

Innova Robotics & Automation, Inc.
Form 10QSB
November 15, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D. C. 20549

FORM 10-QSB

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934** for the quarterly period ended September 30, 2007.

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934** for the transition period from _____ to _____.

Commission file number: 000-33231

INNOVA ROBOTICS & AUTOMATION, INC.
(Name of Small Business Issuer in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

95-4868120
(IRS Employer Identification No.)

15870 Pine Ridge Road, Fort Myers, Florida 33908
(Address of principal executive offices)

(239) 466-0488
(Issuer's telephone number)

Check whether 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 such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS**

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court: Yes No

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of November 12, 2007 the issuer had 117,549,718 shares of common stock, \$.001 par value, issued and outstanding.

Transitional Small Business Issuer Format (Check One): Yes No

INNOVA ROBOTICS & AUTOMATION, INC.
September 30, 2007 QUARTERLY REPORT ON FORM 10-QSB

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FORWARD-LOOKING STATEMENTS

Statements that are not historical facts, including statements about our prospects and strategies and our expectations about growth contained in this report, are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements represent our present expectations or beliefs concerning future events. We caution that such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, the uncertainty as to our future profitability; the accuracy of our performance projections; and our ability to obtain financing on acceptable terms to finance our operations until we become profitable.

INNOVA ROBOTICS & AUTOMATION, INC.
CONSOLIDATED BALANCE SHEET
September 30, 2007
(Unaudited)

ASSETS

Current assets:

Cash and cash equivalents	\$	70,553
Accounts receivable, net		101,837
Other current assets		26,555
Total current assets		198,945
Property and equipment, net		37,692
Intangible assets, net		433,771
Deferred finance costs, net		209,259
Note receivable		100,000
Assets held for sale		32,643
Other assets		63,073
Total assets	\$	1,075,383

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:

Accounts payable	\$	1,061,220
Accrued expenses		717,429
Accrued expenses, related parties		470,536
Notes payable		275,500
Notes payable, related parties		383,500
Deferred revenue		233,603
Dividend payable		19,184
Redeemable preferred stock, \$.001 par value, 10,000,000 shares authorized, 184,666 shares issued and outstanding		230,832
Derivative liability		532,319
Total current liabilities		3,924,123

Long-term obligations:

Convertible debt, net of discount	224,340
Long-term debt	989,100
Total liabilities	5,137,563

Commitments

-

Stockholders' deficit:

Common stock, \$.001 par value, 900,000,000 shares authorized, 96,378,801 shares issued and outstanding	96,379
Additional paid-in capital	12,576,819
Accumulated deficit	(16,699,678)
Treasury stock	(35,700)
Total stockholders' deficit	(4,062,180)

Total liabilities and stockholders' deficit	\$	1,075,383
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The accompanying notes are an integral part of these consolidated financial statements.

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INNOVA ROBOTICS & AUTOMATION, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Three and Nine Months Ended September 30, 2007 and 2006
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenues	\$ 1,056,456	\$ 255,717	\$ 2,901,631	\$ 610,500
Cost of revenues	921,486	238,204	2,280,791	497,913
Gross profit	134,970	17,513	620,840	112,587
Operating expenses:				
Selling, general and administration	651,447	1,036,034	2,126,249	2,021,396
Outside services	220,132	131,036	1,003,682	244,420
Legal fees	58,222	53,332	1,064,818	124,673
Professional fees	35,946	74,052	222,969	139,674
Research and development	-	-	-	-
Depreciation and amortization	71,686	80,289	189,061	80,369
Total operating expenses	1,037,433	1,374,743	4,606,779	2,610,532
Loss from operations	(902,463)	(1,357,230)	(3,985,939)	(2,497,945)
Other income (expense):				
Interest income	2,403	-	16,071	-
Interest expense	(106,193)	(138,599)	(332,839)	(269,898)
Derivative income (loss)	1,564,535	(766,290)	2,218,970	(907,482)
Loss on extinguishment of debt	(332,240)	(289,013)	(1,385,343)	(289,013)
Other income	-	59,794	2,925,000	87,819
Net income (loss) from continuing operations	226,042	(2,491,338)	(544,080)	(3,876,519)
Loss from discontinued operations	(593,656)	(486,150)	(1,040,395)	(1,410,739)
Net loss	\$ (367,614)	\$ (2,977,488)	\$ (1,584,475)	\$ (5,287,258)
Net loss per share:				
Basic and diluted - continuing operations	\$ 0.00	\$ (0.03)	\$ (0.01)	\$ (0.06)
Basic and diluted - discontinued operations	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.02)
Weighted average shares outstanding				
Basic and diluted	91,745,639	77,404,860	89,544,612	69,365,307

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

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INNOVA ROBOTICS & AUTOMATION, INC.
STATEMENTS OF CASH FLOWS
Nine Months Ended September 30, 2007 and 2006
(Unaudited)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (1,584,475)	\$ (5,287,258)
Adjustments to reconcile net loss to cash flows from operating activities:		
Derivative (income) loss	(2,218,969)	907,482
Loss on extinguishment of debt	1,385,305	289,013
Common stock issued for services	485,428	401,297
Impairment loss	333,890	-
Stock option expense	319,995	662,016
Depreciation and amortization	235,251	100,471
Amortization of debt discount	144,859	82,909
Amortization of deferred financing costs	88,043	15,228
Imputed interest	5,445	-
Changes in operating assets and liabilities:		
Accounts receivable	(27,539)	1,478
Inventory	(356,063)	(31,698)
Other assets	(80,846)	(15,259)
Accounts payable	25,430	(141,975)
Accrued expenses	560,072	(275,566)
Deferred revenue	233,603	-
NET CASH FLOWS FROM OPERATING ACTIVITIES	(450,571)	(3,291,862)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(61,470)	(48,664)
Acquisition of CoroWare's assets, net of liabilities assumed and amounts owed	-	(2,422)
Sale of Altronics, net of cash returned, liabilities assumed and note receivable from purchaser	107,527	-
Acquisition of Altronics' assets, net of cash acquired	(143,671)	-
NET CASH FLOWS FROM INVESTING ACTIVITIES	(97,614)	(51,086)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of common stock	-	2,398,239
Proceeds from convertible debt financing	-	1,561,857
Payments of notes payable	(90,524)	(376,000)
Proceeds from notes payable	124,913	118,000
NET CASH FLOWS FROM FINANCING ACTIVITIES	34,389	3,702,096
NET INCREASE IN CASH	(513,796)	359,148
Cash and cash equivalents, beginning of period	584,349	6,786
Cash and cash equivalents, end of period	\$ 70,553	\$ 365,934

INNOVA ROBOTICS & AUTOMATION, INC.
STATEMENTS OF CASH FLOWS (Continued)
Nine Months Ended September 30, 2007 and 2006
(Unaudited)

	2007	2006
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 48,683	\$ 57,648
Income taxes paid	\$ -	\$ -
NON CASH INVESTING AND FINANCING ACTIVITIES		
Conversion of Series B preferred stock and preferred stock dividends to common stock	\$ 9,933	\$ -
Stock issued for purchase of software	\$ 42,500	\$ -
Stock issued for acquisition of Altronics	\$ 35,700	\$ -
Stock issued for redemption of convertible debenture	\$ 1,617,694	\$ -
Note payable forgiven in sale of Altronics' assets	\$ 100,000	\$ -
Treasury stock assumed in sale of Altronics' assets	\$ 35,700	\$ -
Common stock issued to pay accrued liabilities	\$ -	\$ 535,105
Amortization of deferred financing costs	\$ -	\$ 99,315
Conversion of Series A preferred stock	\$ -	\$ 58,840
Stock issued in satisfaction of note payable	\$ -	\$ 80,000

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

INNOVA ROBOTICS & AUTOMATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements of Innova Robotics & Automation, 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 2006 annual report filed with the SEC on Form 10-KSB and prior reports for 2007. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Robotic Workspace Technologies, Inc. ("RWT"), Innova Robotics, Inc. ("IR"), CoroWare Technologies, Inc. ("CoroWare") and Altronics Service, Inc. ("Altronics") (herein are referred to as the "Subsidiaries"). 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 disclosures contained in the audited financial statements for the most recent fiscal year ended December 31, 2006 as reported in form 10-KSB have been omitted.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*Investments in equity securities:*

The Company accounts for its investment in common stock of a private company at historical cost. Management believes that historical cost represents the fair value of the common stock. The investment is included in other assets in the accompanying financial statements.

Financial Instruments:

Financial instruments, as defined in Financial Accounting Standard No. 107 Disclosures about Fair Value of Financial Instruments (FAS 107), consist of cash, accounts receivable, accounts payable, accrued expenses, notes payable, derivative financial instruments, and convertible debt.

We carry cash, accounts receivable, accounts payable, and accrued liabilities at historical costs; their respective estimated fair values approximate carrying values due to their current nature. We also carry notes payable and convertible debt; however, fair values of debt instruments are estimated for disclosure purposes (below) based upon the present value of the estimated cash flows at market interest rates applicable to similar instruments.

As of September 30, 2007, estimated fair values and respective carrying values of our notes payable and long-term debt are as follows:

Instrument	Note	Fair Value	Carrying Value
Note payable - merger	5(a)	\$ 230,000	\$ 230,000
Note payable - principal shareholder	5(b)	\$ 165,000	\$ 165,000
Notes payable - shareholders	5(c)	\$ 141,000	\$ 141,000
Note payable - Viejo Coro	5(d)	\$ 50,000	\$ 50,000
Note payable - third party	5(e)	\$ 45,000	\$ 45,000
Other notes payable	5(f)	\$ 28,000	\$ 28,000
Long-term debt	6	\$ 989,100	\$ 989,100

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Derivative financial instruments, as defined in Financial Accounting Standard No. 133, Accounting for Derivative Financial Instruments and Hedging Activities (FAS 133), consist of financial instruments or other contracts that contain a notional amount and one or more underlying (e.g. interest rate, security price or other variable), require no initial net investment and permit net settlement. The caption Derivative Liability consists of (i) the fair values associated with derivative features embedded in the Cornell Capital Partners, L.P. (“Cornell”) financings, (ii) the fair values of the detachable warrants that were issued in connection with those financing arrangements, and (iii) the fair value of derivative features associated with the preferred stock financing. In addition, this caption includes the fair values of other pre-existing derivative financial instruments that were reclassified from stockholders’ equity when net-share settlement was no longer within the Company’s control (see Note 9).

We generally do not use derivative financial instruments to hedge exposures to cash-flow, market or foreign-currency risks. However, we have entered into certain other financial instruments and contracts, such as debt financing arrangements and freestanding warrants with features that are either (i) not afforded equity classification, (ii) embody risks not clearly and closely related to host contracts, or (iii) may be net-cash settled by the counterparty. As required by FAS 133, these instruments are required to be carried as derivative liabilities, at fair value, in our financial statements.

The following table illustrates the components of derivative liabilities at September 30, 2007:

	Note	Compound derivative	Warrant liability	Total
\$2,825,000 financing	7,9	\$ 221,237	\$ 311,082	\$ 532,319
Redeemable preferred stock	9	230,832	-	230,832
			\$	763,151

We estimate fair values of derivative financial instruments using various techniques (and combinations thereof) that are considered to be consistent with the objective of measuring fair values. In selecting the appropriate technique, we consider, among other factors, the nature of the instrument, the market risks that it embodies and the expected means of settlement. For less complex derivative instruments, such as free-standing warrants, we generally use the Black-Scholes-Merton option valuation technique because it embodies all of the requisite assumptions (including trading volatility, estimated terms and risk free rates) necessary to fair value these instruments. For complex derivative instruments, such as embedded conversion options, we generally use the Flexible Monte Carlo valuation technique because it embodies all of the requisite assumptions (including credit risk, interest-rate risk and exercise/conversion behaviors) that are necessary to fair value these more complex instruments. Estimating fair values of derivative financial instruments requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. In addition, option-based techniques are highly volatile and sensitive to changes in the trading market price of our common stock, which has a high-historical volatility. Since derivative financial instruments are initially and subsequently carried at fair values, our income will reflect the volatility in these estimate and assumption changes.

The following table summarizes the number of common shares indexed to the derivative financial instruments as of September 30, 2007:

	Note	Conversion Features	Warrants	Total
Financing or other contractual arrangement:				
\$2,825,000 financing	7	10,854,910	16,267,852	27,122,762
Redeemable preferred stock	9	7,694,417	-	7,694,417
				34,817,179

Share-based payments:

Effective January 1, 2005, we adopted the fair value recognition provisions of Financial Accounting Standards No. 123 Accounting for Stock-Based compensation. Effective January 1, 2006, we adopted Financial Accounting Standards No. 123(R), Share-Based Payments (FAS123R). Under the fair value method, we recognize compensation expense for all share-based payments granted after January 1, 2005, as well as all share-based payments granted prior to, but not yet vested, as of January 1, 2005, in accordance with SFAS No. 123. Under the fair value recognition provisions of FAS 123(R), we recognize share-based compensation expense, net of an estimated forfeiture rate, over the requisite service period of the award. Prior to the adoption of FAS 123 and FAS 123(R), the Company accounted for share-based payments under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and the disclosure provisions of SFAS No. 123. For further information regarding the adoption of SFAS No. 123(R), see Note 8 to the consolidated financial statements.

Use of Estimates:

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

- estimating future bad debts on accounts receivable that are carried at net realizable values;
- estimating the fair value of our financial instruments that are required to be carried at fair value;
- estimating the recoverability of our long-lived assets; and
- estimating the fair value of intangible assets acquired in a business combination.

We use all available information and appropriate techniques to develop our estimates. However, actual results could differ from our estimates.

NOTE 3 - PURCHASE OF BUSINESS

On March 16, 2007, Robotics Workspace Technologies, Inc. (“RWT”), a wholly owned subsidiary of Innova Robotics and Automation, Inc. (the “Company”), completed the purchase of all of the issued and outstanding shares of common stock of Altronics Service, Inc. (“Altronics”) pursuant to a certain Stock Purchase Agreement dated as of March 16, 2007 (the “Agreement”) which RWT entered into with Alfred Fleming and Andrea Fleming (the “Sellers”), being all of the shareholders of Altronics. We made this acquisition in order to engage Altronics’ principal employees and to benefit from Altronics’ strategic business relationships.

Under the terms of the Agreement, RWT purchased, and the Sellers sold, an aggregate of 280 shares of common stock of Altronics, representing all of the issued and outstanding shares of Altronics (the “Shares”) for an aggregate purchase price of \$285,700 (the “Purchase Price”), paid or to be paid by the Company as follows: (i) \$150,000 was paid on March 16, 2007 (the “Closing Date”); (ii) \$100,000 shall be paid in two installments, the first installment of \$50,000 within 180 days after the Closing Date, and the second installment within one year after the Closing Date, which was evidenced in the form of a \$100,000 Promissory Note issued by the Company to the Sellers on the Closing Date; and (iii) \$35,700 in restricted shares of common stock of the Company at a per share price equal to \$0.1428 (250,000 shares), which was delivered to the Sellers on the Closing Date and vest as follows, provided that Alfred Fleming is an employee of Altronics at each vesting date: (x) 100,000 shares on the first anniversary of the Closing Date; (y)

100,000 shares on the second anniversary of the Closing Date; and (z) 50,000 shares on the third anniversary of the Closing Date.

The Company claims an exemption from the registration requirements of the Securities Act of 1933, as amended (the “Act”), for the issuance of the securities pursuant to Section 4(2) of the Act and/or Regulation D promulgated thereunder since, among other things, the transaction did not involve a public offering, the Sellers are accredited investors, they had access to information about the Company, the Sellers took the securities for investment and not resale, and the Company took appropriate measures to restrict the transfer of the securities.

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In addition, on March 16, 2007, Altronics entered into an Employment Agreement (the "Employment Agreement") with Alfred Fleming under which the Company will employ Mr. Fleming as a Vice President for a period of three years commencing March 16, 2007 and ending on March 15, 2010 which will be automatically renewed for successive one year periods until 30 days prior written notice not to renew is delivered by either the Company or Mr. Fleming. Mr. Fleming will be paid a monthly salary of \$6,250, or \$75,000 per annum, and shall be issued stock options in accordance with the Company's executive level option schedule, which will vest over the three year term of the Employment Agreement. Further, Mr. Fleming may be eligible for Altronics' employee bonus program, to be determined by the Board of Directors of Altronics based on meeting performance objectives and bonus criteria. During the term of his employment and for a period thereafter, Mr. Fleming will be subject to confidentiality and non-competition provisions, subject to standard exceptions.

The purchase price for Altronics amounted to \$285,700. The purchase of Altronics was accounted for as a purchase business combination, where the fair value of the purchase consideration was allocated to the assets acquired and liabilities assumed based upon fair values. In connection with the allocation, the fair values of assets acquired and liabilities assumed exceeded the purchase price by \$182,508. As a result, long-lived tangible and intangible assets acquired were reduced for this amount, which was allocated on a relative fair value basis. The operating results of the acquired business will be included in results of the Company as of March 1, 2007.

The following table summarizes the components of the purchase price allocation:

	Purchase Allocation	Fair Values
Current assets	\$ 252,754	\$ 252,754
Long-lived assets:		
Acquired customer lists (a)	126,492	300,000
Employment contracts (b)	60,000	69,000
Fixed assets	52,246	52,246
Accounts payable and accrued liabilities	(205,792)	(205,792)
	\$ 285,700	\$ 468,208
Purchase price:		
Cash	\$ 150,000	
Note payable	100,000	
Common stock	35,700	
	\$ 285,700	

Notes:

(a) Customer lists are estimated to have an economic life of three years. The Company will amortize this acquired intangible asset using the straight-line method over the estimated life.

(b) Acquired employment contracts with key members of former Altronics management have terms of three years and embody significant restrictive covenants and non-competition agreements. The fair value of these intangible assets will be amortized over the contractual term of three years using the straight-line method.

The determination of the consideration to be paid in the transaction was determined in arms length negotiations between the Boards of Directors of the Company and Altronics. The negotiations took into account the value of the assets sold to the Company and the consideration paid. At the time of the transaction, there were no material relationships between Altronics and the Company, or any of its affiliates, any director or officer of the Company, or

any associate of any such officer or director.

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NOTE 4 - DISCONTINUED OPERATIONS*RWT's Universal Robot Controller:*

During the third quarter of 2007, the Company made the decision to discontinue production of the Universal Robot Controller due to a change in focus of the core business of the Company. In accordance with FAS 144, "Accounting for the Impairment or Disposal of Long-lived Assets", the assets associated with this discontinued operation have been reclassified to assets held for sale on the face of the accompanying consolidated balance sheet. The assets consist of machinery and equipment of \$22,643 and inventory of \$10,000. Management is in the process of negotiating the sale of these assets.

Discontinued operations includes the following:

	For the 3 months ending September 30,		For the 9 months ending September 30,	
	2007	2006	2007	2006
Impairment loss	\$ (333,890)	\$ -	\$ (333,890)	\$ -
Accrued exit costs	(55,697)	-	(55,697)	-
Loss on operations	(10,491)	(486,150)	(377,959)	(1,410,739)
	\$ (400,078)	\$ (486,150)	\$ (767,546)	\$ (1,410,739)

Revenues and pre-tax losses attributable to discontinued operations are as follows:

	For the 3 months ending September 30,		For the 9 months ending September 30,	
	2007	2006	2007	2006
Revenues	\$ -	\$ 68,303	\$ 16,520	\$ 239,991
Pre-tax losses	\$ (66,188)	\$ (486,150)	\$ (433,656)	\$ (1,410,739)

At September 30, 2007 the Company accrued \$55,697 of exit costs. Included in the cost is the present value of its remaining office lease obligation totaling \$40,697 and \$15,000 severance pay to an employee. Management does not anticipate incurring any additional exit cost in the future.

Altronics Services, Inc.:

During the third quarter of 2007, the Company made the decision to sell the assets of Altronics back to the original owner because the Company changed its focus in its core business and the Altronics operations no longer fit with the future business plans. On September 28, 2007, the Company and its subsidiaries entered into an Asset Purchase Agreement with Alfred Fleming and The Transaction Acquisition Company LLC ("TAC" and collectively with Mr. Fleming, the "Purchaser") pursuant to which the Purchaser agreed to purchase substantially all of the assets of Altronics. The purchase price paid to the Company was \$100,000 in the form of a promissory note due 35 days from closing (which was received by the Company in October 2007), the assumption of approximately \$365,000 in liabilities, the assignment of a note to the Seller in the amount of \$100,000 that was initially issued to the Purchaser upon the Company acquiring Altronics, and the return of 250,000 shares of common stock of the Company by the Purchaser. The Note is secured by all of the membership interest in TAC. The closing of the sale of the Assets occurred on September 28, 2007. Since the closing occurred prior to the end of the quarter, there were no assets transferred to held for sale in association with this sale.

The components of the loss on disposal are as follows:

Assets sold to Purchaser:	
Cash	\$ 2,865
Accounts receivable	52,546
Inventory	440,914
Machinery and equipment, net	49,230
Intangible assets, net	165,768
Liabilities assumed by Purchaser	(365,231)
Note receivable issued by Purchaser	(100,000)
Note payable assigned to Purchaser	(100,000)
Innova common stock returned by Purchaser	(35,700)
	\$ 110,392

Discontinued operations includes the following:

	For the 3 months ending September 30,		For the 9 months ending September 30,	
	2007	2006	2007	2006
Loss on disposal	\$ (110,392)	\$ -	\$ (110,392)	\$ -
Loss on operations	(83,186)	-	(162,457)	-
	\$ (193,578)	\$ -	\$ (272,849)	\$ -

Revenues and pre-tax losses reclassified to discontinued operations on the accompanying statement of operations are as follows:

	For the 3 months ending September 30,		For the 9 months ending September 30,	
	2007	2006	2007	2006
Revenues	\$ 71,088	\$ -	\$ 168,880	\$ -
Pre-tax losses	\$ (83,186)	\$ -	\$ (162,457)	\$ -

NOTE 5 - NOTES PAYABLE

Notes payable consist of the following at September 30, 2007:

	Note	Related Parties	Other
Note payable - merger	5(a)	\$ -	\$ 230,000
Note payable - principal shareholder	5(b)	165,000	-
Notes payable - shareholders	5(c)	141,000	-
Note payable - Viejo Coro	5(d)	50,000	-
Note payable - third party	5(e)	-	45,000
Other notes payable	5(f)	27,500	500
		\$ 383,500	\$ 275,500

(a) Note payable - merger:

In February 2003, the Company issued \$230,000 of notes payable, the terms of which were subsequently modified in July 2003. The notes earn interest at 8% per annum unless they are in default, in which case they earn default interest

at a rate of 15%; the notes are currently in default. Additionally, the notes had warrants attached to purchase 11,500 shares of common stock at \$15.00 per share and were exercisable through February 12, 2005. None of these warrants were exercised prior to their expiration.

(b) Note payable - principal shareholder:

In November 2004, a principal shareholder loaned the Company \$165,000 to pay down the line of credit with Fifth Third Bank. The note earns interest at 6.75% per annum; principal and interest are due on demand. The note is secured by all of the assets of RWT.

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(c) Notes payable - shareholders:

During September through December 2005, the Company entered into short-term debt obligations other than in the ordinary course of business totaling \$257,000. All of this short-term debt bears interest at the rate of 10% per annum and is due between ninety and one hundred twenty days. All of the lenders are shareholders of the Company. All lenders agreed to extend the due date to December 31, 2007. As of September 30, 2007, \$116,000 of these notes had been repaid.

(d) Note payable - Viejo Coro:

In accordance with the terms of the Asset Purchase Agreement (“Agreement”) with CoroWare, Inc. the Company has recognized a promissory note of \$50,000, without interest, due to Viejo Coro and payable in installments of \$10,000 per month beginning November 2006. This note is part of the \$100,000 cash payment guaranteed under the terms of the Agreement; \$30,000 was paid at the closing of the transaction on May 16, 2006 and \$20,000 was paid in July 2006. No payments have been made since July 2006 and the note is currently in default. The Company has imputed interest on this note at 10% per annum. Imputed interest at September 30, 2007 was \$3,750.

(e) Notes payable - third party:

Note payable to a third party bearing interest at 5%; payable in 9 monthly installments of \$5,000; maturing March 2008. This note was used in conjunction with the purchase of 250,000 shares of common stock in a private company being held as an investment and included in other assets. The note holder has a security interest in the stock purchased. The note is currently in default and is accruing default interest at 18% (\$2,025 through September 30, 2007).

(f) Other note payable:

Other note payable is comprised of two notes that bear interest at rates ranging from 5-10%. The related party note matured December 31, 2006. The lender agreed to extend the due date to December 31, 2007

NOTE 6 - LONG-TERM DEBT

On April 17, 2002, RWT borrowed \$989,100 under a note agreement with the Small Business Administration. The note bears interest at 4% and is secured by the equipment and machinery assets of RWT and by the personal residence and other assets of the Company's Chairman and previous CEO, a principal shareholder and founder of RWT. The balance outstanding at September 30, 2007 was \$989,100. The note calls for monthly installments of principal and interest of \$4,813 beginning September 17, 2002 and continuing until April 17, 2032. The company is currently in arrears on the interest payments and has received payment deferments from the Small Business Administration. During the nine months ended September 30, 2007 all payments were being applied to accrued interest. Accrued interest at September 30, 2007 was approximately \$69,000. It is anticipated that during 2007 and 2008 all payments will be applied against accrued interest payable and therefore none of the debt has been classified as a current liability on the balance sheet.

NOTE 7 - CONVERTIBLE DEBT

The following table illustrates the carrying value of convertible debt at September 30, 2007:

	Carrying value
\$2,825,000 financing	\$ 224,340

On July 21, 2006, the Company consummated a Securities Purchase Agreement dated July 21, 2006 with Cornell providing for the sale by the Company to Cornell of its 10% secured convertible debentures in the aggregate principal amount of \$2,825,000, net of deferred financing costs of \$263,143 of which \$1,250,000 was advanced immediately, \$575,000 was advanced in August concurrent with our filing of the Registration Statement with the Securities and Exchange Commission (SEC), and the final installment of \$1,000,000 was advanced in December 2006, once the Registration Statement was declared effective by the SEC.

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The Debentures mature on the third anniversary of the date of issuance. The holder of the Debentures may, at any time, convert amounts outstanding under the Debentures into shares of common stock of the Company at a fixed conversion price per share equal to \$0.40. The Company's obligations under the Purchase Agreement are secured by substantially all of the assets of the Company and those of its wholly owned subsidiaries.

Under the Purchase Agreement, the Company also issued to Cornell five-year warrants to purchase 1,000,000 and 1,500,000 shares of Common Stock at prices equal to \$0.50 and \$1.00, respectively, together with three-year warrants to purchase 2,300,000, 2,000,000 and 2,500,000 shares of Common Stock at prices equal to \$0.25, \$0.65 and \$0.75, respectively.

The Company has the right to redeem a portion or all amounts outstanding under the Debenture prior to the Maturity Date at a 10% redemption premium provided that the closing bid price of the Common Stock is less than the Conversion Price and there is an effective Registration Statement covering the shares of Common Stock issuable upon conversion of the Debentures and exercise of the Warrants (as defined below). In addition, beginning on the earlier of: (i) the first trading day following the day which the Registration Statement is declared effective by the Commission, or (ii) December 1, 2006, and continuing on the first trading day of each calendar month thereafter, Cornell may require the Company to redeem up to \$500,000 of the remaining principal amount of the Debentures per calendar month. However, Cornell may not require the Company to redeem the Debentures if the closing bid price of the Common Stock exceeds the Conversion Price for each of the five consecutive trading days immediately prior to the redemption date, and the Registration Statement has been declared effective and remains effective on the redemption date. The Company has the option, in its sole discretion, to settle any requested redemptions by either paying cash or issuing the number of shares of the Company's common stock equal to the cash amount owed divided by a stock price equal to 95% of the lowest daily volume weighted average price of the Company's common stock during the thirty (30) trading days immediately preceding the date of the redemption.

The following redemptions occurred during the nine months ended September 30, 2007, in conjunction with this debenture financing:

Date of Redemption	Principal Redeemed	Number of Shares Issued
January 18, 2007	\$ 55,000	509,165
March 1, 2007	475,000	3,766,851
June 27, 2007	25,000	437,827
June 28, 2007	75,000	1,313,485
July 23, 2007	100,000	2,074,689
August 27, 2007	100,000	2,463,054
September 26, 2007	50,000	2,994,012
	\$ 880,000	13,559,083

In the Company's evaluation of this instrument in accordance with Financial Accounting Standard No. 133, Derivative Financial Instruments (FAS133), it was determined that the conversion feature was not afforded the exemption as a conventional convertible instrument and did not otherwise meet the conditions for equity classification. As such, the conversion and other features were compounded into one instrument, bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair value of the bifurcated derivative instruments using the Monte Carlo valuation model because this methodology provides for all of the necessary assumptions necessary for fair value determination; including assumptions for credit risk, interest risk and conversion/redemption behavior. Significant assumptions underlying this methodology were: Effective Term (using the remaining term of the host instrument); Effective Volatility (89.08% - 177.10%); and Effective Risk Adjusted Yield (15.97% - 33.59%). As a result of these estimates, the valuation model resulted in a compound derivative balance of \$1,108,250 at inception. The Company also determined that the warrants did not meet the conditions for equity classification because share

settlement and maintenance of an effective registration statement are not within its control. The fair value allocated to the warrant instruments was \$637,700 at inception. The remaining \$79,050 was recorded as convertible debt.

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The following tables illustrate the fair value adjustments that were recorded related to the derivative financial instruments associated with the convertible debenture financings for the 3 months ended:

September 30, 2007

Derivative income (expense)	Compound Derivative	Warrant liability	Preferred Stock - Series B	Total
\$2,825,000 financing	1,117,908	418,927	-	\$ 1,536,835
Preferred stock - Series B (Note 9)	-	-	27,700	27,700
Total derivative income (expense)				\$ 1,564,535

September 30, 2006

Derivative income (expense)	Compound Derivative	Warrant liability	Preferred Stock - Series B	Total
\$2,825,000 financing	(301,313)	(531,700)	-	\$ (833,013)

The following tables illustrate the fair value adjustments that were recorded related to the derivative financial instruments associated with the convertible debenture financings for the 9 months ended:

September 30, 2007

Derivative income (expense)	Compound Derivative	Warrant liability	Preferred Stock - Series B	Total
\$2,825,000 financing	1,261,623	929,647	-	\$ 2,191,270
Preferred stock - Series B (Note 9)	-	-	27,700	27,700
Total derivative income (expense)				\$ 2,218,970

September 30, 2006

Derivative income (expense)	Compound Derivative	Warrant liability	Preferred Stock - Series B	Total
\$ 55,000 financing	44,308	-	-	\$ 44,308
\$2,825,000 financing	(301,313)	(531,700)	-	(833,013)
Total derivative income (expense)				(\$ 788,705)

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

The aforementioned allocations to the compound and warrant derivatives resulted in the discount in the carrying value of the note to zero. The discount, related deferred finance costs and future interest payments are amortized through periodic charges to interest expense using the effective method. Interest expense relating to such charges during the three months ended September 30, 2007 and 2006 amounted to \$85,452 and \$104,302, respectively. Interest expense relating to such charges during the nine months ended September 30, 2007 and 2006 amounted to \$232,903 and \$104,302, respectively.

NOTE 8 - STOCK BASED COMPENSATION*Stock Options:*

Compensation cost of \$98,531 and \$59,436 was recognized during the three months ending September 30, 2007 and 2006, and \$319,995 and \$662,016 for the nine months ended September 30, 2007 and 2006, respectively, for grants under the stock option plans.

During the third quarter of 2007 there were 8,535,000 options granted to employees at \$0.04. These options vest evenly over a three year period from date of grant and they expire ten years after the grant date. The options had a fair value of \$145,095 on the grant date. During the third quarter of 2007, 6,780,000 options were forfeited by employees upon termination. Of the amount forfeited, 2,553,000 was part of the options granted in the third quarter.

In addition, during the third quarter of 2007 2,088,000 options were re-priced to \$0.04 from original exercise prices ranging from \$0.17 - \$0.18. The effect of the re-pricing was a charge to additional paid in capital of \$3,964.

For new share-based payments made after adoption of SFAS 123(R), the Company has estimated fair value at the date of grant using the Flexible Binomial Model, which includes a volatility assumption ranging from 67.93% to 77.08%, risk-free rates ranging from 4.41% to 4.79% and the related term of the share-based payments of ten years. In determining fair value of share-based payments as of September 30, 2007, management has estimated a forfeiture rate of 5%.

The following table summarizes stock option and warrant activity:

Outstanding, December 31, 2006	15,887,676
Granted	17,932,725
Cancelled	(7,290,000)
Exercised	-
Outstanding, September 30, 2007	26,530,401

NOTE 9 - OTHER STOCKHOLDERS' EQUITY*Issuances of common stock:*

There were no issuances of common stock for services during the quarter ended September 30, 2007.

Preferred stock:

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

The Company estimated the fair value of the compound derivative using a common stock equivalent and the current share price of the Company's common stock. As a result of this estimate, the Company's valuation model resulted in a compound derivative balance associated with the Preferred Stock of \$230,832 as of September 30, 2007. This amount is included in Derivative Liabilities on the Company's balance sheet. Fair value adjustments of \$27,700 were charged

to derivative income for the three and nine months ended September 30, 2007.

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Outstanding warrants:

As of September 30, 2007, we had the following warrants outstanding:

	Note	Grant date	Expiration date	Warrants granted	Exercise price
Warrant to consultant	(a)	12/15/04	12/15/14	1,212,127	\$ 0.050
Warrant to consultant	(a)	04/06/06	12/31/09	1,150,000	\$ 0.130
Warrant to consultant	(a)	04/01/06	12/31/09	133,000	\$ 0.171
Warrant to consultant	(a)	01/17/07	01/17/17	200,000	\$ 0.170
Warrants to directors	(a)	04/12/07	04/12/17	4,272,725	\$ 0.111
					0.50 -
\$2,825,000 financing	6(b)	07/21/06	07/21/09	2,500,000	\$ 1.00
					0.25 -
\$2,825,000 financing	6(b)	07/21/06	07/21/11	6,800,000	\$ 0.75
				16,267,852	

(a) These warrants were initially recorded in equity. The fair value of these warrants (\$260,709) was reclassified to liabilities during the second quarter of 2007 when the share price of the Company's common stock fell below the conversion price on the Company's Series B Convertible Preferred stock. It was determined at this time that the Company lost the ability to net-share settle all of its obligations. The fair value of the warrants was determined using the Black-Scholes-Merton valuation technique because it embodies all of the requisite assumptions (including trading volatility, estimated terms and risk free rates) necessary to fair value these instruments. Fair value adjustments of \$86,277 were charged to derivative income for the three months ended September 30, 2007.

NOTE 10 - OTHER EVENTS

On February 23, 2007, RWT entered into a Settlement Agreement (the "Settlement Agreement") dated as of February 20, 2007 with ABB, Inc. and ABB Automation Technologies AB (collectively, "ABB") in which ABB agreed to make a settlement payment to RWT in the amount of \$2,925,000 no later than March 2, 2007 in exchange for RWT filing a Stipulation of Dismissal with the Court to dismiss the Action with prejudice. In addition, the parties agreed to forever settle, resolve and dispose of all claims, demands and causes of action asserted, existing or claimed to exist between the parties because of or in any way related to the Action. The settlement is recorded in other income. Attorney and other related fees of approximately \$1,063,000 related to the settlement are recorded in Selling, General & Administrative expenses on the accompanying statement of operations.

NOTE 11 - FINANCIAL CONDITION AND GOING CONCERN

The Company has incurred losses for the nine months ended September 30, 2007 and 2006 of \$1,584,475 and \$5,287,258, respectively. Because of these losses, the Company will require additional working capital to develop its business operations.

The Company will continue to seek funds through private placements as well as debt financing. The Company will also continue to investigate alternative sources of financing.

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

assurance can be given that additional financing will be available, or if available, will be on terms acceptable to Innova Robotics & Automation, Inc.

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

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NOTE 12 - SUBSEQUENT EVENTS

Horne note payable:

On October 19, 2007, the Company entered into a Conversion Agreement (the "Conversion Agreement") with Jerry Horne, a principal shareholder of the Company (the "Holder"), who previously loaned to the Company an aggregate sum, including interest accrued, of \$297,853 pursuant to various notes (the "Notes"). The first Note was dated November 1, 2004 for \$165,000 at an annual interest rate of 6.75%; the second Note was dated September 22, 2005 for \$50,000 at an annual interest rate of 10%; and the third Note was dated November 28, 2005 for \$50,000 at an annual interest rate of 10%. During 2006 \$20,000 of accrued interest was paid. Pursuant to the Conversion Agreement, the Company and the Holder agreed that upon conversion of the Notes in full and the issuance by the Company of 14,892,650 shares of restricted common stock and warrants (the "Warrants") to purchase 14,892,650 shares of common stock, the Company shall be forever released from all of its obligations and liabilities under the Notes and the Holder shall release its security interest thereunder. The Warrants have an exercise price of \$0.04 and expire on October 19, 2012.

Series C convertible preferred stock:

The Company has negotiated a new private offering under Regulation D of the Securities Act of 1933 (the "Private Offering"), of an aggregate of 500,000 units (collectively referred to as the "Units") at a price of \$1.00 (one dollar) per unit, with each unit consisting of one share of Series C Convertible Preferred Stock and stock purchase warrants equal to the number of shares of common stock converted from the Series C Convertible Preferred Stock, exercisable at \$.06 per share and which expire five (5) years from the conversion date. At the date of this filing, the Company has raised \$36,000 under this financing.

Convertible debenture:

On October 25, 2007, the Company consummated a Securities Purchase Agreement dated October 25, 2007 with Yorkville Advisors, LLC ("Yorkville") providing for the sale by the Company to Yorkville of its 12% secured convertible debentures in the aggregate principal amount of \$600,000, net of deferred financing costs of \$75,000 which was advanced on November 2, 2007.

The Debentures mature on the second anniversary of the date of issuance. The holder of the Debentures may, at any time, convert amounts outstanding under the Debentures into shares of common stock of the Company at the lower of \$.02 or 85% of the lowest closing bid price of the Company's common stock for the 30 trading days immediately preceding the conversion date. The Company's obligations under the Purchase Agreement are secured by substantially all of the assets of the Company and those of its wholly owned subsidiaries.

The Company has the right to redeem a portion or all amounts outstanding under the Debenture prior to the Maturity Date at a 20% redemption premium provided there is an effective Registration Statement covering the shares of Common Stock issuable upon conversion of the Debentures. In the event that the Issuer exercises its right of redemption for either all or a portion of the outstanding Debentures, the Investor shall receive a warrant to purchase 35,000 shares of Common Stock for every \$100,000 redeemed. The warrant will be exercisable at \$.025 and will have "piggy-back" registration rights and survive for two years from their issuance date.

The Company will use its best efforts to ensure that a registration statement is declared effective within 120 calendar days from the date requested by Yorkville. In the event the registration statement is not declared effective within 120 calendar days, then the Company shall pay to the Investor a cash amount within 3 business days of the end of the month equal to 2% per month of the outstanding principal balance of the Debenture as liquidated damages.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative of such terms, or other comparable terminology. These statements are only predictions. Actual events or results may differ materially from those in the forward-looking statements as a result of various important factors. Although we believe that the expectations reflected in the forward-looking statements are reasonable, such should not be regarded as a representation by Innova Robotics & Automation, Inc., or any other person, that such forward-looking statements will be achieved. The business and operations of Innova Robotics & Automation, Inc. are subject to substantial risks, which increase the uncertainty inherent in the forward-looking statements contained in this report.

BACKGROUND

General

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 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., a robotics software technology provider, in which RWT was deemed the "accounting acquirer." Simultaneously, we 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. On May 16, 2006, we completed the purchase of all of the assets of CoroWare, Inc. pursuant to a certain Asset Purchase Agreement we and CoroWare entered into with Coroware Technologies, Inc., a wholly owned subsidiary of our company dated as of May 12, 2006. Under the terms of the Asset Purchase Agreement, we purchased, and CoroWare sold, all of its assets including, without limitation, all hardware, software, employee relations, customer contacts in the military and homeland security markets, contacts with Microsoft, Inc. and all other customers. On June 16, 2006, we entered into a Strategic Alliance Agreement with Mesa Robotics, Inc., a robotics company with unmanned mobile robotic ground vehicles. We never entered a definitive agreement with Mesa and have ceased discussions regarding the development of this business line. In March 2007 we purchased the stock of Altronics Service, Inc. During the third quarter of 2007 we discontinued the manufacturing of the RWT industrial robotic controller and refocused that business with the intent to obtain licenses for the RWT robotic motion control patents, and we sold the assets of Altronics. Both of these decisions were made in association with the Company's new strategic focus - software and software professional services with a strong focus on Information Technology integration and Robotics integration.

We are a software and software professional services company with a strong focus on Information Technology integration and Robotics integration that delivers professional services, solutions and products that benefit customers in the software development, education, aerospace, and automotive industry sectors. Our plan of operations is to sell our services, solutions, products and licensable technologies to meet our customers' needs. In addition, we will identify, develop and acquire technology that we believe is or will become a market leader and to create opportunities to leverage our software into value-added service, solutions and products when combined with other software solutions offered by us.

Plan of Operation

During the remainder of the year, we expect to aggressively market and sell our software and software professional services with particular emphasis on Information Technology integration and Robotics integration, and to continue our licensing efforts for the three intellectual property patents of RWT. Also, we will continue to implement our aggressive strategic plan related to the creation of awareness of our products, and to communicate the value of our solutions to the aerospace, industrial, military, educational, research and other robotic markets. During the third quarter of 2007 we discontinued the manufacturing of the RWT industrial robotic controller and refocused that business on obtaining licenses for the RWT robotic motion control patents.

We have determined a strategic plan for growing the business beyond organic growth. This growth strategy revolves around making strategic acquisitions that will enhance the solutions offerings of the various operating units of the business, and in particular, to add acquisitions in the software and technical services markets to support our other solutions offerings.

Looking forward into the remainder of the fiscal year 2007, CoroWare is well positioned to continue its revenue growth by further expanding its Enterprise Business Solutions business and rapidly growing its Robotics and Automation business. The Enterprise Business Solutions group intends to achieve its expansion through its ongoing business relationship with Microsoft, and through its professional services that provide customized software and service implementations of Microsoft solutions such as Microsoft Customer Care Framework, Infrastructure Optimization and Innovation Portal. The Robotics and Automation group expects to accomplish its rapid growth by continuing to offer expert systems development services that address embedded systems, robotic simulation and Microsoft Robotics Studio opportunities, and by addressing the rapidly expanding mobile robot marketplace through the introduction of hardware and software products that are built upon and compatible with Microsoft Robotics Studio.

CRITICAL ACCOUNTING POLICIES

General

The consolidated financial statements and notes included in this Form 10-QSB contain information that is pertinent to this management's discussion and analysis. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and assumptions that affect the reported amounts of its assets and liabilities, and affect the disclosure of any contingent assets and liabilities. The Company believes these accounting policies involve judgment due to the sensitivity of the methods, assumptions, and estimates necessary in determining the related asset and liability amounts. The significant accounting policies are described in its financial statements and notes included in its Form 10-KSB filed with the Securities and Exchange Commission.

Revenue Recognition

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

The Company recognized revenue for its Universal Robot Controller when persuasive evidence of an arrangement existed, delivery had occurred, the sales price was fixed or determinable and collectibility was probable. Product sales are recognized by the Company generally at the time product is shipped. Shipping and handling costs are included in cost of goods sold.

The Company accounts for arrangements that contain multiple elements in accordance with EITF 00-21, “Revenue Arrangements with Multiple Deliverables”. When elements such as hardware, software and consulting services are contained in a single arrangement, or in related arrangements with the same customer, the Company allocates revenue to each element based on its relative fair value, provided that such element meets the criteria for treatment as a separate unit of accounting. The price charged when the element is sold separately generally determines fair value. In the absence of fair value for a delivered element, the Company allocates revenue first to the fair value of the underlying elements and allocates the residual revenue to the delivered elements. In the absence of fair value for an undelivered element, the arrangement is accounted for as a single unit of accounting, resulting in a delay of revenue recognition for the delivered elements until the undelivered elements are fulfilled. The Company limits the amount of revenue recognition for delivered elements to the amount that is not contingent on future delivery of products or services or subject to customer-specified return of refund privileges.

The Company recognizes revenue from the sale of manufacturer’s maintenance and extended warranty contracts in accordance with EITF 99-19 net of its costs of purchasing the related contracts.

Accounting for Stock-Based Compensation

In accordance with SFAS 123(R), the Company has implemented the modified prospective method which recognizes compensation expense at previously determined fair values for all unvested awards granted to employees prior to the effective date of adoption and fair value for all new share-based payments made after adoption.

Allowance for Doubtful Accounts

Earnings are charged with a provision for doubtful accounts based on past experience, current factors, and management’s judgment about collectibility. Accounts deemed uncollectible are applied against the allowance for doubtful accounts.

Derivative Financial Instruments

Derivative financial instruments, as defined in Financial Accounting Standard No. 133, Accounting for Derivative Financial Instruments and Hedging Activities (FAS 133), consist of financial instruments or other contracts that contain a notional amount and one or more underlying (e.g. interest rate, security price or other variable), require no initial net investment and permit net settlement. The caption Derivative Liability consists of (i) the fair values associated with derivative features embedded in the Cornell Capital Partners, L.P. (“Cornell”) financings, (ii) the fair values of the detachable warrants that were issued in connection with those financing arrangements, and (iii) the fair value of derivative features associated with the preferred stock financing. In addition, this caption includes the fair values of other pre-existing derivative financial instruments that were reclassified from stockholders’ equity when net-share settlement was no longer within the Company’s control.

We generally do not use derivative financial instruments to hedge exposures to cash-flow, market or foreign-currency risks. However, we have entered into certain other financial instruments and contracts, such as debt financing arrangements and freestanding warrants with features that are either (i) not afforded equity classification, (ii) embody risks not clearly and closely related to host contracts, or (iii) may be net-cash settled by the counterparty. As required by FAS 133, these instruments are required to be carried as derivative liabilities, at fair value, in our financial statements.

We estimate fair values of derivative financial instruments using various techniques (and combinations thereof) that are considered to be consistent with the objective of measuring fair values. In selecting the appropriate technique, we consider, among other factors, the nature of the instrument, the market risks that it embodies and the expected means of settlement. For less complex derivative instruments, such as free-standing warrants, we generally use the

Black-Scholes-Merton option valuation technique because it embodies all of the requisite assumptions (including trading volatility, estimated terms and risk free rates) necessary to fair value these instruments. For complex derivative instruments, such as embedded conversion options, we generally use the Flexible Monte Carlo valuation technique because it embodies all of the requisite assumptions (including credit risk, interest-rate risk and exercise/conversion behaviors) that are necessary to fair value these more complex instruments. Estimating fair values of derivative financial instruments requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. In addition, option-based techniques are highly volatile and sensitive to changes in the trading market price of our common stock, which has a high-historical volatility. Since derivative financial instruments are initially and subsequently carried at fair values, our income will reflect the volatility in these estimate and assumption changes.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2007 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2006:

During the three-month period ended September 30, 2007 (the "2007 Period") revenues were \$1,056,456 compared to revenues of \$255,717 during the three-month period ended September 30, 2006 (the "2006 Period"). The 2007 revenue is entirely from CoroWare. Gross profit on these 2007 revenues amounted to \$134,970 compared to \$17,513 for the 2006 revenues.

Cost of goods sold was \$921,486 and \$238,204 for the three months ended September 30, 2007 and 2006, respectively. Cost of goods sold represents primarily labor and labor-related costs in addition to overhead costs.

Operating expenses were \$1,037,433 during the 2007 period compared to \$1,374,743 during the 2006 Period. Operating expenses were higher in the 2006 period due primarily to higher selling, general & administrative expenses of approximately \$385,000. The 2006 balance included charges for stock issued for services of approximately \$401,000. There were no such charges in the 2007 period.

Discontinued operations for the 2007 period were \$593,656 compared to \$486,150 for the 2006 period. The 2007 figure includes operating losses for RWT of \$10,491, impairment losses on RWT assets of \$333,890, accrued exit costs on RWT of \$55,697, operating losses for Altronics of \$83,186 and a loss on disposition of Altronics' assets of \$110,392. The 2006 figure includes only the loss on operations of RWT of \$486,150. Altronics was not included in the 2006 period because it was not a subsidiary in 2006. Comparison of the operating losses for RWT for the 2007 period to the 2006 period (\$10,491 vs. \$486,150) shows a decrease in revenue of \$68,303, a corresponding decrease in cost of revenues of \$69,908, a reduction in selling, general & administrative expenses of \$367,142, a reduction of outside service fees of \$61,925 and a reduction of legal fees of \$37,750. All of these fluctuations were the result of a scale back of operations prior to the decision to discontinue production of the Universal Robot Controller.

Net loss for the 2007 Period was \$367,614 compared to a net loss of \$2,977,488 for the 2006 Period. The decrease is due primarily to derivative income of \$1,564,535 recorded in the 2007 period compared to a derivative loss of \$766,290 recorded in the 2006 period. The derivative income in the 2007 period resulted from a reduction in the derivative liability which is inversely proportional to the Company's stock price. The derivative loss in the 2006 period resulted from the initial recording of the \$2,825,000 Cornell convertible debenture financing in July 2006.

NINE MONTHS ENDED SEPTEMBER 30, 2007 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2006:

During the nine-month period ended September 30, 2007 (the "2007 Period") revenues were \$2,901,631 compared to revenues of \$610,500 during the nine-month period ended September 30, 2006 (the "2006 Period"). The 2007 revenue is entirely from CoroWare. Gross profit on these 2007 revenues amounted to \$620,840 compared to \$112,587 for the 2006 revenues.

Cost of goods sold was \$2,280,791 and \$497,913 for the nine months ended September 30, 2007 and 2006, respectively. Cost of goods sold represents primarily labor and labor-related costs in addition to overhead costs.

Operating expenses were \$4,606,779 during the 2007 period compared to \$2,610,532 during the 2006 Period. The increase in operating expenses primarily resulted from increased employee compensation of approximately \$105,000, which resulted from the inclusion of CoroWare personnel as well as additional personnel hired by the Company, a reduction in stock option expense of approximately \$342,000, an increase in outside service fees of approximately \$759,000, an increase in professional fees of approximately \$83,000, an increase in legal fees of \$940,000 associated

with the settlement of a lawsuit during the first quarter of 2007 and an increase in depreciation and amortization of approximately \$108,000 due to the amortization of the non-compete agreement and customer lists recorded in conjunction with the purchase of CoroWare.

Discontinued operations for the 2007 period were \$1,040,395 compared to \$1,410,739 for the 2006 period. The 2007 figure includes operating losses for RWT of \$377,959, impairment losses on RWT assets of \$333,890, accrued exit costs on RWT of \$55,697, operating losses for Altronics for the period March 16 through September 30, 2007 of \$162,457 and a loss on disposition of Altronics' assets of \$110,392. The 2006 figure includes only the loss on operations of RWT of \$1,410,739. Altronics was not included in the 2006 period because it was not a subsidiary in 2006. Comparison of the operating losses for RWT for the 2007 period to the 2006 period (\$377,959 vs. \$1,410,739) shows a decrease in revenue of \$223,471, a corresponding decrease in cost of revenues of \$182,579, a reduction in selling, general & administrative expenses of \$859,074, a reduction of outside service fees of \$152,075 and a reduction of legal fees of \$114,248. All of these fluctuations were the result of a scale back of operations prior to the decision to discontinue production of the Universal Robot Controller.

Net loss for the 2007 Period was \$1,584,475 compared to a net loss of \$5,287,258 for the 2006 Period. The decrease is due primarily to approximately \$2,925,000 of other income associated with the settlement of a lawsuit and derivative income of \$2,218,970 offset by a loss on the conversion of the Company's convertible debt of approximately \$1,385,343.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2007, we had current assets of \$198,945 and current liabilities of \$3,924,123. At September 30, 2007, we had negative working capital of \$3,725,178 and an accumulated deficit of \$16,699,678.

The Company will continue to seek funds through private placements as well as debt financing. The Company will also continue to investigate alternative sources of financing. As discussed in Note 7 above, on July 21, 2006, the Company consummated a Securities Purchase Agreement dated July 21, 2006 with Cornell providing for the sale by the Company to Cornell of its 10% secured convertible debentures in the aggregate principal amount of \$2,825,000 of which \$1,250,000 was advanced immediately, \$575,000 was advanced on the date of the filing of the registration statement by the Company with the Securities and Exchange Commission, and \$1,000,000 was advanced three business days after the date the registration statement was declared effective by the Commission.

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.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, results of operations, liquidity or capital expenditures.

EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

Stock-Based Compensation: Effective January 1, 2006 we adopted SFAS 123R and our consolidated financial statements as of and for the three and nine months ended September 30, 2007 reflect the impact of SFAS 123R. For the three and nine months ended September 30, 2007, we recorded employee stock-based compensation expense of \$58,100 and \$236,059, respectively. For the three and nine months ended September 30, 2006, we recorded employee stock-based compensation expense of \$59,436. and \$643,738, respectively.

ITEM 3. CONTROLS AND PROCEDURES

a) Based on an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) required by paragraph (b) of Rule 13a-15 or Rule 15d-15, as of September 30, 2007, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Our Chief Executive Officer and Chief Financial Officer also concluded that, as of September 30, 2007, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls. During the quarter ended September 30, 2007, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the quarter ended September 30, 2007, no shares of the Company's Series B preferred stock were converted into shares of the Company's common stock.

On October 13, 2007, as a condition to a Securities Purchase Agreement entered into by the Company and Yorkville Advisors LLC (f/k/a Cornell Capital Partners L.P.) on October 25, 2007, Eugene Gartlan (Chief Executive Officer and Director), Lloyd Spencer (Director), and Linda Robison (Counsel) purchased 36,000 Units, with each unit consisting of one share of Series C Convertible Preferred Stock, at a price of \$1.00 per share as well as stock purchase warrants equal to the number of shares of common stock converted from the Series C Convertible Preferred Stock, exercisable at \$.06 per share and which expires five years from the conversion date. In connection with the issuance, a Certificate of Designation was filed with the Florida Secretary of State.

On October 19, 2007, we entered into a Conversion Agreement (the "Conversion Agreement") with Jerry Horne, a principal shareholder of the Company (the "Holder"), who previously loaned to the Company an aggregate sum, including interest accrued, of \$297,853 pursuant to various notes (the "Notes"). The first Note was dated November 1, 2004 for \$165,000 at an annual interest rate of 6.75%; the second Note was dated September 22, 2005 for \$50,000 at an annual interest rate of 10%; and the third Note was dated November 28, 2005 for \$50,000 at an annual interest rate of 10%. During 2006 \$20,000 of accrued interest was paid. Pursuant to the Conversion Agreement, the Company and the Holder agreed that upon conversion of the Notes in full and the issuance by the Company of 14,892,650 shares of restricted common stock and warrants (the "Warrants") to purchase 14,892,650 shares of common stock, the Company shall be forever released from all of its obligations and liabilities under the Notes and the Holder shall release its security interest thereunder. The Warrants have an exercise price of \$0.04 and expire on October 19, 2012.

On October 25, 2007, we entered into a Securities Purchase Agreement with Yorkville Advisors LLC (the "Investor") providing for the sale by the Company to the Investors of (i) 12% Secured Convertible Debentures in the aggregate

principal amount of \$600,000 (the “Debentures”) due on October 25, 2009 (the “Repayment Date”) and (ii) common stock purchase warrants (the “Warrants”) issuable if the Debentures are redeemed.

The Debentures are convertible into shares of the Company's common stock at the lesser of (1) \$0.02 or eighty five percent (85%) of the lowest closing bid price, as quoted by Bloomberg LP, of the Company's common stock for thirty (30) trading days immediately preceding a conversion date.

We will have the right to redeem any or all of the amounts outstanding under the Debentures with 3 trading days advance written notice to the Investor. The redemption price will be equal to 120% of face value. In the event that we exercise our right of redemption for either all or a portion of the outstanding Debentures, the Investor shall receive a warrant to purchase 35,000 shares of Common Stock for every \$100,000 redeemed at an exercise price of \$0.025.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

In February 2003, the Company issued \$230,000 of notes payable, the terms of which were subsequently modified in July 2003. The notes earn interest at 8% per annum unless they are in default, in which case they earn default interest at a rate of 15%; the notes are currently in default. Additionally, the notes had warrants attached to purchase 11,500 shares of common stock at \$15.00 per share and were exercisable through February 12, 2005. None of these warrants were exercised prior to their expiration.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

(a) Exhibits

31.1 Certification by Chief Executive Officer pursuant to Sarbanes Oxley Section 302.

31.2 Certification by Chief Financial Officer pursuant to Sarbanes Oxley Section 302.

32.1 Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350

32.2 Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 14th day of November, 2007.

INNOVA ROBOTICS & AUTOMATION, INC.

/s/ Eugene V. Gartlan

Eugene V. Gartlan
Chief Executive Officer
(Principal Executive Officer)

/s/ Eugene V. Gartlan

Eugene V. Gartlan
Chief Financial Officer
(Principal Accounting and Financial Officer)