Innova Robotics & Automation, Inc.
Form 10QSB
August 20, 2007

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

FORM 10-QSB

(Mark One)

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

o 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	95-4868120
(State or other jurisdiction of incorporation or organization)	(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 x No o

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 o No o

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

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 June 30, 2007 the issuer had 89,096,733 shares of common stock, $.001 par value, issued and outstanding.

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

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INNOVA ROBOTICS & AUTOMATION, INC.
JUNE 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
JUNE 30, 2007
(Unaudited)

ASSETS		
Current assets:		
Cash and cash equivalents	$	1,061,139
Accounts receivable, net		120,221
Inventory		568,352
Total current assets		1,749,712
Property and equipment, net		213,031
Intangible assets, net		694,874
Deferred finance costs, net		244,293
Other assets		12,190
Total assets	$	2,914,100
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Notes payable	$	341,034
Notes payable, related parties		496,794
Accounts payable		1,031,987
Accrued expenses		1,038,851
Accrued expenses, related parties		208,548
Deferred revenue		374,201
Dividend payable		19,184
Redeemable preferred stock, $.001 par value, 10,000,000 shares authorized, 184,666 shares issued and outstanding		258,532
Derivative liability		2,086,068
Total current liabilities		5,855,199
Long-term obligations:		
Convertible debt, net of discount		182,370
Long-term debt		989,100
Total liabilities		7,026,699
Commitments		-
Stockholders' deficit:		
Common stock, $.001 par value, 900,000,000 shares authorized, 89,096,733 shares issued and outstanding at June 30, 2007		89,097
Additional paid-in capital		12,130,398
Accumulated deficit		(16,332,064)
Total stockholders' deficit		(4,112,569)
Total liabilities and stockholders' deficit	$	2,914,100

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues:				
Services	$ 1,106,014	$ 354,783	$ 1,741,312	$ 354,783
Products	89,805	35,198	126,179	171,688
Total revenues	1,195,819	389,981	1,867,491	526,471
Cost of revenues				
Services	915,735	259,709	1,404,046	259,709
Products	1,000	19,538	16,488	127,228
Total cost of revenues	916,735	279,247	1,420,534	386,937
Gross profit	279,084	110,734	446,957	139,534
Operating expenses:				
Selling, general and administration	977,439	849,306	1,722,809	1,792,215
Outside services	680,731	110,098	843,527	160,357
Legal fees	29,723	128,501	1,014,462	155,535
Professional fees	73,673	65,153	191,813	83,858
Research and development	16,200	-	65,178	-
Depreciation and amortization	87,384	7,495	163,565	12,945
Total operating expenses	1,865,150	1,160,553	4,001,354	2,204,910
Loss from operations	(1,586,066)	(1,049,819)	(3,554,397)	(2,065,376)
Other income (expense):				
Interest income	8,143	-	13,667	-
Interest expense	(91,942)	(44,517)	(202,463)	(131,299)
Derivative income (loss)	866,570	(127,200)	654,435	(141,192)
Loss on extinguishment of debt	(385,008)	-	(1,053,103)	-
Other income	-	28,025	2,925,000	28,025
Net loss	$ (1,188,303)	$ (1,193,511)	$ (1,216,861)	$ (2,309,842)
Loss applicable to common stockholders				
Net loss	$ (1,188,303)	$ (1,193,511)	$ (1,216,861)	(2,309,842)
Beneficial conversion features and accretions of preferred stock	-	-	-	(22,610)
Net loss applicable to common stockholders	$ (1,188,303)	$ (1,193,511)	$ (1,216,861)	$ (2,332,452)
Net loss per share				

Basic and diluted	$	(0.01)	$	(0.02)	$	(0.01)	$	(0.04)
Weighted average shares outstanding								
Basic and diluted		86,062,215		63,086,673		81,355,035		57,656,431

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

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

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (1,216,861)	$ (2,309,842)
Adjustments to reconcile net loss to cash flows from operating activities:		
Depreciation and amortization	163,565	12,945
Stock option expense	221,464	597,227
Common stock issued for services	485,428	50,000
Loss on extinguishment of debt	1,053,103	-
Amortization of deferred financing costs	60,653	2,900
Amortization of debt discount	86,798	56,021
Imputed interest	4,195	-
Derivative (income) loss	(654,435)	141,192
Changes in operating assets and liabilities:		
Accounts receivable	8,420	(77,041)
Inventory	(298,684)	(11,784)
Other assets	(5,472)	-
Accounts payable	(103,186)	109,158
Accrued expenses	468,219	(215,677)
Accrued expenses, related parties	6,239	-
Deferred revenue	374,201	-
NET CASH FLOWS FROM OPERATING ACTIVITIES	653,647	(1,644,901)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(29,285)	(39,103)
Acquisition of CoroWare's assets, net of liabilities assumed	-	(2,422)
Acquisition of Altronics' assets, net of cash acquired	(143,671)	-
NET CASH FLOWS FROM INVESTING ACTIVITIES	(172,956)	(41,525)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of common stock	-	2,304,130
Proceeds from line of credit, net	32,555	-
Payments of notes payable	(36,456)	(404,335)
Proceeds from notes payable	-	28,000
NET CASH FLOWS FROM FINANCING ACTIVITIES	(3,901)	1,927,795
NET INCREASE IN CASH	476,790	241,369
Cash and cash equivalents, beginning of period	584,349	6,786
Cash and cash equivalents, end of period	$ 1,061,139	$ 248,155

Continued

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

SUPPLEMENTAL CASH FLOW INFORMATION				
Interest paid	$	28,878	$	33,584
Income taxes paid	$	-	$	-
NON CASH INVESTING AND FINANCING ACTIVITIES				
Conversion of Series B preferred stock and preferred stock dividends	$	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	$	1,263,772	$	-
Amortization of deferred financing costs	$	-	$	99,315
Conversion of Series A preferred stock	$	-	$	58,840

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

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 June 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	4(a)	$ 230,000	$ 230,000
Note payable – principal shareholder	4(b)	$ 165,000	$ 165,000
Notes payable - shareholders	4(c)	$ 141,000	$ 141,000
Note payable – Viejo Coro	4(d)	$ 50,000	$ 50,000
Notes payable – financial institutions	4(e)	$ 110,534	$ 110,534
Note payable – Altronics purchase	3	$ 100,000	$ 100,000
Other notes payable	4(f)	$ 41,294	$ 41,294
Long-term debt	5	$ 989,100	$ 989,100

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, and (ii) the fair values of the detachable warrants that were issued in connection with those financing arrangements. In addition, this caption includes the fair values of other pre-existing derivative financial instruments that were reclassified from stockholders’ equity when net-share settlement was no longer within the Company’s control (see Note 8).

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 June 30, 2007:

	Note	Compound derivative	Warrant liability	Total
$2,825,000 financing	6,8	$ 1,356,060	$ 730,008	$ 2,086,068

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 June 30, 2007:

Financing or other contractual arrangement:	Note	Conversion Features	Warrants	Total
$2,825,000 financing	6	13,313,021	16,267,852	29,580,873

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 7 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; and
- estimating the recoverability of our long-lived assets
- 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.

Inventory

Inventories are valued at the lower of cost or market. Inventories consist of the following at June 30, 2007:

Work in progress	$ 184,623
Raw material	383,729
	$ 568,352

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 1 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.

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 3 years commencing March 16, 2007 and ending on March 15, 2010 which will be automatically renewed for successive 1 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 Companys' executive level option schedule, which will vest over the 3 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 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.

NOTE 4 - NOTES PAYABLE

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

	Note	Related Parties	Other
Note payable – merger	4(a)	$ -	$ 230,000
Note payable – principal shareholder	4(b)	165,000	-
Notes payable – shareholders	4(c)	141,000	-
Note payable – Viejo Coro	4(d)	50,000	-
Notes payable – financial institutions	4(e)	-	110,534
Notes payable – Altronics purchase	3	100,000	-
Other notes payable	4(f)	40,794	500
		$ 496,794	$ 341,034

(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 the Company.

(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 June 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. The Company has not made any of the monthly payments required under the promissory note. 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. The Company has imputed interest on this note at 10% per annum. Imputed interest at June 30, 2007 was $2,500.

(e) Notes payable – financial institutions:

The Company has lines of credit with various financial institutions with interest rates ranging from prime plus 7.5% to prime plus 8%. These credit lines call for monthly payments of 1% of the outstanding balance plus finance charges.

(f) Other notes payable:

Other notes payable consist of three notes to third parties with maturity dates through December 31, 2007. The Company has imputed interest at 10% per annum on one of these notes. Imputed interest for the six months ended June 30, 2007 was $1,695.

NOTE 5 – LONG-TERM DEBT

On April 17, 2002, the Company 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 the Company and by the personal residence and other assets of the Company's Chairman and CEO, a principal shareholder and founder of RWT. The balance outstanding at June 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 six months ended June 30, 2007 all payments were being applied to accrued interest. Accrued interest at June 30, 2007 was approximately $64,000. It is anticipated that during 2007 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 6 – CONVERTIBLE DEBT

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

	Carrying value
$2,825,000 financing	$ 182,370

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.

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.

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The following redemptions occurred during the six months ended June 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
	$	630,000	6,027,328

The Company recognized a loss on the redemption of the debentures for three and six months ended June 30, 2007 of $385,008 and $1,053,103, respectively

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.

The following table illustrates the fair value adjustments that were recorded related to the derivative financial instruments associated with the convertible debenture financings:

	3 months ended June 30, 2007				3 months ended June 30, 2006			
Derivative income (expense)	Compound Derivative		Warrant liability		Compound Derivative		Warrant liability	
$2,825,000 financing	$	341,080	$	525,490	$	-	$	-

	6 months ended June 30, 2007				6 months ended June 30, 2006			
Derivative income (expense)	Compound Derivative		Warrant liability		Compound Derivative		Warrant liability	
$2,825,000 financing	$	143,715	$	510,720	$	-	$	-

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 during the three months ended June 30, 2007 and 2006 amounted to $76,904 and $-0-, respectively. Interest expense during the six months ended June 30, 2007 and 2006 amounted to $147,451 and $-0-, respectively.

NOTE 7 - STOCK BASED COMPENSATION

Stock Options and warrants:

Compensation cost of $137,192 and $67,206 was recognized during the three months ending June 30, 2007 and 2006, and $221,464 and $597,227 for the six months ended June 30, 2007 and 2006, respectively, for stock options and warrants vesting during the periods.

During the second quarter of 2007 there were 2,500,000 options granted to employees at $0.11. 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 $217,500 on the grant date.

During the second quarter of 2007 there were 4,272,275 warrants granted to non-employees at $0.11. These warrants vest evenly over a three year period from date of grant and they expire ten years after the grant date. The warrants had a fair value of $371,727 on the grant date.

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 68.62%, risk-free rates ranging from 4.74% 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 June 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	9,397,725
Cancelled	(510,000)
Exercised	-
Outstanding, June 30, 2007	24,775,401

NOTE 8 – OTHER STOCKHOLDERS' EQUITY

Issuances of common stock:

During the quarter ended June 30, 2007 the Company issued 3,203,236 shares of common stock in lieu of cash for services rendered in the amount of $351,494 at prices ranging from $0.05 to $0.17.

Issuances of preferred stock:

Series B:

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 at the discretion of the shareholder immediately after issuance into the Company's common stock at the lesser of $.05 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.

During the quarter ended June 30, 2007, 79,334 shares of the Company's Series B preferred stock converted into 1,586,680 shares of the Company's common stock at the conversion price of $.05 per share, and an additional 45,340 shares of common stock were issued for accrued dividends converted at $.175 per share in accordance with the terms of the Series B preferred shares certificate of designation.

The Company accounts for redeemable preferred stock in accordance with SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". Prior to June 30, 2007 the Company's common stock was trading above $0.05 per share thus the redeemable preferred stock was accounted for as temporary equity. Subsequent to June 30, 2007 the price of the stock fell below $0.05 per share and the redeemable preferred stock is now convertible at a variable price. In accordance with SFAS 150 liability classification is now considered appropriate because the redeemable preferred stock now embodies an unconditional obligation which may be settled by issuing a variable number of equity shares in order to settle a fixed monetary amount. In order to settle the redeemable preferred stock liability at June 30, 2007, the Company would have had to issue 3,693,320 shares of its common stock valued at $258,532. The contract does not limit the number of shares of common stock that the Company would be required to issue due to the fact that the stock is convertible at a variable price. If the Company were to redeem the 184,666 outstanding preferred shares for cash at $1.30 per share, it would have to pay $240,066. This amount is reflected as a current liability in the accompanying financial statements.

Outstanding warrants:

As of June 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
$2,825,000 financing	6(b)	07/21/06	07/21/09	2,500,000	$	0.50 - 1.00
$2,825,000 financing	6(b)	07/21/06	07/21/11	6,800,000	$	0.25 - 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 to 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.

NOTE 9 - 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 made a settlement payment to RWT in the amount of $2,925,000 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.

NOTE 10 - FINANCIAL CONDITION AND GOING CONCERN

The Company has incurred losses for the six months ended June 30, 2007 and 2006 of $1,216,861 and $2,309,842, 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.

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

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. ("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 Robotics & Automation, Inc.

On May 16, 2006, we acquired all of the assets and assumed certain liabilities of CoroWare, Inc., a software systems integration firm with particular expertise in the area of mobile service robotics. CoroWare is the only mobile service robotics company to join the Microsoft ® Windows Embedded Partner Program. CoroWare uses the Windows XP Embedded operating system to power its mobile service robots, which are based on de facto standards, off-the-shelf hardware and proven software.

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.

Plan of Operation

During the remainder of the year, the Company expects to aggressively market and sell its Altronics CNC Press Controller and expand the product line solutions for this unit. Management believes that there is a large market opportunity for its controllers and software solutions, and management is committed to further penetrating these significant markets. Specifically, the Company is implementing its operating plan and is expanding its sales organization by adding additional sales representatives and partnering with system integrators to increase the volume of product and service sales. Also, the Company continues to implement its aggressive strategic plan related to the creation of awareness of its products, and to communicate the value of its solutions to the industrial, military, educational, research and other robotic markets. The Company will continue the activities already initiated around the technology development of the next generation of control and communications systems for the markets it serves. Management expects to constantly upgrade and improve its software and systems solutions offerings as the markets

continue to change.

The company has 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. As highlighted in our notes to the financial statements, the Company acquired a company this year that has a special niche in the machine tool industry which is a very dynamic and large market and will be reported in the Robotic Workspace Technologies subsidiary. The company strategy is also to add acquisitions in the software and technical services markets to support our other solutions offerings. The acquisition targets are all established companies that will be accretive in earnings and stockholder value from the time of acquisition and integration. No turnaround opportunities are being considered.

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.

The Company does not expect to sell any of its fixed assets, including its property or equipment in the next twelve months, nor does it expect to purchase any real property in the next twelve months. During the remainder of the fiscal year the Company expects to purchase certain equipment to support software development, testing and continued deployment of its technologies. Additionally, the Company expects to purchase office equipment, computer equipment and laboratory development and testing equipment to support the planned increase of the number of employees of the Company.

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 recognizes revenue for its Universal Robot Controller when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectibility is 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, and (ii) the fair values of the detachable warrants that were issued in connection with those financing arrangements. In addition, this caption includes the fair values of other pre-existing derivative financial instruments that were reclassified from stockholders’ equity when net-share settlement was no longer within 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 JUNE 30, 2007 COMPARED TO THREE MONTHS ENDED JUNE 30, 2006:

During the three-month period ended June 30, 2007 (the "2007 Period") revenues were $1,195,819 compared to revenues of $389,981 during the three-month period ended June 30, 2006 (the "2006 Period"). These 2007 revenues included $1,106,014 from CoroWare and $89,805 from Altronics since the closing date of the acquisition, March 16, 2007. Gross profit on these revenues amounted to $279,084.

Cost of goods sold was $916,735 and $279,247 for the three months ended June 30, 2007 and 2006, respectively. Cost of goods sold represents primarily labor and labor-related costs in addition to overhead costs. Additionally, costs include materials to assemble the Universal Robot Controllers, including electronic parts and components, electrical amplifiers, and cabinetry to house all of the materials.

Operating expenses were $1,865,150 during the 2007 period compared to $1,160,553 during the 2006 Period. The increase in operating expenses primarily resulted from increased employee compensation of approximately $200,000, which resulted from the inclusion of CoroWare and Altronics personnel as well as additional personnel hired by the Company, an increase in stock option expense of approximately $40,374, an increase in other general and administrative expenses of approximately $460,000. The Company also spent $16,200 on R&D activities during the 2007 period compared to $0 during the 2006 period.

Net loss for the 2007 Period was $1,183,303, compared to a net loss of $1,193,511 for the 2006 Period. The decrease is due primarily to derivative income of $866,570 offset by a loss on the conversion of the Company's convertible debt of approximately $385,008 in addition to the increase in operating expenses.

SIX MONTHS ENDED JUNE 30, 2007 COMPARED TO SIX MONTHS ENDED JUNE 30, 2006:

During the six-month period ended June 30, 2007 (the "2007 Period") revenues were $1,867,491 compared to revenues of $526,471 during the six-month period ended June 30, 2006 (the "2006 Period"). These 2007 revenues included $1,741,312 from CoroWare, $16,520 from RWT, and $109,659 from Altronics since the closing date of the acquisition, March 16, 2007. Gross profit on these revenues amounted to $446,957.

Cost of goods sold was $1,420,534 and $386,937 for the six months ended June 30, 2007 and 2006, respectively. Cost of goods sold represents primarily labor and labor-related costs in addition to overhead costs. Additionally, costs include materials to assemble the Universal Robot Controllers, including electronic parts and components, electrical amplifiers, and cabinetry to house all of the materials.

Operating expenses were $4,001,354 during the 2007 Period compared to $2,204,910 during the 2006 Period. The increase in operating expenses primarily resulted from increased employee compensation of approximately $310,000, which resulted from the inclusion of CoroWare and Altronics personnel as well as additional personnel hired by the Company, a reduction in stock option expense of approximately $412,000, and an increase in legal fees of $958,000 associated with the settlement of a lawsuit during the first quarter of 2007. The Company also spent $65,175 on R&D activities during the 2007 period compared to $0 during the 2006 period.

Net loss for the 2007 Period was $1,216,861 compared to a net loss of $2,309,842 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 $654,435 offset by a loss on the conversion of the Company's convertible debt of approximately $1,053,000.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2007, we had current assets of $1,749,712 and current liabilities of $5,855,199. At June 30, 2007, we had negative working capital of $4,105,487 and an accumulated deficit of $16,332,064.

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 6 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 of the Registration Statement, 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 six months ended June 30, 2007 reflect the impact of SFAS 123R. For the there months ended June 30, 2007, we recorded employee stock-based compensation expense of $100,725. The impact on basic net loss per share for the three months ended June 30, 2007 was $0.00. For the three months ended June 30, 2006, we recorded employee stock-based compensation expense of $60,351. The impact on basic net loss per share for the three months ended June 30, 2007 was $0.00.

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 June 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 June 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 June 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 June 30, 2007 the Company issued 3,203,236 shares of common stock in lieu of cash for services rendered in the amount of $351,494 at prices ranging from $0.05 to $0.17.

During the quarter ended June 30, 2007, 79,334 shares of the Company’s Series B preferred stock converted into 1,586,680 shares of the Company’s common stock at the conversion price of $.05 per share, and an additional 45,340 shares of common stock were issued for accrued dividends converted at $.175 per share in accordance with the terms of the Series B preferred shares certificate of designation.

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

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 20th day of August, 2007.

INNOVA ROBOTICS & AUTOMATION, INC.

/s/ Walter K. Weisel
Walter K. Weisel
Chief Executive Officer (Principal Executive Officer)

/s/ Kenneth D. Vanden Berg
Kenneth D. Vanden Berg
Chief Operating Officer
Chief Financial Officer (Principal Accounting and Financial Officer)

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