

LUNA INNOVATIONS INC

Form 10-Q

November 13, 2006

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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 September 30, 2006

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)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

54-1560050

(I.R.S. Employer Identification Number)

1703 South Jefferson Street, SW, Suite 400

Roanoke, VA 24016

(Address of Principal Executive Offices)

(540) 769-8400

(Registrant's Telephone Number, Including Area Code)

10 South Jefferson Street, Suite 130

Roanoke, VA 24011

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(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☐

Accelerated Filer ☐

Non-Accelerated Filer ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ 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 9, 2006, there were 9,860,664 shares of the registrant's common stock outstanding.

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LUNA INNOVATIONS INCORPORATED

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2006

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	September 30, 2006 (unaudited)	December 31, 2005
Assets		
Current assets		
Cash and cash equivalents	\$ 22,442,016	\$ 12,514,839
Accounts receivable, net	5,194,447	5,129,911
Refundable income taxes	396,062	514,797
Inventory	681,559	448,475
Other current assets	535,076	227,409
Total current assets	29,249,160	18,835,431
Property and equipment, net	3,831,631	2,972,287
Intangible assets, net	1,425,852	999,544
Deferred offering costs		710,018
Deferred tax asset	600,000	600,000
Other assets	13,447	16,550
Total assets	\$ 35,120,090	\$ 24,133,830
Liabilities and stockholders' equity		
Current liabilities		
Current portion of capital lease obligation	\$ 91,507	\$ 98,820
Current portion of long-term debt obligation	214,955	
Accounts payable	1,639,717	3,647,505
Accrued liabilities	2,554,166	1,788,162
Deferred credits	1,076,549	1,458,393
Total current liabilities	5,576,894	6,992,880
Long-term capital lease obligation	50,216	117,134
Long-term debt obligation	5,000,000	5,214,955
Deferred credits	354,418	450,000
Total liabilities	10,981,528	12,774,969
Redeemable Class B common stock, 308,216 shares at December 31, 2005		504,984
Stockholders' equity:		
Preferred Stock, par value \$0.001, 5,000,000 shares authorized at September 30, 2006, no shares issued and outstanding at September 30, 2006		
Common stock		
Common stock, par value \$0.001, 100,000,000 and 23,257,094 shares authorized at September 30, 2006 and December 31, 2005, respectively, 9,858,806 shares issued and outstanding at September 30, 2006	9,859	
Class A voting common stock, par value \$0.001, 7,164,463 shares authorized at December 31, 2005, 2,834,814 shares issued and outstanding at December 31, 2005		2,835

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Class B non-voting common stock, par value \$0.001, 13,707,297 shares authorized at December 31, 2005, 734,427 shares issued and outstanding at December 31, 2005		734
Class C voting common stock, par value \$0.001, 5,656,472 shares authorized at December 31, 2005, 2,131,474 shares issued and outstanding at December 31, 2005		2,131
Additional paid-in capital	30,970,277	10,935,049
Accumulated deficit	(6,841,574)	(86,872)
Total stockholders' equity	24,138,562	10,853,877
Total liabilities and stockholders' equity	\$ 35,120,090	\$ 24,133,830

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

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

	Three Months Ended September 30, 2006 (unaudited)		Nine Months Ended September 30, 2006 (unaudited)	
2006	2005	2006	2005	
Revenues:				
Contract research revenues	\$ 4,885,854	3,942,195	\$ 12,977,066	\$ 11,111,721
Product and license revenues	1,163,663		2,521,403	
Total revenues	6,049,517	3,942,195	15,498,469	11,111,721
Cost of revenues:				
Contract research costs	3,587,280	3,068,372	9,600,404	8,539,567
Product and license costs	520,699		1,194,969	
Total cost of revenues	4,107,979	3,068,372	10,795,373	8,539,567
Gross Profit	1,941,538	873,823	4,703,096	2,572,154
Operating expense	4,110,926	1,040,235	11,805,277	2,952,666
Operating loss	(2,169,388)	(166,412)	(7,102,181)	(380,512)
Other income (expense)				
Other income (expense)	934	(782)	10,331	(92)
Interest income / (expense), net	232,649	(9,893)	345,794	(75,206)
Total other income (expense)	233,583	(10,675)	356,125	(75,298)
Loss before income taxes	(1,935,805)	(177,087)	(6,746,056)	(455,810)
Income tax expense (benefit)	12,829	(126,396)	12,829	(187,273)
Net loss	\$ (1,948,634)	(50,691)	(6,758,885)	(268,537)
Net loss per share:				
Basic	\$ (0.20)	(0.01)	(0.87)	(0.08)
Diluted	\$ (0.20)	(0.01)	(0.87)	(0.08)
Weighted average shares:				
Basic	9,842,265	3,839,512	7,743,885	3,229,683
Diluted	9,842,265	3,839,512	7,743,885	3,229,683

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

Table of Contents**Luna Innovations Incorporated****Consolidated Statements of Cash Flows**

	Nine months ended September 30,	
	2006	2005
	(unaudited)	
Cash flows used in operating activities		
Net loss	\$ (6,758,885)	\$ (268,537)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	792,725	355,026
Deferred income taxes		(4,358)
Share-based compensation	1,164,709	137,829
Change in assets and liabilities:		
Accounts receivable	(64,536)	(509,743)
Refundable income taxes	118,735	570,162
Other assets	(524,201)	(406,035)
Accounts payable and accrued expenses	(545,211)	(175,595)
Deferred revenues	(477,426)	(154,341)
Net cash used in operating activities	(6,294,090)	(455,592)
Cash flows used in investing activities		
Acquisition of property and equipment	(1,377,466)	(452,762)
Intangible property costs	(282,840)	(159,749)
Net cash from acquisition of Luna Technologies		33,713
Capitalized software development costs		(14,468)
Net cash used in investing activities	(1,660,306)	(593,266)
Cash flows from financing activities		
Payments on capital lease obligations	(74,229)	(73,343)
Proceeds from the issuance of common stock, net	17,866,241	7,000,000
Proceeds from the exercise of options and warrants	89,561	76,575
Net cash from financing activities	17,881,573	7,003,232
Net change in cash	9,927,177	5,954,374
Cash beginning of period	12,514,839	609,636
Cash end of period	\$ 22,442,016	\$ 6,564,010
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 30,690	\$ 72,151
Cash paid for income taxes	\$ 12,829	\$ 25,927
Property and equipment financed by capital leases	\$	\$ 11,700

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

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Luna Innovations Incorporated

Notes to Consolidated Financial Statements

1. Basis of Presentation and Significant Accounting Policies

Nature of Operations

Luna Innovations Incorporated ("Luna Innovations") was incorporated in the Commonwealth of Virginia in 1990 and subsequently reincorporated in the State of Delaware in April 2003. We are engaged in the research, development and commercialization of innovative technologies in the areas of molecular technology solutions and sensing solutions. We identify technology that can fulfill identified market needs, and we then take these solutions from the applied research stage through commercialization.

Unaudited Interim Financial Information

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (US GAAP) and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934. Accordingly, they do not include all of the information and footnotes required by US GAAP for audited financial statements. The unaudited consolidated financial statements have been prepared on the same basis as the annual financial statements and in the opinion of management reflect all adjustments, consisting of only normal recurring accruals, considered necessary to present fairly our financial position at September 30, 2006 and results of operations and cash flows for the three and nine months ended September 30, 2006 and 2005. The results of the operations for the three and nine months ended September 30, 2006, are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

The year-end consolidated balance sheet data was derived from the audited December 31, 2005, balance sheet.

The consolidated financial statements, including the Company's significant accounting policies, should be read in conjunction with the audited Consolidated Financial Statements and the notes thereto included in the Company's Registration Statement on Form S-1 (No. 333-131764) as amended and filed with the Securities and Exchange Commission on June 2, 2006. As used herein, the terms "Luna", "Company", "we", "our" and "us" mean Luna Innovations Incorporated and its consolidated subsidiaries.

Certain reclassifications have been made to prior period amounts to conform with current year presentation.

Consolidation Policy

Our consolidated financial statements are prepared in accordance with US GAAP and include the accounts of the Company, its wholly owned subsidiaries and other entities in which the Company has a controlling financial interest. We eliminate from our financial results all significant intercompany transactions. The Company does not have any investments in entities it believes are variable interest entities for which the Company is the primary beneficiary.

Use of Estimates

The preparation of our consolidated financial statements in accordance with US GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in our consolidated financial statements and accompanying notes. Although these estimates are based on our knowledge of current events and actions we may undertake in the future, actual results may differ from such estimates and assumptions.

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Net Loss Per Share

We compute net loss per share in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, *Earnings Per Share*. Basic per share data is computed by dividing loss available to common shareholders by the weighted average number of shares outstanding during the period. Diluted per share data is computed by dividing loss available to common shareholders by the weighted average shares outstanding during the period increased to include, if dilutive, the number of additional common share equivalents that would have been outstanding if potential common shares had been issued using the treasury stock method. Diluted per share data would also include the potential common share equivalents relating to convertible securities by application of the if-converted method.

Per share amounts for all periods presented in this report h