
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 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): August 9, 2016

Luna Innovations Incorporated
(Exact name of registrant as specified in its charter)

**301 1st Street SW, Suite 200
Roanoke, VA 24011**
(Address of principal executive offices, including zip code)

540-769-8400
(Registrant's telephone number, including area code)
(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 (see General Instruction A.2. below):

- 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))
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Item 2.02. Results of Operations and Financial Condition

On August 9, 2016, Luna Innovations Incorporated (the “Company”) issued a press release announcing its financial results for the second quarter ended June 30, 2016, as well as information regarding a conference call to discuss these financial results. A copy of the press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated herein by reference.

The information in this Current Report on Form 8-K and the exhibit attached hereto is being furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any general incorporation language in such filing.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits.

| <u>Exhibit</u> | <u>Description</u> |
|----------------|--|
| 99.1 | Press Release, dated August 9, 2016, by Luna Innovations Incorporated. |

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.

Luna Innovations Incorporated

By: /s/ Scott A. Graeff
Scott A. Graeff
Chief Strategy Officer, Secretary and Treasurer

Date: August 9, 2016

EXHIBIT INDEX

| Exhibit | Description |
|----------------|--|
| 99.1 | Press Release, dated August 9, 2016, by Luna Innovations Incorporated. |



News Release

Luna Innovations Incorporated
301 1st Street, SW, Suite 200
Roanoke, VA 24011

Luna Innovations Incorporated Reports Second Quarter 2016 Financial Results

Revenues grew \$4.6 million for the second quarter of 2016 above the \$10.0 million reported for second quarter of 2015. Net loss also improved by \$1.4 million during the second quarter of 2016 compared to the second quarter of 2015.

(ROANOKE, VA, August 9, 2016) – Luna Innovations Incorporated (NASDAQ: LUNA) today announced its financial results for the three and six months ended June 30, 2016.

Following Luna's merger with Advanced Photonix, Inc. ("API") in May 2015, for the three months ended June 30, 2016, revenues increased by \$4.6 million, net loss improved by \$1.4 million, and adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") decreased by \$0.1 million, compared to the three months ended June 30, 2015. A reconciliation of net loss to Adjusted EBITDA can be found in the schedules included in this release.

"We are pleased with the inter-divisional interactions and financial results from the API merger. This quarter we had strong growth in the sales of our high speed optical receivers and our distributed fiber optic sensing test systems," said My Chung, president and chief executive officer of Luna. "The second quarter continued to deliver strong demand for our 100G optical receivers for the long haul data transmission market, 2.5G avalanche photodiodes for the fiber to the premise market and increasing adoption of our ODISI systems for the measurement of strain in composite materials. We continue to believe that our focus on these strategic initiatives will provide significant growth opportunities for us, providing enhanced value to our customers and to our stockholders."

Second Quarter Financial Summary

Total revenues for the three months ended June 30, 2016, were \$14.6 million compared to \$10.0 million for the three months ended June 30, 2015. This reflects an 18% increase over the combined revenues of \$12.4 million for Luna and API for the second quarter of 2015. Product and licensing revenues grew to \$10.5 million for the three months ended June 30, 2016, compared to \$6.3 million for the three months ended June 30, 2015. Products and licensing revenues grew 22% compared to the combined products and licensing revenues of \$8.6 million for Luna and API combined for the second quarter of 2015. Technology development revenues were \$4.1 million for the three months ended June 30, 2016, compared to \$3.7 million for the three months ended June 30, 2015. Technology development revenues grew 5% compared to the combined technology development revenues of \$3.9 million for Luna and API for the three months ended June 30, 2015.

Gross profit increased to \$5.2 million, or 35% of total revenues, for the three months ended June 30, 2016, compared to gross profit of \$4.2 million, or 42% of total revenues, for the three months ended June 30, 2015. The decrease in the gross margin percentage in the second quarter of 2016 resulted from a greater proportion of revenues being generated from the sales of high speed optical receiver ("HSOR") products, which typically have a lower gross margin percentage than the test & measurement products of Luna's historical business.

Selling, general and administrative expenses were \$4.6 million for the three months ended June 30, 2016, compared to \$5.5 million for the three months ended June 30, 2015. Selling, general and administrative expenses for the three months ended June 30, 2016 included \$0.5 million of amortization of intangible assets recognized from the merger with API. Selling, general and administrative expenses for the three months ended June 30, 2015 included \$1.7 million in non-recurring merger-related expenses.

Research, development and engineering expenses increased to \$1.2 million for the second quarter of 2016 compared to \$0.8 million for the second quarter of 2015. The operations of API were not included in our research, development and engineering expenses prior to the closing of our merger on May 8, 2015, resulting in this increase in research development and engineering expense.

Operating loss improved to \$(0.7) million for the three months ended June 30, 2016, compared to an operating loss of \$(2.1) million for the three months ended June 30, 2015. Net loss attributable to common stockholders improved to \$(0.8) million for the three months ended June 30, 2016, compared to a net loss attributable to common stockholders of \$(2.2) million for the

three months ended June 30, 2015. Adjusted EBITDA decreased to \$0.4 million for the three months ended June 30, 2016 compared to \$0.6 million for the three months ended June 30, 2015.

Year to Date Financial Summary

For the six months ended June 30, 2016, total revenues were \$28.6 million compared to \$15.4 million for the six months ended June 30, 2015. Total revenues of \$28.6 million for the six months ended June 30, 2016 reflect an increase of 18% compared to total combined revenues of \$24.2 million for Luna and API for the six months ended June 30, 2015.

Gross profit increased to \$10.0 million, or 35% of total revenues, for the six months ended June 30, 2016 compared to \$6.5 million, or 42% of total revenues, for the first six months of 2015. The decline in the gross margin percentage is attributable to a greater proportion of revenues being generated from the sales of HSOR products, which typically carry a lower gross margin than the test & measurement products of Luna's historical business.

Selling, general and administrative expenses decreased to \$9.2 million for the six months ended June 30, 2016 compared to \$10.1 million for the six months ended June 30, 2015. Selling, general and administrative expenses for the first six months of 2015 included \$3.6 million of non-recurring merger-related expenses. Research, development and engineering expenses were \$2.8 million for the six months ended June 30, 2016 compared to \$1.1 million for the first six months of 2015. The operations of API were not included in our research, development, and engineering expenses prior to the closing of our merger on May 8, 2015, resulting in this increase in research, development and engineering expense.

Net loss attributable to common stockholders was \$(2.3) million for the six months ended June 30, 2016 compared to net income attributable to common stockholders of \$(4.8) million for the six months ended June 30, 2015. Adjusted EBITDA improved to \$0.3 million for the six months ended June 30, 2016 compared to \$0.2 million for the six months ended June 30, 2015.

Non-GAAP Measures

In evaluating the operating performance of its business, Luna'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 Luna believes may not be indicative of its operating performance, because either they are unusual and Luna 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, including expenses incurred in connection with Luna's merger with API. 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, Luna will conduct an investor conference call at 5:00 p.m. (EDT) today to discuss its financial results for the three and six months ended June 30, 2016 and recent business developments. The call can be accessed by dialing 844.578.9643 domestically or 270.823.1522 internationally prior to the start of the call. The participant access code is 60786823. 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 Luna 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) develops high speed optics and high performance fiber optic test products that provide unique capabilities for the aerospace, automotive, energy, defense, and telecommunications industries. Luna develops, manufactures and markets high definition fiber optic sensing products and fiber optic test and measurement instrumentation, and packages optoelectronic semiconductors into HSOR products, custom optoelectronic subsystems (Optoelectronics products) and Terahertz (THz) instrumentation. 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 Luna's expectations regarding Luna's future financial performance, continuing synergies following the merger with API, and potential growth opportunities. 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 Luna 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 Luna'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 Luna'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 Luna's website at www.lunainc.com. The statements made in this release are based on information available to Luna as of the date of this release and Luna 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 June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-----------------------|------------------------------|-----------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | (unaudited) | | (unaudited) | |
| Revenues: | | | | |
| Technology development | \$ 4,137,382 | \$ 3,728,271 | \$ 7,860,644 | \$ 6,603,786 |
| Products and licensing | 10,509,522 | 6,297,475 | 20,773,273 | 8,761,062 |
| Total revenues | 14,646,904 | 10,025,746 | 28,633,917 | 15,364,848 |
| Cost of revenues: | | | | |
| Technology development | 3,181,447 | 2,576,145 | 6,061,282 | 4,659,769 |
| Products and licensing | 6,294,607 | 3,252,627 | 12,558,180 | 4,219,317 |
| Total cost of revenues | 9,476,054 | 5,828,772 | 18,619,462 | 8,879,086 |
| Gross profit | 5,170,850 | 4,196,974 | 10,014,455 | 6,485,762 |
| Operating expense: | | | | |
| Selling, general and administrative | 4,581,776 | 5,518,656 | 9,227,060 | 10,087,609 |
| Research, development and engineering | 1,240,655 | 801,221 | 2,791,146 | 1,136,111 |
| Total operating expense | 5,822,431 | 6,319,877 | 12,018,206 | 11,223,720 |
| Operating loss | (651,581) | (2,122,903) | (2,003,751) | (4,737,958) |
| Other income (expense): | | | | |
| Other (expense) income, net | (39,489) | 4,264 | (35,545) | 4,109 |
| Interest expense | (78,906) | (49,966) | (165,079) | (59,103) |
| Total other expense | (118,395) | (45,702) | (200,624) | (54,994) |
| Loss before income taxes | (769,976) | (2,168,605) | (2,204,375) | (4,792,952) |
| Income tax expense | 1,000 | — | 26,175 | 2,808 |
| Net loss | (770,976) | (2,168,605) | (2,230,550) | (4,795,760) |
| Preferred stock dividend | 24,580 | 20,021 | 45,790 | 46,581 |
| Net loss attributable to common stockholders | \$ (795,556) | \$ (2,188,626) | \$ (2,276,340) | \$ (4,842,341) |
| Net loss per share attributable to common stockholders: | | | | |
| Basic and diluted | \$ (0.03) | \$ (0.10) | \$ (0.08) | \$ (0.26) |
| Weighted average common shares and common equivalent shares outstanding: | | | | |
| Basic and diluted | 27,557,960 | 21,997,768 | 27,517,792 | 18,577,006 |

Luna Innovations Incorporated
Consolidated Balance Sheets

| | June 30, 2016 | December 31, 2015 |
|--|----------------------|----------------------|
| | (unaudited) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 13,807,799 | \$ 17,464,040 |
| Accounts receivable, net | 11,151,791 | 11,034,557 |
| Inventory | 8,389,095 | 8,863,167 |
| Prepaid expenses and other current assets | 1,694,810 | 1,388,439 |
| Total current assets | 35,043,495 | 38,750,203 |
| Property and equipment, net | 7,362,464 | 6,614,238 |
| Intangible assets, net | 9,490,702 | 10,404,312 |
| Goodwill | 2,348,331 | 2,274,112 |
| Other assets | 88,948 | 88,948 |
| Total assets | \$ 54,333,940 | \$ 58,131,813 |
| Liabilities and stockholders' equity | | |
| Liabilities: | | |
| Current Liabilities: | | |
| Current portion of long-term debt obligations | \$ 1,833,333 | \$ 1,833,333 |
| Current portion of capital lease obligations | 50,335 | 31,459 |
| Accounts payable | 3,889,383 | 4,054,425 |
| Accrued liabilities | 7,524,569 | 8,304,686 |
| Deferred revenue | 1,027,929 | 1,109,759 |
| Total current liabilities | 14,325,549 | 15,333,662 |
| Long-term deferred rent | 1,481,824 | 1,564,229 |
| Long-term debt obligations | 3,375,000 | 4,291,667 |
| Long-term capital lease obligations | 141,457 | 35,237 |
| Total liabilities | 19,323,830 | 21,224,795 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, par value \$0.001, 1,321,514 shares authorized, issued and outstanding at June 30, 2016 and December 31, 2015 | 1,322 | 1,322 |
| Common stock, par value \$0.001, 100,000,000 shares authorized, 27,988,103 and 27,644,832 shares issued, 27,692,776 and 27,477,181 shares outstanding at June 30, 2016 and December 31, 2015 | 28,241 | 28,178 |
| Treasury stock at cost, 300,327 and 167,652 shares at June 30, 2016 and December 31, 2015 | (341,320) | (184,934) |
| Additional paid-in capital | 81,997,662 | 81,461,907 |
| Accumulated deficit | (46,675,795) | (44,399,455) |
| Total stockholders' equity | 35,010,110 | 36,907,018 |
| Total liabilities and stockholders' equity | \$ 54,333,940 | \$ 58,131,813 |

Luna Innovations Incorporated
Consolidated Statements of Cash Flows

| | Six Months Ended June 30, | |
|--|---------------------------|---------------------|
| | 2016 | 2015 |
| | (unaudited) | |
| Cash flows used in operating activities | | |
| Net loss | \$ (2,230,550) | \$ (4,795,760) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Depreciation and amortization | 1,861,603 | 824,251 |
| Share-based compensation | 465,028 | 571,439 |
| Bad debt expense | 50,515 | 10,375 |
| Change in assets and liabilities | | |
| Accounts receivable | (167,749) | (335,811) |
| Inventory | 474,072 | (1,345,687) |
| Other current assets | (306,371) | (358,794) |
| Accounts payable and accrued expenses | (1,076,784) | (1,271,686) |
| Deferred revenue | (81,830) | (154,189) |
| Net cash used in operating activities | (1,012,066) | (6,855,862) |
| Cash flows (used in) provided by investing activities | | |
| Acquisition of property and equipment | (1,294,775) | (50,175) |
| Intangible property costs | (244,198) | (123,578) |
| Cash acquired in business combination | — | 374,517 |
| Net cash (used in) provided by investing activities | (1,538,973) | 200,764 |
| Cash flows (used in) provided by financing activities | | |
| Payments on capital lease obligations | (32,149) | (36,406) |
| Payments of debt obligations | (916,667) | (5,962,355) |
| Repurchase of common stock | (156,386) | (33,113) |
| Proceeds from term loan | — | 6,000,000 |
| Proceeds from the exercise of options | — | 82,516 |
| Net cash (used in) provided by financing activities | (1,105,202) | 50,642 |
| Net decrease in cash or cash equivalents | (3,656,241) | (6,604,456) |
| Cash and cash equivalents-beginning of period | 17,464,040 | 14,116,969 |
| Cash and cash equivalents-end of period | <u>\$ 13,807,799</u> | <u>\$ 7,512,513</u> |

Luna Innovations Incorporated
Reconciliation of Net Loss to EBITDA and Adjusted EBITDA

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--------------------------------------|--------------------------------|----------------|------------------------------|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| | (unaudited) | | (unaudited) | |
| Net loss | \$ (770,976) | \$ (2,168,605) | \$ (2,230,550) | \$ (4,795,760) |
| Interest expense | 78,906 | 49,966 | 165,079 | 59,103 |
| Tax expense | 1,000 | — | 26,175 | 2,808 |
| Depreciation and amortization | 921,804 | 659,170 | 1,861,603 | 824,251 |
| EBITDA | 230,734 | (1,459,469) | (177,693) | (3,909,598) |
| Share-based compensation | 206,225 | 300,362 | 465,028 | 571,439 |
| Non-recurring merger-related charges | — | 1,740,286 | — | 3,541,502 |
| Adjusted EBITDA | \$ 436,959 | \$ 581,179 | \$ 287,335 | \$ 203,343 |

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Investor Contact:
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