
**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): May 11, 2010

Luna Innovations Incorporated

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

000-52008
(Commission
File Number)

54-1560050
(IRS Employer
Identification No.)

1 Riverside Circle, Suite 400
Roanoke, Virginia 24016
(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 May 11, 2010, Luna Innovations Incorporated (the "Company") issued a press release announcing its financial results for the first quarter ended March 31, 2010, which also included certain forward-looking statements relating to the second quarter ending June 30, 2010 and the full year ending December 31, 2010, as well as information regarding a conference call to discuss the Company's recent 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 May 11, 2010 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/ Talfourd H. Kemper, Jr.

Talfourd H. Kemper, Jr.

Vice President and General Counsel

Date: May 11, 2010

EXHIBIT INDEX

<u>Exhibit</u>	<u>Description</u>
99.1	Press Release dated May 11, 2010 by Luna Innovations Incorporated.



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

Luna Innovations Reports First Quarter 2010 Financial Results
*Total revenues decrease 7%; Product & license revenues increase 29%;
Adjusted EBITDA excluding litigation improves \$0.8 million*

(ROANOKE, VA, May 11, 2010) – Luna Innovations Incorporated (NASDAQ: LUNA), a company focusing on sensing, instrumentation and nanotechnology, today announced its financial results for the first quarter ended March 31, 2010.

As compared to the same quarter last year, product and license revenue increased by 29%, from \$1.6 million in the first quarter of 2009 to \$2.1 million in the first quarter of 2010, while total revenue decreased by 7%, from \$8.5 million in the first quarter of 2009 to \$7.9 million in the first quarter of 2010. The decrease in total revenue was largely the result of lower pass-through costs for subcontracts and materials under a research contract in the company's technology development business segment. Gross profit increased from \$2.7 million for the first quarter of 2009 to \$2.8 million for the first quarter of 2010. The company reported a net loss attributable to common shareholders of \$1.3 million, or \$0.10 per common share, for the first quarter of 2010, as compared to a net loss of \$40.9 million, or \$3.66 per common share for the first quarter of 2009. The net loss for the first quarter of 2009 included one-time charges of \$36.3 million for a litigation reserve and \$1.3 million for the impairment of intangible assets, and a \$0.6 million charge related to the valuation allowance provided against the company's deferred tax asset. Adjusted EBITDA, which is earnings before interest, taxes, depreciation and amortization, excluding non-cash stock-based compensation expense, non-cash charges for impairment of intangible assets and charges related to the company's litigation with Hansen Medical, Inc. and its Chapter 11 reorganization, improved to positive \$0.5 million for the first quarter of 2010, as compared to negative \$0.3 million for the first quarter of 2009. The company consummated a settlement of its litigation with Hansen and emerged from Chapter 11 reorganization in January 2010.

Kent Murphy, Chief Executive Officer, provided this overview of Luna's results: "I am very pleased with our results since emerging from Chapter 11 reorganization in January. Recovery in demand for our

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fiber optic equipment during the quarter, along with our continued focus on operating expenses, has resulted in significant improvement in our core operating results that we believe represent progress toward profitability.”

First Quarter Financial Highlights

— Total revenues decreased by 7%, from \$8.5 million for the first quarter of 2009 to \$7.9 million for the first quarter of 2010.

— Product and license revenues increased by 29% to approximately \$2.1 million for the first quarter of 2010 from \$1.6 million for the first quarter of 2009. Technology development revenues decreased by 16% to \$5.8 million for the first quarter of 2010 from \$6.9 million for the first quarter of 2009, primarily due to lower pass-through costs included in 2010 revenues.

— Gross profit for the first quarter of 2010 increased to \$2.8 million, or 36% of total revenues, from \$2.7 million, or 32% of total revenues, for the corresponding period of 2009.

— Selling, general and administrative expenses decreased by 19% to \$3.4 million, or 43% of total revenues for the first quarter of 2010, from \$4.2 million, or 50% of total revenues, for the first quarter of 2009.

— Total operating expenses, excluding litigation and reorganization costs, decreased to \$3.5 million, or 45% of total revenues for the first quarter of 2010, from \$4.4 million, or 52% of total revenues, for the first quarter of 2009.

— Adjusted EBITDA excluding litigation and bankruptcy related items increased to \$0.5 million in the first quarter of 2010 from negative \$0.3 million in the first quarter of 2009.

— Net loss improved to \$1.3 million for the first quarter of 2010, compared to a net loss of \$40.9 million for the first quarter of 2009, primarily driven by reductions in amounts accrued with respect to the Hansen litigation in 2009 as well as expenses recognized with respect to impairment of intangible assets and the valuation of deferred tax assets as of March 2009.

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— Cash and cash equivalents totaled \$6.5 million at March 31, 2010, as compared to \$13.2 million at March 31, 2009. The company executed a revolving line of credit providing up to \$5 million in borrowing capacity. At March 31, 2010, \$2.5 million was outstanding under the line of credit.

First Quarter Business Highlights

— The company emerged from Chapter 11 reorganization on January 12, 2010 with a court approved reorganization plan that provided for payment of 100% of valid claims and allowed stockholders to retain their equity shares.

— The first Optical Vector Analyzer™ (OVA) 5000 products were shipped to customers. The OVA 5000 is a device for single-measurement, all-parameter analysis of fiber optic components and assemblies.

— Luna began work under the development and supply agreement with Hansen Medical, entered into as part of the litigation settlement, pursuant to which Luna is integrating its fiber optic shape sensing technology into Hansen's medical robotic instruments.

— Luna's technology development division was awarded 12 contracts in the first quarter, including eight Phase Is, two Phase 2s, one option to continue a contract and one subcontract on a Phase I.

Outlook 2010

Based on information as of May 11, 2010, the company continues to expect total revenue for 2010 to be in the range of \$35.5 million to \$38.0 million, consisting of product and license revenue of \$9.5 million to \$11.0 million and technology development revenue of \$26.0 million to \$27.0 million. Also for 2010, the company anticipates a GAAP net loss in the range of \$2.8 million to \$3.5 million, with positive adjusted EBITDA of \$2.4 million to \$3.9 million. For the second quarter of 2010, the company expects revenue of approximately \$8.5 million to \$9.5 million and a net loss of approximately \$0.5 million to \$1.0 million.

Non-GAAP Measures

In evaluating the operating performance of its business, Luna's management excludes certain charges and credits that are required by generally accepted accounting principles ("GAAP"). These non-GAAP

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results provide useful information to both management and investors by excluding 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. These non-GAAP measures should be considered in addition to results and guidance prepared in accordance with GAAP, but should not be considered a substitute for, or superior to, GAAP results. The non-GAAP measures included in this press release have 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 Innovations will conduct an investor conference call at 5:00 p.m. (EST) today to discuss its financial results and business developments for the first quarter of 2010. The call can be accessed by dialing **866.383.8003** domestically or **617.597.5330** internationally prior to the start of the call. The access code is **33764338**. 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 Innovations website, <http://www.lunainnovations.com>, prior to the event. The webcast will be archived under the "Webcasts and Presentations" section of the Luna Innovations website for at least 30 days following the conference call.

About Luna Innovations:

Luna Innovations Incorporated (www.lunainnovations.com) is focused on sensing and instrumentation, and pharmaceutical nanomedicines. 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:

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 our expectations regarding financial results for the second quarter and full year 2010 and the Company's future profitability. 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 the fact that the outlook for the second quarter of and full year 2010 could change, and also include, without limitations, those risks and uncertainties set forth in the Company's periodic reports and other filings with the Securities and Exchange Commission. Such filings are

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available at the SEC's website at <http://www.sec.gov>, and at the company's website at <http://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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Luna Innovations Incorporated Consolidated Statements of Operations

	Three months ended, March 31,	
	2010	2009
	(unaudited)	
Revenues:		
Technology development	\$ 5,811,094	\$ 6,882,372
Product and license	2,074,697	1,611,184
Total revenues	<u>7,885,791</u>	<u>8,493,556</u>
Cost of revenues		
Technology development	3,832,342	4,897,756
Product and license	1,219,241	878,601
Total cost of revenues	<u>5,051,583</u>	<u>5,776,357</u>
Gross profit	<u>2,834,208</u>	<u>2,717,199</u>
Operating expenses:		
Selling, general and administrative	3,421,262	4,235,588
Research, development and engineering	509,899	995,643
Litigation reserve	—	36,303,643
Impairment of intangible assets	—	1,310,598
Total operating expense	<u>3,931,161</u>	<u>42,845,472</u>
Operating loss	<u>(1,096,953)</u>	<u>(40,128,273)</u>
Other expense		
Interest expense	84,014	158,988
Other	14,877	923
Total other expense	<u>98,891</u>	<u>159,911</u>
Loss before income taxes	<u>(1,195,844)</u>	<u>(40,288,184)</u>
Income tax expense	—	600,000
Net loss	<u>(1,195,844)</u>	<u>(40,888,184)</u>
Dividends declared on preferred stock	81,633	—
Net loss attributable to common shareholders	<u>\$(1,277,477)</u>	<u>\$(40,888,184)</u>
Net loss per share of common stock	<u>\$ (0.10)</u>	<u>\$ (3.66)</u>

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Luna Innovations Incorporated Consolidated Balance Sheets

	March 31, 2010 (unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,467,080	\$ 5,228,802
Accounts receivable, net	7,754,801	7,203,203
Inventory	2,822,059	2,890,364
Prepaid expenses	672,685	560,964
Other current assets	46,916	729,532
Total current assets	17,763,541	16,612,865
Property and equipment, net	3,855,226	4,129,015
Intangible assets, net	553,794	580,785
Other assets	359,585	435,259
Total assets	<u>\$ 22,532,146</u>	<u>\$ 21,757,924</u>
Liabilities and stockholders' equity (deficit)		
Current liabilities not subject to compromise:		
Line of credit	\$ 2,500,000	\$ —
Current portion of long term debt	1,096,981	—
Accounts payable	1,881,731	1,142,267
Accrued liabilities	3,978,413	3,379,339
Deferred credits	1,355,541	1,034,526
Total current liabilities	10,812,666	5,556,132
Long term debt	3,903,019	—
Liabilities subject to compromise	—	19,062,000
Total liabilities	<u>14,715,685</u>	<u>24,618,132</u>
Stockholders' equity (deficit)		
Preferred stock	1,322	—
Common stock	12,786	11,352
Stock dividend not yet issued	81,633	—
Additional paid-in capital	53,098,455	41,228,698
Accumulated deficit	<u>(45,377,735)</u>	<u>(44,100,258)</u>
Total stockholders' equity (deficit)	7,816,461	(2,860,208)
Total liabilities and stockholders' equity (deficit)	<u>22,532,146</u>	<u>21,757,924</u>

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Luna Innovations Incorporated Consolidated Statements of Cash Flows

	Three months ended March 31,	
	2010	2009
	(unaudited)	
Cash flows used in operating activities:		
Net loss	\$(1,195,844)	\$(40,888,184)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	328,959	619,788
Impairment of intangible assets	—	1,310,598
Share-based compensation	887,340	789,511
Warrant expense	46,997	—
Deferred tax expense	—	600,000
Changes in asset and liabilities:		
Accounts receivable	(551,599)	(589,248)
Inventory	80,168	(21,336)
Other current assets	570,896	(5,317)
Other assets	33,446	17,728
Accounts payable and accrued expenses	(1,970,872)	(263,459)
Litigation reserve	—	36,303,643
Deferred credits	328,525	200,260
Net cash used in operating activities	<u>(1,441,984)</u>	<u>(1,926,016)</u>
Cash flows used in investing activities		
Acquisition of property and equipment	(11,010)	(34,037)
Capitalized intellectual property costs	(34,362)	(30,749)
Net cash used in investing activities	<u>(45,372)</u>	<u>(64,786)</u>
Cash flows provided by (used in) financing activities		
Payments on capital lease obligation	(1,367)	(2,799)
Payments on debt obligation	—	(357,143)
Borrowings under line of credit	2,500,000	—
Proceeds from exercise of options	227,001	10,824
Net cash provided by (used in) financing activities	<u>2,725,634</u>	<u>(349,118)</u>
Net change in cash	1,238,278	(2,339,920)
Cash at beginning of period	5,228,802	15,518,960
Cash at end of period	<u>\$ 6,467,080</u>	<u>\$ 13,179,040</u>

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Luna Innovations Incorporated Reconciliation of EBITDA and Adjusted EBITDA to Net Income/ (Loss)

	Three Months Ended March 31,	
	2010	2009
	(unaudited)	
Reconciliation of net loss to adjusted EBITDA less litigation		
Net loss	\$(1,195,844)	\$(40,888,184)
Interest	84,014	158,988
Taxes	—	600,000
Depreciation and amortization	328,959	619,788
Impairment of intangible assets	—	1,310,598
EBITDA	<u>(782,871)</u>	<u>(38,198,810)</u>
Share based compensation	934,337	789,511
Adjusted EBITDA	151,466	(37,409,299)
Litigation reserve	—	36,303,643
Fees associated with litigation and reorganization	382,887	790,381
Adjusted EBITDA less litigation	<u>\$ 534,353</u>	<u>\$ (315,275)</u>
Reconciliation of operating expenses to operating expenses less litigation and reorganization related costs		
Operating expenses	\$ 3,931,161	\$ 42,845,472
Litigation reserve	—	(36,303,643)
Intangible asset impairment	—	(1,310,598)
Fees associated with litigation and reorganization	<u>(382,887)</u>	<u>(790,381)</u>
Operating expenses less litigation and reorganization related costs	<u>\$ 3,548,274</u>	<u>\$ 4,440,850</u>

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