

LUNA INNOVATIONS INC
Form 10-Q
August 09, 2012
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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 June 30, 2012

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)

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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 July 23, 2012, there were 13,896,593 shares of the registrant's common stock outstanding.

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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 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.

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FOR THE QUARTER ENDED JUNE 30, 2012
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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Luna Innovations Incorporated****Condensed Consolidated Balance Sheets**

| | June 30, 2012 (unaudited) | December 31, 2011 |
|--|--|------------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 6,639,519 | \$ 8,939,127 |
| Accounts receivable, net | 7,170,950 | 5,958,086 |
| Inventory, net | 3,395,620 | 3,330,773 |
| Prepaid expenses | 921,149 | 1,071,438 |
| Other current assets | 35,717 | 35,717 |
| | | |
| Total current assets | 18,162,955 | 19,335,141 |
| Property and equipment, net | 2,556,583 | 2,816,674 |
| Intangible assets, net | 455,460 | 539,563 |
| Other assets | 190,460 | 228,043 |
| | | |
| Total assets | \$ 21,365,458 | \$ 22,919,421 |
| | | |
| Liabilities and stockholders equity | | |
| Liabilities: | | |
| Current Liabilities | | |
| Current portion of long term debt obligation | \$ 1,500,000 | \$ 1,625,000 |
| Current portion of capital lease obligation | 52,496 | 50,949 |
| Accounts payable | 1,854,041 | 1,656,602 |
| Accrued liabilities | 2,579,446 | 3,612,193 |
| Deferred credits | 1,134,112 | 1,462,603 |
| | | |
| Total current liabilities | 7,120,095 | 8,407,347 |
| Long-term debt obligation | 3,000,000 | 3,625,000 |
| Long-term lease obligation | 156,367 | 183,008 |
| | | |
| Total liabilities | 10,276,462 | 12,215,355 |
| Commitments and contingencies | | |
| Stockholders equity: | | |
| Preferred stock, par value \$0.001, 1,321,514 shares authorized, issued and outstanding at June 30, 2012 and December 31, 2011 | 1,322 | 1,322 |
| Common stock, par value \$0.001, 100,000,000 shares authorized, 13,895,137 and 13,812,490 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively | 14,091 | 13,969 |
| Additional paid-in capital | 60,312,472 | 59,289,516 |
| Accumulated deficit | (49,238,889) | (48,600,741) |

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| | | |
|--|---------------|---------------|
| Total stockholders' equity | 11,088,996 | 10,704,066 |
| Total liabilities and stockholders' equity | \$ 21,365,458 | \$ 22,919,421 |

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 June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|---------------------|------------------------------|-----------------------|
| | 2012 (unaudited) | 2011 (unaudited) | 2012 (unaudited) | 2011 (unaudited) |
| Revenues: | | | | |
| Technology development revenues | \$ 5,334,320 | \$ 5,623,074 | \$ 10,993,816 | \$ 11,244,689 |
| Products and licensing revenues | 2,845,864 | 4,000,515 | 5,559,677 | 7,377,525 |
| Total revenues | 8,180,184 | 9,623,589 | 16,553,493 | 18,622,214 |
| Cost of revenues: | | | | |
| Technology development costs | 3,768,081 | 4,194,442 | 7,670,979 | 8,280,608 |
| Products and licensing costs | 1,267,201 | 1,767,778 | 2,514,696 | 3,340,469 |
| Total cost of revenues | 5,035,282 | 5,962,220 | 10,185,675 | 11,621,077 |
| Gross Profit | 3,144,902 | 3,661,369 | 6,367,818 | 7,001,137 |
| Operating expense: | | | | |
| Selling, general and administrative | 2,706,983 | 3,251,073 | 5,517,494 | 6,929,593 |
| Research, development, and engineering | 629,347 | 620,470 | 1,314,311 | 1,180,159 |
| Total operating expense | 3,336,330 | 3,871,543 | 6,831,805 | 8,109,752 |
| Operating loss | (191,428) | (210,174) | (463,987) | (1,108,615) |
| Other income/(expense): | | | | |
| Other income, net | 23,265 | 37,823 | 46,533 | 35,835 |
| Interest expense | (74,357) | (84,303) | (154,015) | (198,725) |
| Total other expense | (51,092) | (46,480) | (107,482) | (162,890) |
| Loss before income taxes | (242,520) | (256,654) | (571,469) | (1,271,505) |
| Income tax expense | | | 5,799 | 10,020 |
| Net loss | (242,520) | (256,654) | (577,268) | (1,281,525) |
| Preferred stock dividend | 26,784 | 32,708 | 60,880 | 74,336 |
| Net loss attributable to common stockholders | \$ (269,304) | \$ (289,362) | \$ (638,148) | \$ (1,355,861) |
| Net loss per share: | | | | |
| Basic and diluted | \$ (0.02) | \$ (0.02) | \$ (0.05) | \$ (0.10) |

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Weighted average shares:

| | | | | |
|-------------------|------------|------------|------------|------------|
| Basic and diluted | 13,892,816 | 13,636,993 | 13,885,684 | 13,561,225 |
|-------------------|------------|------------|------------|------------|

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**

| | Six months ended | |
|--|-------------------------|----------------|
| | June 30, | |
| | 2012 | 2011 |
| | (unaudited) | |
| Cash flows (used in)/provided by operating activities | | |
| Net loss | \$ (577,268) | \$ (1,281,525) |
| Adjustments to reconcile net loss to net cash (used in)/provided by operating activities | | |
| Depreciation and amortization | 528,113 | 710,269 |
| Share-based compensation | 928,368 | 1,275,147 |
| Warrant expense | 12,032 | 38,893 |
| Change in assets and liabilities: | | |
| Accounts receivable | (1,212,864) | 994,149 |
| Inventory | (69,186) | (665,883) |
| Other current assets | 150,289 | (22,503) |
| Other assets | 37,583 | 37,583 |
| Accounts payable and accrued expenses | (847,341) | 111,900 |
| Deferred credits | (328,491) | 103,138 |
| | | |
| Net cash (used in)/provided by operating activities | (1,378,765) | |