UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 18, 2011

LUNA INNOVATIONS INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

000-52008	**54-1560050**
(Commission File No.)	**(IRS Employer Identification No.)**

1 Riverside Circle, Suite 400
Roanoke, Virginia 24016
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: 540-769-8400

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01. Entry into a Definitive Material Agreement.

Settlement Agreement with Dr. Kent A. Murphy; Amendment to Separation and Consulting Agreement

On May 18, 2011, Luna Innovations Incorporated (the "***Company***") entered into a letter agreement (the "***Settlement Agreement***") with Dr. Kent A. Murphy relating to, among other matters, the composition of the Board of Directors (the "***Board***") of the Company and Dr. Murphy's previously announced intention to nominate one or more directors for election to the Board at the Company's 2011 annual meeting of stockholders to be held on May 24, 2011 (the "***2011 Annual Meeting***"). The Settlement Agreement includes the following terms:

Cessation of Proxy Contest

Dr. Murphy has agreed to vote his shares of common stock of the Company at the 2011 Annual Meeting (i) in favor of the three (3) directors nominated by the Board to serve as Class II directors until the 2014 annual meeting of stockholders and (ii) in favor of the Board's recommendations with respect to all other matters to come before the stockholders at the 2011 Annual Meeting. Dr. Murphy has withdrawn his previously submitted proposals and notices with respect to nominations and other matters to be brought before the 2011 Annual Meeting.

Increase in Size of Board from Eight (8) to Nine (9) Members; Appointment of Ronald E. Carrier to Fill Resulting Vacancy

The Company has agreed that, at a regular meeting of the Board scheduled for the date of the 2011 Annual Meeting, the Board will take all actions necessary to increase the authorized size of the Board from eight (8) to nine (9) directors and to appoint Dr. Ronald E. Carrier, president emeritus of James Madison University and a former member of the Company's advisory board, to fill the resulting vacancy, subject to Dr. Carrier's acceptance of the appointment. Upon his election, Dr. Carrier will serve as a Class I director with a term expiring at the Company's 2013 annual meeting of stockholders (the "***2013 Annual Meeting***"). The Board will also appoint Dr. Carrier to the Nominating and Governance Committee of the Board.

Standstill

Pursuant to the Settlement Agreement, until the date of the 2014 annual meeting of stockholders (the "***Standstill Period***"), Dr. Murphy has agreed that, among other things, he will not solicit the votes of other stockholders of the Company, seek to place a director on or remove a director from the Board, initiate or participate in any proxy contest, seek to amend the Company's charter and bylaws in a manner that would affect the rights and obligations of the parties under the Settlement Agreement, make any stockholder proposal, cause his shares to be voted other than in accordance with the recommendation of the Board with respect to the election or removal of directors or with respect to any stockholder proposals, or directly or indirectly engage in any tender offer or other acquisition or restructuring transaction.

Subject to the terms of the Settlement Agreement, the Standstill Period will cease if the Company materially breaches the Settlement Agreement or if the Board nominates a slate of director nominees for election at the 2013 Annual Meeting that does not include Dr. Murphy as a nominee.

Mutual Release

Concurrently with the execution of the Settlement Agreement, the Company and Dr. Murphy entered into a mutual release of claims (the "***Mutual Release***"). Under the Mutual Release, Dr. Murphy and the Company have agreed to release each other from any claims or other matters arising prior to the date of the Settlement Agreement.

Amendment to Separation and Consulting Agreement

Concurrently with the execution of the Settlement Agreement, the Company and Dr. Murphy entered into an amendment (the "***Consulting Agreement Amendment***") to that certain Separation and Consulting Agreement, dated August 10, 2010, by and between the Company and Dr. Murphy (the "***Separation and Consulting Agreement***"). Under the Consulting Agreement Amendment, the Company has agreed to reimburse Dr. Murphy for his healthcare insurance premiums for an additional six months following the completion of the original 18 month consulting period under the Separation and Consulting Agreement, through August 10, 2012, in an amount not to exceed $1,250 per month. In addition, the Company has agreed to accelerate an aggregate of $80,000 in payments that would have otherwise been payable to Dr. Murphy pursuant to the Separation and Consulting Agreement in monthly installments through February 10, 2012.

The foregoing descriptions of the Settlement Agreement, the Consulting Agreement Amendment and the Mutual Release (the "***Murphy Agreements***") are qualified in their entirety by reference to the full text of these agreements, which are attached hereto as Exhibits 10.1, 10.2 and 10.3, respectively, and are incorporated herein by reference.

Loan Modification Agreement with Silicon Valley Bank

On May 18, 2011, the Company, the Company's wholly owned subsidiary Luna Technologies, Inc. (treated collectively for purposes of this Current Report as the "***Company***") and Silicon Valley Bank (the "***Lender***") entered into a Second Loan Modification Agreement (the "***Second Loan Modification Agreement***"). Under a prior loan modification agreement (the "***First Loan Modification Agreement***"), the maturity date for amounts that are or may become due under the Loan and Security Agreement dated as of February 18, 2010 (the "***Loan Agreement***") had been extended until May 18, 2011.

Term Loan

Under the Second Loan Modification Agreement, the Lender has agreed to make a term loan to the Company in the amount of $6.0 million (the "***Term Loan***"). The Term Loan is to be repaid by the Company in 48 monthly installments, plus accrued interest payable monthly in arrears, and, unless earlier terminated, matures on the earlier of (i) May 1, 2015 or (ii) an event of default under the Loan Agreement. The Term Loan carries a floating annual interest rate equal to the Lender's prime rate then in effect plus 2%.

The Company may prepay amounts due under the Term Loan for a fee equal to (i) $120,000, if such prepayment is made on or before May 18, 2012; (ii) $60,000, if such prepayment is made after May 18, 2012 but on or before May 18, 2013; or (iii) zero, if such prepayment is made after May 18, 2013.

Line of Credit

In addition to the terms and conditions of the Term Loan, the Second Loan Modification Agreement reduces the Company's maximum borrowing capacity under the revolving credit facility (the "***Line of Credit***," and together with the Term Loan, the "***Credit Facilities***") described in the Loan Agreement from $5.0 million to $1.0 million and extends its maturity date until May 18, 2012.

As modified by the Second Loan Modification Agreement, the annual interest rate on the Line of Credit has been reduced to the Lender's prime rate plus 1.25%, payable monthly in arrears, and the amount of the unused Line of Credit fee has been reduced from one-half of one percent (0.50%), payable quarterly, to one-quarter of one percent (0.25%), payable monthly. The Company may terminate the Line of Credit for a termination fee of $10,000, which fee would not be payable in the event that the Line of Credit is replaced by another loan facility with the Lender.

Amounts due under the Credit Facilities will continue to be secured by substantially all of the Company's assets, including intellectual property, personal property and bank accounts.

The Credit Facilities, as modified, continue to require the Company to observe a number of financial and operational covenants, including maintenance of a specified level of liquidity (defined as unrestricted cash and a portion of accounts receivable); achievement of specified minimum quarterly adjusted EBITDA levels; protection and registration of intellectual property rights; and customary negative covenants.

The Credit Facilities, as modified, contain customary events of default, including nonpayment of principal, interest or other amounts, violation of covenants, material adverse changes, an event of default under any subordinated debt documents, incorrectness of representations and warranties in any material respect, bankruptcy, judgments in excess of a threshold amount, and violations of other agreements in excess of a specified threshold. If any event of default occurs, the Lender may declare due immediately all borrowings under the Credit Facilities and foreclose on the collateral. Furthermore, an event of default under the Credit Facilities would result in an increase in the annual interest rate on any amounts outstanding to five percent (5.00%), or 500 basis points, above the rates then in effect.

Except as modified by the Second Loan Modification Agreement, all terms and conditions of the Line of Credit set forth in the Loan Agreement remain in full force and effect.

The foregoing summaries of the Credit Facilities are not complete and are qualified in their entirety by reference to the Second Loan Modification Agreement, which will be filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ending June 30, 2011, and the Loan Agreement, which is filed as Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, as modified by the First Loan Modification Agreement, which is filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 9, 2011.

Repayment of Hansen Note

As described in the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 15, 2010, the Company previously issued to Hansen Medical, Inc. ("***Hansen***") a secured promissory note (the "***Hansen Note***") in the principal amount of $5.0 million. As a condition to the consummation of the transactions contemplated by the Second Loan Modification Agreement, on May 18, 2011, the Company and Hansen entered into an Amendment to Secured Promissory Note and Payoff Letter (the "***Payoff Letter***").

Under the terms of the Payoff Letter, the Company and Hansen have agreed upon a final payoff in the approximate amount of $3 million as payment in full for all principal and accrued interest under the Hansen Note. Upon receipt of this final payment, the Security Agreement and the Patent and Trademark Security Agreement, each dated as of January 12, 2010, by and among the Company and Hansen (the "***Hansen Security Agreements***"), will be of no further force and effect, and all security interests in the Company's assets held by Hansen as collateral for the Company's obligations under the Hansen Note will be terminated and released.

The foregoing summary is not complete and is qualified in its entirety by reference to the Payoff Letter, a copy of which will be filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ending June 30, 2011.

Amendment of Hansen Development and Supply Agreement

Also on May 18, 2011, the Company and Hansen entered into Amendment No. 3 (the "***Third Amendment***") to their Development and Supply Agreement dated January 12, 2010 (as amended to date, the "***Hansen Development and Supply Agreement***"). Under the Third Amendment, the parties have agreed to amend certain of the specifications and estimated budget amounts for specified development milestones set forth in the Hansen Development and Supply Agreement and to provide for additional development milestones and related budget estimates and specifications to be achieved by the Company. Furthermore, Hansen has agreed that certain of the existing milestones have been achieved without penalty.

The Third Amendment provides for a payment structure whereby the Company will share a specified percentage of the development expenses otherwise payable to the Company in connection with certain of the development milestones, up to a certain cumulative maximum, and changes the mechanism for calculating amounts that Hansen may holdback from being paid to the Company while such expenses are being shared by the parties. Finally, the Third Amendment adjusts the commercial transfer pricing mechanism for the Company's supply of interrogator products to Hansen.

The foregoing description of the Third Amendment is not complete and is qualified in its entirety by reference to the Third Amendment, which will be filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ending June 30, 2011.

Item 1.02 Termination of a Material Definitive Agreement.

The information required by this Item 1.02 with respect to the Hansen Note and the Hansen Security Agreements is set forth in Item 1.01 above, which is incorporated herein by reference.

Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

The information required by this Item 2.03 with respect to the Term Loan is set forth in Item 1.01 above, which is incorporated herein by reference.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

The information required by this Item 5.02 with respect to the Murphy Agreements is set forth in Item 1.01 above, which is incorporated herein by reference.

Item 7.01. Regulation FD Disclosure.

On May 19, 2011, the Company issued a press release announcing the execution of the Third Amendment with Hansen. On May 23, 2011, the Company issued a press release announcing the Credit Facilities with Silicon Valley Bank. Copies of these press releases are furnished herewith as Exhibits 99.1 and 99.2, respectively, to this report.

In accordance with general instruction B.2 to Form 8-K, the information in this Item 7.01, including the press releases furnished as exhibits hereto, shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section, nor shall they be deemed incorporated by reference in any filing under the Securities Act of 1933 or Securities Exchange Act of 1934.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit Number	Exhibit Description
10.1	Letter Agreement, dated as of May 18, 2011, by and between Luna Innovations Incorporated and Dr. Kent A. Murphy.
10.2	First Amendment to Separation and Consulting Agreement, dated as of May 18, 2011, by and between Luna Innovations Incorporated and Dr. Kent A. Murphy.
10.3	General Release Agreement, dated as of May 18, 2011, by and between Luna Innovations Incorporated and Dr. Kent A. Murphy.
99.1	Press Release, dated May 19, 2011, regarding the Third Amendment with Hansen.
99.2	Press Release, dated May 23, 2011, regarding the Silicon Valley Bank Credit Facilities.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: May 23, 2011

LUNA INNOVATIONS INCORPORATED

By: /s/ Talfourd H. Kemper, Jr.
Talfourd H. Kemper, Jr.
Vice President and General Counsel

EXHIBIT INDEX

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99.2	Press Release, dated May 23, 2011, regarding the Silicon Valley Bank Credit Facility.

Exhibit 10.1

Luna Innovations Incorporated

May 18, 2011

Dr. Kent A. Murphy, Ph.D.
Troutville, VA

Dear Dr. Murphy:

The following sets forth the agreement (the "***Letter Agreement***") between Dr. Kent A. Murphy, Ph.D. ("***Dr. Murphy***") and Luna Innovations Incorporated (the "***Company***"):

1. Cessation of Proxy Contest. Dr. Murphy hereby agrees to (a) cause all shares of common stock of the Company that he has the right to vote as of the record date for the Company's 2011 annual meeting of stockholders (the "***2011 Annual Meeting***") to be present for quorum purposes at the 2011 Annual Meeting and to be voted in favor of the three (3) directors nominated by the Board of Directors of the Company (the "***Board***") to serve as Class II directors until the 2014 Annual Meeting (as defined below) (and will not support or participate in any "withhold the vote" or similar campaign), (b) cause all shares of common stock of the Company that he has the right to vote as of the record date for the 2011 Annual Meeting to be voted in favor of the Board's recommendations with respect to all other matters to come before the stockholders at the 2011 Annual Meeting, (c) not propose any candidates for election to the Board or any other proposals to be acted upon at the 2011 Annual Meeting, (d) not propose any proxy resolutions or conduct any proxy solicitations with respect to the 2011 Annual Meeting, (e) irrevocably withdraw all of his previously submitted proposals and notices with respect to nominations and other matters to be brought before the 2011 Annual Meeting and (f) irrevocably withdraw his Demand for Right to Inspect Shareholder Records dated March 31, 2011.

2. Appointment of Ronald E. Carrier to the Board. At the regular meeting of the Board scheduled for the date of the 2011 Annual Meeting, the Board will take all actions necessary to (a) increase the size of the Board from eight (8) to nine (9) directors, (b) appoint Ronald E. Carrier as a Class I director with a term expiring at the Company's 2013 annual meeting of stockholders (the "***2013 Annual Meeting***") and (c) appoint Dr. Carrier to the Nominating and Governance Committee of the Board, with each of such events to be effective on such date. Such actions shall be taken at the beginning of the regular meeting of the Board and, immediately following such actions, Dr. Carrier shall be permitted to attend and participate as a director throughout such regular meeting of the Board. The Company further agrees to maintain such committee appointment throughout Dr. Carrier's initial term as director. Notwithstanding the foregoing, if Dr. Carrier indicates to the Company that he is not willing to be so appointed, or to continue to serve, in such capacities, then the Company shall have no further obligations under this paragraph.

3. Standstill Agreement.

a. During the period from the date of this Letter Agreement through the date of the Company's 2014 annual meeting of stockholders ("***2014 Annual Meeting***") (the "***Standstill Period***"), Dr. Murphy will not:

i. solicit proxies or written consents of stockholders, or any other person with the right to vote or power to give or withhold consent in respect of the Voting Securities (as defined below), or conduct, encourage, participate or engage in any other type of referendum (binding or non-binding) with respect to, or from the holders of Voting Securities or any other person with the right to vote or power to give or withhold consent in respect of the Voting Securities (other than solely in his capacity as a director of the Company in connection with solicitations on behalf of the Board and in accordance with the recommendations of the Board in connection therewith);

ii. make, or in any way participate or engage in any "solicitation" of any proxy, consent or other authority to vote any Voting Securities, with respect to any matter (other than solely in his capacity as a director of the Company in connection with solicitations on behalf of the Board and in accordance with the recommendations of the Board in connection therewith);

iii. seek to place a representative on the Board or seek the removal of any director from the Board;

iv. become a participant in any contested solicitation with respect to the Company, including without limitation relating to the removal or the election of directors;

v. initiate, propose or otherwise solicit stockholders for the approval of any stockholder proposal with respect to the Company (other than a proposal that the Board has recommended that the Company's stockholders vote to approve);

vi. cause to be voted any Voting Securities that he has the right to vote in a manner other than in accordance with the recommendation of the Board with respect to (i) the election or removal of directors; and (ii) stockholder proposals. Notwithstanding the foregoing and for the avoidance of doubt, with the exception of Section 1 hereof, nothing in this Letter Agreement shall obligate Dr. Murphy to cause to be voted any Voting Securities in connection with any matter submitted to stockholders of the Company for approval;

vii. without the prior written consent of the Company, form, join or in any way participate in a partnership, limited partnership, syndicate or other group, including without limitation a group as defined under Section 13(d) of the Securities Exchange Act of 1934, as amended (the "***Exchange Act***"), with respect to the Voting Securities, or otherwise support or participate in any effort by a third party with respect to the matters set forth in paragraphs (i) – (v) of this Section 3(a), or deposit any Voting Securities in a voting trust or subject any Voting Securities to any voting agreement;

viii. seek to have the Company waive, amend or modify any provision of the Company's Certificate of Incorporation or Bylaws, as the same may otherwise be amended from time to time in a manner that would materially affect the rights and obligations of the parties under this Agreement;

ix. either directly or indirectly for himself or his affiliates, or in conjunction with any other person or entity in which he proposes to be either a principal, partner or financing source or is acting or proposes to act as broker or agent for compensation, effect or seek, offer or propose (whether publicly or otherwise) to effect, or cause or participate in, or in any way knowingly support, assist or facilitate any other person to effect or seek, offer or propose to effect, or cause or participate in, (i) any tender offer or exchange offer, merger, acquisition or other business combination involving the Company or any of its subsidiaries or affiliates; (ii) any form of business combination or acquisition or other transaction relating to a material amount of assets or securities of the Company or any of its subsidiaries or affiliates; or (iii) any form of restructuring, recapitalization or similar transaction with respect to the Company or any of its subsidiaries or affiliates;

x. enter into any arrangements, understanding or agreements (whether written or oral) with, or advise, finance, assist or encourage, any other person in connection with any of the foregoing, or make any investment in or enter into any arrangement with, any other person that engages, or offers or proposes to engage, in any of the activities or transactions referenced in the foregoing paragraphs of this Section 3(a);

xi. publicly disclose, or cause to facilitate the public disclosure (including the filing of any document or report with the SEC or any other governmental agency or any disclosure to any journalist, member of the media or securities analyst) of any intent, purposes, plan or proposal to obtain any waiver, or consent under, or any amendment of, any provisions of this Letter Agreement;

xii. bring any action to (x) contest the validity of this Letter Agreement, or (y) seek a release from the restrictions contained in Section 1 or Section 3, *provided, however,* that nothing herein shall restrict Dr. Murphy from enforcing his rights under this Letter Agreement; or

xiii. take or cause or induce others to take any action inconsistent with any of the foregoing.

b. For the purposes of this agreement, the term "***Voting Securities***" shall mean any Common Stock or other securities of the Company entitled to vote in the election of directors of the Company, or securities convertible into or exercisable or exchangeable for such securities, whether or not subject to the passage of time or other contingencies.

c. Notwithstanding paragraph a. above, if the Company fails to comply in all material respects with the terms of this Letter Agreement and such failure continues uncured for 15 business days after written notice of such failure is delivered to the Secretary of the Company, then the Standstill Period shall immediately cease as of the expiration of such 15 business day period.

d. Notwithstanding paragraph a. above, if the Board nominates a slate of director nominees for election at the 2013 Annual Meeting that does not include Dr. Murphy as a nominee (unless such exclusion is a result of Dr. Murphy's refusal to (A) be nominated by the Board, (B) be named as a nominee in the Company's proxy statement, or (C) serve as a director if elected), then the Standstill Period shall immediately cease as of the date of such Board action. Additionally, if such Board action is taken on or after the fifteenth calendar day prior to the deadline for delivery of notice of stockholder proposals and/or director nominations with respect to the 2013 Annual Meeting (as determined in accordance with the Company's bylaws, as then in effect), then as long as Dr. Murphy otherwise fully complies with such advance notice bylaw provisions with respect to one or more stockholder proposals and/or director nominees (other than any provision with respect tot a deadline or the timeliness of receipt of any notice or other action) within fifteen (15) calendar days following the Board action, the Company will take such actions as may be necessary to permit such stockholder proposal or nomination by Dr. Murphy to be presented at the 2013 Annual Meeting.

e. Notwithstanding the foregoing, nothing in this Letter Agreement shall prohibit Dr. Murphy from fully participating in meetings of the Board and Board committees in fulfillment of, or otherwise carrying out, his fiduciary duties as a director of the Company.

f. In furtherance of Dr. Murphy's obligations in paragraph a. above, if, during the Standstill Period, the Company receives notice from a stockholder, in accordance with the Company's bylaws and/or the rules of the U.S. Securities and Exchange

Commission, of such stockholder's intention to nominate one or more individuals for election to the Board, or to submit a stockholder proposal for consideration by stockholders at a meeting of the Company's stockholders, then on or before the tenth (10th) business day prior to the scheduled date of the stockholders meeting, Dr. Murphy shall deliver an irrevocable proxy to the Board with respect to all Voting Securities in which he has a beneficial ownership interest, which proxy shall be coupled with an interest, naming as proxy and attorney-in-fact such individual or individual as may be designated by the Board, evidencing Dr. Murphy's instructions with respect to presence of his Voting Securities at the meeting and, if his Voting Securities are to be present at the meeting, voting with respect to all matters expected to be submitted to stockholders at such meeting in accordance with Dr. Murphy's voting rights and obligations set forth herein. For avoidance of doubt, Dr. Murphy may instruct the proxy holder to (a) cause Dr. Murphy's Voting Securities not to be present for quorum purposes at the meeting, or (b) cause Dr. Murphy's Voting Securities to be present for quorum purposes at the meeting and vote (or abstain) in accordance with Dr. Murphy's voting rights and obligations set forth herein.

4. Director Fees; Related Matters. Starting July 1, 2011, Dr. Murphy shall be entitled to receive Board annual retainer fees consistent with fees paid to other non-employee directors of the Company (effective on such date, the Company will be replacing meeting attendance fees with an annual retainer fee). Additionally, Dr. Murphy shall be entitled to the same insurance and indemnification rights as other non-employee directors of the Board. Upon the expiration of the original 18 month term of Dr. Murphy's consulting period under that certain Separation and Consulting Agreement, dated August 10, 2010, by and between the Company and Dr. Murphy, Dr. Murphy shall be entitled to receive an option grant covering that number of shares of common stock representing the ratable portion (based on the number of months then remaining in Dr. Murphy's board term) of the award issuable to non-employee directors upon re-election under the Company's non-employee director policy.

5. Amendment of Separation and Consulting Agreement. Concurrently with the execution of this Letter Agreement, the Company and Dr. Murphy shall enter into an amendment to that certain Separation and Consulting Agreement, dated as of August 10, 2010, in the form attached hereto as **Exhibit A**.

6. Mutual Release of Claims. Concurrently with the execution of this Letter Agreement, Dr. Murphy and the Company shall execute the form of Mutual Release attached hereto as **Exhibit B**.

7. Special Meeting of Directors. As promptly as practical following the 2011 Annual Meeting but no later than June 30, 2011, the Board shall call a special meeting of the Board for the purposes of discussing governance and strategic matters, including: (i) corporate governance best practices and director education; (ii) processes for future resource allocation decisions; (iii) potential strategies for acquisition and/or divestiture of technologies; and (iv) such other governance and strategic matters as the Board shall determine.

8. Support of Dr. Murphy for Election. If the Board nominates Dr. Murphy for election at the 2013 Annual Meeting, the Board shall recommend that stockholders vote in favor of Dr. Murphy and shall otherwise use substantially the same efforts to support Dr. Murphy's election as it uses for the election of the other nominees of the Board.

9. Authorization. The Company hereby represents and warrants that it has the power and authority to execute deliver and carry out the terms and provisions of this Letter Agreement and this Letter Agreement has been duly and validly authorized, executed and delivered by the Company.

10. Amendment; Entire Agreement; Counterparts. This Letter Agreement may only be modified through a written agreement signed by the Company and Dr. Murphy. This Letter Agreement, including its exhibits, contains the entire agreement between the parties with respect to the subject matter hereof and thereof and supersedes all prior and contemplated arrangements and understandings with respect thereto. This Letter Agreement may be signed in counterparts (including by fax and .pdf), each of which shall constitute an original and all of which together shall constitute one and the same agreement.

11. Governing Law. This Letter Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware, without regard to any conflict of laws provisions thereof or of any other jurisdiction. Each party to this Letter Agreement (a) irrevocably and unconditionally submits to the personal jurisdiction of the Court of Chancery of the State of Delaware or, as appropriate, the other state or federal courts of the United States of America located in the State of Delaware, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court, (c) agrees that any actions or proceedings arising in connection with this Letter Agreement or the transactions contemplated by this Letter Agreement shall be brought, tried and determined only in such courts, (d) waives any claim of improper venue or any claim that those courts are an inconvenient forum and (e) agrees that it will not bring any action relating to this Letter Agreement or the transactions contemplated hereunder in any court other than the aforesaid courts. Dr. Murphy hereby appoints Arnold & Porter LLP, as his agent for service of process in any litigation arising out of or relating to this Letter Agreement by service upon such agent or by certified mail, return receipt requested, postage prepaid to it at 555 Twelfth Street, NW Washington, DC 20004-1206, Attn: Richard E. Baltz.

12. Remedies. The parties recognize and agree that if for any reason any of the provisions of this Letter Agreement are not performed in accordance with their specific terms or are otherwise breached, immediate and irreparable harm or injury would be caused for which money damages would not be an adequate remedy. Accordingly, each party agrees that in addition to other remedies the other party shall be entitled to preliminary and

permanent injunctive relief without posting a bond or other undertaking and without the necessity of proving actual damages restraining any violation or threatened violation of the provisions of this Letter Agreement, and to enforce specifically the terms of this Letter Agreement, which right shall be cumulative and in addition to any other remedy to which the parties may be entitled hereunder or at law or equity. In the event that any action shall be brought in equity to enforce the provisions of the Letter Agreement, no party shall allege, and each party hereby waives the defense, that there is an adequate remedy at law.

13. Further Assurances. Each party agrees to take or cause to be taken such further actions, and to execute, deliver and file or cause to be executed, delivered and filed such further documents and instruments, and to obtain such consents, as may be reasonably required or requested by the other party in order to effectuate fully the purposes, terms and conditions of this Letter Agreement.

****

If you are in agreement, please sign below.

LUNA INNOVATIONS INCORPORATED

By: /s/ My E. Chung
Name: My E. Chung
Title: President & CEO

Accepted and agreed as of the date set forth above.

/s/ Kent A. Murphy. Ph.D.
KENT A. MURPHY, PH.D.

Exhibit 10.2

LUNA INNOVATIONS INCORPORATED
FIRST AMENDMENT TO SEPARATION AND CONSULTING AGREEMENT

THIS FIRST AMENDMENT TO SEPARATION AND CONSULTING AGREEMENT (the "Amendment") is made and entered into as of the 18th day of May, 2011 (the "Effective Date"), by and between Luna Innovations Incorporated (the "Company") and Kent A. Murphy, Ph.D. (the "Consultant," and together with the Company, the "Parties") and provides as follows:

RECITALS

WHEREAS, the Parties previously entered into that certain Separation and Consulting Agreement, dated as of August 10, 2010 (the "Original Consulting Agreement"); and

WHEREAS, the Parties desire to amend the terms of the Original Consulting Agreement as provided in this Amendment.

TERMS OF AMENDMENT

NOW, THEREFORE, for and in consideration of the premises and of the mutual promises and undertakings of the parties as hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties covenant and agree as follows:

1. Paragraph 4 of the Original Consulting Agreement is hereby deleted in its entirety and restated as follows:

Healthcare Benefits. The Company shall pay the group health continuation premiums for the Consultant and the Consultant's covered dependents through February 10, 2012 to the extent the Consultant is eligible for and elects such continuation coverage under COBRA. In addition, upon presentation of reasonable documentation, the Company shall reimburse the Consultant for his health insurance premiums during the period from February 11, 2012 through August 10, 2012 up to an amount equal to $1,250 per month (with such amount appropriately prorated for the Company's obligations with respect to February and August).

2. Paragraph 8 of the Original Consulting Agreement is hereby deleted in its entirety and restated as follows:

Consulting Compensation. In exchange for the Company's access to the Consultant's time, talents, and services, the Company shall pay the Consultant the following amounts per month of the Term, payable on the last day of such month:

Month	Amount
August 2010	$15,241.94
September 2010	$ 22,500
October 2010	$ 22,500
November 2010	$ 22,500
December 2010	$ 22,500
January 2011	$ 22,500
February 2011	$ 22,500
March 2011	$ 22,500
April 2011	$ 22,500
May 2011	$ 102,500
June 2011	$ 22,500
July 2011	$ 22,500
August 2011	$ 22,500
September 2011	$ 22,500
October 2011	$ 2,500
November 2011	$ 2,500
December 2011	$ 2,500
January 2012	$ 2,500
February 2012	$ 7,258.06

The Consultant acknowledges receipt of all payments identified on the above chart through April 2011.

3. **Entire Agreement.** This Amendment, the Original Consulting Agreement and the parties' letter agreement ("Letter Agreement") of even date herewith shall constitute the complete, final and exclusive embodiment of the entire

agreement between the Parties with regard to the subject matter hereof. It is entered into without reliance on any promise or representation, written or oral, other than those expressly contained herein, and it supersedes any other such promises, warranties or representations. It may not be amended or modified except in a writing signed by the Parties.

4. **Counterparts and Facsimile Signatures**. This Amendment may be executed by facsimile transmission and in several counterparts, and all counterparts so executed shall constitute one agreement binding on all parties, notwithstanding the fact that all the Parties have not signed the original or the same counterpart. Any counterpart signed by the Party against whom enforcement of this Amendment is sought shall be admissible into evidence as an original of this Amendment to prove its contents.

5. **No Further Amendment**. Except as otherwise expressly provided in this Amendment, all of the terms and conditions of the Original Consulting Agreement remain unchanged and continue in full force and effect.

6. **Letter Agreement**. Concurrently with the execution of this Amendment, the Company and Consultant shall enter into the Letter Agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date and year above written.

LUNA INNOVATIONS INCORPORATED

By: /s/ My E. Chung
Name: My E. Chung
Title: President & CEO

CONSULTANT

/s/ Kent A Murphy, Ph.D
Kent A. Murphy, Ph.D.

Exhibit 10.3

GENERAL RELEASE AGREEMENT

THIS GENERAL RELEASE AGREEMENT (the "***Agreement***") is executed by and between Kent A. Murphy, Ph.D. ("***Dr. Murphy***") and Luna Innovations Incorporated (the "***Company***") (as used herein, the "***Company***" includes its parent, subsidiaries, successors, affiliates and assigns, and all of its present or former employees, officers, agents, and directors). Dr. Murphy and the Company agree to the following:

1. Dr. Murphy and the Company desire to compromise and resolve any and all claims or potential claims that Dr. Murphy may have against the Company up to and including the Effective Date.

2. The Company and Dr. Murphy agree to enter into a certain Letter Agreement dated May 18, 2011 ("Letter Agreement"), to which this Agreement is attached as Exhibit B.

3. In return for the consideration and promises contained in the Letter Agreement and for other consideration, the receipt and sufficiency of which are hereby acknowledged, Dr. Murphy shall and does hereby RELEASE and FOREVER DISCHARGE the Company, its parents, subsidiaries, affiliates, divisions, successors and assigns, and all of the Company's present or former employees, officers, servants, agents, directors, board of directors and board committee from any and all claims, demands, actions or causes of action, judgments, grievances, obligations, rights, demands, debts, damages, sums of money, attorney's fees, costs, losses, liabilities or accountings of whatever nature, whether known or unknown, disclosed or undisclosed, asserted or unasserted, in law or equity, contract, tort or common law or otherwise on account of, arising out of or in any way connected in any way with (a) all matters alleged or which could have been alleged in a complaint against the Company, (b) any and all injuries, losses or damages to Dr. Murphy, including any claims for attorney's fees, (c) any and all claims relating to the conduct of any employee, officer, director, board of directors, board committee or agent of the Company, and (d) any and all other matters, transactions or things occurring prior to the date hereof, including any and all possible claims that could have been asserted against the Company or the Company's employees, agents, officers, directors, board of directors or board committee.

4. Dr. Murphy agrees and covenants not to file or prosecute a derivative suit against the Company's directors, board of directors, board committee, officers or agents, nor to file or prosecute any other action in which Dr. Murphy asserts claims in the right of or on behalf of the Company, based on any action, or failure to act, which occurred prior to the date hereof. Further, Dr. Murphy agrees and covenants not to cause or induce or voluntarily cooperate with others to file or prosecute any action covered by this Paragraph.

5. In return for the consideration and promises contained in Paragraphs 3 and 4 of this Agreement and for other consideration, the receipt and sufficiency of which are hereby acknowledged, the Company shall and does hereby RELEASE and FOREVER DISCHARGE Dr. Murphy of and from any and all claims, actions, causes of action, judgments, grievances, obligations, rights, demands, debts, damages, sums of money, attorney's fees, costs, losses, liabilities or accountings of whatever nature, whether known or unknown, disclosed or undisclosed, asserted or unasserted, in law or equity, contract, tort or common law or otherwise, including, without limitation, any claims arising from violations of any statute, constitutional provision, executive order, law or ordinance, and any claims arising out of any relationship between the Company and Dr. Murphy, predating the execution of this Agreement.

6. Each of the covenants herein contained shall be binding upon and shall inure to the benefit of the heirs, executors, administrators, assigns and successors in interest of each of the Parties.

7. This Agreement shall be governed by and interpreted in accordance with the laws of the State of Delaware, without regard to its choice of law provisions.

8. Should any provision of this Agreement be declared or determined by any court or other reviewing forum to be illegal or invalid, the legality and validity of the remaining parts, terms or provisions shall not be affected thereby and said illegal or invalid part, term, or provision shall be severed and deemed not to be a part of this Agreement.

9. Dr. Murphy represents that he understands all of the provisions herein, and that he is entering into this Agreement voluntarily. Dr. Murphy further represents and acknowledges that in executing this Agreement he does not rely, and has not relied, upon any representation or statement made by the Company or by any of the Company' employees, officers, agents, members, directors or attorneys with regard to the subject matter, basis or effect of this Agreement or otherwise.

10. This Agreement may be executed by facsimile transmission and in several counterparts, and all counterparts so executed shall constitute one agreement binding on all parties, notwithstanding the fact that all the parties have not signed the original or the same counterpart. Any counterpart signed by the party against whom enforcement of this Agreement is sought shall be admissible into evidence as an original of this Agreement to prove its contents.

11. The parties recognize and agree that in the event of a breach of this Agreement, immediate and irreparable harm or injury would be caused for which money damages would not be an adequate remedy. Accordingly, the non-breaching party shall be entitled to an injunction without posting a bond or other undertaking restraining any violation or threatened violation of the provisions of this Agreement.

[SIGNATURE PAGE FOLLOWS]

PLEASE READ CAREFULLY.
THIS SETTLEMENT AND RELEASE AGREEMENT INCLUDES
A COMPLETE RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed as of the date(s) set forth below:

/s/ Kent A. Murphy, Ph.D.	May 18, 2011
Kent A. Murphy, Ph.D.	Date

LUNA INNOVATIONS INCORPORATED

/s/ My E. Chung	May 18, 2011
By: My E. Chung	Date
Its: President & CEO	

Exhibit 99.1

Release
Luna Innovations Incorporated
1 Riverside Circle, Suite 400
Roanoke, VA 24016

Luna Innovations and Hansen Medical Expand Development Work

Luna and Hansen will continue to integrate shape sensing technology and medical robotics

(ROANOKE, Va., May 19, 2011) - Luna Innovations Incorporated (NASDAQ: LUNA) announced today that it will expand its product development efforts under its development and supply agreement with Hansen Medical, Inc., to continue integrating Luna's shape sensing technology into Hansen's medical robotic products.

In December 2009, Luna and Hansen entered into a multi-year development and supply agreement in which Luna would supply and license its fiber optic shape sensing technology for integration into Hansen's medical devices. Hansen, a global leader in flexible robotics, develops products and technology using robotics for the accurate positioning, manipulation and control of catheters and catheter based technologies. Luna and Hansen are amending the agreement to increase the development budget and expand the scope of the development work.

"The expansion of our agreement with Hansen reflects our continued dedication and focus on developing our shape sensing technology to enhance medical procedures," said My Chung, president and chief executive officer of Luna Innovations. "We remain committed to achieving the best outcome for patients and strive to deliver solutions and enhance medical procedures that help save lives."

"This expanded agreement is further evidence of both Hansen Medical's and Luna's interest in advancing medical robotic technology," said Bruce Barclay, president and chief executive officer of Hansen Medical. "We continue to view Luna as a leader in advanced shape sensing and position tracking systems. We believe that our continued relationship has the potential to optimize robotically assisted medical procedures and positively impact patient lives."

Luna's shape sensing and localization technology can provide real-time position measurements to help surgeons navigate through the body. The sensing system consists of software, instrumentation and

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disposable optical sensing fiber. Luna's technology, originally developed at NASA, is unique and designed to provide the user with an accurate, direct and continuous measurement of device location with no adverse effect from line of sight limitations and without introducing electrical signals or radiation into the body.

About Luna Innovations:

Luna Innovations Incorporated (www.lunainnovations.com) is focused on sensing and instrumentation. Luna develops and manufactures new-generation products for the healthcare, telecommunications, energy and defense markets. The company's products are used to measure, monitor, protect and improve critical processes in the markets we serve. Through its disciplined commercialization business model, Luna has become a recognized leader in transitioning science to solutions. Luna is headquartered in Roanoke, Virginia.

Forward-Looking Statements:

This release includes information that constitutes "forward-looking statements" made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995, including statements regarding, but not limited to the potential of Luna's technology and intellectual property, any possible improvements to medical surgeries and/or medical outcomes, and the future relationship between Luna and Hansen and incorporation of Luna's technology into Hansen's products. Statements that describe Luna's business strategy, goals, prospects, opportunities, outlook, plans or intentions are also forward-looking statements. Actual results may differ materially from the expectations expressed in such forward-looking statements as a result of various factors, including technical and scientific difficulties, complications or difficulties in improving medical surgeries and/or outcomes, market forces in the medical industry, and issues that might arise in any particular business relationship, and risks and uncertainties set forth in the company's periodic reports and other filings with the Securities and Exchange Commission. Such filings are available at the SEC's website at www.sec.gov, and at the company's website at www.lunainnovations.com. The statements made in this release are based on information available to the company as of the date of this release and Luna Innovations undertakes no obligation to update any of the forward-looking statements after the date of this release.

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Investor Contact:
Dale Messick, CFO
Luna Innovations Incorporated
Phone: 1.540.769.8400
Email: IR@lunainnovations.com

Exhibit 99.2

Release
Luna Innovations Incorporated
1 Riverside Circle, Suite 400
Roanoke, VA 24016

Luna Innovations Announces New Credit Facility

Silicon Valley Bank extends Luna a $7 million credit facility; Luna pays off Hansen note

(ROANOKE, Va, May 23, 2011) - Luna Innovations Incorporated (NASDAQ: LUNA) announced today that it has entered into a $7 million credit facility with Silicon Valley Bank (SVB). This credit facility includes a four-year term loan of $6 million and a $1 million revolving line of credit and replaces the $5 million dollar revolving credit facility that Luna established with SVB in February 2010. Luna has used the funds from the new credit facility to pay off the outstanding balance of the revolving credit line in the amount of $2.5 million and the outstanding $3.1 million balance on its $5.0 million promissory note to Hansen Medical, Inc.

"Over the past ten years, SVB has demonstrated continued support and confidence in Luna's business model," commented My Chung, president and chief executive officer of Luna. "We are pleased to be able to fulfill our prior financial obligations with Hansen and SVB, which will allow more focus on growing the business. As our technologies mature and our commercialization strategy becomes more aggressive, it is vital to have the support of a bank that understands the significance of technology in the global marketplace."

"We are pleased to continue our support of an enterprising and growing organization like Luna," stated Heather Parker of Silicon Valley Bank's Northern Virginia office. "We have enjoyed being a partner to Luna as it has grown its technology leadership over the past ten years. We look forward to continuing our relationship and offering the diverse financial products and services that will help facilitate Luna's business initiatives and product development goals."

The facility is secured by the company's assets and is subject to customary covenants, including covenants requiring the company to meet EBITDA milestones and liquidity ratios.

About Luna Innovations:

Luna Innovations Incorporated (www.lunainnovations.com) is focused on sensing and instrumentation. Luna develops and manufactures new-generation products for the healthcare, telecommunications, energy and defense markets. The company's products are used to measure, monitor, protect and improve critical processes in the markets we serve. Luna, a recognized leader in transitioning science to solutions, is headquartered in Roanoke, Virginia.

About Silicon Valley Bank:

Silicon Valley Bank provides commercial banking services to emerging growth and mature companies in the technology, life science, private equity and premium wine industries. Through its focus on specialized markets and extensive knowledge of the people and business issues driving them, Silicon Valley Bank provides a level of service and

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partnership that measurably impacts its clients' success. Founded in 1983 and headquartered in Santa Clara, Calif., the company serves clients around the world through 26 U.S. offices and seven international operations. Silicon Valley Bank is a member of global financial services firm SVB Financial Group (NASDAQ: SIVB). More information on the company can be found at www.svb.com.

Banking services are provided by Silicon Valley Bank, a member of the FDIC and the Federal Reserve System. SVB Financial Group is also a member of the Federal Reserve System.

Forward-Looking Statements:

This release may include information that constitutes "forward-looking statements" made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995. Statements that describe the company's, leadership, business strategy, financial situation, goals, prospects, opportunities, outlook, plans or intentions are also forward-looking statements. Actual results may differ materially from the expectations expressed in such forward-looking statements as a result of various factors, including those risks set forth in the company's periodic reports and other filings with the Securities and Exchange Commission. Such filings are available at the SEC's website at www.sec.gov and at the company's website at www.lunainnovations.com. The statements made in this release are based on information available to the company as of the date of this release and Luna Innovations undertakes no obligation to update any of the forward-looking statements after the date of this release.

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Investor Contact:
Dale Messick, CFO
Luna Innovations Incorporated
Phone: 1.540.769.8400
Email: IR@lunainnovations.com