LUNA INNOVATIONS INC Form 10-O November 14, 2011 **Table of Contents**

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE Х **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** to

For the transition period from

COMMISSION FILE NUMBER 000-52008

LUNA INNOVATIONS INCORPORATED

(Exact name of registrant as specified in its charter)

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

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. x 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.

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, might, estimates, believes, will. plans, anticipates, expects, may, 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.

LUNA INNOVATIONS INCORPORATED

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2011

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Luna Innovations Incorporated

Condensed Consolidated Balance Sheets

Sash and cash equivalents \$ 6,833,450 \$ 7,216,58 Accounts receivable, net 7,008,792 7,669,62 Neentory, net 3,570,266 3,106,600 Topaid expenses 849,090 665,211 Other current assets 35,717 45,344 Fotal current assets 19,197,315 18,703,366 Property and equipment, net 3,010,999 3,204,670 Interagible assets, net 652,205 664,411 Dither assets 246,835 030,211 Fotal assets \$ 23,107,199 \$ 22,875,66 Liabilities and stockholders equity		September 30, 2011 (unaudited)	December 31, 2010
Sash and cash equivalents \$ 6,833,450 \$ 7,216,58 Accounts receivable, net 7,908,792 7,669,62 Neentory, net 3,570,266 3,106,600 Total current assets 35,717 45,344 Total current assets 19,197,315 18,703,366 Property and equipment, net 3,010,999 3,204,670 Inter assets 246,835 303,211 Potal assets 246,835 303,211 Inter assets 24,6835 303,211 Inter assets 2,23,107,199 \$ 22,875,66 Liabilities and stockholders equity	Assets	· · · · ·	
Accounts receivable, net 7,908,792 7,669,022 aventory, net 3,570,266 3,106,600 Trepaid expenses 849,090 665,211 Other current assets 19,197,315 18,703,365 Property and equipment, net 3,010,999 3,204,670 Total current assets 19,197,315 18,703,365 Property and equipment, net 3,010,999 3,204,670 Total assets 246,835 303,211 Duber assets 2,46,835 303,211 Total assets \$ 23,107,199 \$ 22,875,66 Liabilities and stockholders equity	Current assets		
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nventory, net 3,570,266 3,106,600 Prepaid expenses 849,090 665,211 Dther current assets 19,197,315 18,703,36 Fordal current assets 19,197,315 18,703,36 Orgety and equipment, net 3,010,999 3,204,677 Itangible assets, net 652,050 664,41 Other assets 246,835 303,210 Fotal assets \$ 23,107,199 \$ 2,287,66 Liabilities	Accounts receivable, net	7,908,792	7,669,625
Other current assets 35,717 45,343 Fotal current assets 19,197,315 18,703,36 Property and equipment, net 3,010,999 3,204,674 Intagible assets, net 652,050 664,411 Other assets 246,835 303,214 Other assets 246,835 303,214 Classets \$ 23,107,199 \$ 22,875,66 Liabilities	Inventory, net	3,570,266	3,106,600
Other current assets 35,717 45,343 Fotal current assets 19,197,315 18,703,36 Property and equipment, net 3,010,999 3,204,674 Intagible assets, net 652,050 664,411 Other assets 246,835 303,214 Other assets 246,835 303,214 Classets \$ 23,107,199 \$ 22,875,66 Liabilities	Prepaid expenses	849,090	665,210
Property and equipment, net 3,010,999 3,204,670 ntangible assets, net 652,050 664,411 Other assets 246,835 303,210 Fotal assets \$ 23,107,199 \$ 22,875,66 Liabilities and stockholders equity	Other current assets		45,348
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Dther assets 246,835 303,210 Total assets \$ 23,107,199 \$ 22,875,66 Liabilities and stockholders equity	Intangible assets, net		664,418
Liabilities Current Liabilities Line of credit \$ \$ 2,500,000 Current portion of long term debt obligation 1,500,000 Current portion of long term debt obligation 50,192 Current portion of capital lease obligation 50,192 Accounts payable 1,860,793 2,008,182 Accounts payable 1,860,793 2,008,182 Accounts payable 1,408,562 1,392,602 Cortal current liabilities 8,334,644 10,648,362 Long-term debt obligation 4,000,000 2,611,609 .ong-term lease obligation 196,033 196,033 Fotal current liabilities 12,530,677 13,259,976 Commitments and contingencies 50ckholders 12,530,677 13,259,976 Commitments and contingencies 50ckholders 12,530,677 13,259,976 Stockholders 12,530,677 13,259,976 13,259,976 Commitments and contingencies 50ckholders 12,530,677 13,259,976 Stockholders 12,530,677 13,259,976 13,259,976 Commotive stock, par value \$ 0,001, 1,321,514 shares authorized, issued and outstanding at September 30, 2011	Other assets		303,210
Liabilities: Current Liabilities Line of credit \$ \$ 2,500,000 Current portion of long term debt obligation 1,195,78- Current portion of capital lease obligation 50,192 Accounts payable Accounts payable Accrued liabilities 3,515,097 Contal current liabilities 8,334,644 Long-term debt obligation 4,000,000 cong-term debt obligation 196,033 Fotal liabilities 12,530,677 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 Common stock, par value \$ 0,001, 100,000,000 shares authorized, 13,699,379 and 13,449,345 shares ssued and outstanding at September 30, 2011 and December 31, 2010, respectively Additional paid-in capital Star,76,258 50,681,750 Stockholzen	Total assets	\$ 23,107,199	\$ 22,875,661
Current Liabilities \$	Liabilities and stockholders equity		
Line of credit \$ \$ 2,500,000 Current portion of long term debt obligation 1,195,78 Current portion of capital lease obligation 50,192 2,19 Accounds payable 1,860,793 2,008,18 Accrued liabilities 3,515,097 3,549,60 Deferred credits 1,408,562 1,392,602 Fotal current liabilities 8,334,644 10,648,362 Cong-term debt obligation 4,000,000 2,611,609 Cong-term debt obligation 196,033 Fotal liabilities 12,530,677 13,259,970 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 1,321,514 shares authorized, 13,699,379 and 13,449,345 shares sued and outstanding at September 30, 2011 and December 31, 2010, respectively 13,835 13,520 Additional paid-in capital 58,776,258 56,681,750	Liabilities:		
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Current portion of capital lease obligation50,1922,194Accounts payable1,860,7932,008,182Accrued liabilities3,515,0973,549,600Deferred credits1,408,5621,392,600Fotal current liabilities8,334,64410,648,366Long-term debt obligation4,000,0002,611,609Long-term lease obligation196,033196,033Fotal liabilities12,530,67713,259,976Commitments and contingencies21,322Stockholdersequity:1Preferred stock, par value \$ 0.001, 1,321,514 shares authorized, issued and outstanding at September 30, 2011 and December 31, 20101,322Common stock, par value \$ 0.001, 100,000,000 shares authorized, 13,699,379 and 13,449,345 shares13,835ssued and outstanding at September 30, 2011 and December 31, 2010, respectively13,835Additional paid-in capital58,776,25856,681,750	Line of credit	\$	\$ 2,500,000
Accounts payable1,860,7932,008,182Accrued liabilities3,515,0973,549,604Deferred credits1,408,5621,392,602Fotal current liabilities8,334,64410,648,362Long-term debt obligation4,000,0002,611,609Long-term lease obligation196,033196,033Fotal liabilities12,530,67713,259,976Commitments and contingenciesStockholdersequity:Preferred stock, par value \$ 0,001, 1,321,514 shares authorized, issued and outstanding at September 30, 20101,322Common stock, par value \$ 0,001, 100,000,000 shares authorized, 13,699,379 and 13,449,345 shares13,835ssued and outstanding at September 30, 2011 and December 31, 2010, respectively13,83513,520Additional paid-in capital58,776,25856,681,750	Current portion of long term debt obligation	1,500,000	1,195,784
Accrued liabilities 3,515,097 3,549,604 Deferred credits 1,408,562 1,392,602 Fotal current liabilities 8,334,644 10,648,366 Long-term debt obligation 4,000,000 2,611,609 Long-term lease obligation 196,033 10,000 Commitments and contingencies 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 ssued and outstanding at September 30, 2011 and December 31, 2010, respectively 13,835 13,520 Additional paid-in capital 58,776,258 56,681,750	Current portion of capital lease obligation	50,192	2,194
Deferred credits1,408,5621,392,602Fotal current liabilities8,334,64410,648,362Long-term debt obligation4,000,0002,611,609Long-term lease obligation196,033196,033Fotal liabilities12,530,67713,259,976Commitments and contingencies12,530,67713,259,976Stockholders equity:21,3221,322Preferred stock, par value \$ 0.001, 1,321,514 shares authorized, issued and outstanding at September 30, 2011 and December 31, 20101,3221,322Common stock, par value \$ 0.001, 100,000,000 shares authorized, 13,699,379 and 13,449,345 shares13,83513,520Stoud and outstanding at September 30, 2011 and December 31, 2010, respectively13,83513,520Additional paid-in capital58,776,25856,681,750	Accounts payable	1,860,793	2,008,183
Fotal current liabilities8,334,64410,648,362Long-term debt obligation4,000,0002,611,609Long-term lease obligation196,033196,033Fotal liabilities12,530,67713,259,976Commitments and contingencies12,530,67713,259,976Stockholders equity:20001,3221,322Preferred stock, par value \$ 0.001, 1,321,514 shares authorized, issued and outstanding at September 30, 2011 and December 31, 20101,3221,322Common stock, par value \$ 0.001, 100,000,000 shares authorized, 13,699,379 and 13,449,345 shares13,83513,520Stoud and outstanding at September 30, 2011 and December 31, 2010, respectively13,83513,520Additional paid-in capital58,776,25856,681,750	Accrued liabilities	3,515,097	3,549,604
Long-term debt obligation4,000,0002,611,609Long-term lease obligation196,033196,033Fotal liabilities12,530,67713,259,976Commitments and contingencies12,530,67713,259,976Stockholders equity:212,530,67713,259,976Preferred stock, par value \$ 0.001, 1,321,514 shares authorized, issued and outstanding at September 30, 2011 and December 31, 20101,3221,322Common stock, par value \$ 0.001, 100,000,000 shares authorized, 13,699,379 and 13,449,345 shares13,83513,520Ssued and outstanding at September 30, 2011 and December 31, 2010, respectively13,83513,520Additional paid-in capital58,776,25856,681,750	Deferred credits	1,408,562	1,392,602
Long-term debt obligation4,000,0002,611,609Long-term lease obligation196,033196,033Fotal liabilities12,530,67713,259,976Commitments and contingencies12,530,67713,259,976Stockholders equity:212,530,67713,259,976Preferred stock, par value \$ 0.001, 1,321,514 shares authorized, issued and outstanding at September 30, 2011 and December 31, 20101,3221,322Common stock, par value \$ 0.001, 100,000,000 shares authorized, 13,699,379 and 13,449,345 shares13,83513,520Ssued and outstanding at September 30, 2011 and December 31, 2010, respectively13,83513,520Additional paid-in capital58,776,25856,681,750			
Long-term lease obligation196,033Fotal liabilities12,530,67713,259,976Commitments and contingencies12,530,67713,259,976Stockholders equity:213,259,976Preferred stock, par value \$ 0.001, 1,321,514 shares authorized, issued and outstanding at September 30, 2011 and December 31, 20101,3221,322Common stock, par value \$ 0.001, 100,000,000 shares authorized, 13,699,379 and 13,449,345 shares ssued and outstanding at September 30, 2011 and December 31, 2010, respectively13,83513,520Additional paid-in capital58,776,25856,681,750		, ,	, ,
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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 13,835 13,520 Ssued and outstanding at September 30, 2011 and December 31, 2010, respectively 13,835 13,520 Additional paid-in capital 58,776,258 56,681,750	Long-term lease obligation	196,033	
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 13,835 13,520 Ssued and outstanding at September 30, 2011 and December 31, 2010, respectively 13,835 13,520 Additional paid-in capital 58,776,258 56,681,750	Total liabilities	12,530,677	13,259,976
Preferred stock, par value \$ 0.001, 1,321,514 shares authorized, issued and outstanding at September 30, 2011 and December 31, 20101,3221,322Common stock, par value \$ 0.001, 100,000,000 shares authorized, 13,699,379 and 13,449,345 shares ssued and outstanding at September 30, 2011 and December 31, 2010, respectively13,83513,520Additional paid-in capital58,776,25856,681,750	Commitments and contingencies		
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 13,835 13,520 Ssued and outstanding at September 30, 2011 and December 31, 2010, respectively 13,835 13,520 Additional paid-in capital 58,776,258 56,681,750	Stockholders equity:		
Common stock, par value \$ 0.001, 100,000,000 shares authorized, 13,699,379 and 13,449,345 sharesssued and outstanding at September 30, 2011 and December 31, 2010, respectively13,835Additional paid-in capital58,776,25856,681,750	Preferred stock, par value \$ 0.001, 1,321,514 shares authorized, issued and outstanding at September 30,		
ssued and outstanding at September 30, 2011 and December 31, 2010, respectively13,83513,520Additional paid-in capital58,776,25856,681,750	2011 and December 31, 2010	1,322	1,322
Additional paid-in capital 58,776,258 56,681,750	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		13,526
Accumulated deficit (48,214,893) (47,080,919	Additional paid-in capital		56,681,756
	Accumulated deficit	(48,214,893)	(47,080,919)

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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.

Luna Innovations Incorporated

Condensed Consolidated Statements of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011 (unau	2010 dited)	2011 (unau	2010 dited)
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)

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Weighted average shares	3:				
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.					

Luna Innovations Incorporated

Condensed Consolidated Statements of Cash Flows

Nine months ended

	Septem	ber 30,
	2011	2010
Cash flows provided by / (used in) operating activities	(unau	dited)
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		