

Innova Robotics & Automation, Inc.  
Form SB-2/A  
December 01, 2006

As filed with the Securities and Exchange Commission on December 1, 2006

Registration Number 333-136772

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

**AMENDMENT NO. 2 TO  
FORM SB-2  
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

**INNOVA ROBOTICS AND AUTOMATION, INC.  
(F/K/A INNOVA HOLDINGS, INC.)**  
(Name of Small Business Issuer in its Charter)

Delaware	7372	95-4868120
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer) Identification No.

15870 Pine Ridge Road  
Fort Myers, Florida 33908  
(239) 466-0488  
(Address and telephone number of principal executive offices)

Walter K. Weisel, Chief Executive Officer  
15870 Pine Ridge Road  
Fort Myers, Florida 33908  
(239) 466-0488  
(Name, address and telephone number of agent for service)

Copies to:  
Gregory Sichenzia, Esq.  
Eric Pinero, Esq.  
Sichenzia Ross Friedman Ference LLP  
1065 Avenue of the Americas, 21<sup>st</sup> Floor  
New York, New York 10018  
(212) 930-9700

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. ☒

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If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o \_\_\_\_\_

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. o \_\_\_\_\_

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount To Be Registered	Proposed Maximum Offering Price Per Share (1)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, \$.001 par value per share (2)	17,500,000	\$ 0.19	\$ 3,325,000.00	\$ 355.78
Common Stock, \$.001 par value per share (3)	9,300,000	\$ 0.19	\$ 1,767,000.00	\$ 189.07
Total	26,800,000		\$ 4,288,000.00	\$ 544.85*

\*We previously paid a filing fee of \$192.60 and are paying a registration fee in the amount of \$352.25 upon filing of this Amendment No. 2.

(1) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended. The average of the high and low price per share of the Registrant's Common Stock on the Over the Counter Bulletin Board as of November 30, 2006 was \$0.19 per share.

(2) Represents shares of common stock issuable upon conversion of our principal amount \$2,825,000 10% secured convertible debentures.

(3) Represents (i) 1,000,000 shares issuable upon exercise of warrants at a price equal to \$.50 per share, (ii) 1,500,000 shares issuable upon exercise of warrants at a price equal to \$1.00 per share, (iii) 2,300,000 shares issuable upon exercise of warrants at a price equal to \$0.25 per share, (iv) 2,000,000 shares issuable upon exercise of warrants at a price equal to \$0.65 per share, and (v) 2,500,000 shares issuable upon exercise of warrants at a price equal to \$0.75 per share.

**The registrant hereby amends this registration statement on such date or date(s) as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the commission acting pursuant to said Section 8(a) may determine.**

**The information in this prospectus is not complete and may be changed. The securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**PRELIMINARY PROSPECTUS, SUBJECT TO COMPLETION DATED DECEMBER 1, 2006**

**INNOVA ROBOTICS AND AUTOMATION, INC.  
(F/K/A INNOVA HOLDINGS, INC.)**

**26,800,000 Shares of Common Stock**

This prospectus relates to the resale by the selling stockholders of up to 26,800,000 shares of our common stock. The selling stockholders may sell common stock from time to time in the principal market on which the stock is traded at the prevailing market price or in negotiated transactions.

The total number of shares sold herewith includes the following shares owned by or to be issued to Cornell Capital Partners LP: (i) up to 17,500,000 shares issuable upon conversion of our principal amount \$2,825,000 10% secured convertible debentures, which are convertible into shares of our common stock at a fixed price equal to \$.40 per share, (ii) 1,000,000 shares issuable upon exercise of warrants at a price equal to \$.50 per share, (ii) 1,500,000 shares issuable upon exercise of warrants at a price equal to \$1.00 per share, (iii) 2,300,000 shares issuable upon exercise of warrants at a price equal to \$0.25 per share, and (iv) 2,000,000 shares issuable upon exercise of warrants at a price equal to \$0.65 per share, and (v) 2,500,000 shares issuable upon exercise of warrants at a price equal to \$0.75 per share,.

We are not selling any shares of common stock in this offering and therefore will not receive any proceeds from this offering. We will, however, receive proceeds from the exercise of warrants to purchase an aggregate of 9,300,000 shares of common stock in the aggregate amount of \$5,750,000, if such warrants are exercised and if such warrants are exercised on a cash basis. All costs associated with this registration will be borne by us.

Our common stock currently trades on the Over the Counter Bulletin Board ("OTC Bulletin Board") under the symbol "INRA." On November 30, 2006, the last reported sale price for our common stock on the OTC Bulletin Board was \$.19 per share.

The securities offered in this prospectus involve a high degree of risk. See "Risk Factors" beginning on page 8 of this prospectus to read about factors you should consider before buying shares of our common stock.

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

The information in this Prospectus is not complete and may be changed. This Prospectus is included in the Registration Statement that was filed by Innova Robotics and Automation, Inc. with the Securities and Exchange Commission. The selling stockholders may not sell these securities until the registration statement becomes effective. This Prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

The date of this Prospectus is \_\_\_\_\_, 2006



## TABLE OF CONTENTS

	Page
Prospectus Summary	5
Risk Factors	7
Forward Looking Statements	12
Use of Proceeds	12
Management's Discussion and Analysis of Financial Condition or Plan of Operation	12
Description of Business	18
Description of Property	29
Legal Proceedings	29
Directors and Executive Officers	29
Executive Compensation	32
Changes In and Disagreements With Accountants on Accounting and Financial Disclosure	36
Market for Common Equity and Related Stockholder Disclosure	36
Security Ownership of Certain Beneficial Owners and Management	38
Selling Shareholders	40
Certain Relationships and Related Transactions	40
Description of Securities	42
Plan of Distribution	42
Legal Matters	44
Experts	44
Where You Can Find More Information	44
Disclosure of Commission Position on Indemnification for Securities Act Liabilities	45
Index to Consolidated Financial Statements	F-1

You may only rely on the information contained in this prospectus or that we have referred you to. We have not authorized anyone to provide you with different information. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the common stock offered by this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any common stock in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus nor any sale made in connection with this prospectus shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information contained by reference to this prospectus is correct as of any time after its date.

## PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus carefully, including, the section entitled "Risk Factors" before deciding to invest in our common stock. Innova Robotics and Automation, Inc. is referred to throughout this prospectus as "Innova Robotics," "we" or "us."

### General

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

On August 25, 2004, we completed a reverse merger into Robotic Workspace Technologies, Inc., a robotics software technology provider, in which RWT was deemed the "accounting acquirer." Simultaneously, we discontinued our computer systems sales and services business. In connection with these transactions, Hy-Tech Technology Group, Inc. changed its name to Innova Holdings, Inc. On May 16, 2006, we completed the purchase of all of the assets of CoroWare, Inc. pursuant to a certain Asset Purchase Agreement we and CoroWare entered into with Coroware Technologies, Inc., a wholly owned subsidiary of our company dated as of May 12, 2006. Under the terms of the Asset Purchase Agreement, we purchased, and CoroWare sold, all of its assets including, without limitation, all hardware, software, employee relations, customer contacts in the military and homeland security markets, contacts with Microsoft, Inc. and all other customers. On June 16, 2006, we entered into a Strategic Alliance Agreement with Mesa Robotics, Inc., a robotics company with unmanned mobile robotic ground vehicles wherein Mesa granted us exclusive, worldwide rights to market and sell a full line of Mesa products, including, but not limited to, the current Mesa product line of unmanned ground robotic vehicles which are ACER, MATILDA, MARV, and MAUD. The activities are under Innova Robotics, Inc., a wholly owned subsidiary of our company, and targeted at the homeland security, first responders, intelligence and military markets.

We are a robotics automation technology and software systems development and integration company providing open-architecture PC motion control solutions and hardware and software systems-based solutions to the military, service, personal, and industrial robotic markets. Our plan of operations is to sell and license our technology to these markets and offer solutions, experience and know-how to meet our customers' robotic technology needs. The motion control market includes software, hardware, and system integration services. Sophisticated controls are used on production equipment like industrial robots and machine tools, space and undersea exploration devices such as NASA's robotic shuttle arm, homeland security and military devices such as mobile robots, and emerging technologies such as robots used in medical procedures and pharmacies. In addition, we will identify, develop and acquire technology that we believe is or will become a market leader and to create opportunities to leverage our software into value-added applications when combined with other software solutions offered by us.

For the nine months ended September 30, 2006 we generated revenues of \$850,491 and we did not generate any revenues for the nine months ended September 30, 2005. For the nine months ended September 30, 2006 and 2005, we incurred a net loss of \$5,287,258 and \$1,478,079, respectively. For the year ended December 31, 2005 and 2004, we did not generate any revenues and incurred a net loss of \$1,881,125 and \$1,426,931, respectively. As a result of recurring losses from operations, a working capital deficit and accumulated deficit, our auditors, in their report dated April 15, 2006, have expressed substantial doubt about our ability to continue as a going concern.

Our principal executive offices are located at 15870 Pine Ridge Road , Fort Myers, Florida 33908 and our telephone number is (239) 466-0488.

### This Offering

Shares offered by Selling Stockholders

Up to 26,800,000 shares, based on current market prices, including (i) up to 17,500,000 shares issuable upon conversion of our principal amount \$2,825,000 10% secured convertible debentures, which are convertible into shares of our common stock at a fixed price equal to \$.40 per share, (ii) 1,000,000 shares issuable upon exercise of warrants at a price equal to \$.50 per share, (iii) 1,500,000 shares issuable upon exercise of warrants at a price equal to \$1.00 per share, (iv) 2,300,000 shares issuable upon exercise of warrants at a price equal to \$0.25 per share, (v) 2,000,000 shares issuable upon exercise of warrants at a price equal to \$0.65 per share, and (vi) 2,500,000 shares issuable upon exercise of warrants at a price equal to \$0.75 per share.

This number represents approximately 33.72% of our current outstanding stock.



Common Stock to be outstanding after the offering	106,267,593 *
Use of Proceeds	We are not selling any shares of common stock in this offering and therefore will not receive any proceeds from this offering. We will, however, receive proceeds from the exercise of warrants to purchase 9,300,000 shares of common stock in the aggregate amount of \$5,750,000, if such warrants are exercised and if such warrants are exercised on a cash basis. We intend to use such proceeds, if any, for working capital and general corporate purposes. See "Use of Proceeds" for a complete description.
Risk Factors	The purchase of our common stock involves a high degree of risk. You should carefully review and consider "Risk Factors" beginning on page 8.
OTC Bulletin Board Trading Symbol	INRA

\* The above information regarding common stock to be outstanding after the offering is based on 79,467,593 shares of common stock outstanding as of November 20, 2006.

**EXPLANATORY NOTE:** Except as otherwise set forth herein, all common share amounts and per share amounts reflect the one-for-ten reverse stock split of the issued and outstanding shares of common stock of the Company, effective on November 20, 2006 as well as the name change of the Company from Innova Holdings, Inc. to Innova Robotics and Automation, Inc.

## RECENT FINANCING TRANSACTION

On July 21, 2006, we consummated a Securities Purchase Agreement dated July 21, 2006 with Cornell Capital Partners L.P. providing for the sale by us to Cornell of our 10% secured convertible debentures in the aggregate principal amount of \$2,825,000 of which \$1,250,000 was advanced immediately. The second installment of \$575,000 will be advanced on the date of the filing by us with the Securities and Exchange Commission of a registration statement (as further described below). The last installment of \$1,000,000 will be advanced three business days after the date the registration statement is declared effective by the Commission.

The debentures mature on the third anniversary of the date of issuance. The holder of the debentures may convert at any time amounts outstanding under the debentures into shares of our common stock at a fixed conversion price per share equal to \$0.40. Cornell has agreed not to short any of the shares of common stock. Our obligations under the Purchase Agreement are secured by substantially all of our, and our wholly owned subsidiary's (CoroWare Technologies, Inc.) assets.

Under the Purchase Agreement, we also issued to Cornell five-year warrants to purchase 1,000,000 and 1,500,000 shares of common stock at a price 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 a price equal to \$0.25, \$0.65 and \$0.75, respectively.

In connection with the Purchase Agreement, we also entered into a registration rights agreement with Cornell providing for the filing of a registration statement with the Commission registering the common stock issuable upon conversion of the debentures and exercise of the warrants. We are obligated to use our best efforts to cause the

registration statement to be filed no later than 30 days after the closing date. In the event of a default of our obligations under the registration rights agreement, including our agreement to file the registration statement with the Commission no later than 30 days after the closing date, or if the registration statement is not declared effective within 120 days after the closing date, we are required to pay to Cornell, as liquidated damages, for each month that the registration statement has not been filed or declared effective, as the case may be, either a cash amount or shares of our common stock equal to 2% of the liquidated value of the debentures.

On July 21, 2006, we terminated the Standby Equity Distribution Agreement dated June 14, 2005 with Cornell, together with all of the definitive agreements related thereto. In addition, on July 21, 2006 Cornell agreed to terminate the promissory note in the remaining principal amount of \$80,000 in exchange for our issuance of 484,850 shares of common stock to Cornell.

We claim an exemption from the registration requirements of the Securities Act of 1933, as amended, (the "Act") for the private placement of these 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, Cornell is an accredited investor and/or qualified institutional buyer, Cornell had access to information about us and their investment, Cornell took the securities for investment and not resale, and we took appropriate measures to restrict the transfer of the securities.

## **RISK FACTORS**

An investment in our shares involves a high degree of risk. Before making an investment decision, you should carefully consider all of the risks described in this prospectus. If any of the risks discussed in this prospectus actually occur, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the price of our shares could decline significantly and you may lose all or a part of your investment. The risk factors described below are not the only ones that may affect us. Our forward-looking statements in this prospectus are subject to the following risks and uncertainties. Our actual results could differ materially from those anticipated by our forward-looking statements as a result of the risk factors below. See "Forward-Looking Statements."

### **Risks Related to Our Business and Financial Condition**

#### **WE HAVE HISTORICALLY LOST MONEY AND LOSSES MAY CONTINUE IN THE FUTURE, WHICH MAY CAUSE US TO CURTAIL OPERATIONS.**

For the nine months ended September 30, 2006 we generated revenues of \$850,491 and we did not generate any revenues for the nine months ended September 30, 2005. For the nine months ended September 30, 2006 and 2005, we incurred a net loss of \$5,287,258 and \$1,478,079, respectively. For the year ended December 31, 2005 and 2004, we did not generate any revenues and incurred a net loss of \$1,881,125 and \$1,426,931, respectively. Our accumulated deficit was \$9,485,495 as at December 31, 2005 and \$14,795,398 as at September 30, 2006. While we are building our sales and operating infrastructure, future losses are likely to occur, as we are dependent on spending money in excess of funds received from sales to pay for our operations. No assurances can be given that we will be successful in reaching or maintaining profitable operations. Accordingly, we may experience liquidity and cash flow problems. If our losses continue, our ability to operate may be severely impacted which may cause us to cease operations altogether.

#### **WE MAY NEED TO RAISE ADDITIONAL CAPITAL OR DEBT FUNDING TO SUSTAIN OPERATIONS.**

Unless we can become profitable with the existing sources of funds we have available, including funds to be received under the terms of the Securities Purchase Agreement, and our operations generate sufficient cash flows to enable us to generate a profit on a sustained basis, we will require additional capital to sustain operations and we may need access to additional capital or additional debt financing to grow our operations. In addition, to the extent that we have a working capital deficit and cannot offset the deficit from profitable sales, we may have to raise capital to repay the deficit and provide more working capital to permit growth in revenues. We cannot assure that financing whether from external sources or related parties will be available if needed or on favorable terms. Our potential inability to obtain adequate financing if necessary will result in the need to reduce the pace of business operations. Any of these events could be materially harmful to our business and may result in a lower stock price and could cause us to cease

operations altogether.

**THE REPORT OF OUR INDEPENDENT AUDITORS INCLUDES A GOING CONCERN UNCERTAINTY EXPLANATORY PARAGRAPH FOR THE YEAR ENDED DECEMBER 31, 2005, WHICH MEANS THAT WE MAY NOT BE ABLE TO CONTINUE OPERATIONS UNLESS WE CAN BECOME PROFITABLE OR OBTAIN ADDITIONAL FUNDING.**

We have a history of operating losses that are likely to continue in the future. Our auditors have included an uncertainty explanatory paragraph in their Independent Auditor's Report dated as of April 15, 2006 included in our audited financial statements for the years ended December 31, 2005 to the effect that our significant losses from operations and our dependence on equity and debt financing raise substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern. We expect to be able to continue operations for six months with the cash currently on hand, anticipated from our operations and from the convertible debentures we will issue to Cornell as part of the Securities Purchase Agreement entered into on July 21, 2006 and discussed above on page 6 - "Recent Financing Transactions".

**WE HAVE A WORKING CAPITAL DEFICIT, WHICH MEANS THAT OUR CURRENT ASSETS ON DECEMBER 31, 2005 WERE NOT SUFFICIENT TO SATISFY OUR CURRENT LIABILITIES AND, THEREFORE, OUR ABILITY TO CONTINUE OPERATIONS IS AT RISK.**

As of September 30, 2006, we had a working capital deficit of \$5,262,071 which means that our current liabilities as of that date exceeded our current assets by \$5,262,071. Current assets are assets that are expected to be converted to cash within one year and, therefore, may be used to pay current liabilities as they become due. Our working capital deficit means that our current assets were not sufficient to satisfy all of our current liabilities on September 30, 2006. If our ongoing operations do not begin to provide sufficient profitability to offset the working capital deficit, we may have to raise additional capital or debt in the future to fund the deficit or curtail future plans.

## **OUR PRODUCTS AND SERVICES MUST BE ACCEPTED IN THE MARKET.**

If our Universal Robot Controller and our Universal Automation Controller products, along with our systems development and integration services, do not achieve market acceptance by an increasing customer base, we will not be able to generate revenues necessary to support our business operations, which could result in the termination of our operations.

## **WE RELY IN PART ON SYSTEMS INTEGRATORS TO SELL OUR PRODUCTS.**

We believe that our ability to sell products to system integrators will be important to our success. Our relationships with system integrators are generally not exclusive, and some of our system integrators may expend a significant amount of effort or give higher priority to selling products of other companies. In the future, any of our system integrators may discontinue their relationships with us. The loss of or a significant reduction in revenues from system integrators to which we may sell a significant amount of our products could negatively impact our business, financial condition or results of operations.

## **THE SUCCESS OF OUR BUSINESS DEPENDS ON OUR KEY EMPLOYEES.**

We are highly dependent upon the continuing contributions of our key management, sales, and software engineering and product development personnel. In particular, we would be adversely affected if we were to lose the services of Walter K. Weisel, Chief Executive Officer and Chairman of the Board, who has provided significant leadership to us since our inception. In addition, the loss of the services of any of our senior managerial, technical or sales personnel could impair our business, financial condition, and results of operations.

## **OUR EXISTING AND NEW PRODUCTS, SERVICES AND TECHNOLOGIES MAY NEVER BE PROFITABLE.**

Currently, we have our Universal Robot Controller (URC) and related software to sell to owners of industrial robots as well as to non-industrial customers needing the functions and features of industrial robots; this latter category is generally considered the Service Robot market and is a market in the process of emerging. Today, we are actively selling our Universal Robot Controller into each of the industrial and service robot markets. We are always in the process of evaluating the URC and determining the appropriate time to upgrade to the next generation of URC. Management made the decision to invest some of the proceeds from the Equity Distribution Agreement in that upgrade, and \$47,000 has been spent through September 30, 2006. Additionally, we previously invested resources in the development of a Universal Automation Controller (UAC) which should have a broad market application in all uses of automation devices in the manufacturing industries. Additional funds are required to complete the development of the UAC. In addition, we expect to invest in developing systems integration products to be sold bundled with systems development and implementation services. We realize these product and service offerings will require significant effort to acquire required technical as well as selected industry expertise and relationships. We have made significant investments in research and development for the UAC. Substantial revenues from these products, services and technologies may not be achieved for a number of years, if at all. Moreover, these products and services may never be profitable.

## **IF WE FAIL TO ADEQUATELY PROTECT OUR INTELLECTUAL PROPERTY RIGHTS, COMPETITORS MAY USE OUR TECHNOLOGY AND TRADEMARKS, WHICH WOULD WEAKEN OUR COMPETITIVE POSITION AND MAY RESULT IN THE FAILURE OF OUR BUSINESS.**

Our success depends, in part, upon our patented proprietary technology. We rely on a combination of three issued patents, copyrights, trademarks and trade secret rights, confidentiality procedures and licensing arrangements to establish and protect our proprietary rights. It is possible that other companies could successfully challenge the

validity or scope of our patents and that our patents may not be supported, eliminating a competitive advantage we currently enjoy. As part of our confidentiality procedures, we generally enter into non-disclosure agreements with our employees, distributors and corporate partners and into license agreements with respect to our software, documentation and other proprietary information. Despite these precautions, third parties could copy or develop similar technology independently. The protection of our proprietary rights may not be adequate and our competitors could independently develop similar technology, duplicate our products, or design around patents and other intellectual property rights that we hold. In connection with our efforts to protect our intellectual property, we believed it was necessary to commence an action in the Florida Federal District Court against ABB, Inc. and ABB Robotics AB, for alleged misappropriation of trade secrets, breach of contract and breach of the covenant of good faith. We may need to commence other litigation to protect our intellectual property and such litigation may be costly or unsuccessful.

#### **WE NEED TO ESTABLISH AND MAINTAIN STRATEGIC AND LICENSING RELATIONSHIPS.**

Our success will depend in part upon our ability to establish and maintain strategic and licensing relationships with companies in our markets as well as in related business fields, including but not limited to businesses in the industrial manufacturing markets and businesses in the service robotic markets. We believe that these relationships are needed to allow us access to manufacturing, sales and distribution resources, as well as to key technologies and selected industry expertise. However, the amount and timing of resources to be devoted to these activities by such other companies are not within our control. There can be no assurance that we will be able to maintain our existing relationships or enter into beneficial relationships in the future, that other parties will perform their obligations as expected or that our reliance on others will not result in unforeseen problems. There can be no assurance that our current and potential future strategic partners and licensees will not develop or pursue alternative technologies either on their own or in collaboration with others, including with our competitors. The failure of any of our current or future collaboration efforts could have a material adverse effect on our ability to sell existing products or to introduce new products or applications and therefore could have a material adverse effect on our business, financial condition and results of operations.

**A BREACH OF CUSTOMER CONFIDENTIAL INFORMATION COULD DAMAGE OUR BUSINESS.**

Any breach of security relating to confidential information of customers could result in legal liability for us and a reduction in customer's use or total cancellation of their participation, which could materially harm our business. It is anticipated that we will receive highly confidential information from customers. We anticipate that we will possess sensitive customer information as part of our services, which could be valuable to competitors or other similar companies if misappropriated or accessed. Our security procedures and protocols to protect the customer against the risk of inadvertent disclosure or intentional breach of security might fail, thereby exposing customers to the risk of disclosure of their confidential information.

**A SIGNIFICANT PERCENT OF OUR REVENUES ARE CONCENTRATED WITH ONE CUSTOMER**

CoroWare represents a major portion of our revenues for the nine months ended September 30, 2006, contributing \$610,500 of a total revenue amount of \$850,491, or 72%. Of CoroWare's revenues, a substantial amount of their revenues are derived from software systems development and integration performed for Microsoft. At September 30, 2006, of our total accounts receivable balance, Microsoft represented approximately 60%. A concentration of business with one customer could lead to a substantial reduction in future revenues and accounts receivable if that customer chooses alternative sources for their needs.

**WE HAVE RECEIVED A SUBPOENA FROM THE SEC REGARDING A TRANSACTION FROM APRIL 2003.**

We received a subpoena from the SEC dated May 10, 2005 relating to an investigation of trading in certain OTC stocks, including our common stock. The subpoena sought documents relating to the merger and financing transactions entered into by us in April 2003. We believe we provided all information requested under the subpoena promptly in 2005. We are not able to predict what actions, if any, the SEC may take against us as a result of the investigation.

**Risks Relating to Our Current Financing Arrangement**

**THERE ARE A LARGE NUMBER OF SHARES UNDERLYING OUR CONVERTIBLE NOTES AND WARRANTS THAT ARE BEING REGISTERED IN THIS PROSPECTUS AND THE SALE OF THESE SHARES MAY DEPRESS THE MARKET PRICE OF OUR COMMON STOCK.**

As of November 20, 2006, we had 79,467,593 shares of common stock issued and outstanding. In connection with our July 2006 Securities Purchase Agreement, we also have outstanding secured convertible debentures or an obligation to issue secured convertible debentures that may be converted into 7,062,500 shares of common stock, and outstanding warrants or an obligation to issue warrants to purchase 9,300,000 shares of common stock. Upon effectiveness of the registration statement, all of the shares, including all of the shares issuable upon conversion of the debentures and upon exercise of our warrants, may be sold without restriction. The sale of these shares may adversely affect the market price of our common stock.

**THE ISSUANCE OF OUR STOCK UPON CONVERSION OF THE DEBENTURES COULD ENCOURAGE SHORT SALES BY THIRD PARTIES, WHICH COULD CONTRIBUTE TO THE FUTURE DECLINE OF OUR STOCK PRICE AND MATERIALLY DILUTE EXISTING STOCKHOLDERS' EQUITY AND VOTING RIGHTS.**

The debentures have the potential to cause significant downward pressure on the price of our common stock. This is particularly the case if the shares being placed into the market exceed the market's ability to absorb the increased number of shares of stock. Such an event could place further downward pressure on the price of our common stock.

which presents an opportunity for short sellers and others to contribute to the future decline of our stock price. If there are significant short sales of our stock, the price decline that would result from this activity will cause the share price to decline more so, which, in turn, may cause long holders of the stock to sell their shares thereby contributing to sales of stock in the market. If there is an imbalance on the sell side of the market for the stock, our stock price will decline.

**IF WE ARE REQUIRED FOR ANY REASON TO REPAY OUR OUTSTANDING SECURED CONVERTIBLE DEBENTURES, WE WOULD BE REQUIRED T**