

CoroWare, Inc,
Form 10-K
November 24, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10- K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE OF 1934 FOR
THE FISCAL YEAR ENDED DECEMBER 31, 2013

☐ 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.)

601 108th Avenue Northeast, Suite 1900
Bellevue, WA 98004

(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 \$0.0001
(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.
Yes ☐ No ☒

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

No ☐

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. ☐ Yes ☐ 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). ☐ Yes ☐ 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. ☐

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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	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

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 September 30, 2014, was \$0.0001. 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.

Number of shares of common stock (\$0.0001 par value) outstanding as of November 21, 2014: 8,414,279,084 shares.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

In this annual report, references to “CoroWare,” “the Company,” “we,” “us,” and “our” refer to CoroWare, Inc.

This Annual Report on Form 10-K contains forward-looking statements regarding our business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements, but are not deemed to represent an all-inclusive means of identifying forward-looking statements as denoted in this Annual Report on Form 10-K. Additionally, statements concerning future matters are forward-looking statements.

Although forward-looking statements in this Annual Report on Form 10-K reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those specifically addressed under the heading "Risks Related to Our Business" below, as well as those discussed elsewhere in this Annual Report on Form 10-K. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K.

CoroWare undertakes no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Annual Report on Form 10-K, except as required by law. Readers are urged to carefully review and consider the various disclosures made throughout this Annual Report, which are designed to advise interested parties of the risk factors that may affect our business, financial condition, results of operations and prospects.

PART I

ITEM 1. BUSINESS

Overview

CoroWare, Inc is a public holding company whose principal subsidiary, CoroWare Technologies, Inc. (“CTI”), has expertise in information technology consulting, mobile robotics, and affordable collaboration. Through our subsidiary, CoroWare delivers custom engineering services, hardware and software products, and subscription services that benefit customers in North America, Europe, Australia, Asia and the Middle East. Our customers span multiple industry sectors and comprise universities, large enterprises and small businesses, software and hardware product development companies, and non-profit organizations.

Employees

As of December 31, 2013, we had eighteen (18) 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, eleven (11) full-time engineers, and two (2) part-time engineers. Our employees are not represented by a union. We consider relations with our employees to be positive and productive.

COROWARE TECHNOLOGIES, INC.

CTI is a software professional services company with a strong focus on information technology integration and robotics integration, business automation solutions, and unmanned systems solutions to its customers in North America and Europe.

CTI’s expertise includes the deployment and integration of computing platforms and applications, as well as the development of unmanned vehicle software and solutions for customers in the research, commercial, and homeland security market segments. CTI shall continue to offer its high value software systems development and integration services that complement the growing trend in outsourced software development services in Asia, Latin America, and Eastern Europe.

CoroWare Technologies comprises three separately managed lines of business:

CoroWare Business Solutions: IT and lab management; business intelligence; software architecture, design and development; content delivery; partner and program management.

Robotics and Automation: Custom engineering such as visualization, simulation and software development; and mobile robot platforms.

Enhanced Collaboration Solution: Collaboration and conferencing products, solutions and subscription services.

The Company’s revenues are principally derived from standing contracts that include Microsoft (partner management and IT professional services), a European auto manufacturer (simulation software custom development), and other customers whose product development groups require custom software development and consulting companies. Existing contract revenues vary month by month based on the demands of the clients. The Company’s collaboration effort is in the early stages of growth and will require additional working capital to compete effectively against new entrants in this rapidly growing market.

CoroWare Business Solutions

CoroWare Business Solutions (CBS) offers 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 2012, we announced CoroWare License Manager™, a software license management solution that offers Cloud Service Providers and on-premises software publishers the ability to remotely enable, monitor, and configure cloud-based applications using a centralized management server.

In 2012, we announced Billing Integration Framework for Accumulus and Vidyo, a software solution that integrates flexible billing from Accumulus Corp with the call detail records from Vidyo to create more flexible video conferencing subscription services.

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 2012, we announced new features for the CoroBot Explorer II platform and support for Robot Operating System, which we believe will improve our sales into the research and education market segments.

In 2012, we reorganized our robotics division and moved the facility to Charlotte, North Carolina, to take better advantage of strategic partnerships with the University of North Carolina Charlotte.

In February 2013 we released the CoroBot Junior as a new lower cost research unmanned ground vehicle. In September 2013, we released the CoroBot Pro, a much more powerful unmanned ground vehicle. In November 2013, the High Capacity Robotic Arm was released, providing both a long reach and large payload.

Enterprise Collaboration Solutions (ECS)

Vidyo Reseller Business

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

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

CoroCall Subscription Services

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

In 2012, we expanded the CoroCall Business Class HD Video Conferencing service with the addition of integrated call recording and webcast. In addition, we also enhanced the security of the offering by implementing 128 bit AES encryption. In 2012, we also became a reseller of VidyoCast, a broadcast service that incorporates Vidyo's network tolerant video streaming into the broadcast arena.

Although this business is still in its early stages of growth, we have won and are pursuing significant customer opportunities with financial consulting organizations, product development/sales companies, religious organizations, and employment recruiters. This also expands the options available to customers of the video conferencing service, providing custom dial in phone numbers.

In 2013, we solidified a presence in the area of tele-health with a focus on providing HIPAA compliant video conferencing, particularly for mental tele-health facilities.

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 2012, 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. 2012 and the beginning of 2013 have brought several enhancements and additions to our CoroCall service. Recording and streaming capabilities were added to the platform allowing users to record and or stream video conferences on the fly without administrative intervention or support. Additionally our service is now deployed in a secure manner utilizing HTTPS and AES encryption, insuring that our customers' calls and data are secure from hackers and potential eavesdroppers of sensitive information. By providing these new capabilities and managing customized solutions with API management, we have developed customers in vertical markets to include Health care, Education and legal applications. Law firms are utilizing our platforms for remote depositions and more. Schools are conducting virtual field trips and extended care facilities are connecting patients with care providers via our CoroCall Videoconferencing platform.

We have expanded our distribution model by developing a network of Value Added Service Providers (VASP's). By adding CoroCall cloud based subscription services to their existing telephony, data management and other telecom services, there resellers are developing new recurring revenue streams without having to build out infrastructure to do so.

Competition

Competitors in the IT consulting market comprise a combination of large and well established companies, such as Avanade and Tata Consultancy Services; and smaller, privately held consulting companies with practices in a single vertical arena such as custom software development, telecom billing, multimedia production and many other vertical industries.

We have maintained long-term relationships and have been successful in renewing contracts and in signing multi-month or yearlong contracts with key customers - including Microsoft and MetraTech, and are building similar client relationships with new customers.

Competitors in the mobile robotics and custom engineering marketplaces have comprised iRobot (IRBT), Adept / MobileRobots (ADEP), and privately held companies such as K-Team Mobile Robotics, RoboSoft, and Evolution Robotics. New entrants in this marketplace include Aethon, neato robotics, Brock Technologies, and Contineo Robotics.

Competitors in the collaboration market include:

- Legacy videoconferencing vendors such as Polycom, Tandberg/Cisco and Lifesize/Logitech
- Legacy videoconferencing service providers, such as AT&T, that deploy and support legacy equipment from Polycom, Tandberg/Cisco and Lifesize/Logitech
- New entrants in affordable and modest quality videoconferencing services, such as oovoo and Nefsis
- New entrants into cloud based bridging and multipoint services such as Blue Jeans, Vidtel and others
- Upgrades to existing Data conferencing platforms to include multi party video within the collaboration tool. i.e. Go to Meeting, Webex.

Customers

All three divisions saw growth in their customer bases in 2013 as compared with 2012. CBS added additional contracts with existing customers and added additional large enterprise accounts as well. R&A engaged with a number

of additional universities and research facilities. ECS added customers to its hosted solutions and additional resellers, as well as securing product and accessory sales to a number of customers.

ARiCON Joint Venture

CoroWare, Inc. (“Company”) entered into a joint venture agreement (“Joint Venture Agreement”) with Lucas Snyder (“Snyder”) as of September 24, 2012, whereby the parties have formed a North Carolina limited liability company, ARiCON, LLC, to implement a joint venture that will develop and market mobile robot platforms, applications, and solutions for the construction industry.

The Company will contribute mobile robotics development capabilities and certain equipment to the joint venture; and Snyder will contribute his construction industry knowledge, expertise and customer relationships.

Pursuant to the Joint Venture Agreement, on September 27, 2012, the Company contributed \$10,000 cash and 38,000,000 shares of its common stock to ARiCON, LLC, at a price of \$0.001 per share in a private placement exempt from registration under the Securities Act of 1933 in reliance on Section 4(2) of the Securities Act. The aggregate proceeds of the contribution into the formation of the joint venture were valued at \$59,400.

Regulation

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

Research & Development

Our research and development activities have primarily been focused on the development of software components, mobile robot platforms such as the CoroBot Explorer and CoroCall Business Class HD Video Conferencing. We intend to continue developing hardware and software products that we believe will potentially grow CoroWare's collaboration and mobile robotics products, solutions and services.

Research and development expenses from continuing operations for the years ended December 31, 2013 and 2012 were \$23,415 and \$58,948, respectively.

Products

CoroBot Classic:

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

CoroBot Explorer:

Our CoroBot Explorer mobile robot was created to expand on the capabilities of the CoroBot Classic and deliver a rugged indoor/outdoor platform that can withstand environmental elements such as dirt, dust, leaf debris, sand, gravel and shallow puddles. Extra ports and surface mounting space make Explorer a robust and expandable research robot.

CoroBot Junior:

Our CoroBot Junior mobile robot is an affordable smart UGV that includes a water resistant chassis with an integrated PC-class CPU, on-board infrared sensors, an HD 1080p camera, and a wireless controller for teleoperation. The CoroBot Junior is available with two chassis options: 3 wheeled (2 drive motor) chassis and 4 wheel (4 drive motor) chassis.

CoroBot Pro:

Our CoroBot Pro mobile robot is the most powerful member of the CoroBot family of smart unmanned ground vehicles (Smart UGV) and robotics development platforms for researchers and educators. The CoroBot Pro expands CoroWare's affordable and flexible robotics product line by offering a more powerful Intel i7 processor and supporting a wider range of sensor options, including the Point Grey Bumblebee® stereo vision camera, Microsoft Kinect sensor, and a wide variety of high definition webcams.

Usage Reporter for Vidyo:

Our Usage Reporter for Vidyo is a Windows-based software package that analyzes detailed video conferencing call records, including the number of Vidyo rooms, ports, users, and conference call minutes. This software product is an

affordable and effective way for customers to generate video conferencing usage statistics that can be used to distribute costs and make informed purchasing decisions.

ITEM 1A. RISK FACTORS

As a smaller reporting company, as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), we are not required to provide the information required by this item.

ITEM 1B. UNRESOLVED STAFF COMMENTS

As a smaller reporting company, as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), we are not required to provide the information required by this item.

ITEM 2. PROPERTIES

Corporate Headquarters

On August 1, 2011, the Company entered into a lease agreement on corporate offices located at 1410 Market Street, Kirkland, WA which terminated on December 23, 2013. Under this lease, the Company was obligated to pay an average monthly rent of \$4,088 in 2012 and \$4,233 in 2013. Since the termination of this lease, the Company is entered into a monthly lease agreement at a cost of \$1,038.

Our corporate headquarters is located at 601 108th Avenue Northeast, Suite 1900, Bellevue, WA 98004.

Robotics Division

On January 1, 2013, the Company entered into a lease agreement on corporate offices located at 8701 Mallard Creed Rd., Charlotte, NC which terminated on December 31, 2013. Under this lease, the Company was obligated to pay monthly rent of \$2,000 in 2013. As of August 14, 2013, the Company terminated this lease with no further obligations in order to sign a new lease at 1064 Van Buren Avenue, Indian Trail, NC. This lease continues through August 31, 2014 at a monthly cost of \$1,247 per month. The Company signed a new lease as of April 1, 2014 through March 31, 2016 at an average monthly cost of \$1,300 in 2014, \$1,317 in 2015 and \$1,350 in 2016.

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 effect on our business. None of our directors, officers or affiliates is involved in a proceeding adverse to our business or has a material interest adverse to our business.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Prices of Common Stock

Beginning in February 2002, CoroWare's common stock was eligible for listing in the OTC Bulletin Board. Our trading symbol was "SRMW" until such time as our acquisition of Hy-Tech Technology Group, Inc. on January 31, 2003 when our symbol became "HYTT". In November 2006, our name was changed to Innova Robotics & Automation, Inc. and the trading symbol was changed to INRA. In April 2008, we became CoroWare, Inc. and our trading symbol was changed to CROE. In April 2009, in conjunction with a 1-for-300 reverse stock split, our trading symbol was changed to COWI. In January 2012, we revised the par value of our Common Stock from \$0.001 to \$0.0001. In July 2012, we effected a reverse split of 1-for-200. In January 2014, we effected a reverse split of 1-for-200.

Our common stock is quoted on the OTCQB exchange under the symbol, "COWI". Accordingly, there can be no assurance as to the liquidity of any markets that may develop for our common stock, the ability of holders of our common stock to sell our common stock, or the prices at which holders may be able to sell our common stock.

The following table sets forth the quarterly high and low sales prices as reported during the last two fiscal years ended December 31, 2013 and December 31, 2012.

COMMON STOCK

Year Ended December 31, 2013	High	Low
First Quarter	\$ 0.84	\$ 0.02
Second Quarter	\$ 0.04	\$ 0.02
Third Quarter*	\$ 0.02	\$ 0.02
Fourth Quarter	\$ 0.02	\$ 0.02

Year Ended December 31, 2012	High	Low
First Quarter	\$ 8.00	\$ 4.00
Second Quarter	\$ 4.00	\$ 4.00
Third Quarter*	\$ 4.00	\$ 0.20
Fourth Quarter	\$ 0.60	\$ 0.04

These quotations represent interdealer prices, without retail markup, markdown, or commission, and may not reflect actual transactions. As of January 29, 2014, there were approximately 230 record holders of the Company's common stock. This reflects a reverse 200 for 1 reverse split of the stock on July 6, 2012 and on January 6, 2014.

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, 2013 and 2012 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 percent 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, 2013 and 2012, there were cumulative undeclared dividends to Preferred Series B shareholders of \$71,852 and \$63,868, respectively, the obligation for which is contingent on declaration by the board of directors. At December 31, 2013 and 2012, there were accrued unpaid dividends of \$15,969 and \$15,969, respectively. These balance have been recorded as part of accounts payable and accrued expenses.

Securities Authorized for Issuance under Equity Compensation Plans

The following tables set forth the information as of December 31, 2013 with respect to compensation plans under which our equity securities are authorized for issuance:

EQUITY COMPENSATION PLAN INFORMATION

DECEMBER 31, 2013

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, 2013, CoroWare had four stock compensation plans which provided for the issuance of 505,503,333 shares to employees of CoroWare or our subsidiaries as follows:

Plan Description	Authorized Shares	Remaining Shares
2006 Employee Compensation Plan	3,333	-
2008 Incentive Stock Plan	200,000,000	-
2009 Incentive Stock Plan	500,000	-
2010 Incentive Stock Plan (333-165768)	5,000,000	-
2012 Incentive Stock Plan (333-171325)	200,000,000	-
2012 Incentive Stock Plan (333-183512)	50,000,000	-
2013 Incentive Stock Plan (333-186247)	50,000,000	1

Total	505,503,333	1
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Stock Options

As of December 31, 2013, 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, 2013 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 non-plan options that remain outstanding are the 3,333 options that were issued at \$1.86 per share.

The following table summarizes stock option activity:

	Total Options	Weighted Average Price
Outstanding, December 31, 2012	38,164	\$ 2.97
Granted	-	-
Cancelled	-	-
Forfeited	-	-
Exercised	-	-
Outstanding, December 31, 2013	38,164	\$ 2.97
Exercisable at December 31, 2013	38,164	\$ 2.97

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,” and 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 2013 and any Current Reports on Form 8-K filed by us.

CRITICAL ACCOUNTING POLICIES

General

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

Revenue Recognition

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

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

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

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

Our ECS revenue is comprised of both services and products. ECS subscription service revenues are generated through the sale of CoroCall™, 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, 2013 and 2012.

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 2014 through continued growth of our CoroWare Business Solutions and Robotics & Automation business units, and rapid growth of our Enterprise Collaboration Solutions business unit.

The CoroWare Business Solutions (CBS) business unit anticipates growing its revenues by delivering business intelligence, software development, IT consulting, lab management and release management professional services through its long term clients, including Microsoft. As well, it anticipates growing its revenues through the sales of products and solutions – such as CoroWare Billing Integration Framework and CoroWare License Manager - that help cloud service providers recognize revenues by delivering conferencing and application services. Additional revenue growth is expected through the sales of enterprise and cloud cyber security solutions.

The Robotics & Automation (R&A) business unit expects to achieve its revenue objectives by offering affordable mobile robotics platforms, products and custom solutions to researchers in the university, commercial and homeland security market segments. As well, the Robotics & Automation group is well positioned to pursue custom engineering opportunities with clients who are developing innovative software services, solutions and products that leverage our expertise in simulation, visualization, mobile robotics, and product realization.

The Enterprise Collaboration Solutions (ECS) business unit plans to rapidly grow its revenues by selling a combination of services and products. Collaboration service revenues are generated through the sale of CoroCall™, a managed business class HD video conferencing service that small, medium and large sized businesses –particularly those in the area of tele-health – are considering as an alternative to purchasing and operating videoconferencing equipment and infrastructure. Product revenues are being realized partly through the sale of Vidyo's product line – including room systems and back-end infrastructure – partly through the sale of CoroWare collaboration products, partly through the sales of related accessories, and partly through the sales of VidyoCast products and services.

In order to achieve revenue and margin objectives in an increasingly global and competitive market, all of CoroWare's business units offer their customers the option of using CoroWare's near-shore resources, which comprise a team of highly capable IT architects, developers and testers with experience in software application development and integration, rich internet applications development, partner management portal development, IT infrastructure, and Quality Assurance.

We do not expect to sell any of CoroWare's fixed assets, including property or equipment in the next twelve months, nor do we expect to purchase any real property in the next twelve months. During the next twelve months we expect to purchase certain equipment to support software development, testing and continued deployment of CoroWare technologies. Additionally, we expect to purchase office equipment, computer equipment and laboratory development and testing equipment to support our planned personnel increase.

We are internally developing an investor relations program that will help the company communicate more effectively and actively with CoroWare shareholders, and generate greater awareness of CoroWare and our services, solutions and products.

Recent Financing Transactions

As of December 31, 2013 and 2012 the Company had an aggregate total of \$515,082 and \$504,832, respectively, in notes payable. These notes bear interest at rates ranging from five percent per annum to 21 percent per annum. As of December 31, 2013 all notes payable were in default. Accrued interest on notes payable totaled \$617,509 and \$532,050 at December 31, 2013 and 2012, respectively.

Notes Payable

(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. During the fourth 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 12(f)]. During 2011, two additional merger notes with an aggregate total of \$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 12(p) and the \$65,000 Panache financing in Note 12(i)].

(b) Notes payable - Shareholders:

During September through December 2005, the Company entered into short-term debt obligations with shareholders of the Company totaling \$257,000. These notes bore interest at rates ranging from 5 to 10 percent per annum and were due between ninety (90) and one hundred twenty (120) days. During the fourth 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 with aggregate totals of \$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 Notes 12(b) and 12(e).

(c) Notes payable – Yorkville:

During August 2008, the Company entered into two (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.

(d) Other notes payable

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

Convertible Notes Payable

(a) AGS Capital Group, LLC:

On February 25, 2013 the Company borrowed \$131,377 from AGS Capital Group, LLC (“AGS”). On April 1, 2013 the Company borrowed an additional \$42,000. The notes accrued interest at a rate of 14 percent per annum and became due on February 25, 2014. During the year ended December 31, 2013 the Company made cash payments on the note totaling \$2,916. Additionally, AGS converted \$12,774 in note principal into 1,159,626,042 shares of the Company’s common stock. Pursuant to the terms of the notes the principal balance is convertible at the option of the note holder into shares of the Company’s common stock at a 35 percent discount to the lowest closing price during the 20-day trading period prior to conversion. Accrued interest on the notes totaled \$15,877 and \$-0- at December 31, 2013 and 2012, respectively.

(b) Asher Enterprises, Inc.:

On February 1, 2011 the Company borrowed \$27,500 from Asher Enterprises, Inc. (“Asher”). On August 2, 2012, the Company borrowed an additional \$20,000. On August 9, 2012 the Company borrowed an additional \$17,500. On October 10, 2012 the Company borrowed an additional \$25,000. On January 15, 2013 the Company borrowed an additional \$22,500. The notes accrue interest at rates ranging from eight percent to ten percent per annum. At December 31, 2013 each of the notes was past due. During the year ended December 31, 2012 Asher converted \$26,725 in note principal into 101,372,149 shares of the Company’s common stock. During the year ended December 31, 2013 Asher converted \$18,000 in note principal and \$1,100 in accrued interest into 242,222,222 shares of the Company’s common stock. During the year ended December 31, 2013 the Company recognized \$37,020 in penalties relating to unpaid principal past maturity dates. Pursuant to the terms of the notes the principal balance is convertible at the option of the note holder into shares of the Company’s common stock at a 51 percent discount to the average of the three lowest closing price during the 10-day trading period prior to conversion. Accrued interest on the notes totaled \$16,974 and \$6,026 at December 31, 2013 and 2012, respectively.

(c) Barclay Lyons, LLC:

On January 28, 2011 the Company borrowed \$10,750 from Barclay Lyons, LLC (“Barclay”). The note accrues interest at a rate of eight percent per annum and is due on demand. Pursuant to the terms of the note the principal balance is convertible at the option of the note holder into shares of the Company’s common stock at a 50 percent discount to the lesser of the closing price on the day prior to conversion and the volume-weighted-average closing price of the five day trading period prior to conversion. Accrued interest on the note totaled \$9,724 and \$7,479 at December 31, 2013 and 2012, respectively.

(d) Blackbridge Capital, LLC:

On July 10, 2013 the Company borrowed \$3,000 from Blackbridge Capital, LLC (“Blackbridge”). During the year ended December 31, 2013 Blackbridge purchased a \$67,042 convertible note for which the Company is the borrower. The notes accrue interest at a rate of ten percent per annum. During the year ended December 31, 2013 Blackbridge converted \$18,000 in note principal into 258,214,285 shares of the Company’s common stock. The remaining unpaid principal is past due. Pursuant to the terms of the notes the principal balance is convertible at the option of the note holder into shares of the Company’s common stock at a price equal to the average closing price during the 20-day trading period prior to conversion. Accrued interest on the notes totaled \$27,108 and \$17,868 at December 31, 2013 and 2012, respectively.

(e) Cariou, Raphael:

On April 4, 2011 the Company borrowed \$89,383 from Raphael Cariou (“Cariou”). On August 3, 2012 the Company borrowed an additional \$7,000 and made payments on the note totaling \$28,239. During the year ended December 31, 2013 the Company made payments of \$30,000 against note principal. The notes accrue interest at a rate of ten percent per annum. As of December 31, 2013 the unpaid principal is past due. Pursuant to the terms of the notes the principal balance is convertible at the option of the note holder into shares of the Company’s common stock at a price equal to the average closing price during the five-day trading period prior to conversion, multiplied by 115 percent. Accrued interest on the notes totaled \$23,375 and \$21,216 at December 31, 2013 and 2012, respectively.

(f) Collins, Thomas:

On December 6, 2010 the Company borrowed \$84,168 from Thomas Collins (“Collins”). The Company made payments on the note totaling \$44,998. The note accrues interest at a rate of eight percent per annum and is due on demand. Pursuant to the terms of the notes the principal balance is convertible at the option of the note holder into shares of the Company’s common stock at a 70 percent discount to the average of the three lowest closing price during the ten-day trading period prior to conversion. Accrued interest on the notes totaled \$18,389 and \$12,545 at December 31, 2013 and 2012, respectively.

(g) Kellburgh, Ltd.:

On February 21, 2012 the Company borrowed \$13,000 from Kellburgh, Ltd (“Kellburgh”). The note accrues interest at a rate of ten percent per annum and became due on March 22, 2012. Pursuant to the terms of the notes the principal balance is convertible at the option of the note holder into shares of the Company’s common stock at a 15 percent discount to the average of the three lowest closing price during the five-day trading period prior to conversion. Accrued interest on the notes totaled \$1,289 and \$-0- at December 31, 2013 and 2012, respectively.

(h) Magna Group, LLC:

On August 20, 2012 the Company borrowed \$10,000 from Magna Group, LLC (“Magna”). During the year ended December 31, 2013 the Company converted the entire principal balance into 94,000,000 shares of the Company’s common stock. Pursuant to the terms of the notes the principal balance was convertible at the option of the note holder into shares of the Company’s common stock at a 60 percent discount to the lowest closing price during the three-day trading period prior to conversion. As of December 31, 2013 the note had been satisfied in full.

(i) Panache Capital, LLC:

On June 2, 2011 the Company borrowed \$65,000 from Panache Capital, LLC (“Panache”). On June 29, 2011 the Company borrowed an additional \$15,000. The notes accrue interest at a rate of eight percent per annum and became due in June, 2012. During the year ended December 31, 2012 the Company converted \$16,719 of the principal into 28,275,000 shares of the Company’s common stock. During the year ended December 31, 2013 the Company converted \$22,197 of the principal into 298,600,000 shares of the Company’s common stock. Pursuant to the terms of the notes the principal balance was convertible at the option of the note holder into shares of the Company’s common stock at a 15 percent discount to the average of the three lowest closing prices during the 20-day trading period prior to conversion. Accrued interest on the notes totaled \$14,532 and \$10,367, respectively.

(j) Premier I.T. Solutions Corp.:

On October 5, 2011 the Company borrowed \$21,962 from Premier I.T. Solutions Corp. (“Premier”). The note accrues interest at a rate of 10 percent per annum and became due on March 5, 2012. Pursuant to the terms of the notes the principal balance is convertible at the option of the note holder into shares of the Company’s common stock at the average of the closing prices during the five-day trading period prior to conversion, multiplied by 115 percent. Accrued interest on the notes totaled \$6,958 and \$3,555, respectively.

(k) Ratzker, David:

On July 20, 2009 the Company borrowed \$568,263 from David Ratzker (“Ratzker”). The note accrues interest at a rate of 14 percent per annum and became due on December 31, 2010. During the year ended December 31, 2012 the Company made payments on the note totaling \$128,224 and converted \$3,900 of the principal balance into 60,000,000

shares of the Company's common stock. During the year ended December 31, 2013 the Company made payments on the note totaling \$112,823 and converted \$17,550 of accrued interest into 220,000,000 shares of the Company's common stock. Pursuant to the terms of the notes the principal balance is convertible at the option of the note holder into shares of the Company's common stock at the lowest volume-weighted-average closing price during the 20-day trading period prior to conversion. Accrued interest on the notes totaled \$124,554 and \$125,021, respectively.

(l) Redwood Management, LLC:

On March 21, 2011 the Company borrowed \$284,132 from Redwood Management, LLC ("Redwood"). The note accrues interest at a rate of 14 percent per annum and became due on March 18, 2013. During the year ended December 31, 2012 the Company converted \$44,935 of the principal balance into 608,596,847 shares of the Company's common stock. During the year ended December 31, 2013 the Company converted \$35,250 of note principal into 279,048,581 shares of the Company's common stock. Pursuant to the terms of the notes the principal balance is convertible at the option of the note holder into shares of the Company's common stock at a 35 percent discount to the lowest volume-weighted-average closing price during the 20-day trading period prior to conversion. Accrued interest on the notes totaled \$12,855 and \$9,947, respectively.

(m) Ridgepoint Capital:

On August 30, 2012 the Company borrowed \$54,060 from Ridgepoint Capital ("Ridgepoint"). The notes accrue interest at rates of 20 percent per annum and become due on June 7, 2014. On June 7, 2013 the Company borrowed an additional \$36,250. This note accrues interest at a rate of ten percent per annum and became due on March 24, 2013. During the year ended December 31, 2012 the Company converted \$4,970 of the principal balance 25,000,000 shares of the Company's common stock. During the year ended December 31, 2013 the Co