

Edgar Filing: INNOVA HOLDINGS - Form 10QSB/A

INNOVA HOLDINGS  
Form 10QSB/A  
November 22, 2005

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

FORM 10-QSB/A  
Amendment No. 2

(Mark One)

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

For the quarterly period ended: March 31, 2005  
-----

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

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

Commission file number 000-33231

Innova Holdings, Inc.  
-----

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

Delaware  
-----

95-4868120  
-----

(State or other jurisdiction  
of incorporation or organization)

(IRS Employer  
Identification No.)

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

(Address of principal executive offices)

(239) 466-0488  
-----

(Issuer's telephone number)

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

Check whether the issuer (1) filed all reports required to be filed by  
Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such  
shorter period that the registrant was required to file such reports), and (2)  
has been subject to such filing requirements for the past 90 days. Yes X No

State the number of shares outstanding of each of the issuer's classes of  
common equity, as of the latest practical date: 371,296,897 as of April 15, 2005  
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Transitional Small Business Disclosure Format (check one). Yes ; No

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Innova Holdings, Inc.  
March 31, 2005  
Quarterly Report on Form 10-QSB

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Note: Registrant has filed this Report on Form 10-QSB/A in order to restate the Financial Statements included in its Form 10-QSB filed on May 24, 2005 and to revise its disclosure under Item 3 - Control and Procedures.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

To the extent that the information presented in this Quarterly Report on Form 10-QSB for the quarter ended March 31, 2005 discusses financial projections, information or expectations about our products or markets, or otherwise makes statements about future events, such statements are forward-looking. We are making these forward-looking statements in reliance on the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, there are a number of risks and uncertainties that could cause actual results to differ materially from such forward-looking statements. These risks and uncertainties are described, among other places in this Quarterly Report in "Management's Discussion and Analysis of Financial Condition and Results of Operations".

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

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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INNOVA HOLDINGS, INC.  
BALANCE SHEET  
March 31, 2005  
(Unaudited)

ASSETS

|                             |           |
|-----------------------------|-----------|
| Current assets              |           |
| Cash                        | \$ 33,999 |
|                             | -----     |
| Total current assets        | 33,999    |
| Property and equipment, net | 7,272     |
|                             | -----     |
| TOTAL ASSETS                | \$ 41,271 |
|                             | =====     |

LIABILITIES AND STOCKHOLDERS' DEFICIT

|   |                |
|---|----------------|
| Current liabilities   |                |
| Current maturities of long-term debt  | \$ 37,700      |
| Accounts payable  | 828,501        |
| Accrued expenses  | 1,528,607      |
| Notes payable   | 395,500        |
| Dividend payable  | 15,488         |
|   | -----          |
| Total current liabilities   | \$ 2,805,796   |
|   | -----          |
| Long-term debt  | \$ 951,400     |
| Mandatorily redeemable series A preferred stock   | \$ 82,800      |
| Commitments   |                |
| STOCKHOLDERS' DEFICIT:  |                |
| Preferred stock, \$.001 par value, 10,000,000 shares authorized,<br>525,000 shares issued and outstanding   | \$ 525         |
| Common stock, \$.001 par value, 900,000,000 shares authorized,<br>371,296,897 shares issued and outstanding | 371,297        |
| Additional paid-in capital  | 3,971,302      |
| Accumulated deficit   | (8,141,849)    |
|   | -----          |
| Total Stockholders' Deficit   | \$ (3,798,725) |
|   | -----          |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT   | \$ 41,271      |

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INNOVA HOLDINGS, INC.  
STATEMENTS OF OPERATIONS  
Three Months Ended March 31, 2005 and 2004  
(Unaudited)

|   | 2005                | 2004                |
|---|---------------------|---------------------|
|   | -----               | -----               |
| Revenues                                    | \$           --     | \$           --     |
|   | -----               | -----               |
| Cost of revenues                            | --                  | --                  |
|   | -----               | -----               |
| Gross profit                                | --                  | --                  |
|   | -----               | -----               |
| Operating expenses:                         |                     |                     |
| Selling, general and administrative         | \$       84,343     | \$       63,266     |
| Outside services                            | 139,763             | 5,865               |
| Legal fees                                  | 13,998              | 8,704               |
| Professional fees                           | 295,012             | 14,073              |
| Depreciation and amortization               | 416                 | 251                 |
|   | -----               | -----               |
| Total operating expenses                    | \$     533,532      | \$      92,159      |
|   | -----               | -----               |
| Loss from operations                        | \$   (533,532)      | \$   (92,159)       |
| Interest expense                            | 23,537              | (21,217)            |
|   | -----               | -----               |
| Net loss                                    | \$   (557,069)      | \$   (113,376)      |
|   | =====               | =====               |
| Net loss applicable to common shareholders: |                     |                     |
| Net loss                                    | \$   (557,069)      | \$   (113,376)      |
| Beneficial conversion of preferred stock    | (144,000)           | --                  |
|   | -----               | -----               |
| Net loss applicable to common shareholders  | \$   (701,069)      | \$   (113,376)      |
|   | -----               | -----               |
| Net loss per share:                         |                     |                     |
| Basic and diluted                           | \$           (0.00) | \$           (0.00) |
|   | =====               | =====               |
| Weighted averaged shares outstanding:       |                     |                     |
| Basic and diluted                           | 371,296,897         | 254,465,538         |
|   | =====               | =====               |

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STATEMENTS OF CASH FLOWS  
 Three Months Ended March 31, 2005 and 2004  
 (Unaudited)

|   | 2005         | 2004         |
|---|--------------|--------------|
|   | -----        | -----        |
| CASH FLOWS FROM OPERATING ACTIVITIES                                    |              |              |
| Net loss  | \$ (557,069) | \$ (113,376) |
| Adjustments to reconcile net loss to cash used in operating activities: |              |              |
| Depreciation and amortization   | 416          | 251          |
| Changes in assets and liabilities:                                      |              |              |
| Accounts payable  | 234,563      | 24,641       |
| Accrued expenses  | 205,129      | 29,075       |
|   | -----        | -----        |
| CASH FLOWS USED IN OPERATING ACTIVITIES                                 | \$ (116,961) | \$ (59,409)  |
|   | -----        | -----        |
| CASH FLOWS FROM INVESTING ACTIVITIES                                    | \$ --        | \$ --        |
|   | -----        | -----        |
| CASH FLOWS FROM FINANCING ACTIVITIES                                    |              |              |
| Proceeds from notes payable   | \$ --        | \$ 15,000    |
| Proceeds from investors in Series B Preferred Stock                     | 148,166      | 108,334      |
|   | -----        | -----        |
| CASH FLOW FROM FINANCING ACTIVITIES                                     | 148,166      | 123,334      |
|   | -----        | -----        |
| NET INCREASE (DECREASE) IN CASH   | \$ 31,205    | \$ 63,925    |
| Cash, beginning of period   | 2,794        | 5,115        |
|   | -----        | -----        |
| Cash, end of period   | \$ 33,999    | \$ 69,040    |
|   | =====        | =====        |
| SUPPLEMENTAL CASH FLOW INFORMATION:                                     |              |              |
| Interest paid   | \$ 19,876    | \$ --        |
|   | =====        | =====        |
| Income taxes paid   | \$ --        | \$ --        |
|   | =====        | =====        |

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INNOVA HOLDINGS, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited interim financial statements of InnoVA Holdings, Inc., have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission ("SEC"), and should be read in conjunction with the audited financial statements and notes thereto contained in the Company's registration statement filed with the SEC on form 10-KSB. In the opinion of management, all

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adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements which would substantially duplicate the disclosure contained in the audited financial statements for the most recent fiscal year ended December 31, 2004 as reported in form 10-KSB, have been omitted.

### NOTE 2 - STOCK BASED COMPENSATION

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

|   | Three Months<br>2005 | Ended March 31,<br>2004 |
|---|----------------------|-------------------------|
|   | -----                | -----                   |
| Net loss applicable to common shareholders  | \$ (701,069)         | \$ (113,376)            |
| Add: Intrinsic value expense recorded   | --                   | --                      |
| Deduct: Total stock-based employee compensation<br>determined under fair value based method | (5,250)              | --                      |
|   | -----                | -----                   |
| Pro forma net loss applicable to common<br>shareholders                                     | \$ (706,319)         | \$ (113,376)            |
|   | =====                | =====                   |
| Earnings per share:   |                      |                         |
| Basic and diluted - as reported   | \$ (.00)             | \$ (.00)                |
| Basic and diluted - pro forma   | \$ (.00)             | \$ (.00)                |

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

During the first quarter of 2005 there were 16,060,638 options granted to employees. The share purchase options vest evenly over a three year period from date of grant and are exercisable between \$.01 per share and \$.017 per share depending on the value of the stock on the grant date, and they expire ten years after the grant date. The options were valued using the intrinsic value method and had no value because the exercise price was equal to the market price on the grant date. Additionally, during the first quarter of 2005 there were 6,000,000 shares of the Company's common stock awarded to a key employee and 6,000,000 shares awarded to a key independent contractor. Neither of these stock awards has any cash payments associated with it nor has any common stock of the Company been issued. The Company has recognized a liability of \$105,000 for these stock awards on its Balance Sheet in Accrued Expenses.

### NOTE 3 - CAPITAL STOCK

In September 2004, the Company authorized \$525,000 of Series B Preferred Stock. The terms of the Series B Preferred Stock include the following: i) pays a

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

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

In 2002, the company entered into convertible debt notes which totalled \$429,966 at December 31, 2003. An additional \$15,000 of the notes were issued during the first quarter of 2004. Terms were 8% per annum, without payment. Accrued interest earned during the term was to be paid upon maturity on January 31, 2007. The notes were convertible into Class B Convertible Preferred Stock upon certain future events that did not materialize, including raising \$5 million in additional equity. In March 2004, the notes totaling \$444,966 plus accrued interest were converted into 61,820,488 common shares of Innova Holdings, Inc. The shares were originally converted into RWT common stock at \$.50 a share and then converted into shares of Innova Holdings, Inc. at 61.37929356 to 1, the effective share exchange ratio for the merger between RWT and Innova.

### NOTE 4 - LINE OF CREDIT

On July 22, 2002, the Company entered into a revolving line of credit of \$225,000 with Fifth Third Bank, Florida, secured by the assets of the Company. The annual interest rate on unpaid principal was the prime rate plus 2%, due in monthly installments. Principal and interest were due on July 22, 2003. In November 2004, a principal shareholder loaned the Company \$165,000 to pay down the line of credit with Fifth Third Bank. The loan with the principal shareholder has the same terms as the Fifth Third Bank line of credit, except that it remains unsecured until such time as the Fifth Third Bank line of credit is fully paid, including principal and accrued interest, and is due upon demand. In January 2005, the Fifth Third Bank line of credit was paid off.

### NOTE 5 - SUBSEQUENT EVENTS

In April 2005 the Company was authorized to sell common stock of the Company totaling \$400,000 at \$.015 per share or higher as warranted by stock market conditions; for investors purchasing \$30,000 or more, the stock price will be discounted up to 15%. During April and May, \$360,000 of the Company's common stock was sold at stock prices ranging from \$.0125 per share to \$.03 per share in accordance with the above mentioned terms. Investors in these shares of the Company's common stock will be given notice in the event that the Company files

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any registration statement with the Securities and Exchange Commission for its Common Stock (excluding any registration statement on Form S-8 or S-4) and shall be entitled to include any or all of the shares of Common Stock purchased in these investments in such Registration Statement.

In April 2005 there were 30,658,621 stock options granted to employees. The share purchase options vest evenly over a three year period from date of grant and are exercisable at \$.017 per share, the value of the stock on the grant date, and they expire ten years after the grant date. The options were valued using the intrinsic value method and have no value because the exercise price was equal to the market price on the grant date. In April 2005 the Company awarded 47,982,000 shares of the Company's common stock to twenty-four (24) employees, independent contractors and individuals for services provided to the Company. The Board of Directors of the Company approved all of the stock options and shares of the Company's common stock awarded as well as 21,159,465 stock options and 9,000,000 shares of the Company's common stock for awards in the future.

### NOTE 6 - RESTATEMENT OF PREVIOUSLY REPORTED FINANCIAL STATEMENTS

There was a misstatement in the originally prepared March 31, 2005 financial statements which related to the beneficial conversion features of the \$125,000 of Mandatorily Redeemable Series A Preferred Stock issued in June 2004 and assumed by the Company as part of the reverse merger in August 2004, and the \$525,000 Series B Preferred Stock issued between September 2004 and March 2005. Management calculated the value of the beneficial conversion features and determined it was \$50,000 for the Series A Preferred Stock at the date of issuance. Of this amount, \$48,300 was the amount of the assumed unamortized beneficial conversion feature, of which \$3,600 was amortized to Accumulated Deficit during 2004 and \$2,500 was amortized to Accumulated Deficit during the three months ended March 31, 2005. The beneficial conversion feature was \$146,500 for the Series B Preferred Stock sold in 2004 and \$141,500 for the Series B Preferred Stock sold during the three months ended March 31, 2005. Accordingly, the Balance Sheet, Statement of Operations and the Statement of Stockholders Deficit for the three months ended March 31, 2005 were restated to reflect the amount of the beneficial conversion features.

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

### BACKGROUND

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

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

### RESULTS OF OPERATIONS



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Three months ended March 31, 2005 compared to three months ended March 31, 2004

During the three month period ended March 31, 2005 (the "2005 Period") revenues were \$0 compared to revenues of \$0 during the three month period ended March 31, 2004 (the "2004 Period").

Operating expenses were \$533,532 during the 2005 period compared to \$92,159 during the 2004 period. The increase in operating expenses primarily resulted from increased fees for outside services to independent contractors providing business development services and increased professional fees for auditing, accounting, financial and business planning services.

Net loss for the 2005 Period was \$557,069 compared to a net loss of \$113,376 for the 2004 Period, due to the factors described above.

### LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2005, we had current assets of \$33,999 and current liabilities of \$2,805,796. At March 31, 2005, we had negative working capital of \$2,771,797 and an accumulated deficit of \$8,141,849.

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

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In April 2005, the Company obtained an additional \$150,000 of funds through the private placement sale of 12,000,000 shares of the Company's common stock at \$.0125 per share and in May an additional \$210,000 of funds were obtained through the private placement sale of 7,000,000 shares of the Company's common stock at \$.03 per share. Investors in these shares of the Company's common stock will be given notice in the event that the Company files any registration statement with the Securities and Exchange Commission for its Common Stock (excluding any registration statement on Form S-8 or S-4) and shall be entitled to include any or all of the shares of Common Stock purchased in these investments in such Registration Statement. There are no assurances that the Company will be able to obtain additional financing through private placement, public offerings and/or bank financing necessary to support the Company's plan. No assurance can be given that financing will be available, or if available, will be on terms acceptable to the Company. If adequate financing is not available, the Company may be required to curtail its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

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

## ITEM 3. CONTROLS AND PROCEDURES

As of March 31, 2005, our principal executive officer and principal financial officer evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). This evaluation of the disclosure controls and procedures included controls and procedures designed to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Act is recorded, processed, summarized and reported within the time periods specified in the Security and Exchange Commission's rules and forms. Such disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers to allow timely decisions regarding required disclosure. Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were ineffective because the Company had not properly accounted for certain beneficial conversion features associated with its Series A Preferred Stock and Series B Preferred Stock issued in 2004 and 2005 and the accounting guidance provided by Emerging Issues Task Force Issue Numbers 98-5 and 00-27. Management concluded that the failure to properly account for and disclose the beneficial conversion features was a material weakness in its disclosure controls and procedures.

The Company issued its Series A Preferred Stock in June 2004 and its Series B Preferred Stock in September 2004 through March 2005. In its financial statements for the quarter ended March 31, 2005, the Company did not allocate any portion of the proceeds of these stock issuances to any beneficial conversion features of the preferred stock. After filing its quarterly report on Form 10-QSB, the Company received a comment letter from the staff of the Securities and Exchange Commission dated June 22, 2005 that requested, among other things, confirmation that management of the Company considered the guidance of certain accounting pronouncements in determining whether a portion of the proceeds of the Company's Series A Preferred Stock issued in June 2004 and Series B Preferred Stock issued in September 2004 through March 2005 should be allocated to the beneficial conversion feature.

After receipt of the SEC's comment letter, the Company's Chief Executive Officer and Chief Financial Officer reevaluated the Company's disclosure controls and procedures regarding the proper accounting treatment of the preferred stock issuances in 2004 and 2005, and presented to the Company's independent certified public accountants its plan to institute remedial actions to address this material weakness in its disclosure controls and procedures regarding the issuance of convertible securities and any associated beneficial conversion features and the accounting guidance provided by Emerging Issues Task Force Issue Numbers 98-5 and 00-27. These remedial actions are the following:

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

- the Chief Financial Officer is in the process of reviewing all of

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the Company's disclosure controls and procedures, as well as all accounting policies and procedures and internal controls, and appropriate changes will be made to correct any material weaknesses or significant deficiencies identified by October 31, 2005;

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

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

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

The remedial actions to correct the material weakness associated with the disclosure controls and procedures for beneficial conversion features were implemented as of June 30, 2005. We anticipate completion of all other actions by December 31, 2005, except for 404 compliance which we expect to have fully implemented in 2006. There are no additional material costs expected to be incurred as a result of the implementation of these remedial actions, since all of these actions were previously planned by the Company for implementation in 2005 and 2006 or were insignificant in amount.

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

Based upon the foregoing, Management restated its financial statements for the quarter ended March 31, 2005 as follows:

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- (1) the Company restated its Balance Sheet by increasing its Accumulated Deficit from \$(7,847,749) to \$(8,141,849) to reflect the charge of \$294,100 arising from the beneficial conversion features of its preferred stock issuances in 2004 and 2005;
- (2) the Company restated its Balance Sheet by increasing its Additional Paid In Capital from \$3,635,002 to \$3,971,302 to reflect the beneficial conversion features of the Series A Preferred Stock of \$48,300 and the Series B Preferred Stock issued in 2004 and 2005 of \$146,500 and \$141,500, respectively, for a total increase of \$336,300;

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- (3) the Company restated its Balance sheet by decreasing the amount of Stockholders' Deficit from \$(3,840,925) to \$(3,798,725) to reflect the net change of \$42,200 resulting from the beneficial conversion features of its Series A Preferred Stock and Series B Preferred Stock;
- (4) the Company restated its Balance Sheet by decreasing the amount of the Mandatorily Redeemable Series A Preferred Stock from \$125,000 to \$82,800, a decrease of \$42,200, to reflect the amount of \$48,300 representing the unamortized beneficial conversion feature assumed at the time of the reverse merger with Robotic Workspace Technologies, Inc. in August 2004 associated with its Series A Preferred Stock less the amount amortized to Accumulated Deficit of \$3,600 for the period ended December 31, 2004 and \$2,500 for the quarter ended March 31, 2005;
- (5) the Company restated its Statements of Operations by increasing the net loss applicable to common shareholders from \$(557,069) to \$(701,069) to reflect the \$144,000 charge to Accumulated Deficit;
- (6) the Company added a new Note 6 to its Financial Statements explaining the restated financial statements described above.

In accordance with the Exchange Act, the Company carried out an evaluation under the supervision and with the participation of management, including its principal executive officer and principal financial officer, of the effectiveness of its internal controls over financial reporting as of March 31, 2005 and the Company's principal executive officer and principal financial officer concluded that the Company's internal controls over financial reporting were ineffective because the Company had not properly accounted for certain beneficial conversion features associated with its Series A Preferred Stock and Series B Preferred Stock issued in 2004 and 2005 and the accounting guidance provided by Emerging Issues Task Force Issue Numbers 98-5 and 00-27, as discussed above. Management concluded that the failure to properly account for and disclose the beneficial conversion features was a material weakness in its internal controls over financial reporting.

As stated above, the Company received a comment letter from the staff of the Securities and Exchange Commission dated June 22, 2005 that requested, among other things, confirmation that management of the Company considered the guidance of certain accounting pronouncements in determining whether a portion of the proceeds of the Company's Series A Preferred Stock issued in June 2004 and Series B Preferred Stock issued in September 2004 through March 2005 should be allocated to the beneficial conversion feature. After receipt of the SEC's comment letter, the Company reevaluated its internal controls over financial reporting and presented to the Company's independent certified public

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accountants its plan to institute remedial actions to address this material weakness in its internal control over financial reporting for the issuance of convertible securities and any associated beneficial conversion features and the accounting guidance provided by Emerging Issues Task Force Issue Numbers 98-5 and 00-27.. These remedial actions are the following:

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

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

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

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

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

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

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### PART II - OTHER INFORMATION

#### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES

In April 2005, the Company obtained an additional \$150,000 of funds through the private placement sale of 12,000,000 shares of the Company's common stock at \$.0125 per share and in May an additional \$210,000 of funds were

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

### ITEM 6. EXHIBITS

#### (a) Exhibits

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

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### SIGNATURES

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

Innova Holdings, Inc.

Dated: November 22, 2005

By: /s/ Walter Weisel

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Walter Weisel  
Chief Executive Officer

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