

GroveWare Technologies Ltd.  
Form 10-Q  
May 20, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

**FORM 10-Q**

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended **March 31, 2013**

Transition Report pursuant to 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **000-54760**

**GroveWare Technologies Ltd.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**45-5273385**

(IRS Employer Identification No.)

**1006 - 20 Eglinton Ave. W.**

**Toronto, Ontario,**

**Canada M4R 1K8**

(Address of principal executive offices)

**(416) 644-5111**

(Registrant's telephone number)

---

(Former name, former address and former fiscal year, if changed since last report)

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

Edgar Filing: GroveWare Technologies Ltd. - Form 10-Q

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer  Accelerated filer  Non-accelerated filer  
 Smaller reporting company

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

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 61,700,000 as of May 20, 2013.

Table of Contents

TABLE OF CONTENTS

Page

PART I – FINANCIAL INFORMATION

Item 1: <u>Condensed Financial Statements</u>	3
Item 2: <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	4
Item 3: <u>Quantitative and Qualitative Disclosures About Market Risk</u>	10
Item 4: <u>Controls and Procedures</u>	10

PART II – OTHER INFORMATION

Item 1: <u>Legal Proceedings</u>	11
Item 1A: <u>Risk Factors</u>	11
Item 2: <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	11
Item 3: <u>Defaults Upon Senior Securities</u>	11
Item 4: <u>Mine Safety Disclosure</u>	11
Item 5: <u>Other Information</u>	11
Item 6: <u>Exhibits</u>	11

Table of Contents

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

Our condensed financial statements included in this Form 10-Q are as follows:

F-1 Condensed Balance Sheets as of March 31, 2013 and December 31, 2012 (unaudited);

F-2 Condensed Statements of Operations for the three months ended March 31, 2013 and 2012 (unaudited);

F-3 Condensed Statements of Cash Flow for the three months ended March 31, 2013 and 2012 (unaudited);

F-4 Notes to Condensed Financial Statements.

These condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the SEC instructions to Form 10-Q. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the interim period ended March 31, 2013 are not necessarily indicative of the results that can be expected for the full year.

Table of Contents**GROVEWARE TECHNOLOGIES LTD.**

## Condensed Balance Sheets

(Expressed in US dollars)

	March 31, 2013 \$	December 31, 2012 \$
	(Unaudited)	
<b>ASSETS</b>		
Cash	—	333
Costs in excess of billings on uncompleted contracts	1,488	28,910
Accounts receivable	7,629	—
<b>Total Assets</b>	<b>9,117</b>	<b>29,243</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Bank indebtedness	34,819	—
Accounts payable and accrued liabilities	434,704	262,578
Accrued interest payable	276,278	237,101
Due to related parties	320,320	466,021
Deferred revenue	23,704	81,540
Royalty payable – related party	101,760	82,400
Note payable	190,759	190,759
Convertible debentures, net of unamortized discount of \$71,500 (2012 - \$32,123)	158,500	117,877
Derivative liabilities	84,422	—
<b>Total Liabilities</b>	<b>1,625,266</b>	<b>1,438,276</b>
<b>STOCKHOLDERS' DEFICIT</b>		
Preferred stock: 10,000,000 shares authorized, \$0.001 par value, nil shares issued and outstanding	—	—
Common stock: 90,000,000 shares authorized, \$0.001 par value, 61,700,000 and 61,500,000 shares issued and outstanding, respectively	61,700	61,500
Additional paid-in capital	40,000	(24,000 )
Accumulated Deficit	(1,717,849)	(1,446,533)
<b>Total Stockholders' Deficit</b>	<b>(1,616,149)</b>	<b>(1,409,033)</b>

Total Liabilities and Stockholders' Deficit	9,117	29,243
---	-------	--------

(The accompanying notes are an integral part of these condensed financial statements)

F-1

Table of Contents**GROVEWARE TECHNOLOGIES LTD.**

## Condensed Statements of Operations

(Unaudited)

(Expressed in US dollars)

	For the Three Months Ended March 31, 2013 \$	For the Three Months Ended March 31, 2012 \$
Revenues	73,467	30,481
Cost of sales	(46,900 )	—
Gross Margin	26,567	30,481
Operating Expenses		
General and administrative	169,295	113,230
Professional fees	5,000	2,831
Rent	23,984	11,421
Total Operating Expenses	198,279	127,482
Loss from Operations	(171,712 )	(97,001 )
Other Expenses		
Interest expense	(71,614 )	—
Loss from change in fair value of derivative liabilities	(27,990 )	—
Total Other Expenses	(99,604 )	—
Net Loss	(271,316 )	(97,001 )
	(0.00 )	(0.00 )
Net Loss per Share – Basic and Diluted		
	61,616,854	307,500,000
Weighted Average Shares Outstanding – Basic and Diluted		

(The accompanying notes are an integral part of these condensed financial statements)





Table of Contents**GROVEWARE TECHNOLOGIES LTD.**

## Condensed Statements of Cashflows

(Unaudited)

(Expressed in US dollars)

	For the Three Months Ended March 31, 2013 \$	For the Three Months Ended March 31, 2012 \$
Operating Activities		
Net loss for the period	(271,316)	(97,001)
Adjustment to reconcile net loss to net cash used in operating activities:		
Accretion of discount on convertible debenture	17,055	—
Loss on change in fair value of derivative liabilities	27,990	
Shares issued for services	64,200	—
Changes in non-cash working capital:		
Accounts receivable	(7,629 )	(7,783 )
Bank indebtedness	34,819	—
Costs in excess of billings on uncompleted contracts	27,422	(2,024 )
Accrued expenses – related parties	—	88,481
Accounts payable and accrued liabilities	172,126	25,151
Accrued interest payable	39,177	—
Due to related parties	(145,701)	—
Royalty payable – related party	19,360	—
Deferred revenue	(57,836 )	(6,818 )
Net Cash Provided By (Used In) Operating Activities	(80,333 )	6
Financing Activities		
Proceeds from convertible debentures	80,000	—
Net Cash Provided By Financing Activities	80,000	—
Increase (decrease) in Cash	(333 )	6
Cash – Beginning of Period	333	89
Cash – End of Period	—	95
Supplemental Disclosures		
Interest paid	—	—

Income tax paid

— —

(The accompanying notes are an integral part of these condensed financial statements)

F-3

Table of Contents

**GROVEWARE TECHNOLOGIES LTD.**

Notes to the Condensed Financial Statements

(expressed in US dollars)

**1. Nature of Operations and Continuance of Business**

GroveWare Technologies, Ltd. (the “Company”), a Delaware corporation, was formed on January 29, 2008. The Company is in the business of providing advanced workflow technology and mobile solutions for automating and mobilizing business processes at the enterprise level by outfitting clients with mobile applications for mainstream wireless operating systems used by smartphones and tablets.

On April 6, 2012, the Company, entered into an Agreement and Plan of Merger (the “Merger Agreement”) with GroveWare Technologies Ltd., a privately held Delaware corporation (“GroveWare”) and ePhoto Acquisition Corp., a Nevada corporation and wholly-owned subsidiary of the Company (“Acquisition Sub”), pursuant to which GroveWare merged with and into Acquisition Sub (the “Merger”) with the filing of the Articles of Merger with the Nevada Secretary of State on April 9, 2012 and became a wholly-owned subsidiary of the Company. In accordance with the terms of the Merger Agreement, at the closing an aggregate of 21,500,000 (post-split) shares of the Company’s common stock were issued to the holders of GroveWare’s common stock in exchange for their shares of GroveWare. Immediately following the closing of the Merger Agreement, under the terms of an Assignment of Assets Agreement (the “Assignment Agreement”), the Company transferred all of its pre-merger assets and liabilities (the “Split-Off”) to its former officer and director, Yong Feng Sara Yi, and shareholder, Namuun Ganbaatar, in exchange for certain indemnifications, waivers and releases, along with the cancellation of an aggregate of 56,000,000 pre-split shares of the Company’s common stock and the cancellation of related party loans in the amount of \$39,154.

**2. Summary of Significant Accounting Policies**

a) **Basis of Presentation**

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (“US GAAP”) and are expressed in U.S. dollars. The Company’s fiscal year end is December 31.

b) **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to the deferred income tax asset valuation allowances. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company’s estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

c) Cash and cash equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents. As at March 31, 2013 and December 31, 2012, the Company had no cash equivalents.

F-4

Table of Contents

2.

**Summary of Significant Accounting Policies** (continued)

d)Accounts Receivable

The Company's accounts receivable are presented net of the allowance for estimated doubtful accounts. Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts represents the Company's best estimate of the amount of probable credit losses in the existing accounts receivable balance. The Company determines the allowance for doubtful accounts based upon historical write-off experience and current economic conditions. The Company reviews the adequacy of its allowance for doubtful accounts on a regular basis. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. As of March 31, 2013, the Company's accounts receivable, net of the allowance for doubtful accounts, was \$7,629 (December 31, 2012 - \$nil).

e)Revenue Recognition

The Company generated revenues beginning in 2010. The Company recognizes revenue from sales contracts under the completed contract method of accounting and revenue from monthly license services are recognized under the percentage-of-completion method over the term of the contract, pursuant to ASC 605. Revenue from monthly licenses, professional services and support fees is recognized only when the price is fixed and determinable, persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, and collectability is assured.

The Company has not had any history of product returns or license cancellations; therefore, no allowance for returns has been recorded.

f)Cost of Sales

Cost of sales is comprised primarily of the cost of direct labor costs. Costs incurred by the Company are recorded as costs in excess of billings on uncompleted contracts before the project's revenue is recognized.

g)Basic and Diluted Net Loss per Share

The Company computes net loss per share in accordance with ASC 260, Earnings per Share. ASC 260 requires presentation of both basic and diluted earnings per share ("EPS") on the face of the income statement. Basic EPS is computed by dividing net loss available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential shares if their effect is anti-dilutive. As of March 31, 2013, the Company had 3,882,730 potentially dilutive shares outstanding.

h)Interim Financial Statements

These interim unaudited financial statements have been prepared on the same basis as the annual financial statements and in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position, results of operations and cash flows for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for a full year or for any future period.



Table of Contents

**GROVEWARE TECHNOLOGIES LTD.**

Notes to the Condensed Financial Statements

(expressed in US dollars)

**2. Summary of Significant Accounting Policies (continued)**

i) Comprehensive Loss

ASC 220, *Comprehensive Income*, establishes standards for the reporting and display of comprehensive loss and its components in the financial statements. As at March 31, 2013 and December 31, 2012, the Company has no items that represent comprehensive loss and, therefore, has not included a schedule of comprehensive loss in the financial statements.

j) Derivative Liabilities

Derivative financial instruments that are not classified as equity and are not used in hedging relationships are measured at fair value. Subsequent changes to fair value are recorded in the statement of operations.

k) Financial Instruments

Pursuant to ASC 820, *Fair Value Measurements and Disclosures*, an entity is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820 prioritizes the inputs into three levels that may be used to measure fair value:

*Level 1*

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

*Level 2*

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

*Level 3*

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Company's financial instruments consist principally of cash, bank indebtedness, trade accounts receivable, accounts payable and accrued liabilities, accrued interest payable, amounts due to related parties, notes payable, and convertible debentures. Pursuant to ASC 820, the fair value of our cash is determined based on "Level 1" inputs, which consist of quoted prices in active markets for identical assets. We believe that the recorded values of all of our other financial instruments approximate their current fair values because of their nature and respective maturity dates or durations.

l) Advertising Expense

The Company expenses advertising costs when incurred. For the three months ended March 31, 2013, the Company incurred a total of \$nil (December 31, 2012 - \$5,806) in advertising costs.

m) Recent Accounting Pronouncements

The Company has implemented all new accounting pronouncements that are in effect. These pronouncements did not have any material impact on the financial statements unless otherwise disclosed, and the Company does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.



Table of Contents

**GROVEWARE TECHNOLOGIES LTD.**

Notes to the Condensed Financial Statements

(expressed in US dollars)

**3. Convertible Debentures**

On July 27, 2012, the Company issued a \$150,000 convertible debenture to a non-related party. Under the terms of the debenture, the amount is unsecured, bears interest at 10% per annum, and matures on July 27, 2015. The note is convertible into shares of common stock at any time after the date of issuance at a conversion rate of 80% of the average of the three lowest closing bid prices of the Company's common stock for the five trading days ending one trading date prior to the date of the conversion notices is sent by the holder to the Company. As at March 31, 2013, the Company recorded accrued interest of \$10,151 (December 31, 2012 - \$6,452), which has been recorded as accrued interest payable.

a)

In accordance with ASC 470-20, "Debt with Conversion and Other Options", the Company recognized the intrinsic value of the embedded beneficial conversion feature of \$37,500 as additional paid-in capital and an equivalent discount which will be charged to operations over the term of the convertible note. During the three months ended March 31, 2013, the Company had amortized \$3,082 (December 31, 2012 - \$5,377) of the debt discount to interest expense. As at March 31, 2013, the carrying value of the debenture was \$120,959 (December 31, 2012 - \$117,877).

On January 8, 2013, the Company issued a \$42,500 convertible debenture to a non-related party. Under the terms of the debenture, the amount is unsecured, bears interest at 8% per annum, and matures on September 10, 2013. The note is convertible into shares of common stock 180 days after the date of issuance at a conversion rate of 58% of the average of the three lowest closing bid prices of the Company's common stock for the ten trading days ending one trading date prior to the date of the conversion notices is sent by the holder to the Company. As at March 31, 2013, the Company recorded accrued interest of \$764 (December 31, 2013 - \$nil), which has been recorded as accrued interest payable.

On February 13, 2013, the Company issued a \$37,500 convertible debenture to a non-related party. Under the terms of the debenture, the amount is unsecured, bears interest at 8% per annum, and matures on November 15, 2013. The note is convertible into shares of common stock at any time after the date of issuance at a conversion rate of 58% of the average of the three lowest closing bid prices of the Company's common stock for the ten trading days ending one trading date prior to the date of the conversion notices is sent by the holder to the Company. As at March 31, 2013, the Company recorded accrued interest of \$378 (December 31, 2013 - \$nil), which has been recorded as accrued interest payable.

**4. Factoring Line Payable**

Edgar Filing: GroveWare Technologies Ltd. - Form 10-Q

During the three months ended March 31, 2013, the Company borrowed a total of \$nil (December 31, 2012 - \$nil) from a factoring company against its accounts receivable. The factoring line charges a discount of 3.75%- 4.0% of the amount of the receivable and interest at a rate of 3.0% per month over the period that the receivable remains unpaid. As of March 31, 2013, the outstanding principle balance of the factoring line payable totaled \$190,759 (December 31, 2012 - \$206,548). The outstanding accrued interest of the factoring line payable totaled \$259,609 (December 31, 2012 - \$237,101).

F-7

Table of Contents**GROVEWARE TECHNOLOGIES LTD.**

Notes to the Condensed Financial Statements

(expressed in US dollars)

**5. Derivative Liabilities**

Derivative liabilities consist of convertible debentures with variable conversion prices. During the period ended March 31, 2013, the Company recorded a loss on the change in fair value of the derivative liabilities of \$27,990 (2012 - \$nil). The fair values of these derivative liabilities are as follows:

	March 31, 2013 \$	December 31, 2012 \$
January 2013 convertible debenture	43,104	—
February 2013 convertible debenture	41,318	—
	84,422	—

The fair values of derivative financial liabilities were determined using the Black-Scholes option pricing model, using the following assumptions:

	Expected Volatility	Risk-free Interest Rate	Expected Dividend Yield	Expected Life (in years)
As at issuance date:				
January 2013 convertible debenture	896%	0.13%	0%	0.67
February 2013 convertible debenture	851%	0.13%	0%	0.75
As at March 31, 2013:				
January 2013 convertible debenture	397%	0.11%	0%	0.45
February 2013 convertible debenture	410%	0.13%	0%	0.63

**6. Costs in Excess of Billings on Uncompleted Contracts**

As of March 31, 2013, the Company has capitalized \$1,488 (December 31, 2012 - \$28,910) of costs incurred in relation to sales contracts.

**7. Deferred Revenue**

As of March 31, 2013, the Company has recorded deferred revenues of \$23,704 (December 31, 2012 - \$81,540).

## **8. Common Stock**

On February 7, 2013, the Company issued 200,000 common shares with a fair value of \$64,200 for investor relation services. The fair value of the common shares was determined by using the closing trading price on the measurement date.

## **9. Related Party Transactions**

- a) As at March 31, 2013, the Company had trade accounts payable due to related parties of \$320,320 (December 31, 2012 - \$466,021).
- b) The Company accrues a royalty equal to 20% of net revenues for the license of its technology to a related party. As at March 31, 2013, the Company owed \$101,760 (December 31, 2012 - \$82,400) of royalties payable.

## **10. Commitments**

On February 7, 2013, the Company entered into an investor relation agreement with a non-related party whereby the Company has agreed to pay \$5,000 per month for a period of one year beginning March 2013. In addition to the monthly payments, the Company has also agreed to issue 200,000 common shares (refer to Note 8).

Table of Contents

**GROVEWARE TECHNOLOGIES LTD.**

Notes to the Condensed Financial Statements

(expressed in US dollars)

**11. Subsequent Events**

We have evaluated subsequent events through the date of issuance of the financial statements, and did not have any material recognizable subsequent events after March 31, 2013 with the exception of the following:

On April 23, 2013, the Company signed a \$275,000 convertible drawdown debenture with non-related party whereby the Company may borrow up to \$250,000 net of a \$25,000 discount on the face value of the debenture. Under the terms of the debenture, the amount is unsecured, matures one year from the date of the first payment (the “Effective Date”), and bears interest at nil% for the first 90 days after the Effective Date and a one-time interest charge of 12% shall be applied to the principal sum if not repaid within the initial 90 day period. The lender, at any time after the Effective Date, may convert all or part of the outstanding unpaid principal and accrued interest into common shares of the Company at the lesser of \$0.07 or 60% of the lowest trade price in the 25 trading days previous to the conversion.

F-9

Table of Contents

**Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

**Forward-Looking Statements**

Certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words “believes,” “project,” “expects,” “anticipates,” “estimates,” “intends,” “strategy,” “plan,” “may,” “will,” “would,” “will be,” “will continue,” “will likely result,” and similar expressions. Such forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for purposes of complying with those safe-harbor provisions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse affect on our operations and future prospects on a consolidated basis include, but are not limited to: changes in economic conditions, legislative/regulatory changes, availability of capital, interest rates, competition, and generally accepted accounting principles. These risks and uncertainties should also be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Further information concerning our business, including additional factors that could materially affect our financial results, is included herein and in our other filings with the SEC.

**Overview**

The modern world of communications technology is an arena of constant and rapid evolution. There is no greater evidence of this change than in the accelerating adoption of sophisticated wireless devices to streamline and facilitate the exchange of voice and data communication. Over the past two decades, we have witnessed the successive introduction of hardwired cellular phones, handheld “dumbphones”, the handheld Palm™ computers and then a revolution with the advent of the BlackBerry® smartphone followed by the iPhone® and a myriad of similar devices utilizing the Android™ smartphone platform developed by Google©. During the last few years, we have seen the emergence and incredible growth of tablet technologies led by Apple’s iPad®, Research in Motion’s Playbook™, and a variety of tablet devices utilizing the Android™ and Windows Mobile™ mobile operating systems.

Wireless devices are changing how people communicate and exchange information. The wireless revolution has brought about monumental changes to global politics, to the scale and complexity of social interaction, to the accessibility of information and has simplified consumer transactions such as banking, advertising and the buying and selling of goods and services.

Smartphone and wireless tablet devices are now being discovered by business and government as transformational tools for the collection, transfer and utilization of information and for streamlining business-to-business (B2B) transactions. The adoption of wireless technologies, and in particular of wireless tablet devices, is expected to far exceed the use of conventional PC's over the next five years.

It is in this rapidly changing business environment that GroveWare has positioned itself. GroveWare's products are uniquely suited to helping companies, governments and institutions gather and exchange data. In an environment where all commercial and government entities are seeking to find cost-saving and efficiency-gaining productivity tools, the increasingly sophisticated smartphone and tablet hardware can now be paired with GroveWare's software to generate productivity enhancements on a level not seen since the advent of micro-computers over 30 years ago.

GroveWare provides Commercial Off-the Shelf-based (COTS) SmartForm, advanced workflow technology and mobile solutions for automating and mobilizing business processes at the enterprise level. Such technology greatly helps organizations to move away from "paper-based" operations to smart, dynamic, mobile electronic "e-forms," thus enabling enterprises to achieve operational efficiencies by extending their enterprise ERP functions from the "back office" to a "field application" seamlessly.

Table of Contents

Our company specializes in the rapidly-growing Mobile Business Process Management (BPM) marketplace. It has developed an advanced e-form-centric mobile application, “MobiTask™” for all of the mainstream wireless operating systems used by smartphones and tablets such as: Apple iOS®, Android™, BlackBerry® and Windows™. GroveWare’s MobiTask™ is a single platform application compatible with all wireless devices such as: iPhone®, iPad®, Samsung Galaxy®, BlackBerry® Playbook™, etc. and employs a powerful core technology that has helped our company to become a leader in the field of “Rapid Mobile Application Development” for enterprises.

GroveWare believes it is uniquely positioned to take advantage of the transformation that is currently taking place in the enterprise space, i.e. the massive shift from laptops to wireless tablets devices and the rush to develop productivity applications for enterprise use.

GroveWare’s eXFORMA™ middleware and MobiTask™ client applications are at the heart of the solution offered. It is a process automation platform that can be configured to dynamically capture data utilizing web-based forms integrated with a sophisticated workflow engine. The application is delivered on thin client mobile devices. The system resides on numerous industry-standard back-end databases and is supported by flexible reporting capabilities.

GroveWare’s relationship with its channel partner VerizonWireless (VZ) has grown substantially, and the two companies continue to collaborate closely to acquire new customers. Currently, there are more than 15 new pilot projects in the works, and over 10 new customers fully deployed using MobiTask. GroveWare currently has solutions for clients in construction vertical, such as HVAC service companies, electrical contractors, general contractors, pipeline construction, environmental services, property management, and manufacturing and professional services. The public sector is quickly becoming an important vertical for GroveWare. MobiTask solutions for federal, state, and local authorities such as law enforcement, inspection, investigation, and emergency response are adding new sources of revenue for the company. These new sources of clientele are expected to bring significant revenue to our company for 2013.

**Results of Operations for the Three Months Ended March 31, 2013 and 2012**

***Revenues***

We generated \$73,467 in revenues for the three months ended March 31, 2013, as compared with \$30,481 for the three months ended March 31, 2012.



Our revenues for all periods resulted primarily from the provision of professional services and user subscriptions to smaller enterprises and from proof-of-concept and trial installations with several state and federal government agencies.

As the company more fully implements its sales and marketing plan during the first half of 2013, we expect that our business model will generate revenue from four primary sources:

*1. License Sales - eXFORMA BPM Server and MTM Server license as well as per seat licenses for MobiTask, eXFORMA and MTM.*

License fees are expected to be generated from traditional, paid-up software licenses primarily sold as a result of referral from non-carrier partners and from leads generated by our inside sales team. Software license fee revenue is projected to grow from approximately \$25,000 in 2012 to \$390,000 by 2015. The average enterprise software license fee for eXFORMA is \$49,000 per server installation. MTM is sold as a combination server component and per user license. The average server cost is \$8,000 per implementation and \$120-\$150 perpetual license per MobiTask seat.

Table of Contents

*2. License Subscription Sales – Primarily through the carrier channel, annual and multi-year subscriptions provide us with recurring revenue based on a monthly per user fee.*

During the next twelve months, the U.S. outbound Business Development Managers will primarily support and develop leads initiated or referred through the carrier relationship, initially Verizon Wireless, but anticipated to expand to the other major U.S. carriers and wireless hardware providers. Monthly software license fees are targeted at \$19.99 to \$24.99 per user based on a two year subscription. We are currently negotiating with Verizon to have these fees collected by the carrier together with its other wireless charges and remitted to us monthly en masse. Initially, we expect monthly subscription sales to be minimal, with the hope of \$2,000 monthly by the end of Q4 of 2013.

Gross revenues from carrier channel subscription sales are projected to grow rapidly to \$2.6 million in 2013 and increasing to in excess of \$11.4 million by 2015. Management believes that, with the proper financing, these numbers are very conservative given the size of the carriers' enterprise customer base and the overall market potential.

*3. Support Fees - Annual recurring revenue from maintenance, subscription fees, seat upgrades and product support services.*

Recurring revenue is expected to be generated from annual technical support and maintenance fees (including seat upgrade fees) and service fees. Recurring revenue from these sources is projected to grow from approximately \$15,000 in 2012 to slightly less than \$80,000 by 2015. Technical Support and Maintenance fees will apply to the traditional paid-up licenses, calculated at a rate of 20% of the license fees. The subscription fees will apply to the hosted model and will be earned based on the number of seats. Over the course of time it is expected that customers will increase the number of end-users (seats) within their organizations, purchasing incremental subscriptions or seat licenses.

*4. Professional Service Fees - For customization, configuration, development and deployment in support of eXFORMA BPM, MTM and MobiTask.*

Service fees include services provided directly to end-user organizations and to channel partners primarily for implementation services and ongoing consulting services. Due to the nature of the BPM market initial implementation often requires considerable professional services and service revenue will be approximately equal to 10%-15% of license fees revenue. The type of services provided will include business analysis, design and implementation, as MobiTask, eXFORMA and MTM will be implemented to interact with enterprise applications and to meet specific task requests of the customer. Although paid for by the customer, the IP associated with each customization of the platform remains with us and is available for resale to other clients significantly reducing the direct cost to us of future product development.

Professional Service revenue is expected to increase commensurate with software sales growing from approximately \$105,000 in 2012 to in excess of \$7.6 million by 2015. We consider service delivery to be an important component to our success and with every success we will be adding a new stream of future revenue as clients consider expanding the use of the technology to other areas of their organizations.

Management anticipates total revenues of approximately \$1 million for 2013. This level of revenues, or perhaps slightly more, will be typical in subsequent years unless we are able to obtain financing. To achieve the revenue projections set forth above, we will need to raise additional capital in the range of \$2 to \$5 million. This money will be used for additional market development, sales and marketing, services staffing, product enhancement and development, receivable funding, G&A and to reduce debt obligations. With the benefit of these expenditures and the sound execution of our business plan, we believe our revenues will increase to \$19.4 million by 2015.

### ***Revenue Mix***

During the first quarter of 2013, approximately 53% of revenue was generated through direct sales, technical support and professional services billings, while 47% of revenue resulted from subscription sales primarily through the Verizon partnership. By the end of 2015, carrier-based subscription sales as a percentage of total revenue are projected to level out to the 60% range.

Table of Contents

*Expenses*

We incurred \$198,279 in operating expenses for the three months ended March 31, 2013, as compared with operating expenses of \$127,482 for the three months ended March 31, 2012. Our operating expenses increased in every category when comparing the three months ended March 31, 2013 and 2012. Professional fees were \$5,000 for the three months ended March 31, 2013, as compared with \$2,831 for the three months ended March 31, 2012. Our rent expenses were \$23,984 for the three months ended March 31, 2013, as compared with \$11,421 for the three months ended March 31, 2012. Our general and administrative expenses were \$169,295 for the three months ended March 31, 2013, as compared with general and administrative expenses of \$113,230 for the three months ended March 31, 2012.

We incurred \$71,614 in interest expenses for the three months ended March 31, 2013, as compared with \$0 for the three months ended March 31, 2012. We also incurred \$27,990 as a loss from the change in fair value of derivative liabilities for the three months ended March 31, 2013, as compared with \$0 for the three months ended March 31, 2012. The increase is due to financings that we entered into.

Even though our channel partner distribution strategy will lighten our expenses going forward, we expect that our operating expenses will increase as we raise money, add sales representatives, and implement our business plan over the next 12 months.

*Cost of Service/Sales*

The cost of service/sales expense is associated with delivery of a sales unit, including direct labor cost associated with the delivery of implementation and consulting services provided directly to end-users or to distribution partners and sales commissions. In the first quarter ended March 31, 2013, we have cost of services/sales at 64% of total revenue. Cost of sales were \$46,900 and \$0 for the three months ended March 31, 2013 and 2012, respectively. The reason for the increase is largely due to the fact that the revenues increased in 2013 from 2012 and due to the fact that we had more professional services revenues in 2013 than in 2012. When operations have reached our projected levels, our cost of service/sales is projected to be approximately 18% of total revenue. We hope to achieve this by the end of 2013.

*Sales and Marketing*

Sales and marketing expenses include the costs to market products and to manage and support the channel partners and direct sales team. Initially in 2012, this includes staffing to recruit distribution partners. Subsequently, staffing grows to provide adequate support, service and account management services. Sales and marketing expenses also include expenses to recruit distribution partners as well as costs for product promotion. Sales and marketing expenses, exclusive of commissions, are expected to be approximately 29% of total revenue in 2013 but declining to 7.5% by 2015 as revenue increases and more normative cost-efficiencies are experienced.

Currently, we do not have a sales team. We only have one full-time employee, Hrair Achkarian, our officer and director. We have five independent contractors that are working on customer development, implementation, and business analysis. With funding, we plan to add 3 sales representatives and a VP of Sales by the end of 2013. We hope to double our sales team by 2014.

#### *Product Development, R&D and Technical Support*

Product development expense primarily includes the costs of direct in-house labor associated with the staffing requirement for development, maintenance and upgrades of the software product. Product development expenses are expected to approximately average 21% of total revenue in 2013 but will rapidly decline to 5% by 2015 as revenue increases and more normative cost-efficiencies are experienced.

#### *General and Administrative (G&A)*

The general and administrative costs represent the labor expense of corporate support staff of both fixed and semi-variable natures, which will increase with additional product sales. G&A also includes other items such as recruitment and insurance costs associated with our growth. Although general and administrative expenses were 289% of revenues during 2012, they are projected to be approximately 49% of total revenue in 2013 but again declining rapidly to 6.5% by 2015 as revenue increases and more normative cost-efficiencies are experienced.

Table of Contents

*Royalties*

We have acquired an exclusive license from GroveWare Technologies Inc. to market and support MobiTask, eXFORMA, eXFORMA BPM SUITE and MTM throughout the United States. We are also permitted under the license to further develop and improve these and other product offerings to U.S. customers.

As compensation for these exclusive marketing and development rights, there are currently accrued royalties equal to 20% of all revenue generated from the sale of the licensed products. The terms of the royalty arrangement are detailed in an Exclusive Software Master License Agreement executed between the parties on December 31, 2009.

The Master License Agreement is currently under renegotiation and the attached projections assume that the royalty rate will be reduced to 15% of revenue and will be levied only on revenue generated from the sales of software licenses and subscriptions and will no longer include professional services and technical support revenue. As well, royalties will be paid as subscription revenue is recognized on our books.

*Depreciation and Amortization*

These expenses include depreciation of general office equipment and computer equipment, based on estimated useful lives of five years for furniture and office equipment, and three years for computer related equipment. We have capitalized the costs associated with the development of the software product but not the costs to enhance the existing product.

*Earnings*

We had a net loss of \$271,316 for the three months ended March 31, 2013, as compared with a net loss of \$97,001 for the three months ended March 31, 2012.

We currently have a gross margin ratio of 36% for Q1 of 2013. As with most enterprise software sales, mature entities often achieve gross margins ratios at around 72%. We hope to achieve that level by 2015. We expect that EBITDA margins will be negative through the end of 2013, but are projected to increase from 28.4% in 2013 to a very favorable 57% by 2015. We further expect net earnings before taxes will increase from a loss of \$989,438 in 2012 to a pre-tax profit of over \$10.7 million by 2015, primarily because of increasing sales over moderating expense levels.

The break-even sales level of \$70,000 was achieved for Q1 of 2013. We project cash flows becoming positive at sales levels of less than \$100,000 in Q2 of 2013.

An assumed moderate 25% growth rate in 2015 and 2016 may result in projected recognized revenues of \$19.4 and \$23.4 million with pre-tax earnings of \$10.7 and \$13.7 million, respectively.

### **Liquidity and Capital Resources**

We had \$9,117 in current assets and \$1,625,266 in current liabilities as of March 31, 2013. We therefore had a working capital deficit of \$1,616,149.

Operating activities used \$80,333 for the three months ended March 31, 2013. Our net loss of \$271,316 and \$145,701 due to related parties were the primary source our negative operating cash flow, partially offset primarily by increases in accounts payable and accrued liabilities of \$172,126.

Financing activities provided \$80,000 the three months ended March 31, 2013, which consisted of convertible promissory notes in the aggregate principal amount of \$80,000. The notes accrue interest at a rate of 8 percent per annum and are convertible into our common stock at 58 percent of the average of the lowest three trading prices in the ten days preceding the conversion date.

Table of Contents

***Loans and Debt Service***

We have no existing bank debt. We are currently seeking an investment of a minimum of \$2,000,000 either in the form of subordinated debt or through the issue of common or preferred equity.

***Capital Requirements: 2013-2014***

We are seeking to raise an additional \$2.0 - \$5.0 million in capital. Management is currently in discussions with several potential funding sources and is hopeful that a transaction can be concluded prior to the end of Q2 2013.

Operating expenses before interest is expected to gradually increase, based on the sales growth and related support requirements, to approximately \$325,000 per month by the end of Q2 2013. Initial pro forma profits beginning in Q1 2013 and cash flow breakeven occurs in Q2 2013.

The proceeds of our capital raise will be used primarily to fund additional market development, sales & marketing & services staffing, product enhancement and new development, receivable funding, G&A and to reduce debt obligations.

We are projecting to be cash flow positive in Q2 2013. However, to give further assurance of adequate growth capital, we will explore the financing of our accounts receivable, securing an additional bank line of credit or a capital lease line to assist with funding its monthly cash flow fluctuations and other working capital requirements.

The revenue projections are based on the best conservative estimate of management. While market acceptance and pricing are not likely to present any material challenges to revenue growth, sales cycles within the enterprise and institutional sectors tend to be less predictable and timing of sales growth may ultimately be slower or faster than forecast. As a result, cash flow projections may be negatively or positively impacted. The investment capital currently being solicited will be adequate to meet any interim cash flow shortfalls if the ramp-up of revenue is slower than projected or to fund more rapid growth if revenue growth is accelerated.

***Critical Accounting Policies***



Our financial statements and accompanying notes have been prepared in accordance with United States generally accepted accounting principles applied on a consistent basis. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

We regularly evaluate the accounting policies and estimates that we use to prepare our financial statements. A complete summary of these policies is included in the notes to our financial statements. In general, management's estimates are based on historical experience, on information from third party professionals, and on various other assumptions that are believed to be reasonable under the facts and circumstances. Actual results could differ from those estimates made by management.

### ***Future Financings***

We will continue to rely on equity sales of our common shares in order to continue to fund our business operations. Issuances of additional shares will result in dilution to existing stockholders. There is no assurance that we will achieve any additional sales of the equity securities or arrange for debt or other financing to fund planned acquisitions and exploration activities.

### ***Off-Balance Sheet Arrangements***

We have no significant off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to stockholders.

Table of Contents

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

A smaller reporting company is not required to provide the information required by this Item.

**Item 4T. Controls and Procedures**

**Disclosure Controls and Procedures**

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of March 31, 2013. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2013, our disclosure controls and procedures were not effective due to the presence of material weaknesses in internal control over financial reporting.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Management has identified the following material weaknesses which have caused management to conclude that, as of March 31, 2013, our disclosure controls and procedures were not effective: (i) inadequate segregation of duties and effective risk assessment; and (ii) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of both US GAAP and SEC guidelines.

**Remediation Plan to Address the Material Weaknesses in Internal Control over Financial Reporting**

Our company plans to take steps to enhance and improve the design of our internal controls over financial reporting. During the period covered by this quarterly report on Form 10-Q, we have not been able to remediate the material weaknesses identified above. To remediate such weaknesses, we plan to implement the following changes during our fiscal year ending December 31, 2013: (i) appoint additional qualified personnel to address inadequate segregation of duties and ineffective risk management; and (ii) adopt sufficient written policies and procedures for accounting and financial reporting. The remediation efforts set out are largely dependent upon our securing additional financing to cover the costs of implementing the changes required. If we are unsuccessful in securing such funds, remediation efforts may be adversely affected in a material manner.

We are unable to remedy our controls related to the inadequate segregation of duties and ineffective risk management until we receive financing to hire additional employees.

### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the three months ended March 31, 2013 that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting.

10

Table of Contents

**PART II – OTHER INFORMATION**

**Item 1. Legal Proceedings**

None

**Item 1A: Risk Factors**

A smaller reporting company is not required to provide the information required by this Item.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None

**Item 3. Defaults upon Senior Securities**

None

**Item 4. Mine Safety Disclosure**

**Item 5. Other Information**

None

**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
10.1	Exclusive Master License Agreement, dated December 31, 2009 <sup>(1)</sup>
10.2	Factoring and Security Agreement, dated October 21, 2010 <sup>(1)</sup>
31.1	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1	<u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101**	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30 , 2012 formatted in Extensible Business Reporting Language (XBRL).

(1) Incorporated by reference on Form 8-K filed with the Securities and Exchange Commission on April 10, 2012

\*\*Provided herewith

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**GroveWare Technologies Ltd.**

Date: May 20, 2013

By: /s/ Hrair Achkarian

Hrair Achkarian

Title: **Chief Executive Officer**

Table of Contents