

Luna Innovations Incorporated Reports Fourth Quarter and Full Year 2016 Financial Results

March 16, 2017

Pre-tax income from continuing operations of \$0.3 million for the fourth quarter of 2016 versus pre-tax loss from continuing operations of \$(0.9) million for the fourth quarter of 2015

Adjusted EBITDA of \$1.6 million for the fourth quarter of 2016 versus \$0.4 million for the fourth quarter of 2015

Pre-tax loss from continuing operations of \$(2.3) million for the full year 2016 versus \$(6.5) million for 2015

Adjusted EBITDA of \$2.6 million for the full year 2016 versus \$1.0 million for 2015

ROANOKE, Va.--(BUSINESS WIRE)--Mar. 16, 2017-- Luna Innovations Incorporated (NASDAQ: LUNA) today announced its financial results for the fourth quarter and year ended December 31, 2016.

For the three months ended December 31, 2016, the company recognized pre-tax income from continuing operations of \$0.3 million compared to a pre-tax loss from continuing operations of \$(0.9) million for the three months ended December 31, 2015. Adjusted earnings before interest, taxes, depreciation and amortization ("adjusted EBITDA") improved to \$1.6 million for the three months ended December 31, 2016, compared to adjusted EBITDA of \$0.4 million for the three months ended December 31, 2015. Adjusted EBITDA is reconciled to pre-tax income (loss) from continuing operations for the respective periods within the tables included in this release. Net income attributable to common stockholders was \$0.3 million for the three months ended December 31, 2016, compared to net income attributable to common stockholders of \$7.9 million for the three months ended December 31, 2015. Net income for the three months ended December 31, 2015, included the realization of an \$8.3 million gain associated with the receipt in December 2015 of the final payments earned with respect to the company's sale of its medical shape sensing technology in 2014.

"Following our merger with API in 2015, we have remained focused on the successful execution of our key strategic initiatives and the realization of operational synergies from the merger to drive the company to profitability," said My Chung, president and chief executive officer of Luna. "We are extremely pleased with the progress we demonstrated throughout 2016 in increasing our revenues from our high speed optical receiver products and our ODiSI products to fuel our growth and improve our profitability. As a result of this success, for the fourth quarter of 2016 we are able to report positive quarterly earnings from continuing operations for the first time since 2011."

Fourth Quarter Financial Highlights

Total revenues for the three months ended December 31, 2016, were \$16.0 million, compared to \$15.5 million for the three months ended December 31, 2015. Technology development revenues grew to \$4.7 million for the three months ended December 31, 2016, from \$3.7 million for the three months ended December 31, 2015. Product and licensing revenue were \$11.3 million for the three months ended December 31, 2016, compared to \$11.7 million for the three months ended December 31, 2015.

Gross profit increased to \$6.1 million, or 38% of total revenue, for the three months ended December 31, 2016, compared to gross profit of \$5.0 million, or 33% of total revenue, for the three months ended December 31, 2015. The improvement in gross margin percentage resulted from a change in product mix in the fourth quarter of 2016, principally due to a larger volume of sales of test and measurement equipment, including ODiSI products, which typically carry a higher gross margin than do sales of integrated coherent receivers, which were a proportionately larger component of revenues for the three months ended December 31, 2015.

Selling, general and administrative expenses increased slightly to \$4.3 million for the three months ended December 31, 2016, compared to \$4.2 million for the three months ended December 31, 2015. Research, development and engineering expenses decreased to \$1.3 million for the three months ended December 31, 2016, compared to \$1.6 million for the three months ended December 31, 2015.

Before taxes, the company recognized income from continuing operations of \$0.3 million for the three months ended December 31, 2016, compared to a pre-tax loss from continuing operations of \$(0.9) million for the three months ended December 31, 2015.

The company had no income from discontinued operations for the three months ended December 31, 2016. Income from discontinued operations was \$8.3 million for the three months ended December 31, 2015, representing the payment received by the company in December 2015 to settle all remaining obligations associated with future technical milestone payments and royalties related to the sale of the company's medical shape sensing business sold to Intuitive Surgical in 2014.

Net income attributable to common stockholders was \$0.3 million for the three months ended December 31, 2016, compared to net income attributable to common stockholders of \$7.9 million for the three months ended December 31, 2015. The decrease in net income attributable to common stockholders was due to the income from discontinued operations recognized in December 2015. Adjusted EBITDA improved to \$1.6 million for the three months ended December 31, 2016, compared to adjusted EBITDA of \$0.4 million for the three months ended December 31, 2015.

Cash and cash equivalents were \$12.8 million as of December 31, 2016, compared to \$13.2 million as of September 30, 2016, and \$17.5 million as of December 31, 2015. The decrease in cash and cash equivalents during the three months ended December 31, 2016 was primarily attributable to \$0.4 million of long term debt repayment during the quarter. The decrease in cash and cash equivalents for the year ended December 31, 2016 included \$1.9 million of long term debt repayment, \$1.5 million of capital expenditures, and \$0.3 million of common stock repurchase activity.

Full Year 2016 Financial Highlights

Total revenues were \$59.2 million for the year ended December 31, 2016, compared to \$44.0 million for the year ended December 31, 2015. Revenues for 2015 included the operations of Advanced Photonix, Inc. ("API") for the period from the closing of the company's merger with API on May 8, 2015 through December 31, 2015. Products and licensing revenues increased to \$42.4 million for the year ended December 31, 2016, compared to \$30.4 million for the year ended December 31, 2015. Technology development revenues increased to \$16.8 million for the year ended

December 31, 2016 compared to \$13.6 million for the year ended December 31, 2015.

Gross profit for the year ended December 31, 2016, grew to \$21.7 million compared to \$16.5 million for the year ended December 31, 2015. The gross margin was 37% of total revenues for both 2016 and 2015.

Selling, general and administrative expenses decreased to \$18.1 million for the year ended December 31, 2016, compared to \$18.5 million for the year ended December 31, 2015.

Research, development and engineering expenses increased to \$5.5 million for the year ended December 31, 2016, compared to \$4.3 million for the year ended December 31, 2015. Research, development and engineering expenses in 2015 included expenses associated with the operations of API for the period from the closing of the merger with API on May 8, 2015 through December 31, 2015.

The company's resulting pre-tax loss from continuing operations improved to \$(2.3) million for the year ended December 31, 2016, compared to a pre-tax loss from continuing operations of \$(6.5) million for the year ended December 31, 2015.

For the year ended December 31, 2015, the company recognized income from discontinued operations of \$8.3 million related to the after-tax gain associated with the sale of the company's medical shape sensing business.

The company recognized a net loss attributable to common stockholders of \$(2.5) million for the year ended December 31, 2016, compared to net income attributable to common stockholders of \$2.2 million for the year ended December 31, 2015. The net income for 2015 resulted from the income from discontinued operations discussed above. Adjusted EBITDA improved \$1.6 million, to \$2.6 million for the year ended December 31, 2016, compared to \$1.0 million for the year ended December 31, 2015.

Non-GAAP Measures

In evaluating the operating performance of its business, the company's management considers adjusted EBITDA, which excludes certain charges and credits that are required by generally accepted accounting principles ("GAAP"). Adjusted EBITDA provides useful information to both management and investors by excluding the effect of certain non-cash expenses and items that the company believes may not be indicative of its operating performance, because either they are unusual and the company does not expect them to recur in the ordinary course of its business or they are unrelated to the ongoing operation of the business in the ordinary course. Adjusted EBITDA should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for, or superior to, GAAP results. Adjusted EBITDA has been reconciled to the nearest GAAP measure in the table following the financial statements attached to this press release.

Conference Call Information

As previously announced, the company will conduct an investor conference call at 5:00 p.m. (EDT) today to discuss its financial results and business developments for the fourth quarter of 2016 and the full year ended December 31, 2016. The call can be accessed by dialing **855.236.2056** domestically or 267.753.2162 internationally prior to the start of the call. The participant access code is 84325923. Investors are advised to dial in at least five minutes prior to the call to register. The conference call will also be webcast live over the Internet. The webcast can be accessed by logging on to the "Investor Relations" section of the company's website, www.lunainc.com, prior to the event. The webcast will be archived under the "Webcasts and Presentations" section of the Luna website for at least 30 days following the conference call.

About Luna:

Luna Innovations Incorporated (www.lunainc.com) is a leader in 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. Luna is organized into two business segments, which work closely together to turn ideas into products: a Technology Development segment and a Products and Licensing segment. Luna's business model is designed to accelerate the process of bringing new and innovative technologies to market.

Forward-Looking Statements:

The statements in this release that are not historical facts constitute "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. 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, integration or other operational issues related to the merger, technological challenges 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 release are based on information available to the company as of the date of this release and the company undertakes no obligation to update any of the forward-looking statements after the date of this release.

Luna Innovations Incorporated Consolidated Statements of Operations

Three months ended December 31,				Years ended December 31,					
	2016		2015	2016	2015				
(unaudited)			(unaudited)					
\$	4,653,141	\$	3,717,820	\$16,825,157	\$13,599,048				

Products and licensing revenues		11,305,018		11,732,459		42,385,839	•	30,421,310	
Total revenues		15,958,159		15,450,279		59,210,996		44,020,358	
Cost of revenues:		10,000,100		10,400,270	· —	00,210,000	-	++,020,000	
Technology development costs		3,544,065		3,159,858		12,711,447	,	10,378,616	
Products and licensing costs		6,303,086		7,254,523		24,764,788		17,141,079	
Total cost of revenues		9,847,151		10,414,381	_	37,476,235	_	27,519,695	
Gross profit		6,111,008	_	5,035,898	_	21,734,761	_	16,500,663	
Operating expense:	_	0,,000	_	3,000,000	· —		_	. 0,000,000	
Selling, general and administrative		4,346,919		4,209,480		18,139,966		18,481,270	
Research, development, and engineering		1,337,306		1,641,783		5,532,130		4,268,988	
Total operating expense		5,684,225		5,851,263	:	23,672,096	-2	22,750,258	
Operating income/(loss)		426,783		(815,365)	_	(1,937,335)		(6,249,595)	
Other expense:		· · ·		, , , ,	_	<u>, , , , , , , , , , , , , , , , , , , </u>		<u>, , , , , , , , , , , , , , , , , , , </u>	
Other income/(expense), net		1,118		(4,769)		(35,849)		(9,967)	
Interest expense, net		(82,253)		(83,882)		(320,942)		(220,403)	
Total other expense		(81,135)		(88,651)	_	(356,791)		(230,370)	
Income/(loss) from continuing operations before income taxes		345,648		(904,016)	_	(2,294,126)		(6,479,965)	
Income tax expense/(benefit)		39,488		(489,709)		75,366		(470,605)	
Income/(loss) from continuing operations		306,160		(414,307)	_	(2,369,492)		(6,009,360)	
Income from discontinued operations, net of income taxes				8,328,790		<u> </u>		8,326,386	
Net income/(loss)		306,160		7,914,483		(2,369,492)	Τ	2,317,026	
Preferred stock dividend		30,527		21,012	_	105,258		85,830	
Net income/(loss) attributable to common stockholders	\$	275,633	\$	7,893,471	\$	(2,474,750)	\$	2,231,196	
Net income/(loss) per share from continuing operations:					-				
Basic and diluted	\$	0.01	\$	(0.02)	\$	(0.09)	\$	(0.26)	
Net income per share from discontinued operations:									
Basic and diluted	\$	_	\$	0.30	\$	_	\$	0.36	
Net income/(loss) per share attributable to common stockholders:									
Basic and diluted	\$	0.01	\$	0.29	\$	(0.09)	\$	0.10	
Weighted average shares:									
Basic		27,538,606		27,464,993		27,547,217		23,026,494	
Diluted		32,563,013		27,464,993	2	27,547,217	2	23,026,494	

Luna Innovations Incorporated Consolidated Balance Sheets

	December 31, 2016	December 31, 2015
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,802,458	\$ 17,464,040
Accounts receivable, net	14,297,725	11,034,557
Inventory, net	8,370,235	8,863,167
Prepaid expenses	1,627,175	1,388,439
Total current assets	37,097,593	38,750,203
Property and equipment, net	6,780,838	6,614,238
Intangible assets, net	8,681,263	10,404,312
Goodwill	2,348,331	2,274,112
Other assets	88,948	88,948
Total assets	\$ 54,996,973	\$ 58,131,813
Liabilities and stockholders' equity		
Current Liabilities:		
Current portion of long term debt obligation	1,833,333	1,833,333
Current portion of capital lease obligation	52,128	31,459
Accounts payable	4,466,192	4,054,425
Accrued liabilities	8,667,100	8,304,686
Deferred revenue	949,603	1,109,759
Total current liabilities	15,968,356	15,333,662

Long-term deferred rent	1,403,957	1,564,229
Long-term debt obligation	2,420,032	4,291,667
Long-term capital lease obligation	114,940	35,237
Total liabilities	19,907,285	21,224,795
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$0.001, 1,321,514 shares authorized, issued and outstanding at December 31, 2016 and		
2015	1,322	1,322
Common stock, par value \$0.001, 100,000,000 shares authorized, 27,988,104 and 27,644,833 shares issued,		
27,541,277 and 27,477,181 shares outstanding at December 31, 2016 and 2015, respectively	28,600	28,178
Treasury stock at cost, 167,652 shares at December 31, 2016 and 22,725 shares at December 31, 2015	(517,987)	(184,934)
Additional paid-in capital	82,451,958	81,461,907
Accumulated deficit	(46,874,205)	(44,399,455)
Total stockholders' equity	35,089,688	36,907,018
Total liabilities and stockholders' equity	\$ 54,996,973	\$ 58,131,813

Luna Innovations Incorporated Consolidated Statements of Cash Flows

Cash flows used in operating activities: 2016 2016 Cash flows used in operating activities: \$ 2,300,400 \$ 2,317,000 Adjustments to reconcile net income to net cash used in operating activities: \$ 2,317,000 \$ 2,317,000 Depreciation and amortization 3,713,879 \$ 2,457,000 Gain on sale of discontinued operations, net of income taxes 9 - 6 6,203,636 Allowance for doubtful accounts 9 - 0 6,007,000 Tax benefit from utilization of loss from current year operations 1,000,000 (5,007,000) Tax benefit from utilization of loss from current year operations 2,000,000 (5,007,000) Tax benefit from utilization of loss from current year operations 40,000 (5,007,000) Tax benefit from utilization of loss from current year operations 40,000 (5,007,000) Tax benefit from utilization of loss from current year operating activities 40,000 (2,000,000) Invendory 40,000 40,000 (3,000,000) Obterned credits 1,000,000 40,000 (3,000,000) Net cash used in operating activities 1,000,000 40,000 (3,000,000) Radjust		`	Years ended December 31,		
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Adjustments to reconcile net income to net cash used in operating activities: Depreciation and amortization	• •				
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Accounts payable and accrued expenses 564,689 16,292 Deferred credits (160,156) 248,678 Net cash used in operating activities (399,837) (5087,907) Cash flows (used in)/provided by investing activities: Acquisition of property and equipment (1,509,984) (710,348) Intangible property costs (490,200) (367,050) Cash acquired in business combination 6 8,997,595 Net cash (used in)/provided by investing activities (2,000,184) 8,294,714 Payments on debt obligations (56,873) (77,184) Payments on capital lease obligation (56,873) (77,184) Purchase of treasury stock (333,053) (152,713) Borrowings under term loans (333,053) (152,713) Proceeds from the exercise of options and warrants (2,261,561) 4,261,661 Net cash (used in)/provided by financing activities (2,261,561) 4,261,661 Borrowings under term loans (4,661,582) 3,347,071 Ret change in cash and cash equivalents—beginning of period (4,661,582) 3,347,071 Cash	Inventory		492,932		(252,934)
Deferred credits (160,156) 248.078 Net cash used in operating activities (399,37) (5087,907) Cash flows (used in/)provided by investing activities: Acquisition of property and equipment (15,099,84) (710,308) Intangible property costs (490,00) (367,050) Cash acquired in business combination ————————————————————————————————————	Other assets		(238,736)		(131,411)
Net cash used in operating activities (399,837) (5,087,907) Cash flows (used in)/provided by investing activities: (1,509,984) (710,348) Acquisition of property and equipment (490,00) (367,050) Intangible property costs (490,00) (374,517) Cash acquired in business combination 6 8,997,595 Proceeds from sale of discontinued operations, net (2,000,184) 8,294,714 Proceeds from sale of discontinued operations, net (2,000,184) 8,294,714 Net cash (used in)/provided by investing activities (2,000,184) 8,294,714 Payments on debt obligations (1,871,635) (6,712,355) Payments on acpital lease obligation (56,873) (77,184) Purchase of treasury stock (333,053) (152,718) Porceeds from the exercise of options and warrants 9 7,000,000 Proceeds from the exercise of options and warrants 2(2,261,561) 140,264 Net cash (used in)/provided by financing activities (4,661,582) 3,347,071 Cash and cash equivalents—beginning of period 17,464,041 14,16,962 Cash and cash equivalents—end of	Accounts payable and accrued expenses		564,689		16,429
Cash flows (used in)/provided by investing activities: Acquisition of property and equipment (1,509,984) (710,348) Intangible property costs (490,200) (367,050) Cash acquired in business combination 6 8,997,595 Proceeds from sale of discontinued operations, net (2,000,184) 8,997,595 Net cash (used in)/provided by investing activities (2,000,184) 8,997,595 Payments on debt obligations (1,871,635) (6,712,355) Payments on capital lease obligation (5,873) (77,184) Purchase of treasury stock (333,053) (152,713) Borrowings under term loans (3,6712,355) (330,053) (152,713) Proceeds from the exercise of options and warrants - 8,2516 Net cash (used in)/provided by financing activities (2,261,561) 140,264 Net change in cash and cash equivalents (4,661,582) 3,347,071 Cash and cash equivalents—beginning of period 17,464,040 14,116,969 Cash and cash equivalents—end of period 30,811 18,701 Cash paid for interest 308,816 308,116 <td< td=""><td>Deferred credits</td><td>_</td><td>(160,156)</td><td></td><td>248,678</td></td<>	Deferred credits	_	(160,156)		248,678
Acquisition of property and equipment (1,509,984) (71,0348) Intangible property costs (490,200) (367,050) Cash acquired in business combination ————————————————————————————————————	Net cash used in operating activities	_	(399,837)	(5	,087,907)
Intangible property costs (490,200) (367,050) Cash acquired in business combination 374,517 Proceeds from sale of discontinued operations, net 6,8997,595 Net cash (used in)/provided by investing activities (2,000,184) 8,294,714 Cash flows (used in)/ provided by/ financing activities: Payments on debt obligations (1,871,635) (6,712,355) Payments on capital lease obligation (56,873) (77,184) Purchase of treasury stock (333,053) (152,713) Borrowings under term loans	Cash flows (used in)/provided by investing activities:				
Cash acquired in business combination — 374,517 Proceeds from sale of discontinued operations, net — 8,997,595 Net cash (used in)/provided by investing activities (2,000,184) 8,294,714 Cash flows (used in)/ provided by/ financing activities: (1,871,635) (6,712,355) Payments on debt obligations (56,873) (77,184) Payments on capital lease obligation (333,053) (152,713) Purchase of treasury stock (333,053) (152,713) Borrowings under term loans (333,053) (152,713) Proceeds from the exercise of options and warrants — 82,516 7,000,000 Net cash (used in)/provided by financing activities (2,261,561) 140,264 Net change in cash and cash equivalents (4,661,582) 3,347,071 Cash and cash equivalents—beginning of period (4,661,582) 3,347,071 Cash and cash equivalents—end of period \$12,802,458 \$17,464,040 Supplemental disclosure of cash flow information \$308,116 \$187,017 Cash paid for interest \$308,116 \$187,017 Dividend on preferred stock, 79,292 shares of common stock issuable for each of the ye	Acquisition of property and equipment	((1,509,984)		(710,348)
Proceeds from sale of discontinued operations, net 6,8997,595 Net cash (used in)/provided by investing activities (2,000,184) 8,294,714 Cash flows (used in)/ provided by/ financing activities: Payments on debt obligations (1,871,635) (6,712,355) Payments on capital lease obligation (56,873) (77,184) Purchase of treasury stock (333,053) (152,713) Borrowings under term loans (333,053) (152,713) Proceeds from the exercise of options and warrants — 7,000,000 Net cash (used in)/provided by financing activities (2,261,561) 140,264 Net change in cash and cash equivalents (2,261,561) 140,264 Cash and cash equivalents—beginning of period (3,661,582) 3,347,071 Cash and cash equivalents—end of period 17,464,040 14,116,968 Supplemental disclosure of cash flow information \$308,116 \$187,017 Cash paid for interest \$308,116 \$187,017 Cash paid for interest \$308,116 \$187,017 Dividend on preferred stock, 79,292 shares of common stock issuable for each of the years ended December 31, 2016 \$105,258 <td>Intangible property costs</td> <td></td> <td>(490,200)</td> <td></td> <td>(367,050)</td>	Intangible property costs		(490,200)		(367,050)
Net cash (used in)/provided by/ financing activities: (2,000,184) 8,294,714 Payments on debt obligations (1,871,635) (6,712,355) Payments on capital lease obligation (56,873) (77,184) Purchase of treasury stock (333,053) (152,713) Borrowings under term loans — 7,000,000 Proceeds from the exercise of options and warrants — 82,516 Net cash (used in)/provided by financing activities (4,661,582) 3,347,071 Cash and cash equivalents—beginning of period (4,661,582) 3,347,071 Cash and cash equivalents—end of period 17,464,040 14,116,969 Supplemental disclosure of cash flow information \$308,116 \$187,017 Cash paid for interest \$308,116 \$187,017 Dividend on preferred stock, 79,292 shares of common stock issuable for each of the years ended December 31, 2016 \$105,258 \$85,830	Cash acquired in business combination		_		374,517
Cash flows (used in)/ provided by/ financing activities: Payments on debt obligations (1,871,635) (6,712,355) Payments on capital lease obligation (56,873) (77,184) Purchase of treasury stock (333,053) (152,713) Borrowings under term loans — 7,000,000 Proceeds from the exercise of options and warrants — 82,516 Net cash (used in)/provided by financing activities (2,261,561) 140,264 Net change in cash and cash equivalents (4,661,582) 3,347,071 Cash and cash equivalents—beginning of period 17,464,040 14,116,969 Cash and cash equivalents—end of period \$12,802,458 \$17,464,040 Supplemental disclosure of cash flow information Cash paid for interest \$308,116 \$187,017 Dividend on preferred stock, 79,292 shares of common stock issuable for each of the years ended December 31, 2016 \$105,258 \$85,830	Proceeds from sale of discontinued operations, net		_	8	,997,595
Payments on debt obligations (1,871,635) (6,712,355) Payments on capital lease obligation (56,873) (77,184) Purchase of treasury stock (333,053) (152,713) Borrowings under term loans — 7,000,000 Proceeds from the exercise of options and warrants — 82,516 Net cash (used in)/provided by financing activities (2,261,561) 140,264 Net change in cash and cash equivalents (4,661,582) 3,347,071 Cash and cash equivalents—beginning of period 17,464,040 14,116,969 Cash and cash equivalents—end of period \$12,802,458 \$17,464,040 Supplemental disclosure of cash flow information \$308,116 \$187,017 Dividend on preferred stock, 79,292 shares of common stock issuable for each of the years ended December 31, 2016 \$105,258 \$85,830	Net cash (used in)/provided by investing activities		(2,000,184)	- 8	,294,714
Payments on capital lease obligation (56,873) (77,184) Purchase of treasury stock (333,053) (152,713) Borrowings under term loans — 7,000,000 Proceeds from the exercise of options and warrants — 82,516 Net cash (used in)/provided by financing activities (2,261,561) 140,264 Net change in cash and cash equivalents (4,661,582) 3,347,071 Cash and cash equivalents—beginning of period 17,464,040 14,116,969 Cash and cash equivalents—end of period \$12,802,458 \$17,464,040 Supplemental disclosure of cash flow information \$308,116 \$187,017 Dividend on preferred stock, 79,292 shares of common stock issuable for each of the years ended December 31, 2016 and 2015 \$105,258 \$85,830	Cash flows (used in)/ provided by/ financing activities:				
Purchase of treasury stock (333,053) (152,713) Borrowings under term loans — 7,000,000 Proceeds from the exercise of options and warrants — 82,516 Net cash (used in)/provided by financing activities (2,261,561) 140,264 Net change in cash and cash equivalents (4,661,582) 3,347,071 Cash and cash equivalents—beginning of period 17,464,040 14,116,969 Cash and cash equivalents—end of period \$12,802,458 \$17,464,040 Supplemental disclosure of cash flow information \$308,116 \$187,017 Dividend on preferred stock, 79,292 shares of common stock issuable for each of the years ended December 31, 2016 and 2015 \$105,258 85,830	Payments on debt obligations	((1,871,635)	(6	,712,355)
Borrowings under term loans — 7,000,000 Proceeds from the exercise of options and warrants — 82,516 Net cash (used in)/provided by financing activities (2,261,561) 140,264 Net change in cash and cash equivalents (4,661,582) 3,347,071 Cash and cash equivalents—beginning of period 17,464,040 14,116,969 Cash and cash equivalents—end of period \$12,802,458 \$17,464,040 Supplemental disclosure of cash flow information \$308,116 \$187,017 Dividend on preferred stock, 79,292 shares of common stock issuable for each of the years ended December 31, 2016 and 2015 \$105,258 85,830	Payments on capital lease obligation		(56,873)		(77,184)
Proceeds from the exercise of options and warrants — 82,516 Net cash (used in)/provided by financing activities (2,261,561) 140,264 Net change in cash and cash equivalents (4,661,582) 3,347,071 Cash and cash equivalents—beginning of period 17,464,040 14,116,969 Cash and cash equivalents—end of period \$12,802,458 \$17,464,040 Supplemental disclosure of cash flow information 308,116 \$187,017 Cash paid for interest \$308,116 \$187,017 Dividend on preferred stock, 79,292 shares of common stock issuable for each of the years ended December 31, 2016 \$105,258 85,830	Purchase of treasury stock		(333,053)		(152,713)
Net cash (used in)/provided by financing activities (2,261,561) 140,264 Net change in cash and cash equivalents (4,661,582) 3,347,071 Cash and cash equivalents—beginning of period 17,464,040 14,116,969 Cash and cash equivalents—end of period \$12,802,458 \$17,464,040 Supplemental disclosure of cash flow information \$308,116 \$187,017 Cash paid for interest \$308,116 \$187,017 Dividend on preferred stock, 79,292 shares of common stock issuable for each of the years ended December 31, 2016 \$105,258 85,830	Borrowings under term loans		_	7	,000,000
Net change in cash and cash equivalents (4,661,582) 3,347,071 Cash and cash equivalents—beginning of period 17,464,040 14,116,969 Cash and cash equivalents—end of period \$12,802,458 \$17,464,040 Supplemental disclosure of cash flow information \$308,116 \$187,017 Cash paid for interest \$308,116 \$187,017 Dividend on preferred stock, 79,292 shares of common stock issuable for each of the years ended December 31, 2016 \$105,258 \$85,830	Proceeds from the exercise of options and warrants				82,516
Cash and cash equivalents—beginning of period 17,464,040 14,116,969 Cash and cash equivalents—end of period \$12,802,458 \$17,464,040 \$12,802,458 \$12,802,458 \$13,80	Net cash (used in)/provided by financing activities	_((2,261,561)		140,264
Cash and cash equivalents—end of period \$12,802,458 \$17,464,040 Supplemental disclosure of cash flow information Cash paid for interest \$308,116 \$187,017 Dividend on preferred stock, 79,292 shares of common stock issuable for each of the years ended December 31, 2016 and 2015 \$105,258 \$85,830	Net change in cash and cash equivalents	- ((4,661,582)	3	,347,071
Supplemental disclosure of cash flow information Cash paid for interest Dividend on preferred stock, 79,292 shares of common stock issuable for each of the years ended December 31, 2016 and 2015 \$ 105,258 \$ 85,830	Cash and cash equivalents—beginning of period	1	7,464,040	14	,116,969
Cash paid for interest Dividend on preferred stock, 79,292 shares of common stock issuable for each of the years ended December 31, 2016 and 2015 \$ 308,116 \$ 187,017 \$ 105,258 \$ 85,830	Cash and cash equivalents—end of period	\$1	2,802,458	\$17	,464,040
Dividend on preferred stock, 79,292 shares of common stock issuable for each of the years ended December 31, 2016 and 2015 \$ 105,258 \$ 85,830	Supplemental disclosure of cash flow information				
and 2015 \$ 105,258 \$ 85,830	Cash paid for interest	\$	308,116	\$	187,017
		\$	105 258	\$	85 830
	Cash paid for income taxes	\$	•		40,167

\$

Luna Innovations Incorporated

Reconciliation of Income/(Loss) from Continuing Operations Before Income Taxes to EBITDA and Adjusted EBITDA

	Three months ended December 31,			Year ended December 31,			
	2016 2015			2016	2015		
	(unaudited)			(unaudited)			
Income/(loss) from continuing operations before income taxes	\$	345,648	\$ (904,016)	\$ (2,294,126)	\$ (6,479,965)		
Interest expense		82,253	83,882	320,942	220,403		
Depreciation and amortization		954,002	908,224	3,713,879	2,457,032		
EBITDA		1,381,903	88,090	1,740,695	(3,802,530)		
Share-based compensation		194,861	277,714	860,215	1,124,379		
Transaction costs		_	54,840		3,704,019		
Adjusted EBITDA	\$ ^	1,576,764	\$ 420,644	\$ 2,600,910	\$ 1,025,868		

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Source: Luna Innovations Incorporated

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