



Investor Supplemental Materials

May 8, 2019

Safe Harbor

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

This presentation includes information that constitutes “forward-looking statements” made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. These statements include the company's expectations regarding the company's future financial performance and the potential demand for its products, the company's growth potential, its business focus and competitive advantages, and its expectations about the benefits of its acquisition of General Photonics. Management cautions the reader that these forward-looking statements are only predictions and are subject to a number of both known and unknown risks and uncertainties, and actual results, performance, and/or achievements of the company may differ materially from the future results, performance, and/or achievements expressed or implied by these forward-looking statements as a result of a number of factors. These factors include, without limitation, failure of demand for the company’s products and services to meet expectations, failure of target market to grow and expand, technological and strategic challenges, market valuation of the company and those risks and uncertainties set forth in the company’s periodic reports and other filings with the Securities and Exchange Commission (“SEC”). Such filings are available on the SEC’s website at www.sec.gov and on the company’s website at www.lunainc.com. The statements made in this presentation are based on information available to Luna as of the date of this presentation and Luna undertakes no obligation to update any of the forward-looking statements after the date of this presentation, except as required by law.

Adjusted Financial Measures

In addition to U.S. GAAP financial information, this presentation includes Adjusted EBITDA, a non-GAAP financial measure. This non-GAAP financial measure is in addition to, and not a substitute for or superior to, measures of financial performance prepared in accordance with U.S. GAAP. A reconciliation of Adjusted EBITDA to Net Income is included in the appendix to this presentation.

1Q FY19 Results

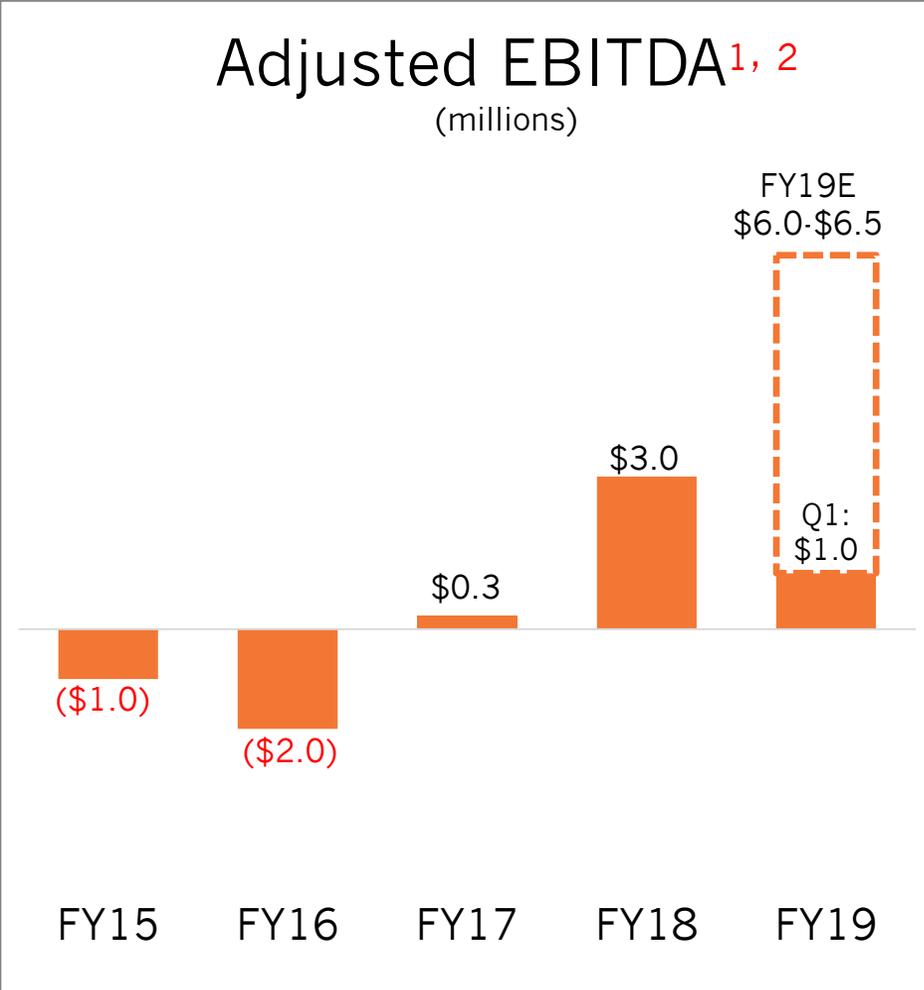
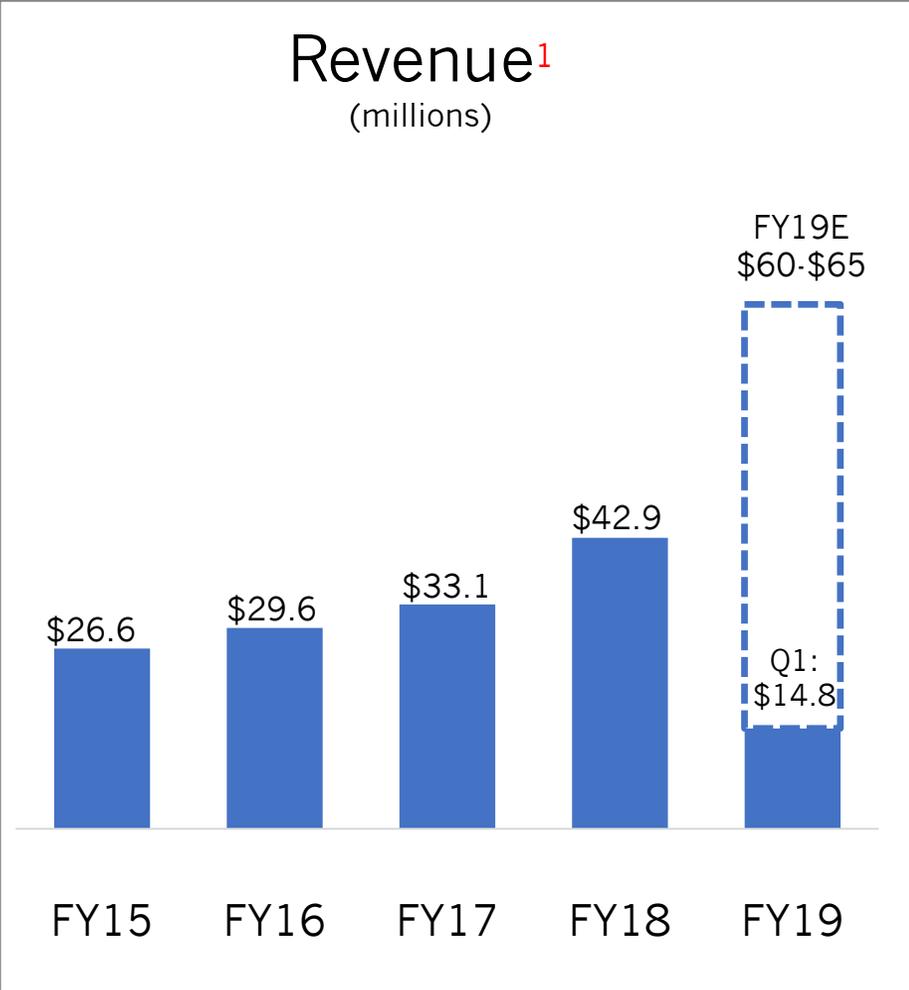
A decorative graphic in the bottom right corner of the slide, consisting of several parallel white lines that curve upwards and to the right. Small white dots are placed at regular intervals along these lines, creating a sense of motion or data points.

First-quarter 2019 Financial Results

- Strong financial performance:
 - Sixth consecutive quarter of year-over-year, double-digit revenue growth from continuing operations
 - \$1.0M improvement in Adjusted EBITDA year-over-year
- Total revenues of \$14.8M, up 69% year-over-year:
 - Products and licensing revenue of \$8.2M, up 98% year-over-year
 - Technology development revenue of \$6.6M, up 43% year-over-year
- Net Income was \$1.0 million, or \$0.03 per fully diluted share, for the three months ended March 31, 2019, compared to \$0.1 million, or \$0.00 per fully diluted share, for the three months ended March 31, 2018
 - Change due to one-time \$1.9 million income tax benefit, offset by one-time \$0.9 million of transaction-related costs and recurring \$0.5 million in incremental non-cash expenses associated with the acquisitions
- Adjusted EBITDA¹ improved to \$1.0 million for the three months ended March 31, 2019, compared to a loss of \$(0.1) million for the three months ended March 31, 2018
- Reaffirms FY19 outlook:
 - Total revenues of \$60M to \$65M
 - Adjusted EBITDA of \$6.0M to \$6.5M

¹Adj EBITDA is a non-GAAP measure. Reconciliation of comparable GAAP measures to non-GAAP measures are included in the appendix to this presentation.

Strong Start to 2019



■ Q1FY19 performance continues the operational and financial growth of the prior fiscal years.

¹ Based on management's estimates as of May. 8, 2019 of the impact from the divestiture of Optoelectronics. Includes the acquisitions of Micron Optics and General Photonics.

²Adj EBITDA is a non-GAAP measure. Reconciliation of comparable GAAP measures to non-GAAP measures are included in the appendix to this presentation.

Update on Acquisitions Integration

- Rapid integration; moved quickly to merge complementary products into integrated customer solutions; migrated sales teams to common rewards systems
- Working as a single integrated company

Micron Optics

- Exceptionally positive customer feedback for the combination with Luna
- Sales force training complete on products from both companies

General Photonics

- Quick, smooth integration into Lightwave proceeding as planned
 - Education of sales force on all products
 - Complementary, additive product lines; driving integration into one overall product portfolio

Recent Highlights

- Acquisition of General Photonics
- \$6M+ purchase order for Phoenix 1000 Tunable Lasers
 - Received from industry-leading robotics company
 - Delivered over four years
- Recognized as 2019 Innovator of the Year
 - Presented by the Roanoke-Blacksburg Technology Council
 - Recognizes organizations that set standard for thought leadership and innovation
 - Represents significant technological breakthrough / addresses market opportunity / or both
- Introduced Luna 6415 Lightwave Analyzer
 - Newest product in Comms Test segment
 - Provides robust, easy-to-use measurements for development and manufacturing of modern high-speed optical components and networks

A Flexible Balance Sheet and Strong Cash Position

- Balance sheet on March 31, 2019:
 - \$83.6M in total assets
 - \$24.6M in cash and cash equivalents
 - \$37.9M in working capital
- Focus on working capital and reinvestment in business in order to generate long-term sustainable growth

Pro-forma Luna Financials, Adjusted for the sale of Optoelectronics and the Acquisitions of Micron Optics and General Photonics

(in thousands)

For the three months ended¹

	<u>March 31, 2018</u>	<u>June 30, 2018</u>	<u>September 30, 2018</u>	<u>12/31/2018²</u>	<u>3/31/2019³</u>
Revenues:					
Technology development	\$ 4,637	\$ 5,466	\$ 5,316	\$ 5,548	\$ 6,641
Products and licensing	<u>8,481</u>	<u>8,867</u>	<u>10,787</u>	<u>11,345</u>	<u>10,221</u>
Total revenues	<u>13,118</u>	<u>14,333</u>	<u>16,103</u>	<u>16,893</u>	<u>16,862</u>
Cost of revenues:					
Technology development	3,353	3,945	3,919	4,268	4,816
Products and licensing	<u>3,112</u>	<u>3,323</u>	<u>4,204</u>	<u>4,002</u>	<u>3,836</u>
Total cost of revenues	<u>6,465</u>	<u>7,268</u>	<u>8,123</u>	<u>8,270</u>	<u>8,652</u>
Gross Profit	<u>6,653</u>	<u>7,065</u>	<u>7,980</u>	<u>8,623</u>	<u>8,210</u>
Operating expense:					
Selling, general and administrative	5,510	5,413	5,488	6,394	7,165
Research, development and engineering	<u>1,422</u>	<u>1,360</u>	<u>1,535</u>	<u>1,894</u>	<u>1,708</u>
Total operating expense	<u>6,932</u>	<u>6,773</u>	<u>7,023</u>	<u>8,288</u>	<u>8,873</u>
Operating income/(loss)	<u>\$ (279)</u>	<u>\$ 292</u>	<u>\$ 957</u>	<u>\$ 335</u>	<u>\$ (663)</u>

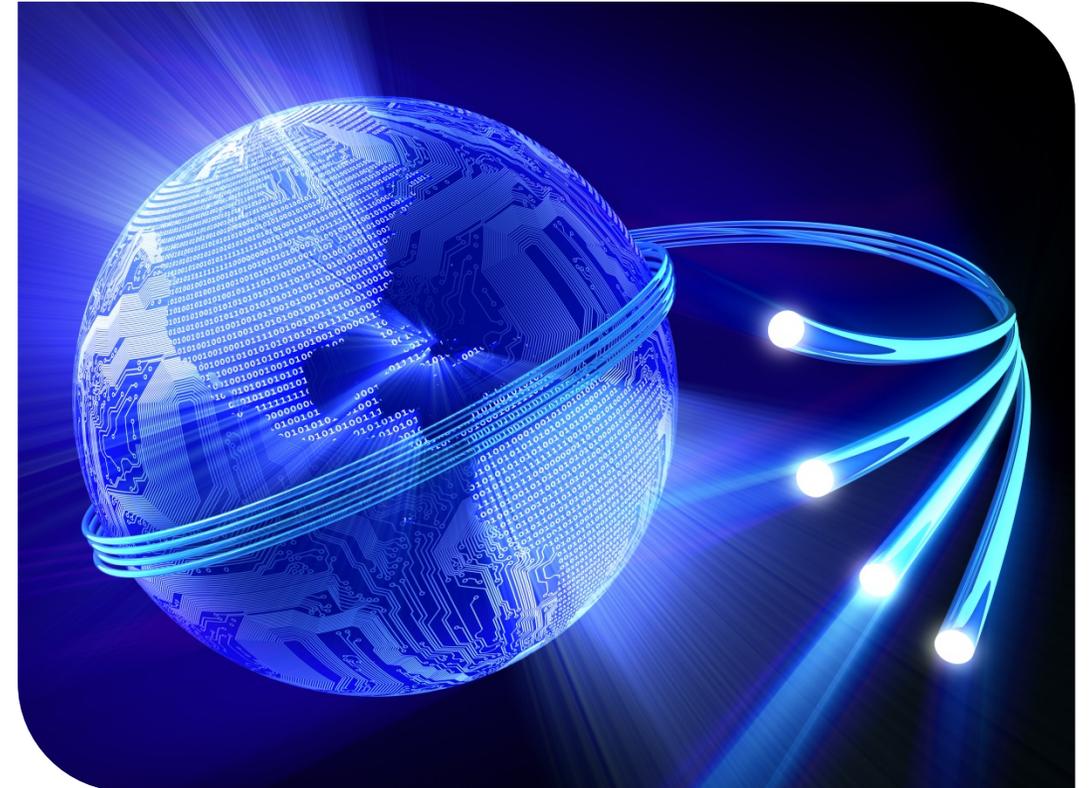
¹ Unaudited pro forma financials assumes the Optoelectronics business was sold and the Micron Optics and General Photonics businesses were acquired on January 1, 2018.

² Includes \$751,000 of costs associated with the acquisition of Micron Optics.

³ Includes \$898,000 of costs associated with the acquisition of General Photonics.

Why Invest in Luna?

- **Proprietary**, measurement technology, offering **unprecedented** combination of resolution, accuracy and speed
- Customers in **attractive markets**: Aerospace, Automotive, Communications, Energy and Defense
- Positioned to **take advantage of trends** such as vehicle light-weighting and increasing demands on data centers and broadband capacity
- **Adequately capitalized** to fund growth
- Long-tenured, **experienced** executive team / board
- Corporate culture of **innovation and integrity**
- **Compelling value**: currently trading at an attractive multiple



Appendix



Reconciliation of Net Income to Adjusted EBITDA: First-Quarter

	Three Months Ended March 31,	
	2019	2018
	(unaudited)	
Net income	\$ 1,125,879	\$ 148,676
Less income from discontinued operations, net of income tax	—	420,754
Net income/(loss) from continuing operations	1,125,879	(272,078)
Interest expense	11,187	40,647
Investment income	(171,225)	(75,912)
Tax benefit	(1,865,147)	(76,967)
Depreciation and amortization	617,309	237,365
EBITDA	(281,997)	(146,945)
Share-based compensation	342,765	94,606
Non-recurring charges ¹	898,042	—
Adjusted EBITDA	\$ 958,810	\$ (52,339)

¹ Non-recurring charges consist of transaction-related expenses incurred during the quarter ended March 31, 2019, related to the acquisition of General Photonics.

Reconciliation of Net Income to Adjusted EBITDA: Full Fiscal Year

	For the year ended December 31,			
	2015	2016	2017	2018
	(Unaudited)			
Net income	\$ 2,317,026	\$ (2,369,492)	\$ 14,614,905	\$ 11,004,241
Less Income from disc ops	8,718,103	1,538,624	15,865,720	9,766,431
Net income from continuing ops	(6,401,077)	(3,908,116)	(1,250,815)	1,237,810
Interest expense	218,233	316,975	217,352	124,344
Investment income	-	-	-	(549,580)
Tax provision	(470,605)	(135,567)	(1,148,579)	47,818
Depreciation and amortization	843,636	905,956	1,136,729	908,347
EBITDA	(5,809,813)	(2,820,752)	(1,045,313)	1,768,739
Share based compensation	1,124,379	860,215	715,094	527,189
Non-recurring charges ¹	3,704,019	-	595,992	751,102
Adjusted EBITDA	<u>\$ (981,415)</u>	<u>\$ (1,960,537)</u>	<u>\$ 265,773</u>	<u>\$ 3,047,030</u>

¹ Non-recurring charges include the following:

2015: Transaction-related expenses associated with the acquisition of Advanced Photonix, Inc.

2017: CEO separation costs and other share-based compensation

2018: Transaction related expenses associated with the acquisition of Micron Optics, Inc.