LUNA INNOVATIONS INC
Form 10-Q
May 10, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
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	54-1560050
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

301 First Street SW, Suite 200
Roanoke, VA 24011
(Address of Principal Executive Offices)
(540) 769-8400
(Registrant’s Telephone Number, Including Area Code)

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. ý 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). ý Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o

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

Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes ý 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 May 8, 2018, there were 27,323,424 shares of the registrant’s common stock outstanding.

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FOR THE QUARTER ENDED MARCH 31, 2018
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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Luna Innovations Incorporated
Consolidated Balance Sheets

	March 31, 2018 (unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$33,442,674	$36,981,533
Accounts receivable, net	8,098,703	7,869,168
Receivable from sale of HSOR business	4,001,496	4,000,976
Contract assets	2,408,930	1,778,142
Inventory	6,534,899	6,951,110
Prepaid expenses and other current assets	1,086,837	1,220,650
Total current assets	55,573,539	58,801,579
Long-term contract assets	263,722	209,699
Property and equipment, net	3,425,544	3,453,741
Intangible assets, net	3,204,843	3,237,593
Goodwill	502,000	502,000
Other assets	18,024	18,024
Total assets	$62,987,672	$66,222,636
Liabilities and stockholders' equity		
Liabilities:		
Current liabilities:		
Current portion of long-term debt obligations	$1,750,000	$1,833,333
Current portion of capital lease obligations	38,145	43,665
Accounts payable	2,357,649	2,962,863
Accrued liabilities	5,742,777	6,557,649
Contract liabilities	1,804,125	3,428,625
Total current liabilities	11,692,696	14,826,135
Long-term deferred rent	1,148,370	1,184,438
Long-term debt obligations	232,084	603,007
Long-term capital lease obligations	63,184	71,275
Total liabilities	13,136,334	16,684,855
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value $0.001, 1,321,514 shares authorized, issued and outstanding at March 31, 2018 and December 31, 2017	1,322	1,322
Common stock, par value $0.001, 100,000,000 shares authorized, 28,365,549 and 28,354,822 shares issued, 27,162,195 and 27,283,918 shares outstanding at March 31, 2018 and December 31, 2017	29,217	29,186
Treasury stock at cost, 1,203,354 and 1,070,904 shares at March 31, 2018 and December 31, 2017	(1,955,787)	(1,649,746)
Additional paid-in capital	83,744,496	83,563,208
Accumulated deficit	(31,967,910)	(32,406,189)
Total stockholders' equity	49,851,338	49,537,781
Total liabilities and stockholders' equity	$62,987,672	$66,222,636

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

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Luna Innovations Incorporated
Consolidated Statements of Operations

	Three Months Ended March 31, 2018 (unaudited)	2017
Revenues:		
Technology development	$4,636,776	$4,236,102
Products and licensing	7,556,396	5,850,795
Total revenues	12,193,172	10,086,897
Cost of revenues:		
Technology development	3,353,501	3,109,467
Products and licensing	3,813,553	3,101,045
Total cost of revenues	7,167,054	6,210,512
Gross profit	5,026,118	3,876,385
Operating expense:		
Selling, general and administrative	3,809,617	3,722,170
Research, development and engineering	1,101,488	928,772
Total operating expense	4,911,105	4,650,942
Operating income/(loss)	115,013	(774,557)
Other income/(expense):		
Investment income	75,912	—
Other (expense)/income	(115)	351
Interest expense	(40,738)	(64,374)
Total other income/(expense)	35,059	(64,023)
Income/(loss) from continuing operations before income taxes	150,072	(838,580)
Income tax expense	1,396	26,690
Net income/(loss) from continuing operations	148,676	(865,270)
Loss from discontinued operations, net of income tax of $0	—	(490,717)
Net loss from discontinued operations	—	(490,717)
Net income/(loss)	148,676	(1,355,987)
Preferred stock dividend	64,425	34,096
Net income/(loss) attributable to common stockholders	$84,251	$(1,390,083)
Net income/(loss) per share from continuing operations:		
Basic	$0.01	$(0.03)
Diluted	$—	$(0.03)
Net loss per share from discontinued operations:		
Basic	$—	$(0.02)
Diluted	$—	$(0.02)
Net income/(loss) per share attributable to common stockholders:		
Basic	$—	$(0.05)
Diluted	$—	$(0.05)
Weighted average common shares and common equivalent shares outstanding:		
Basic	27,204,989	27,541,356
Diluted	31,198,833	27,541,356

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

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Luna Innovations Incorporated
Consolidated Statements of Cash Flows

	Three Months Ended March 31,	
	2018	2017
	(unaudited)	
Cash flows provided by/(used in) operating activities		
Net income/(loss)	$148,676	$(1,355,987)
Adjustments to reconcile net income/(loss) to net cash (used in)/provided by operating activities		
Depreciation and amortization	307,852	956,687
Share-based compensation	94,606	170,084
Bad debt expense	—	29,671
Change in assets and liabilities		
Accounts receivable	(229,535)	1,824,454
Contract assets	221,386	187,448
Inventory	(110,095)	(352,435)
Other current assets	133,293	55,092
Accounts payable and accrued expenses	(1,456,154)	(1,464,847)
Contract liabilities	(1,650,363)	13,880
Net cash (used in)/provided by operating activities	(2,540,334)	64,047
Cash flows used in investing activities		
Acquisition of property and equipment	(129,720)	(157,308)
Intangible property costs	(113,108)	(133,054)
Net cash used in investing activities	(242,828)	(290,362)
Cash flows used in financing activities		
Payments on capital lease obligations	(13,611)	(12,697)
Payments of debt obligations	(458,333)	(458,333)
Repurchase of common stock	(306,041)	—
Proceeds from the exercise of options	22,288	820
Net cash used in financing activities	(755,697)	(470,210)
Net decrease in cash and cash equivalents	(3,538,859)	(696,525)
Cash and cash equivalents—beginning of period	36,981,533	12,802,458
Cash and cash equivalents—end of period	$33,442,674	$12,105,933
Supplemental disclosure of cash flow information		
Cash paid for interest	$39,071	$61,322
Cash paid for income taxes	$1,396	$—
Non-cash investing and financing activities		
Dividend on preferred stock, 19,823 shares of common stock issuable for the three months ended March 31, 2018 and 2017	$64,425	$34,096

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

Luna Innovations Incorporated
Notes to Unaudited Consolidated Financial Statements

1. Basis of Presentation and Significant Accounting Policies

Nature of Operations

Luna Innovations Incorporated ("we," "Luna Innovations" or the "Company"), headquartered in Roanoke, Virginia, was incorporated in the Commonwealth of Virginia in 1990 and reincorporated in the State of Delaware in April 2003. We are a leader in advanced optical technology, providing unique capabilities in high speed optoelectronics and high performance fiber optic test products for the telecommunications industry and distributed fiber optic sensing for the aerospace and automotive industries. We are organized into two reportable segments, which work closely together to turn ideas into products: our Technology Development segment and our Products and Licensing segment. Our business model is designed to accelerate the process of bringing new and innovative technologies to market. We have a history of net losses from operations beginning in 2005. We have historically managed our liquidity through cost reduction initiatives, debt financings, capital markets transactions and the sale of assets.

Unaudited Interim Financial Information

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United Stated of America ("U.S. GAAP") for interim financial statements and Article 10 of Regulation S-X of the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for annual 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 March 31, 2018, results of operations for the three months ended March 31, 2018 and 2017, and cash flows for the three months ended March 31, 2018 and 2017. The results of operations for the three months ended March 31, 2018, are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. The consolidated balance sheet as of December 31, 2017 was derived from our audited consolidated financial statements.

The consolidated interim financial statements, including our significant accounting policies, should be read in conjunction with the audited Consolidated Financial Statements and the notes thereto for the year ended December 31, 2017, included in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission ("SEC") on March 21, 2018.

Reclassifications

Certain prior period amounts have been reclassified to conform to current presentation. As a result of the adoption of Accounting Standards Codification ("ASC") 2014-09, Revenue from Contracts with Customers (Topic 606), we presented balances entitled contract assets and contract liabilities within the consolidated balance sheet as well as the impact of the changes in these balances within the consolidated statement of cash flows. We reclassified comparable balances within the December 31, 2017 consolidated balance sheet as well as the impact of changes in those balances within the consolidated statement of cash flows in order to enhance comparability. These reclassifications had no effect on our reported financial condition, results of operations, or cash flows. Any other reclassifications were immaterial to the consolidated interim financial statements taken as a whole.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between marketplace participants. Various valuation approaches can be used to determine fair value, each requiring different valuation inputs. The following hierarchy classifies the inputs used to determine fair value into three levels:

- Level 1—Quoted prices for identical instruments in active markets
- Level 2—Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets

- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable

The carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short-term nature of these instruments. The carrying value of our debt approximates fair value, as we consider the floating interest

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rate on our credit facilities with Silicon Valley Bank ("SVB") to be at market for similar instruments. Certain non-financial assets and liabilities are measured at fair value on a nonrecurring basis in accordance with U.S. GAAP. This includes items such as non-financial assets and liabilities initially measured at fair value in a business combination and non-financial long-lived asset groups measured at fair value for an impairment assessment. In general, non-financial assets including intangible assets and property and equipment are measured at fair value when there is an indication of impairment and are recorded at fair value only when any impairment is recognized.

Net Income/(Loss) Per Share

Basic per share data is computed by dividing our net income/(loss) by the weighted average number of shares outstanding during the period. Diluted per share data is computed by dividing net income/(loss), if applicable, 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 shares of common stock 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.

The effect of 4.0 million common stock equivalents (which include outstanding warrants, preferred stock and stock options) are included for the diluted per share data for the three months ended March 31, 2018. The effect of 4.1 million common stock equivalents are not included for the three months ended March 31, 2017, as they are anti-dilutive to earnings per share due to our net loss.

Recently Issued Accounting Pronouncements

Effective January 1, 2018, we adopted Topic 606, Revenue from Contracts with Customers, using the modified retrospective transition method. Under the modified retrospective approach, we apply the standards to new contracts and those that were not completed as of January 1, 2018. For those contracts not completed as of January 1, 2018, this method resulted in a cumulative adjustment to decrease the accumulated deficit in the amount of $0.4 million. Prior periods will not be retrospectively adjusted, but we will maintain dual reporting for the year of initial application in order to disclose the effect on revenue of adopting the new guidance. The cumulative effect of the changes made to our January 1, 2018 unaudited consolidated balance sheet for the adoption of Topic 606 was as follows:

	Balance at December 31, 2017	Adjustment for Topic 606	Adjusted balance at January 1, 2018
Assets:			
Contract assets	$1,778,142	$906,197	$2,684,339
Inventory	$6,951,110	$(526,306)	$6,424,804
Liabilities:			
Contract liabilities	$3,428,625	$25,863	$3,454,488
Stockholders' equity:			
Accumulated deficit	$(32,406,189)	$354,028	$(32,052,161)

Contract assets were formerly reported as unbilled accounts receivable. Contract liabilities were formerly reported as accrued liabilities or deferred revenue. Inventory was also impacted by the adoption of the new guidance. The titles have been changed in the table below to be consistent with accounts currently used under the new standard.

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	December 31, 2017	
	As Reported	As Adopted
Accounts receivables, net	$9,857,009	$7,869,168
Contract assets	—	1,778,142
Long-term contract assets	—	209,699
Accrued liabilities	8,959,935	6,557,649
Contract liabilities	—	3,428,625
Deferred revenue	1,026,339	—

Under the new standard, contracts in our Technology Development segment, which primarily provide research services, are not materially impacted upon the adoption of Topic 606 as revenue will continue to be recognized over time using an input model. Contracts in our Products and Licensing segment generally provide for the following revenue sources: standard product sales, custom product development and sales, product rental, extended warranties, training/service, and certain royalties. Revenues for this segment are recognized using either the "point in time" or "over time" methods of Topic 606, depending upon the revenue source. The major change in revenue recognition for the Products and Licensing segment related to custom optoelectronic products which changed from "point in time" to "over time" upon the adoption of Topic 606. Our revenue recognized specific to custom products approximates $10 million annually. This change results in the acceleration of revenue when compared to existing standards with the cumulative adjustment relating to contracts that are not complete as of December 31, 2017 recognized as an adjustment to opening accumulated deficit on January 1, 2018. Our revenue for our standard products will continue to be recognized using the "point in time" criteria of Topic 606, and the timing of such revenue recognition is not expected to differ materially from our historical revenue recognition. Other immaterial adjustments related to the Products and Licensing segment that are sometimes offered to customers include discounts on future purchases related to rental agreements, customer rights of return, and volume discounts.

Technology Development Revenues

We perform research and development for U.S. Federal government agencies, educational institutions and commercial organizations. We account for a research contract when a contract has been executed, the rights of the parties are identified, payment terms are identified, the contract has commercial substance, and collectability of the contract price is considered probable. Revenue is earned under cost reimbursable, time and materials and fixed price contracts. Direct contract costs are expensed as incurred.

Our contracts with agencies of the U.S. government are subject to periodic funding by the respective contracting agency. Funding for a contract may be provided in full at inception of the contract or ratably throughout the contract as the services are provided. In evaluating the probability of funding for purposes of assessing collectability of the contract price, we consider our previous experience with our customers, communication with our customers regarding funding status and our knowledge of available funding for the contract or program. If funding is not assessed as probable, revenue recognition is deferred until realization is reasonably assured.

Under the typical payment terms of our U.S. government contracts, the customer pays us either performance-based payments ("PBPs") or progress payments. PBPs, which are typically used in the firm fixed price contracts, are interim payments based on quantifiable measures of performance or on the achievement of specified events or milestones. Progress payments, which are typically used in our cost type contracts, are interim payments based on costs incurred as the work progresses. For our U.S. government cost-type contracts, the customer generally pays us during the performance period for 80%-90% of our actual costs incurred. Because the customer retains a small portion of the contract price until completion of the contract and audit of allowable costs, cost type contracts generally result in revenue recognized in excess of billings which we present as contract assets on the balance sheet. Amounts billed and due from our customers are classified as receivables on the balance sheet. For non-U.S. government contracts, we typically receive interim payments as work progresses, although for some contracts, we may be entitled to receive an advance payment. We recognize a liability for these advance payments and PBPs paid in advance which are in excess of the revenue recognized and present these amounts as contract liabilities on the balance sheet.

To determine the proper revenue recognition method for research and development contracts, we evaluate whether two or more contracts should be combined and accounted for as one single modified contract and whether the combined or single contract should be accounted for as more than one performance obligation. For instances where a contract has options that were bid with the initial contract and awarded at a later date, we combine the options with the original contract when options are awarded. For most of our contracts, the customer contracts for research with multiple milestones that are interdependent. Consequently, the entire contract is accounted for as one performance obligation. The effect of the combined or modified contract on the transaction price and measure of

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progress for the performance obligation to which it relates, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) on a cumulative catch-up basis.

Contract revenue recognition is measured over time as we perform because of continuous transfer of control to the customer. For U.S. government contracts which are typically subject to the Federal Acquisition Regulation ("FAR"), this continuous transfer of control to the customer is supported by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay us for cost incurred plus a reasonable profit and take control of any work in process. From time to time, as part of normal management processes, facts may change, causing revisions to estimated total costs or revenues expected. The cumulative impact of any revisions to estimates and the full impact of anticipated losses on any type of contract are recognized in the period in which they become known.

Because of control transferring over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgment and is based on the nature of the services to be provided. We generally use the input method, more specifically the cost-to-cost measure of progress for our contracts because it best depicts the transfer of control to the customer which occurs as we incur costs on our contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. The underlying bases for estimating our contract research revenues are measurable expenses, such as labor, subcontractor costs and materials, and data that are updated on a regular basis for purposes of preparing our cost estimates. Our research contracts generally have a period of performance of six months to three years, and our estimates of contract costs have historically been consistent with actual results. Revisions in these estimates between accounting periods to reflect changing facts and circumstances have not had a material impact on our operating results, and we do not expect future changes in these estimates to be material. The cumulative impact of any revisions to estimates and the full impact of anticipated losses on any type of contract are recognized in the period in which they become known.

Under cost reimbursable contracts, we are reimbursed for costs that are determined to be reasonable, allowable and allocable to the contract and paid a fixed fee representing the profit negotiated between us and the contracting agency. Revenue from cost reimbursable contracts is recognized as costs are incurred plus an estimate of applicable fees earned. We consider fixed fees under cost reimbursable contracts to be earned in proportion to the allowable costs incurred in performance of the contract.

Revenue from time and materials contracts is recognized based on direct labor hours expended at contract billing rates plus other billable direct costs.

Fixed price contracts may include either a product delivery or specific service performance throughout a period. For fixed price contracts that are based on the proportional performance method and involve a specified number of deliverables, we recognize revenue based on the proportion of the cost of the deliverables compared to the cost of all deliverables included in the contract as this method more accurately measures performance under these arrangements. For fixed price contracts that provide for the development and delivery of a specific prototype or product, revenue is recognized based upon the percentage of completion method.

Whether certain costs under government contracts are allowable is subject to audit by the government. Certain indirect costs are charged to contracts using provisional or estimated indirect rates, which are subject to later revision based on government audits of those costs. Management is of the opinion that costs subsequently disallowed, if any, would not likely have a significant impact on revenues recognized for those contracts.

Products and Licensing Revenues

We produce standard and customized products for commercial organizations, educational institutions, and U.S. Federal government agencies. In addition we will also offer extended warranties, product rentals, and services which include testing, training, or repairs for specific products. Customers also pay royalties as agreed based on sales or usage. We account for product and related items when a contract has been executed, the rights of the parties are identified, payment terms are identified, the contract has commercial substance, and collectability of the contract price is considered probable.

To determine the proper revenue recognition method for Products and Licensing contracts, we evaluate whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. We recognize revenue when the performance obligation has been satisfied by transferring the control of the product or service to the customer. For tangible products that contain software that is essential to the tangible product's functionality, we consider the product and software to be a single performance obligation and recognize revenue accordingly. For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation based on their relative stand-alone selling prices. In such circumstances, we use the observable price of goods or services

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which are sold separately in similar circumstances to similar customers. If these prices are not observable, then we will estimate the stand-alone selling price using information that is reasonably available. For the majority of our standard products and services, price list and discount structures related to customer type are available. For products and services that do not have price list and discount structures, we may use one or more of the following: (i) adjusted market assessment approach, (ii) expected cost plus a margin approach, and (iii) residual approach. The adjusted market approach requires us to evaluate the market in which we sell goods or services and estimate the price that a customer in that market would be willing to pay for those goods or services. The expected cost plus margin approach requires us to forecast our expected costs of satisfying the performance obligation and then add a reasonable margin for that good or service. The residual approach decreases the total transaction price by the sum of the observable standalone selling prices if either the company sells the same good or services to different customers for a broad range of amounts or the company has not established a price for the good or service and that good or service has not been sold on a standalone basis. Shipping and handling activities primarily occur after a customer obtains control and are considered fulfillment cost rather than separate performance obligations. Similarly, sales and similar taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the entity from a customer are excluded from the measurement of the transaction price.

For standard products, we recognize revenue at a point in time when control passes to the customer. Absent substantial product acceptance clauses, this is based on the shipping terms. For custom products that require engineering and development based on customer requirements, we will recognize revenue over time using the output method for any items shipped and any finished goods or work in process that is produced for balances of open sales orders. For any finished goods or work in process that has been produced for the balance of open sales orders we recognize revenue by applying the average selling price for such open order to the lesser of the on hand balance in finished goods or open sales order quantity which we present as a contract asset on the balance sheet. Cost of sales is recognized based on the standard cost of the finished goods and work in process associated with this revenue and inventory balances are reduced accordingly. For extended warranties and product rentals, revenue is recognized over time using the output method based on the time elapsed for the warranty or service period. In the case of warranties, we record a contract liability for amounts billed but that are not recognized until subsequent period. A separate contract liability is recorded for the cost associated with warranty repairs based on our estimate of future expense. For testing services where we are performing testing on an asset the customer controls, revenue is recognized over time by the output method using the performance to date. For training where the customer is receiving the benefit of training as it is occurring and for repairs to a customer controlled asset, revenue is recognized over time by the output method using the performance to date. For royalty revenue, we apply the practical expedient “royalty exception” recognizing revenue based on the royalty agreement which specifies an amount based on sales or minimum amount, whichever is greater.

In some product rental contracts, a customer may be offered a discount on the purchase of an item that would provide for a material right. When a material right has been provided to a customer, a separate performance obligation is established and a portion of the rental revenue will be deferred until the future product is purchased or the option expires. This deferred revenue is recognized as a contract liability on the balance sheet. In certain circumstances we may offer a "right of return" to a distributor of our products, in which case a contract liability is calculated based on the terms of the agreement and recorded as a reduction to revenue. In addition, a contract asset for the rights to recover products from customers and a reduction of cost of sales is also calculated and recorded.

Unfulfilled performance obligations represent amounts expected to be earned on executed contracts. Indefinite delivery and quantity contracts and unexercised options are not reported in total unfulfilled performance obligations. Unfulfilled performance obligations include funded obligations, which is the amount for which money has been directly authorized by the U.S. government and for which a purchase order has been received by a commercial customer, and unfunded obligations, representing firm orders for which funding has not yet been appropriated. The approximate value of our Technology Development segment unfulfilled performance obligations was $21.2 million at

March 31, 2018. We expect to satisfy 64% of the performance obligations in 2018, 30% in 2019 and the remaining by 2022. The approximate value of our Products and Licensing segment unfulfilled performance obligations was $4.8 million at March 31, 2018. We expect to satisfy 89% of the performance obligations in 2018 and the remaining by 2023.

We disaggregate our revenue from contracts with customers by geographic locations, customer-type, contract type, timing of recognition, and major categories for each of our segments, as we believe it best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors. See details in the tables elow.

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	Three Months Ended March 31, 2018 (unaudited)		
	Technology Development	Products and Licensing	Total
Total Revenue by Geographic Location			
United States	$4,636,776	$4,844,835	$9,481,611
Asia	—	1,426,348	1,426,348
Europe	—	1,186,010	1,186,010
Canada, Central and South America	—	97,203	97,203
All Others	—	2,000	2,000
Total	$4,636,776	$7,556,396	$12,193,172
Total Revenue by Major Customer Type			
Sales to the U.S. government	$4,605,154	$390,069	$4,995,223
U.S. direct commercial sales and other	31,622	4,465,349	4,496,971
Foreign commercial sales & other	—	2,700,978	2,700,978
Total	$4,636,776	$7,556,396	$12,193,172
Total Revenue by Contract Type			
Fixed-price contracts	$2,231,654	$7,556,396	$9,788,050
Cost-type contracts	2,405,122	—	2,405,122
Total	$4,636,776	$7,556,396	$12,193,172
Total Revenue by Timing of Recognition			
Goods transferred at a point in time	$—	$5,874,326	$5,874,326
Goods/services transferred over time	4,636,776	1,682,070	6,318,846
Total	$4,636,776	$7,556,396	$12,193,172
Total Revenue by Major Products/Services			
Technology development	$4,636,776	$—	$4,636,776
Optical test and measurement systems	—	3,688,010	3,688,010
Optical components and sub-assemblies	—	3,424,641	3,424,641
Other	—	443,745	443,745
Total	$4,636,776	$7,556,396	$12,193,172

The following tables summarize the impacts of adopting Topic 606 on our consolidated financial statements for the three months ended March 31, 2018.

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Consolidated Balance Sheet as of March 31, 2018

	Impact of changes in accounting policies		
	As Reported	Adjustments	Balances without adoption of Topic 606
	(unaudited)	(unaudited)	(unaudited)
Assets			
Current assets:			
Cash and cash equivalents	$33,442,674	$—	$33,442,674
Accounts receivable, net	8,098,703	—	8,098,703
Receivable from sale of HSOR business	4,001,496	—	4,001,496
Contract assets	2,408,930	(1,029,556)	1,379,374
Inventory	6,534,899	674,895	7,209,794
Prepaid expenses and other current assets	1,086,837	—	1,086,837
Total current assets	55,573,539	(354,661)	55,218,878
Long-term contract assets	263,722	—	263,722
Property and equipment, net	3,425,544	—	3,425,544
Intangible assets, net	3,204,843	—	3,204,843
Goodwill	502,000	—	502,000
Other assets	18,024	—	18,024
Total assets	$62,987,672	$(354,661)	$62,633,011
Liabilities and stockholders' equity			
Liabilities:			
Current liabilities:			
Current portion of long-term debt obligations	$1,750,000	$—	$1,750,000
Current portion of capital lease obligations	38,145	—	38,145
Accounts payable	2,357,649	—	2,357,649
Accrued liabilities	5,742,777	—	5,742,777
Contract liabilities	1,804,125	(24,201)	1,779,924
Total current liabilities	11,692,696	(24,201)	11,668,495
Long-term deferred rent	1,148,370	—	1,148,370
Long-term debt obligations	232,084	—	232,084
Long-term capital lease obligations	63,184	—	63,184
Total liabilities	13,136,334	(24,201	