

Edgar Filing: INNOVA HOLDINGS - Form 10QSB/A

INNOVA HOLDINGS
Form 10QSB/A
November 22, 2005

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB/A
AMENDMENT NO. 1

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended: June 30, 2005

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number 000-33231

Innova Holdings, Inc.

(Exact name of small business issuer as specified in its charter)

Delaware

95-4868120

(State or other jurisdiction
of incorporation or organization)

(IRS Employer
Identification No.)

17105 San Carlos Blvd., Suite A 6151, Fort Myers, Florida 33931

(Address of principal executive offices)

(239) 466-0488

(Issuer's telephone number)

(Former Name, Former Address and Former Fiscal Year,
if Changed Since Last Report)

Check whether the issuer (1) filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the past 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 X No ___

State the number of shares outstanding of each of the issuer's classes of
common equity, as of the latest practical date: 444,345,676 as of July 15, 2005

Transitional Small Business Disclosure Format (check one). Yes ___; No X

Edgar Filing: INNOVA HOLDINGS - Form 10QSB/A

Innova Holdings, Inc.
June 30, 2005
Quarterly Report on Form 10-QSB

Table of Contents

	Page

Special Note Regarding Forward Looking Statements.....	3

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.....	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	15
Item 3. Controls and Procedures.....	18

PART II - OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities.....	22
Item 6. Exhibits	23

Note: Registrant has filed this Report on Form 10-QSB/A in order to restate the financial statements included in its Form 10-QSB filed on August 22, 2005 and to revise its disclosure under Item 3 - Controls and Procedures.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

To the extent that the information presented in this Quarterly Report on Form 10-QSB for the quarter ended June 30, 2005 discusses financial projections, information or expectations about our products or markets, or otherwise makes statements about future events, such statements are forward-looking. We are making these forward-looking statements in reliance on the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, there are a number of risks and uncertainties that could cause actual results to differ materially from such forward-looking statements. These risks and uncertainties are described, among other places in this Quarterly Report in "Management's Discussion and Analysis of Financial Condition and Results of Operations".

In addition, we disclaim any obligations to update any forward-looking statements to reflect events or circumstances after the date of this Quarterly Report. When considering such forward-looking statements, you should keep in mind the risks referenced above and the other cautionary statements in this Quarterly Report.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS	Page

Edgar Filing: INNOVA HOLDINGS - Form 10QSB/A

Unaudited Consolidated Balance Sheet as of June 30, 2005.....	5
Unaudited Consolidated Statements of Operations for the three months and the six months ended June 30, 2005 and June 30, 2004.....	6
Unaudited Consolidated Statements of Cash Flows for the six months ended June 30, 2005 and June 30, 2004.....	7
Notes to Unaudited Consolidated Financial Statements.....	8

4

INNOVA HOLDINGS, INC.
CONSOLIDATED BALANCE SHEET
June 30, 2005
(Unaudited)

ASSETS

Current assets	
Cash	\$ 147,785

Total current assets	147,785
Property and equipment, net	56,038

Deferred financing cost	100,000
TOTAL ASSETS	\$ 303,823
	=====

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities	
Current maturities of long-term debt	\$ 37,700
Accounts payable	572,652
Accrued expenses	1,366,067
Notes payable	395,500
Dividend payable	21,126

Total current liabilities	\$ 2,393,045

Long-term debt	\$ 951,400
Mandatorily redeemable series A preferred stock	\$ 85,300
Commitments	
STOCKHOLDERS' DEFICIT:	
Preferred stock, \$.001 par value, 10,000,000 shares authorized, 525,000 shares issued and outstanding	\$ 525
Common stock, \$.001 par value, 900,000,000 shares authorized, 444,345,676 shares issued and outstanding	444,346
Additional paid-in capital	4,958,519
Accumulated deficit	(8,529,312)

Total Stockholders' Deficit	\$ (3,125,922)

Edgar Filing: INNOVA HOLDINGS - Form 10QSB/A

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT \$ 303,823
=====

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

5

INNOVA HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Three and Six Months Ended June 30, 2005 and 2004
(Unaudited)

	Three Months Ended June 30		Six Months June
	2005	2004	2005
Revenues	\$ --	\$ --	\$ --
Cost of revenues	\$ --	\$ --	\$ --
Gross profit	\$ --	\$ --	\$ --
Operating expenses:			
Selling, general and administrative	\$ 255,825	\$ 52,025	\$ 340,168
Outside services	8,921	23,512	148,684
Legal fees	42,022	7,333	56,020
Professional fees	40,056	7,121	335,068
Depreciation and amortization	1,366	186	1,782
Total operating expenses	\$ 348,190	\$ 90,177	\$ 881,722
Loss from operations	\$ (348,190)	\$ (90,177)	\$ (881,722)
Interest expense	(36,773)	(27,128)	(60,310)
Net loss	\$ (384,963)	\$ (117,305)	\$ (942,032)
Net loss applicable to common shareholders:			
Net loss	\$ (384,963)	\$ (117,305)	\$ (942,032)
Beneficial conversion of preferred stock	(2,500)	--	(146,500)
Net loss applicable to common shareholders	\$ (387,463)	\$ (117,305)	\$ (1,088,532)
Net loss per share:			
Basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)

Edgar Filing: INNOVA HOLDINGS - Form 10QSB/A

Weighted averaged shares outstanding:

Basic and diluted	444,345,676	271,353,397	444,345,676
	=====	=====	=====

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

6

INNOVA HOLDINGS, INC
CONSOLIDATED STATEMENTS OF CASH FLOWS
Six Months Ended June 30, 2005 and 2004
(Unaudited)

	2005	2004
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (942,032)	\$ (230,681)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	1,782	437
Common stock issued for services	552,533	137,560
Common stock issued for interest payment	--	58,639
Option expense for services	12,871	
Changes in assets and liabilities:		
Accounts payable	(1,286)	(107,031)
Accrued expenses	22,589	(9,066)
	-----	-----
CASH FLOWS USED IN OPERATING ACTIVITIES	\$ (353,543)	\$ (150,142)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property and Equipment	\$ (17,632)	\$ (5,895)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES	\$ (17,632)	\$ (5,895)
	-----	-----
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from notes payable	\$ --	\$ 15,000
Proceeds from private placements of common stock	368,000	--
Proceeds from investors in Series B Preferred Stock	148,166	219,334
Payment of principal on note	--	(30,237)
	-----	-----
CASH FLOW FROM FINANCING ACTIVITIES	\$ 516,166	\$ 204,097
	-----	-----
NET INCREASE (DECREASE) IN CASH	\$ 144,991	\$ 48,060
Cash, beginning of period	2,794	5,115
	-----	-----
Cash, end of period	\$ 147,785	\$ 53,175
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 19,876	\$ --
	=====	=====

Edgar Filing: INNOVA HOLDINGS - Form 10QSB/A

Income taxes paid	\$ --	\$ --
	=====	=====
NON-CASH TRANACTIONS:		
Common stock issued for property and equipment	\$ 32,500	\$ --
	=====	=====

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

7

INNOVA HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited interim financial statements of Innova Holdings, Inc., have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission ("SEC"), and should be read in conjunction with the audited financial statements and notes thereto contained in the Company's registration statement filed with the SEC on form 10-KSB. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements which would substantially duplicate the disclosure contained in the audited financial statements for the most recent fiscal year ended December 31, 2004 as reported in form 10-KSB/A, have been omitted.

NOTE 2 - STOCK BASED COMPENSATION

The Company accounts for its stock-based compensation plans using the intrinsic value method under Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees. The pro forma information below is based on provisions of Statement of Financial Accounting Standard ("FAS") No. 123, Accounting for Stock-Based Compensation, as amended by FAS 148, Accounting for Stock-Based Compensation-Transition and Disclosure, issued in December 2002.

	Six Months Ended June 30, 2005	2004
	-----	-----
Net loss applicable to common shareholders	\$ (1,088,532)	\$ (230,681)
Add: Intrinsic value expense recorded	--	--
Deduct: total stock-based employee compensation determined under fair value based method	(26,843)	--
	-----	-----
Pro forma net loss applicable to common shareholders	\$ (1,115,375)	\$ (230,681)
	=====	=====
Earnings per share:		
Basic and diluted - as reported	\$ (.00)	\$ (.00)
Basic and diluted - pro forma	\$ (.00)	\$ (.00)

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2004 and 2005: no dividend yield and expected volatility of 80% and 150% in 2004 and 2005, respectively, risk-free interest rate of 2.75%, and expected lives of 10 years.

The options granted have a weighted average exercise price of \$0.017 per share and vest over three and five years. The maximum term of the options is ten years.

During the six months ended June 30, 2005 there were 70,719,259 options granted, 64,658,621 to employees and 6,060,638 to an independent contractor. The share purchase options granted to employees vest annually over three years from the date of grant, 30,658,621 options are exercisable at \$0.017 per share, 18,000,000 options are exercisable at \$0.036 per share and 16,000,000 options are exercisable at \$0.023 per share, and they expire ten years after the grant date. The options granted to employees were valued using the intrinsic value method and had no value because the exercise price was equal to the market price on the grant date. The share purchase options granted to the independent contractor vest monthly over five years from the date of grant, are exercisable at \$0.01 per share, and they expire ten years after the grant date. During the period, \$12,871 was recognized as an expense for the fair value of these options granted to the independent contractor.

NOTE 3 - CAPITAL STOCK

On June 14, 2005, Innova entered into a Standby Equity Distribution Agreement with Cornell Capital Partners. Under the Standby Equity Distribution Agreement, Innova may issue and sell to Cornell Capital Partners common stock for a total purchase price of up to \$10,000,000. The purchase price for the shares is equal to their market price, which is defined in the Standby Equity Distribution Agreement as the lowest volume weighted average price of the common stock during the five trading days following the date notice is given by the Company that it desires an advance. The amount of each advance is subject to an aggregate maximum advance amount of \$400,000, with no advance occurring within five trading days of a prior advance. Cornell Capital Partners received a one-time commitment fee of 2,608,699 shares of the Company's common stock equal to approximately \$90,000 based on Innova's stock price on May 4, 2005, when the term sheet for the Standby Equity Distribution Agreement was signed. Cornell Capital Partners is paid a fee equal to 5% of each advance, which is retained by Cornell Capital Partners from each advance. The Company will pay a structuring fee of \$500 for each advance made under the Standby Equity Distribution Agreement. The Company also issued to Cornell Capital Partners its promissory note for \$300,000. The principal of the note is payable in three \$100,000 installments due on the 30th, 60th and 90th days following the date the registration statement for the shares to be issued under the Standby Equity Distribution Agreement is declared effective by the SEC. The note does not bear interest except in the event of a default. On June 14, 2005, Innova entered into a Placement Agent Agreement with Monitor Capital, Inc. a registered broker-dealer. Pursuant to the Placement Agent Agreement, Innova paid a one-time placement agent fee of 289,855 restricted shares of common stock equal to approximately \$10,000 based on Innova's stock price on May 4, 2005, when the term sheet for the Standby Equity Distribution Agreement was signed, for advising us in connection with the Standby Equity Distribution Agreement. In connection with this Standby Equity Distribution Agreement, the Company entered into a Registration Rights agreement with Cornell Capital Partners wherein the

Edgar Filing: INNOVA HOLDINGS - Form 10QSB/A

Company agreed to file with the Securities and Exchange Commission a registration statement for the sale by Cornell of the common stock of the Company to be purchased by Cornell under the terms of the Standby Equity Distribution Agreement, along with the one-time commitment fee and the placement agent fee. Accordingly, the Company filed an SB-2 registration statement with the Securities and Exchange Commission in August 2005 for a total of 284,364,726 shares to be sold including 250,000,000 shares estimated to be sold to Cornell Capital Partners under the Standby Equity Distribution Agreement. Additionally, 34,364,726 currently issued and outstanding shares were included in the registration statement for sale by existing shareholders.

9

The commitment fee of 2,608,699 shares paid to Cornell and the placement agency fee paid to Monitor have been accounted for as a deferred financing fee and will be amortized over the period of the financing, which can be up to twenty-four months from the date the registration statement is declared effective by the Securities and Exchange Commission. The promissory note of \$300,000 issued to Cornell has not been recorded since it is a contingent fee payable upon the completion of certain events described further in Note 5 to the financial statements included in this report.

On June 23, 2004, the Company entered into a private placement and sold 125,000 shares of Series A Preferred Stock for \$125,000 with the holders of the Company's Convertible Debentures. Each share of the Series A Preferred Stock (i) pays a dividend of 5%, payable at the discretion of the Company in cash or common stock, (ii) is convertible immediately after issuance into the number of shares of common stock equal to \$1.00 divided by a conversion price equal to the lesser of 75% of the average closing bid price of the Company's common stock over the twenty trading days preceding conversion or \$0.005, (iii) has a liquidation preference of \$1.00 per share, (iv) must be redeemed by the Company five years after issuance at \$1.00 per share plus accrued and unpaid dividends, (v) may be redeemed by the Company at any time for \$1.30 per share plus accrued and unpaid dividends and (vi) has no voting rights except when mandated by Delaware law.

In the event that the Company had not completed the merger with RWT and RWT had not raised \$500,000 in new capital by August 27, 2004, then each of the holders of the Series A Preferred Stock could elect to convert their shares into (a) a demand note payable by the Company, in the principal amount equal to the purchase price of the Series A Preferred Stock plus accrued and unpaid dividends, with interest at the rate of ten percent (10%) until paid in full and (b) warrants to purchase 2,500,000 shares of the Company's common stock at an exercise price of \$.005 per share, with a term of two (2) years from the date of issuance, and standard anti-dilution provisions regarding stock splits, recapitalizations and mergers, for each \$25,000 of Series A Preferred Stock purchased. Since RWT had not raised \$500,000 by August 27, 2004 the holders of the Series A Preferred Stock could have elected to convert their shares into the demand note but none of the holders elected to do so.

Of the \$125,000 proceeds received from the issuance of the Series A Preferred Stock, \$50,000 was allocated to the beneficial conversion feature embedded in the Series A Preferred Stock on the date of issuance based on a conversion price of \$.005 per share. Of this amount, \$48,300 was the unamortized embedded beneficial feature assumed as part of the reverse merger with Robotic Workspace Technologies, Inc. The beneficial conversion feature is being amortized over five (5) years and accordingly \$3,600 and \$5,000 were amortized through Accumulated Deficit through December 31, 2004 and June 30, 2005, respectively. Additionally, the excess of the aggregate fair value of the common stock to be issued upon conversion over the \$125,000 of proceeds received when the Series A

Edgar Filing: INNOVA HOLDINGS - Form 10QSB/A

Preferred Stock was issued amounted to \$50,000.

10

In September 2004, the Company authorized \$525,000 of Series B Preferred Stock. Each share of Series B Preferred Stock i) pays a dividend of 5%, payable at the discretion of the Company in cash or common stock, (ii) is convertible immediately after issuance into the Company's common stock at the lesser of \$.005 per share or 75% of the average closing bid prices over the 20 trading days immediately preceding the date of conversion (iii) has a liquidation preference of \$1.00 per share, (iv) may be redeemed by the Company at any time up to five years after the issuance date for \$1.30 per share plus accrued and unpaid dividends, (v) ranks junior to the Series A Preferred Stock upon liquidation of the Company and (vi) has no voting rights except when mandated by Delaware law.

At December 31, 2004, approximately \$377,000 of the Series B Preferred Stock had been sold. During the first quarter of 2005, the Company sold \$148,000 of the Series B Preferred Stock, bringing the total sold to \$525,000 as of March 31, 2005 and June 30, 2005; none of the Series B Preferred Stock has been converted into common stock. Of the \$148,000 proceeds received from the issuance of the Series B Preferred Stock, \$141,500 was allocated to the beneficial conversion feature embedded in the Series B Preferred Stock on the date of issuance, based on a conversion price of \$.005 per share. All of the \$141,500 beneficial conversion feature was amortized through Accumulated Deficit on the date of issuance; therefore, all of the beneficial conversion feature was amortized as of June 30, 2005. Additionally, the excess of the aggregate fair value of the common stock to be issued upon conversion over the \$148,000 of proceeds received when the Series B Preferred Stock was issued amounted to \$39,400.

In April 2005, the Company obtained an additional \$150,000 of funds through the private placement sale of 12,000,000 shares of the Company's common stock at \$.0125 per share and in May an additional \$210,000 of funds were obtained through the private placement sale of 7,266,667 shares of the Company's common stock at \$.03 per share. Investors in these shares of the Company's common stock will be given notice in the event that the Company files any registration statement with the Securities and Exchange Commission for its Common Stock (excluding any registration statement on Form S-8 or S-4) and shall be entitled to include any or all of the shares of Common Stock purchased in these investments in such Registration Statement. In August 2005, such Registration Statement was filed with the SEC and all of these investors are listed as selling shareholders.

In 2002, the company entered into convertible debt notes which totaled \$429,966 at December 31, 2003. An additional \$15,000 of the notes were issued during the first quarter of 2004. Terms were 8% per annum. Accrued interest earned during the term was to be paid upon maturity on January 31, 2007. The notes were convertible into Class B Convertible Preferred Stock upon certain future events that did not materialize, including raising \$5 million in additional equity. During the first six months of 2004, notes totaling \$444,966 plus accrued interest were converted into 61,820,488 common shares of Innova Holdings, Inc. The shares were originally converted into RWT common stock at \$.50 a share and then converted into shares of Innova Holdings, Inc. at 61.37929356 to 1, the effective share exchange ratio for the merger between RWT and Innova. Additionally, during the first six months of 2004 16,887,859 shares were issued for services performed for the Company valued at \$137,570 or the equivalent of \$0.008 per share.

During the six months ended June 30, 2005 there were 70,719,259 options granted, 64,658,621 to employees and 6,060,638 to an independent contractor. The share

Edgar Filing: INNOVA HOLDINGS - Form 10QSB/A

purchase options granted to employees vest annually over three years from the date of grant, 30,658,621 options are exercisable at \$0.017 per share, 18,000,000 options are exercisable at \$0.036 per share and 16,000,000 options

11

are exercisable at \$0.023 per share, and they expire ten years after the grant date. The options granted to employees were valued using the intrinsic value method and had no value because the exercise price was equal to the market price on the grant date. The share purchase options granted to the independent contractor vest monthly over five years from the date of grant, are exercisable at \$0.01 per share, and they expire ten years after the grant date. During the period, \$12,871 was recognized as an expense for the fair value of these options granted to the independent contractor.

Additionally, the Company awarded 54,684,016 shares of the Company's common stock to twenty-four (24) employees, independent contractors and individuals for services provided to the Company in 2004 and 2005 valued at \$581,000 or the equivalent of \$0.01 per share. These amounts were fully accrued during 2004 and 2005.

The Board of Directors of the Company approved all of the stock options and shares of the Company's common stock awarded.

Stock Options:

No compensation cost has been recognized for grants under the Company's stock option plans since all grants pursuant to these plans have been made at the then current estimated fair values of the Company's common stock at the grant date. There were 70,719,259 options issued for the six months ended June 30, 2005.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in fiscal 2004 and 2005: zero dividend yield, expected volatility of 80% and 150% in 2004 and 2005, respectively,, risk-free interest rate of 2.75% and expected lives of 10 years.

The following table summarizes stock option activity:

Outstanding, December 31, 2003	14,425,486
Granted	33,962,655
Canceled	--
Exercised	--

Outstanding, December 31, 2004	48,388,141
Granted	70,719,259
Canceled	--
Exercised	--

Outstanding, June 30, 2005	119,107,400
	=====
Weighted-average grant-date fair value of options	\$ 0.015
	=====
Weighted-average remaining years of contractual life	9.2
	=====

NOTE 4 - LINE OF CREDIT

Edgar Filing: INNOVA HOLDINGS - Form 10QSB/A

On July 22, 2002, the Company entered into a revolving line of credit of \$225,000 with Fifth Third Bank, Florida, secured by the assets of the Company. The annual interest rate on unpaid principal was the prime rate plus 2%, due in monthly installments. Principal and interest were due on July 22, 2003. In

12

November 2004, a principal shareholder loaned the Company \$165,000 to pay down the line of credit with Fifth Third Bank. The loan with the principal shareholder has the same terms as the Fifth Third Bank line of credit, except that it remains unsecured until such time as the Fifth Third Bank line of credit is fully paid, including principal and accrued interest, and is due upon demand. In January 2005, the Fifth Third Bank line of credit was paid off.

NOTE 5 - NOTES PAYABLE

On June 14, 2005 the Company entered into a Standby Equity Distribution Agreement discussed in Note 3 above. In connection with this agreement, the Company issued a promissory note to Cornell Capital partner, the major terms of which are as follows:

-the Company shall repay the Promissory Note in three equal principal payments of One Hundred Thousand Dollars (\$100,000) each on the 30th, 60th and 90th days following the date Securities and Exchange Commission declares that a registration statement filed by the Company in connection with the Standby Equity Distribution Agreement is effective.

-this Promissory Note shall not bear interest unless and until there is an event of default.

-at the option of Cornell Capital Partners, all sums advanced under the promissory note shall become immediately due and payable, without notice or demand, upon the occurrence of any one or more of the following events of default: (a) the Company's failure to pay in full any payment of principal within 5 days of the date when such payment of principal becomes due; (b) the commencement of any proceedings under any bankruptcy or insolvency laws, by or against the Company; or (c) the registration statement is not declared effective within one hundred eighty (180) days of the date hereof, unless such failure to obtain effectiveness is solely due to reasons related to the transactions described in the Company's April 29, 2003 8-K.

-any payment of principal which is not paid within 5 days of the date such payment becomes due, shall bear interest at the rate of twelve (12) percent per annum commencing on the date immediately following the day upon which the payment was due. Upon the occurrence of any event of default as defined above, all sums outstanding shall thereupon immediately bear interest at the rate of twelve (12) percent per annum.

The promissory note of \$300,000 issued to Cornell has not been recorded since it is a contingent fee payable upon the completion of events described above.

NOTE 6 - COMMITMENTS

On May 15, 2005 the Company leased 4,000 square feet of space at 15870 Pine Ridge Road, Ft Myers, Florida which will be used as its primary operations. The lease is with Gulf To Bay Construction, Inc., with monthly payments of \$3,533 through June 1, 2010. The lease has five (5) successive renewal options each for a period of two (2) years. The rent will increase annually by 3%. The space is the location of the Company's Research, Design and Engineering center as well as office space for fifteen (15) employees.

Edgar Filing: INNOVA HOLDINGS - Form 10QSB/A

On June 15, 2005 the Company entered into a lease with Bola Industries, LLC for approximately 4,000 square feet of production space located at 30946 Industrial Road, Livonia Michigan. The lease is on a monthly basis and expires on December 31, 2005. The rent is \$3,775 monthly and includes all utilities, use of all equipment on site including certain heavy equipment, and use of internet service.

13

NOTE 7 - SUBSEQUENT EVENTS

In July and August 2005 the Company obtained an additional \$100,000 of funds through the private placement sale of 6,666,667 shares of the Company's common stock at \$0.015 per share. This offering ended on August 8, 2005. Additionally, on July 22, 2005 the Company borrowed \$30,000 and entered into a short term note for that amount, the terms of which are: interest at the annual rate of 5%, due date in six months, and principal and accrued interest are convertible into common stock of the Company at \$.015 per share.

With respect to the sale of these securities, all transactions were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933 (the "1933 Act"), and Regulation D promulgated under the 1933 Act. In each instance, the purchaser had access to sufficient information regarding Innova so as to make an informed investment decision. More specifically, Innova had a reasonable basis to believe that each purchaser was an "accredited investor" as defined in Regulation D of the 1933 Act and otherwise had the requisite sophistication to make an investment in the Company's securities.

14

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BACKGROUND

We were formed in 1992 as a supplier to the information technology business. On January 31, 2003, we completed a reverse acquisition into SRM Networks, an Internet service provider, in which we were deemed the "accounting acquirer". We have discontinued SRM Network's Internet business. In connection with the transaction, SRM Networks, Inc. changed its name to Hy-Tech Technology Group, Inc.

On August 25, 2004, we completed a reverse merger into Robotic Workspace Technologies, Inc. ("RWT"), a robotics software technology provider, in which RWT was deemed the "accounting acquirer." Simultaneously, we sold our Hy-Tech Computer Systems, Inc. subsidiary and discontinued our computer systems sales and services business. In connection with these transactions, Hy-Tech Technology Group, Inc. changed its name to Innova Holdings, Inc.

RESULTS OF OPERATIONS

Three months ended June 30, 2005 compared to three months ended June 30, 2004

During the three month period ended June 30, 2005 (the "2005 Period") revenues were \$0 compared to revenues of \$0 during the three month period ended June 30, 2004 (the "2004 Period").

Edgar Filing: INNOVA HOLDINGS - Form 10QSB/A

Operating expenses were \$348,190 during the 2005 period compared to \$90,177 during the 2004 Period. The increase in operating expenses primarily resulted from the Company's reestablishing its core business after a shutdown period of several years. During the 2005 Period, expenses were incurred for compensation, marketing, and production not incurred during the 2004 Period. Also, the Company has entered into operating leases for operating and administrative space which is described in Note 6 to the financial statements included in this report, and incurred increased professional fees for auditing, accounting, financial and business planning services.

Net loss for the 2005 Period was \$384,963 compared to a net loss of \$117,305 for the 2004 Period, due to the factors described above.

Six months ended June 30, 2005 compared to six months ended June 30, 2004

During the six month period ended June 30, 2005 (the "2005 Period") revenues were \$0 compared to revenues of \$0 during the six month period ended June 30, 2004 (the "2004 Period").

Operating expenses were \$881,722 during the 2005 period compared to \$182,336 during the 2004 Period. As mentioned above, the increase in operating expenses primarily resulted from the Company's reestablishing its core business after a shutdown period of several years. During the 2005 Period, expenses were incurred for compensation, marketing, and production not incurred during the 2004 Period. Additionally, expenses were incurred for financial and business

15

development activities. Also, the Company has entered into operating leases for operating and administrative space which is described in Note 6 to the financial statements included in this report, and incurred increased professional fees for auditing, accounting, financial and business planning services.

Net loss for the 2005 Period was \$942,032 compared to a net loss of \$230,681 for the 2004 Period, due to the factors described above.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2005, we had current assets of \$147,785 and current liabilities of \$2,393,045. At June 30, 2005, we had negative working capital of \$2,245,260 and an accumulated deficit of \$8,529,312.

The reverse merger of RWT discussed above, which closed on August 25, 2004, is indicative of the Company's plan to grow by acquisition and development of leading software and technology solutions. The Company remains in discussion with various financing sources to allow it access to the financing needed to complement the use of its stock in achieving these plans. The Company intends to raise additional working capital through private placements, public offerings and/or bank financing.

In April 2005, the Company obtained an additional \$150,000 of funds through the private placement sale of 12,000,000 shares of the Company's common stock at \$.0125 per share and in May an additional \$210,000 of funds were obtained through the private placement sale of 7,266,667 shares of the Company's common stock at \$.03 per share. Investors in these shares of the Company's common stock will be given notice in the event that the Company files any registration statement with the Securities and Exchange Commission for its Common Stock (excluding any registration statement on Form S-8 or S-4) and shall be entitled to include any or all of the shares of Common Stock purchased in

Edgar Filing: INNOVA HOLDINGS - Form 10QSB/A

these investments in such Registration Statement. The Company filed an SB-2 registration statement in August 2005 for the sale of these securities and additional securities for the Standby Equity Distribution Agreement discussed in Note 3 to the financial statements included in this report totaling 250,000,000 shares, as well as other shares for existing shareholders; in total, 284,364,726 shares have been included in the registration statement for sale over up to a two year period from the date such registration statement is declared effective by the Securities and Exchange Commission.

Additionally, in July and August 2005 the Company obtained an additional \$100,000 of funds through the private placement sale of 6,666,667 shares of the Company's common stock at \$0.015 per share. This offering ended on August 8, 2005. Additionally, on July 22, 2005 the Company borrowed \$30,000 and entered into a short term note for that amount, the terms of which are: interest at the annual rate of 5%, due date in six months, and principal and accrued interest are convertible into common stock of the Company at \$0.015 per share.

There are no assurances that the Company will be able to obtain additional financing through private placement, public offerings and/or bank financing necessary to support the Company's plan. No assurance can be given that financing will be available, or if available, will be on terms acceptable to the Company. If adequate financing is not available, the Company may be required to curtail its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial

16

statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

We cannot guarantee that additional funding will be available on favorable terms, if at all. If we are unable to obtain debt and/or equity financing upon terms that our management deems sufficiently favorable, or at all, it would have a materially adverse impact upon our ability to pursue our business strategy and maintain our current operations.

17

ITEM 3. CONTROLS AND PROCEDURES

As of June 30, 2005, our principal executive officer and principal financial officer evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. This evaluation of the disclosure controls and procedures included controls and procedures designed to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Act is recorded, processed, summarized and reported within the time periods specified in the Security and Exchange Commission's rules and forms. Such disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers to allow timely decisions regarding required disclosure. Based on this evaluation, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures

Edgar Filing: INNOVA HOLDINGS - Form 10QSB/A

were ineffective because the Company had not properly accounted for certain beneficial conversion features associated with its Series A Preferred Stock and Series B Preferred Stock issued in 2004 and 2005 and the accounting guidance provided by Emerging Issues Task Force Issue Numbers 98-5 and 00-27. Management concluded that the failure to properly account for and disclose the beneficial conversion features was a material weakness in its disclosure controls and procedures.

The Company issued its Series A Preferred Stock in June 2004 and its Series B Preferred Stock in September 2004 through March 2005. In its financial statements for the year ended December 31, 2004 and the quarter ended March 31, 2005, the Company did not allocate any portion of the proceeds of these stock issuances to any beneficial conversion features of the preferred stock. After filing its quarterly report for the quarter ended March 31, 2005 on Form 10-QSB, the Company received a comment letter from the staff of the Securities and Exchange Commission dated June 22, 2005 that requested, among other things, confirmation that management of the Company considered the guidance of certain accounting pronouncements in determining whether a portion of the proceeds of the Company's Series A Preferred Stock issued in June 2004 and Series B Preferred Stock issued in September 2004 through March 2005 should be allocated to the beneficial conversion features. After receipt of the SEC's comment letter, the Company reevaluated its disclosure controls and procedures and its internal controls over financial reporting and presented to the Company's independent certified public accountants its plan to institute remedial actions to address this material weakness in its disclosure controls and procedures for the issuance of convertible securities and any associated beneficial conversion features and the accounting guidance provided by Emerging Issues Task Force Issue Numbers 98-5 and 00-27. The remedial actions implemented during the three months ended June 30, 2005 were the following:

18

-the Company hired a new Chief Financial Officer effective June 14, 2005 who has reviewed the Company's disclosure controls and procedures regarding the issuance of convertible securities and any associated beneficial conversion features and the accounting guidance provided by Emerging Issues Task Force Issue Numbers 98-5 and 00-27 and has implemented a special review and analysis process prior to the execution of legal agreements for all planned issuances of convertible securities to determine the amount of any beneficial conversion features, their related accounting treatment and disclosure requirements. These remedial actions were implemented by June 30, 2005.

-the Company's accounting policies and checklists relating to the selection and application of appropriate accounting policies now includes, as of June 30, 2005, an item requiring the consideration of whether or not convertible securities issuances include a beneficial conversion feature and, if so, to describe the method of accounting for this feature, as well as the method of calculating the amount of the beneficial conversion feature.

Other actions underway to identify any other material weakness or significant deficiency, if any, include the following:

-The Chief Financial Officer is in the process of reviewing all of the Company's other disclosure controls and procedures, as well as all accounting policies and procedures and internal controls, and appropriate changes will be made to correct any material weaknesses or significant deficiencies identified by October 31, 2005;

-the Company is in the process of selecting a consulting firm it will retain to assist in the implementation of Section 404 compliance with the Sarbanes-Oxley Act, which we expect to implement in 2006;

Edgar Filing: INNOVA HOLDINGS - Form 10QSB/A

Additionally, the Company is in the process of attempting to diversify the composition of the Board of Directors and is planning to set up an audit committee and a compensation committee of the Board of Directors by the end of 2005.

The remedial actions to correct the material weakness associated with the disclosure controls and procedures for beneficial conversion features were implemented as of June 30, 2005. There were no changes in addition to these remedial measures discussed above that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting. We anticipate completion of all other actions by December 31, 2005, except for 404 compliance which we expect to have fully implemented in 2006. There are no additional material costs expected to be incurred as a result of the implementation of these remedial actions, since all of these actions were previously planned by the Company for implementation in 2005 and 2006 or were insignificant in amount.

19

During the three months ended June 30, 2005, management also concluded that it was necessary to restate the Company's financial statements for the year ended December 31, 2004 and the quarter ended March 31, 2005 included in its Report on Form 10-QSB/A to properly account for the beneficial conversion features associated with its Series A Preferred Stock and its Series B Preferred Stock issued in 2004 and 2005 and the accounting guidance provided by Emerging Issues Task Force Issue Numbers 98-5 and 00-27. This resulted in a change made to the Company's financial statements. Specifically, management calculated the value of the beneficial conversion features and determined it was \$50,000 for the Series A Preferred Stock at the date of issuance. Of this amount, \$48,300 was the amount of the unamortized embedded beneficial feature assumed as part of the reverse merger with Robotic Workspace Technologies, Inc. in August 2004. The beneficial conversion feature is being amortized over five (5) years and accordingly \$3,600 was amortized through Accumulated Deficit through December 31, 2004 and \$2,500 was amortized to Accumulated Deficit during the three months ended March 31, 2005 and \$2,500 was amortized to Accumulated Deficit for the three months ended June 30, 2005. Management also determined that of the \$148,000 proceeds received from the issuance of the Series B Preferred Stock during the quarter ended March 31, 2005, \$141,500 was allocated to the beneficial conversion feature embedded in the Series B Preferred Stock on the date of issuance, based on a conversion price of \$.005 per share. All of the \$141,500 beneficial conversion feature was amortized through Accumulated Deficit on the date of issuance; therefore, all of the beneficial conversion feature was amortized as of March 31, 2005. Additionally, the excess of the aggregate fair value of the common stock to be issued upon conversion over the \$148,000 of proceeds received when the Series B Preferred Stock was issued amounted to \$39,400.

In accordance with the Exchange Act, the Company carried out an evaluation under the supervision and with the participation of management, including its principal executive officer and principal financial officer, of the effectiveness of its internal controls over financial reporting as of June 30, 2005 and the Company's principal executive officer and principal financial officer concluded that the Company's internal controls over financial reporting were ineffective because the Company had not properly accounted for certain beneficial conversion features associated with its Series A Preferred Stock and Series B Preferred Stock issued in 2004 and 2005 and the accounting guidance provided by Emerging Issues Task Force Issue Numbers 98-5 and 00-27, as discussed above. Management concluded that the failure to properly account for and disclose the beneficial conversion features was a material weakness in its

Edgar Filing: INNOVA HOLDINGS - Form 10QSB/A

internal controls over financial reporting.

As stated above, the Company received a comment letter from the staff of the Securities and Exchange Commission dated June 22, 2005 that requested, among other things, confirmation that management of the Company considered the guidance of certain accounting pronouncements in determining whether a portion of the proceeds of the Company's Series A Preferred Stock issued in June 2004 and Series B Preferred Stock issued in September 2004 through March 2005 should be allocated to the beneficial conversion feature. After receipt of the SEC's comment letter, the Company reevaluated its internal controls over financial reporting and presented to the Company's independent certified public accountants its plan to institute remedial actions to address this material weakness in its internal control over financial reporting for the issuance of convertible securities and any associated beneficial conversion features and the accounting guidance provided by Emerging Issues Task Force Issue Numbers 98-5 and 00-27. The remedial actions and changes in internal controls over financial reporting that have materially affected the Company's internal controls over financial reporting and that were implemented during the three months ended June 30, 2005 were the following:

20

-the Company hired a new Chief Financial Officer effective June 14, 2005 who has reviewed the Company's internal controls over financial reporting regarding the issuance of convertible securities and any associated beneficial conversion features and the accounting guidance provided by Emerging Issues Task Force Issue Numbers 98-5 and 00-27 and has implemented a special review and analysis process prior to the execution of legal agreements for all planned issuances of convertible securities to determine their related accounting treatment and disclosure requirements. These remedial actions were implemented by June 30, 2005.

-the Company's accounting policies and checklists relating to the selection and application of appropriate accounting policies now includes, as of June 30, 2005, an item requiring the consideration of whether or not convertible securities issuances include a beneficial conversion feature and, if so, to describe the method of accounting for this feature, as well as the method of calculating the amount of the beneficial conversion feature;

Other actions underway to identify any other material weakness or significant deficiency, if any, include the following:

-the Chief Financial Officer is in the process of reviewing all of the Company's other internal controls over financial reporting, as well as all accounting policies and procedures and internal controls, and appropriate changes will be made to correct any material weaknesses or significant deficiencies identified by October 31, 2005.

-the Company is in the process of selecting a consulting firm it will retain to assist in the implementation of Section 404 compliance with the Sarbanes-Oxley Act, which we expect to implement fully in 2006;

Additionally, the Company is in the process of attempting to diversify the composition of the Board of Directors and is planning to set up an audit committee and a compensation committee of the Board of Directors by the end of 2005.

The remedial actions to correct the material weakness associated with the internal controls over financial reporting for beneficial conversion features were implemented as of June 30, 2005. There were no changes in addition to these remedial measures discussed above that materially affected or are reasonably

Edgar Filing: INNOVA HOLDINGS - Form 10QSB/A

likely to materially affect the Company's internal control over financial reporting. We anticipate completion of all other actions by December 31, 2005, except for 404 compliance which we expect to have fully implemented in 2006. There are no additional material costs expected to be incurred as a result of the implementation of these remedial actions, since all of these actions were previously planned by the Company for implementation in 2005 and 2006 or were insignificant in amount.

21

PART II - OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES

In April 2005, the Company obtained an additional \$150,000 of funds through the private placement sale of 12,000,000 shares of the Company's common stock at \$.0125 per share and in May and June an additional \$218,000 of funds were obtained through the private placement sale of 7,266,667 shares of the Company's common stock at \$.03 per share. These private placements were exempt from registration under the Securities Act of 1933, as amended, pursuant to section 4(2) and rule 506 thereunder. Investors in these shares of the Company's common stock will be given notice in the event that the Company files any registration statement with the Securities and Exchange Commission for its Common Stock (excluding any registration statement on Form S-8 or S-4) and shall be entitled to include any or all of the shares of Common Stock purchased in these private placements in such Registration Statement.

In July and August 2005 the Company obtained an additional \$100,000 of funds through the private placement sale of 6,666,667 shares of the Company's common stock at \$0.015 per share. This offering ended on August 8, 2005. Additionally, on July 22, 2005 the Company borrowed \$30,000 and entered into a short term note for that amount, the terms of which are: interest at the annual rate of 5%, due date in six months, and principal and accrued interest are convertible into common stock of the Company at \$0.015 per share.

With respect to the sale of these securities, all transactions were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933 (the "1933 Act"), and Regulation D promulgated under the 1933 Act. In each instance, the purchaser had access to sufficient information regarding Innova so as to make an informed investment decision. More specifically, Innova had a reasonable basis to believe that each purchaser was an "accredited investor" as defined in Regulation D of the 1933 Act and otherwise had the requisite sophistication to make an investment in the Company's securities.

22

ITEM 6. EXHIBITS

(a) Exhibits

- 31.1 Rule 13(a)-14(a)/15(d)-14(a) Certification of Principal Executive Officer
- 31.2 Rule 13(a)-14(a)/15(d)-14(a) Certification of Principal Financial Officer
- 32.1 Section 1350 Certification of Chief Executive Officer
- 32.2 Section 1350 Certification of Chief Financial Officer

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

Innova Holdings, Inc.

Dated: November 21, 2005

By: /s/ Walter Weisel

Walter Weisel
Chief Executive Officer