and a stipulated maximum fee. Revenue is recorded only on executed arrangements as time is incurred on the project and as materials, which are insignificant to the total contract value, are expended. Revenue is not recognized in cases where customer acceptance of the work product is necessary, unless sufficient work has been performed to ascertain that the performance specifications are being met and the customer acknowledges that such performance specifications are being met. We periodically review contractual performance and estimate future performance requirements. Losses on contracts are recorded when estimable. No contractual losses were identified during the periods presented.

We recognize revenue for our software and software professional services when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectability is probable. Product sales are recognized by us generally at the time product is shipped. Shipping and handling costs are included in cost of goods sold.

We account for arrangements that contain multiple elements in accordance with FASB ASC 605-25, Revenue Recognition, Multiple Element Arrangements. When elements such as hardware, software and consulting services are contained in a single arrangement, or in related arrangements with the same customer, we allocate revenue to each element based on its relative fair value, provided that such element meets the criteria for treatment as a separate unit of accounting. The price charged when the element is sold separately generally determines fair value. In the absence of fair value for a delivered element, we allocate revenue first to the fair value of the underlying elements and allocate the residual revenue to the delivered elements. In the absence of fair value for an undelivered element, the arrangement is accounted for as a single unit of accounting, resulting in a delay of revenue recognition for the delivered elements until the undelivered elements are fulfilled. We limit the amount of revenue recognition for delivered elements to the amount that is not contingent on future delivery of products or services or subject to customer-specified return or refund privileges.

We recognize revenue from the sale of manufacturer’s maintenance and extended warranty contracts in accordance with FASB ASC 605-45, Revenue Recognition, Principal Agent Considerations net of its costs of purchasing the related contracts.

Our Enterprise Collaboration revenue is comprised of both services and products. Enterprise Collaboration subscription service revenues are generated through the sale of CoroCallTM, a managed telepresence service. Our contracts provide for per-minute or unlimited usage pricing. We recognize this revenue in the period that the services or minutes are used. 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 telepresence products, including CoroWare Usage Reporter for Vidyo, a software package that provides usage statistics for Vidyo brand high-definition video conferencing systems. 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, 2010 and 2009.

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 the YA Global Investments, L.P. ("Yorkville") financings and (ii) the fair values of the detachable warrants that were issued in connection with those financing arrangements. In addition, this caption includes the fair values of other pre-existing derivative financial instruments that were reclassified from stockholders' equity when net-share settlement was no longer within our control.

We generally do not use derivative financial instruments to hedge exposures to cash-flow, market or foreign-currency risks. However, we have entered into certain other financial instruments and contracts, such as debt financing arrangements and freestanding warrants with features that are either (i) not afforded equity classification, (ii) embody risks not clearly and closely related to host contracts, or (iii) may be net-cash settled by the counterparty. As required by 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 2011 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 business unit anticipates growing its revenues by delivering 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 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 business unit plans to rapidly grow its revenues by selling a combination of services and products. Telepresence service revenues are generated through the sale of CoroCallTM, a managed telepresence 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 – and partly through the sale of CoroWare telepresence products, including CoroWare NameTag and CoroCall Communications appliance servers.

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 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 shall be internally developing an effective 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
None

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2010 COMPARED TO YEAR ENDED DECEMBER 31, 2009:

During the year ended December 31, 2010 (the "2010 Period") revenues were $2,009,563 compared to revenues of $1,988,710 during the year ended December 31, 2009 (the "2009 Period"). Revenues in the 2010 period were flat compared to the 2009 period as customers conservatively spent on software development, video conferencing, infrastructure deployments, and mobile robotics projects.

Cost of goods sold was $1,502,230 and $1,389,041 for the 2010 Period and the 2009 Period, respectively. Cost of goods sold primarily represents labor and labor-related costs in addition to overhead costs. All sales and cost of goods sold totals for 2010 and 2009 represent the operations of CoroWare. We were able to keep our expenditures on cost of goods sold in the 2010 Period reasonably in line with our revenues, although our telepresence revenues did not keep pace with our revenues projections.

Operating expenses were $1,427,925 for the 2010 Period compared to $1,116,127 for the 2009 Period. General and administrative expenses amounted to $954,001 during the 2010 Period compared to $879,995 for the 2009 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 $339,032 for the 2010 Period compared to $105,759 for the 2009 Period. The increase in sales and marketing expenses resulted from hiring sales representatives who are paid principally or solely on sales commissions. Depreciation and amortization costs were $41,933 for the 2010 Period compared to $130,286 for the 2009 Period.

Loss from operations was $920,592 for the 2010 Period compared to $516,458 for the 2009 Period. This decline was due to a modest increase in Cost of Goods Sold, an increase in sales and marketing expenses, and modest increase in General and Administrative expenses throughout the 2010 Period.

Other income (expense) was ($88,292) during the 2010 Period compared to ($4,682,676) in the 2009 Period. Other income (expense) is comprised primarily of derivative income (expense) and amortization of debt discount and deferred finance costs. The derivative income for the 2010 Period was $453,921 compared to the ($2,023,108) derivative expense for the 2009 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 in the 2010 Period is the result of the decrease in our stock price on the measurement dates at the beginning and end of the year ($0.08 at December 31, 2009 versus $0.004 at December 31, 2010). A decrease in the stock price resulted in a decreased value of the embedded conversion feature (using the Monte Carlo calculation) which resulted in derivative income. Interest expense for the 2010 Period was $624,204 compared to $2,753,840 for the 2009 Period. This decrease in interest expense is principally a result of the amortization of debt discount on convertible debt. 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 2010 Period was $1,008,884 compared to net loss of $5,199,134 for the 2009 Period.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 2010 (the "2010 Period") we used $84,651 net cash from operating activities versus cash used in operating activities of $440,772 for the year ended December 31, 2009 (the "2009 Period"). The increased cash from operating activities from the 2010 Period was principally the result of the company deferring expenses, the largest portion being accrued interest.

Cash flows from the Company's investing activities in the 2010 Period were $0, compared with $63,776 in the 2009 Period, which was realized from the sale of the Company's patents in 2009.

In the 2010 Period, the Company generated $81,158 in cash from financing activities. This primarily reflects borrowings from related parties of $45,000, borrowings collaterized by receivables of $102,389, borrowings on lines of credit of $1,295 and borrowings from third parties of $80,640 offset by payment on notes payable of $101,948 and payments on related party notes of $46,218. The Company's financing activities generated $348,347 of cash during the 2009 Period.

At December 31, 2010, we had current assets of $204,479, current liabilities of $10,106,310, negative working capital of $9,901,831 and an accumulated deficit of $25,437,969.

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.

During 2005, CoroWare borrowed $30,000 from a shareholder on a promissory note with the following terms: 5% interest per annum and principal and accrued interest convertible into CoroWare common stock at $4.50 per share. A $2,500 payment was made on this note in the fourth quarter of 2006. The lender agreed to a repayment plan that extended the term to December 31, 2008. The note was due six months from its issuance and is currently in default.

During 2006, CoroWare issued 10% secured convertible debentures in the aggregate principal amount of $2,825,000, net of deferred financing costs of $263,143 to Yorkville. By amendment dated March 20, 2008, the interest rate was increased to 14%.

The Debentures matured on the third anniversary of the date of issuance and are currently in default. Yorkville continues to convert the balances outstanding into shares of CoroWare common stock at the lower of $6.00 or 85% of the 30-day VWAP. CoroWare's obligations under the debentures are secured by substantially all of CoroWare's assets and those of our wholly owned subsidiary, CTI.

As part of the debenture issuance, we also issued to Yorkville five-year warrants to purchase 3,333 and 5,000 shares of CoroWare 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. The three-year warrants expired unexercised in 2009.

Effective October 25, 2007, CoroWare entered into another Securities Purchase Agreement with Yorkville under which we issued our 12% secured convertible debentures in the aggregate principal amount of $600,000, net of deferred financing costs of $75,000. The interest rate of these debentures was also raised to 14% under the March 20, 2008 amendment.

The debentures mature on the third anniversary of the date of issuance. Yorkville may, at any time, convert amounts outstanding under the Debentures into shares of CoroWare common stock at the lower of $6.00 or 85% of the 30-day VWAP. We may elect to pay in cash plus a conversion premium of 12% plus accrued interest. Our obligations under the Purchase Agreement are secured by substantially all of our assets and those of our wholly owned subsidiary, CTI.

CoroWare has the right to redeem a portion or all amounts outstanding under the debenture prior to the maturity date at a 12% redemption premium provided that the closing bid price of the common stock is less than the conversion price and there is an effective registration statement covering the shares 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 us 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. CoroWare has the option, in our sole discretion, to settle any requested redemptions by either paying cash or issuing the number of shares of CoroWare common stock equal to the cash amount owed divided by a stock price equal to 95% of the lowest daily volume weighted average price of the CoroWare's common stock during the thirty (30) trading days immediately preceding the date of the redemption.

If we elect to pay a requested redemption in cash, Yorkville will receive warrants to purchase 35,000 shares of common stock with an exercise price of $0.025 per share for each $100,000 redeemed.

On March 20, 2008, CoroWare entered into another Securities Purchase Agreement with Yorkville under which we issued (i) 14% Secured Convertible Debentures in the aggregate principal amount of $300,000 due on March 20, 2010 and (ii) warrants to purchase 10,000,000 shares of common stock.

The 2008 debentures are convertible into shares of CoroWare common stock at $6.00 per share. They are payable in monthly installments each equal to the lesser of (a) $13,044 and (b) the principal amount under the debenture as of such installment date. These debentures matured on March 20, 2010 and are currently in default. The warrants issued in connection with these 2008 debentures are to purchase 33,333 shares of common stock have an exercise price of $6.00 per share. The warrants have a term of five (5) years and are exercisable on a cash basis.

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, 2010:

	Payments due by Period				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Convertible debt	$2,292,410	$2,292,410	$-	$-	$-
Notes payable	263,133	263,133	-	-	-
Notes payable, related parties	292,812	292,812	-	-	-
Small Business Administration loan	982,450	982,450	-	-	-
Operating leases	235,305	46,065	101,094	88,146	-
Total	$4,066,110	$3,876,870	$101,094	$88,146	$-

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, 2010, 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, 2010.

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 processes. 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, 2010. 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, 2010, our internal control over financial reporting is effective.

Auditor's Attestation

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

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

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

Name	Age	Position
Lloyd Spencer	55	Chief Executive Officer, Interim Chief Financial Officer, Director, Treasurer
Jon Mandrell	48	Secretary, Director
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.

CHARLES H. HOUSE was a member of the board of directors from January 2007, served as Chairman starting in December 2007, and resigned from the Board of Directors in September 2010. Mr. House was asked and agreed to participate as a member of CoroWare's Advisory Board. Mr. House currently serves as the Executive Director for Stanford University's MediaX program, as well as a Senior Research Scholar for Stanford's Center for Studies in Language. Mr. House is also currently the Chairman of TII Network Technologies, Inc., a Nasdaq-listed company. He was instrumental in defining and creating the logic analysis instrumentation field, and recently led the Virtual Collaboration work for Intel's IT Innovation Research group. Mr. House was also instrumental in establishing the Center for Information Technologies and Society at the University of California, Santa Barbara. Earlier in his career, Mr. House led start-up activities for Hewlett-Packard that resulted in the creation of 12 business units, and also served as a start-up or turn-around leader for companies such as Veritas, Informix and Spectron MicroSystems. From 1982 to 1987, Mr. House served as Corporate Engineering Director of Hewlett-Packard. In 1988, Hewlett-Packard established the "Chuck House Productivity" annual award, CoroWare's first-ever award named after an employee. Mr. House holds a BS degree in Engineering Physics, California Institute of Technology, 1962; MS EE, Stanford University, 1964; MA History of Science, University of Colorado, 1970; and an MBA (Strategic Studies), Western Behavioral Sciences Institute, 1985.

JON MANDRELL has been with CoroWare as Corporate Secretary and member of the board of directors since 2009. He has 17 years of management experience, from technical lead to Director. Previously, Jon was senior firmware architect and lead for Vixel and Emulex Corporation, a producer of Fibre-Channel switches and hubs, where he was responsible for specifying processes and tools to be used on development projects, as well as managing requirements and high-level software architecture issues for products. This position involved significant customer contact supporting the sales team and assisting in closing sales. Prior to Vixel and Emulex, Jon was project engineer and team lead at Medtronic Physio-Control Corporation. Designing the user interface and printer drivers on Physio's LifePak-12 product line, as well as many internal portions of the system, required Jon to become familiar with FDA-level requirements specifications and validation/verification activities. Before joining Medtronic Physio-Control Corporation, Jon worked as a consultant for Cyber Safe Corporation and as a software engineer for Performance Dynamics, Applied Microsystems Corporation, and Peripheral Technology Inc. Jon has also been on the Board of Directors as Secretary to Lake Washington Human Services, a 501(c)(3) corporation based in Kirkland, Washington. Effective April 8, 2011, Jon Mandrell resigned from his position as Corporate Secretary and from the Board of Directors. Shanna Gerrard was appointed to replace Mandrell.

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 Charles House, John Kroon, Lloyd Spencer, Jon Mandrell, 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, 2010 and 2009 to our Chief Executive Officer and our two most highly compensated officers other than the Chief Executive Officer at December 31, 2010 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	All other Compensation	Totals

											Earnings					
Lloyd Spencer (1)	2010	$	150,000	$	-	$	-	$	-	$	-	$	-	$	-	$ 150,000
	2009	$	150,000	$	-	$	-	$	-	$	-	$	-	$	-	$ 150,000
Jon Mandrell (2)	2010	$	110,000	$	-	$	-	$	-	$	-	$	-	$	-	$ 110,000
	2009	$	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
Jon Mandrell (See Note 3)	3,333	9.5 %	$3.00	9/12/2017
Walter K. Weisel (See Note 4)	3,333	9.5 %	$3.00	4/12/2015
Eugene V. Gartlan (See Note 5)	3,333	9.5 %	$3.00	2/28/2018

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, 2010, 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, 2010, all 5,000 of those options are vested.

(3) On January 29, 2007, Mr. Mandrell entered into a 3 year employment agreement calling for an annual salary of $110,000, and was granted 1,667 options to purchase restricted shares of CoroWare 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. As of March 31, 2010, all of these options have vested. On September 12, 2007 Mr. Mandrell was granted 2,000 options to purchase restricted shares of the Company's common stock at $12 per share. On December 31, 2007 the options were re-priced to $3. At December 31, 2010, all 2,000 of those options are vested. Mr. Mandrell resigned from his position as Vice President on November 12, 2010, but is still Corporate Secretary and a member of the Board of Directors.

(4) 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. Mr. Weisel was granted 5,000 options on April 12, 2005 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.

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

Except as described above no other equity awards were made in 2010 and 2009 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, 2010.

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

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

Director's Compensation

CoroWare, Inc. has not paid and does not presently propose to pay cash compensation to any director for acting in such capacity. For 2010 and 2009 services, each director was awarded 15,000 restricted shares of our common stock. In addition, the chairman was awarded 7,500 shares. Only one director has received his shares for 2010 services. A liability has been established for $5,625 for the remaining board fees that have yet to be paid.

The directors received the following common stock issuances for their service in 2010 and 2009:

Director	Restricted Common Stock Issued in 2010 for services	Value	Restricted Common Stock Issued in 2009 for 2009 & 2008 services	Value
Martin Nielson				