

LUNA INNOVATIONS INC
Form 10-Q
November 14, 2011
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2011

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

COMMISSION FILE NUMBER 000-52008

LUNA INNOVATIONS INCORPORATED

(Exact name of registrant as specified in its charter)

Edgar Filing: LUNA INNOVATIONS INC - Form 10-Q

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

54-1560050
(I.R.S. Employer

Identification Number)

One Riverside Circle, Suite 400

Roanoke, VA 24016

(Address of Principal Executive Offices)

(540) 769-8400

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of November 7, 2011, there were 13,795,199 shares of the registrant's common stock outstanding.

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including the sections entitled Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosure About Market Risk under Items 2 and 3, respectively, of Part I of this report, and the section entitled Risk Factors under Item 1A of Part II of this report, may contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. All statements other than statements of historical fact are forward-looking statements for purposes of these statutes, including those relating to future events or our future financial performance. In some cases, you can identify these forward looking statements by words such as intends, will, plans, anticipates, expects, may, might, estimates, believes, should, projects, predicts, potential or continue, or the negative of those words and other comparable words, and other words or terms of similar meaning in connection with any discussion of future operating or financial performance. Similarly, statements that describe our management transition, business strategy, goals, prospects, opportunities, outlook, objectives, plans or intentions are also forward-looking statements. These statements are only predictions and may relate to, but are not limited to, expectations of future operating results or financial performance, capital expenditures, introduction of new products, regulatory compliance and plans for growth and future operations, as well as assumptions relating to the foregoing.

These statements are based on current expectations and assumptions regarding future events and business performance and involve known and unknown risks, uncertainties and other factors that may cause actual events or results to be materially different from any future events or results expressed or implied by these statements. These factors include those set forth in the following discussion and within Item 1A Risk Factors of this Quarterly Report on Form 10-Q and elsewhere within this report.

You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. You should carefully review the risk factors described in other documents that we file from time to time with the U.S. Securities and Exchange Commission, or SEC. Except as required by applicable law, including the rules and regulations of the SEC, we do not plan to publicly update or revise any forward-looking statements, whether as a result of any new information, future events or otherwise, other than through the filing of periodic reports in accordance with the Securities Exchange Act of 1934, as amended.

Table of Contents

LUNA INNOVATIONS INCORPORATED
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2011

TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>	4
ITEM 1. <u>FINANCIAL STATEMENTS</u>	4
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	14
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	20
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	21
<u>PART II. OTHER INFORMATION</u>	21
ITEM 1. <u>LEGAL PROCEEDINGS</u>	21
ITEM 1A. <u>RISK FACTORS</u>	22
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	36
ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	36
ITEM 4. <u>RESERVED</u>	36
ITEM 5. <u>OTHER INFORMATION</u>	36
ITEM 6. <u>EXHIBITS</u>	36
<u>SIGNATURES</u>	37
<u>EXHIBIT INDEX</u>	38

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Luna Innovations Incorporated****Condensed Consolidated Balance Sheets**

	September 30, 2011 (unaudited)	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	\$ 6,833,450	\$ 7,216,580
Accounts receivable, net	7,908,792	7,669,625
Inventory, net	3,570,266	3,106,600
Prepaid expenses	849,090	665,210
Other current assets	35,717	45,348
Total current assets	19,197,315	18,703,363
Property and equipment, net	3,010,999	3,204,670
Intangible assets, net	652,050	664,418
Other assets	246,835	303,210
Total assets	\$ 23,107,199	\$ 22,875,661
Liabilities and stockholders equity		
Liabilities:		
Current Liabilities		
Line of credit	\$	\$ 2,500,000
Current portion of long term debt obligation	1,500,000	1,195,784
Current portion of capital lease obligation	50,192	2,194
Accounts payable	1,860,793	2,008,183
Accrued liabilities	3,515,097	3,549,604
Deferred credits	1,408,562	1,392,602
Total current liabilities	8,334,644	10,648,367
Long-term debt obligation	4,000,000	2,611,609
Long-term lease obligation	196,033	
Total liabilities	12,530,677	13,259,976
Commitments and contingencies		
Stockholders equity:		
Preferred stock, par value \$ 0.001, 1,321,514 shares authorized, issued and outstanding at September 30, 2011 and December 31, 2010	1,322	1,322
Common stock, par value \$ 0.001, 100,000,000 shares authorized, 13,699,379 and 13,449,345 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	13,835	13,526
Additional paid-in capital	58,776,258	56,681,756
Accumulated deficit	(48,214,893)	(47,080,919)

Edgar Filing: LUNA INNOVATIONS INC - Form 10-Q

Total stockholders' equity	10,576,522	9,615,685
Total liabilities and stockholders' equity	\$ 23,107,199	\$ 22,875,661

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

Table of Contents**Luna Innovations Incorporated****Condensed Consolidated Statements of Operations**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011 (unaudited)	2010	2011 (unaudited)	2010 (unaudited)
Revenues:				
Technology development revenues	\$ 6,161,826	\$ 5,027,024	\$ 17,406,515	\$ 16,929,621
Product and license revenues	2,681,184	3,558,118	10,058,709	8,539,953
Total revenues	8,843,010	8,585,142	27,465,224	25,469,574
Cost of revenues:				
Technology development costs	3,630,163	3,534,089	11,910,771	11,559,351
Product and license costs	1,719,039	1,613,499	5,059,507	4,332,600
Total cost of revenues	5,349,202	5,147,588	16,970,278	15,891,951
Gross Profit	3,493,808	3,437,554	10,494,946	9,577,623
Operating expense:				
Selling, general and administrative	2,303,325	3,383,121	9,340,545	10,044,549
Research, development, and engineering	877,741	307,777	1,950,275	1,249,385
Reorganization expense		53,597		161,801
Total operating expense	3,181,066	3,744,495	11,290,820	11,455,735
Operating income / (loss)	312,742	(306,941)	(795,874)	(1,878,112)
Other income/(expense):				
Other income/(expense)	21,953	10,000	57,793	(5,477)
Interest expense	(91,908)	(124,756)	(290,634)	(352,282)
Total other income/(expense)	(69,955)	(114,756)	(232,841)	(357,759)
Income/ (loss) before income taxes	242,787	(421,697)	(1,028,715)	(2,235,871)
Income tax expense	287	1,817	10,307	1,817
Net income / (loss)	242,500	(423,514)	(1,039,022)	(2,237,688)
Preferred stock dividend	20,616	93,000	94,952	267,633
Net income / (loss) attributable to common stockholders	\$ 221,884	\$ (516,514)	\$ (1,133,974)	\$ (2,505,321)
Net income / (loss) per share:				
Basic	\$ 0.02	\$ (0.04)	\$ (0.08)	\$ (0.19)
Diluted	\$ 0.01	\$ (0.04)	\$ (0.08)	\$ (0.19)

Edgar Filing: LUNA INNOVATIONS INC - Form 10-Q

Weighted average shares:

Basic	13,669,724	13,188,913	13,598,249	12,890,752
Diluted	15,898,639	13,188,913	13,598,249	12,890,752

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

Table of Contents

Luna Innovations Incorporated
Condensed Consolidated Statements of Cash Flows

	Nine months ended	
	September 30,	
	2011	2010
	(unaudited)	
Cash flows provided by / (used in) operating activities		
Net loss	\$ (1,039,022)	\$ (2,237,688)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	1,042,700	953,630
Share-based compensation	1,737,220	2,616,024
Warrant expense	41,752	149,850
Change in assets and liabilities:		
Accounts receivable	(239,167)	625,016
Inventory	(463,666)	(140,220)
Other current assets	(174,249)	736,834
Other assets		