
**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): December 11, 2009

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 1.01. Entry into a Material Definitive Agreement.

Background

On July 17, 2009, Luna Innovations Incorporated (“Luna”) and its wholly-owned subsidiary, Luna Technologies, Inc. (collectively, the “Company”), filed a voluntary petition for relief (the “Petition”) under Chapter 11 of the United States Bankruptcy Code (the “Bankruptcy Code”), including a proposed Joint Plan of Reorganization, in the United States Bankruptcy Court for the Western District of Virginia (the “Bankruptcy Court”) (altogether, the “Reorganization”). Previously, on April 21, 2009, as a result of litigation with Hansen Medical Inc. (“Hansen”), a jury found in favor of Hansen on its breach of contract, breach of the covenant of good faith and fair dealing and misappropriation of trade secrets claims, and awarded a verdict for \$36.3 million against Luna. As a part of the Reorganization, the Company asked the Bankruptcy Court to estimate the final value of Hansen’s claim against the Company in an amount not to exceed more than approximately \$1.3 million.

Settlement Agreement and First Amended Plan of Reorganization.

On December 11, 2009, the Company entered into a Confidential Settlement Agreement (the “Settlement Agreement”) with Hansen in order to resolve the disputes between them. Also on this date, the Company filed a First Amended Joint Plan of Reorganization (the “Plan”) and First Amended Disclosure Statement and proposed Confirmation Order with the Bankruptcy Court in order to effectuate the purposes of the Settlement Agreement and allow the Company to emerge from Reorganization as expeditiously as possible. Under the Plan, the Company proposes to pay 100% of its due and payable valid claims and Luna stockholders will retain all of their shares of Luna’s Common Stock. The Settlement Agreement and the transactions contemplated by it, as well as the Plan and the First Amended Disclosure Statement, are subject to approval and entry of an applicable confirmation order by the Bankruptcy Court.

In particular, upon effectiveness of the Plan after entry of a confirmation order by the Bankruptcy Court (the date of such effectiveness, the “Effective Date”), the Company, Hansen and Intuitive Surgical, Inc. (“Intuitive”), shall enter into nine other settlement documents. The Settlement Agreement and these other settlement documents are summarized below.

The transactions contemplated by the Settlement Agreement and the obligations of the parties under the Settlement Agreement, including the execution of the other settlement documents, are subject to the non-occurrence of the following conditions, among others: (i) the Bankruptcy Court fails to approve and confirm the Plan, the First Amended Disclosure Statement and proposed Confirmation Order, and the settlement documents without making material adverse modifications to them; (ii) the Bankruptcy Court modifies the Plan or the First Amended Disclosure Statement in a manner that materially and adversely affects the ability of Luna or Hansen to perform or comply with the Settlement Agreement, any other settlement document, the Plan, or the proposed Confirmation Order; (iii) the Company takes any action or fails to take any action, or there shall exist any facts or circumstances, that result in a material breach of any of the other settlement documents, as if they had been executed as of today and if Luna were not subject to the provisions of the Bankruptcy Code; (iv) the Settlement Agreement or any material part of it is judged unenforceable by the Bankruptcy Court or any appellate court of competent jurisdiction; (v) Intuitive does not execute the settlement documents to which it is to be a party and the Development and Supply Agreement between Luna and Intuitive dated June 11, 2007 (the “Intuitive Development Agreement”), is not amended so as to enable the grant of licenses by Luna to Hansen contemplated by the settlement documents; and (vi) the Effective Date does not occur by March 31, 2010. If any of these conditions does occur and is not waived, the Settlement Agreement will terminate.

Summaries of Settlement Documents

The material terms of the Settlement Agreement and the fundamental terms of the other settlement documents are summarized below. The settlement documents other than the Settlement Agreement will not be executed until the Effective Date, subject to certain conditions.

Settlement Agreement; Warrant to Purchase Common Stock of Luna Innovations Incorporated. In addition to the terms and provisions of the Settlement Agreement described above, upon the Effective Date, Luna shall issue shares of Common Stock to Hansen equal to 9.9% of Luna’s outstanding capital stock after issuance. In addition, Luna will grant Hansen a warrant to purchase additional shares of Luna’s Common Stock for three years after the Effective Date, at a purchase price of \$0.01 per share, to the extent necessary for Hansen to retain its ownership of 9.9% of Luna’s outstanding capital stock. The Settlement Agreement also contains certain provisions regarding confidentiality.

Confidential Mutual Release Agreement. Pursuant to this agreement, upon the Effective Date, each Hansen and Luna will release each other from claims in the California litigation and Bankruptcy Court litigation, including but not limited to the jury verdict against Luna and any Proof of Claim filed by Hansen in the Bankruptcy Court.

Hansen Secured Promissory Note; Security Agreement; Patent and Trademark Security Agreement. Luna will issue Hansen a secured promissory note in the principal amount of \$5 million, with interest at the rate of 8.5% per year. Principal and interest will be due quarterly over four years, and may be prepaid at any time without penalty. Principal may also be reduced to the extent that Luna’s costs to Hansen under the Development and Supply Agreement described below exceed an agreed upon amount during any quarter. The note will be secured by a Security Agreement and a Patent and Trademark Security Agreement containing customary provisions and covenants. In addition, Hansen has agreed to subordinate its security interest in favor of a working capital line of credit not to exceed \$5 million, subject to certain limited conditions.

Development and Supply Agreement. Under the Development and Supply Agreement (the “Hansen Development Agreement”), Luna will work to develop, in collaboration with Hansen, a fiber optic localization and shape sensing solution for Hansen’s medical robotic system. Under the Hansen Development Agreement, Luna shall use its commercially reasonable best efforts to develop this solution for Hansen in accordance with certain development criteria, including specifications, milestones and budget amounts. Hansen shall pay Luna periodically for its development work on a time and materials basis. Hansen will have no obligation to pay Luna above applicable budget amounts, and Luna will have no obligation to perform development work over budget. As noted above, to the extent the cost of such development work exceeds a certain amount per quarter, the excess amount would be credited against the Hansen Secured Promissory Note. The total potential development budget for the project is comparable to the amount of the Hansen Secured Promissory Note. Following the completion of the development work, Luna shall supply products incorporating this solution to Hansen upon certain terms and conditions, including a requirement for Hansen to purchase such products exclusively from Luna up to a certain minimum number. The Hansen Development Agreement also has certain exclusive supply provisions applicable to certain non-robotic medical fields. Transfer pricing for products supplied by Luna is based on certain Luna costs plus an agreed upon formula, with a discount to this formula for supplied medical robotic products up to an aggregate limit comparable to the amount of the Hansen Secured Promissory Note. The Hansen Development Agreement also has certain provisions regarding intellectual property invented during the development project, confidentiality, indemnification, breach and termination, including termination by Hansen on 90 days notice.

License Agreement Between Hansen and Luna (“Hansen License”); License Agreement Between Intuitive and Luna (“Intuitive License”); Cross License Agreement Between Intuitive and Hansen (“Cross License”). Under the Hansen License and the Intuitive License, Luna will grant a co-exclusive license to Hansen and Intuitive, respectively, to Luna’s fiber optic shape sensing and localization technology within the field of medical robotics, and the parties will agree to certain enforcement provisions for the licensed intellectual property. Also under the Hansen License, Luna will grant certain co-exclusive (between Hansen and Luna) and exclusive licenses in various non-robotic medical fields to this same technology. Also under the Hansen License, Hansen will license certain of its intellectual property to Luna non-exclusively for non-medical fields and certain non-robotic medical fields. Also under the Intuitive License, Luna and Intuitive will make certain amendments to the Intuitive Development Agreement, including to allow the foregoing license grants by Luna and for Luna to

perform development work for Hansen under the Hansen Development Agreement. Under the Cross License, Intuitive and Hansen will be licensing each other certain of their fiber optic shape sensing and localization technology within the field of medical robotics.

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A press release announcing the foregoing matters is attached hereto as Exhibit 99.1.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release dated December 11, 2009, 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: December 11, 2009

EXHIBIT INDEX

**Exhibit
No.**

Description

99.1 Press Release dated December 11, 2009, by Luna Innovations Incorporated

**Release**

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

Luna Innovations and Hansen Medical Reach Settlement

*Settlement to Include Multi-Year Development and Supply Agreement to Integrate Luna's
Fiber Optic Sensing Technology into Hansen's Surgical Products*

ROANOKE, Virginia, December 11, 2009 – Luna Innovations Incorporated (NASDAQ: LUNA) announced today that it has executed a Settlement Agreement with Hansen Medical, Inc. (NASDAQ: HNSN) resolving the outstanding litigation between the companies. Luna Innovations develops and manufactures new generation products for the healthcare, telecommunications, energy and defense markets. Hansen Medical designs and manufactures medical robotic instruments.

Additionally today, Luna has filed with the bankruptcy court its First Amended Joint Plan of Reorganization (the "Plan") and other bankruptcy documents to implement the Settlement Agreement and allow the Company to emerge from Chapter 11 reorganization as quickly as possible. Under the Plan, the Company proposes to pay 100% of its due and payable valid claims and Luna stockholders will retain their shares of Luna's Common Stock. The Settlement Agreement and the transactions contemplated by it, as well as the Plan and other bankruptcy documents, are subject to court approval and entry of an applicable confirmation order, as well as other conditions.

The Settlement Agreement contemplates that Luna and Hansen will enter into a number of additional documents, which will include:

- A development and supply agreement between Luna and Hansen for purposes of integrating Luna's fiber optic shape sensing technology into Hansen's medical robotic instruments.
- A license of Luna's shape sensing technology to Hansen in the fields of medical robotics and medical non-robotics.
- A \$5 million secured promissory note payable over four years from Luna to Hansen, whose security interest may be subordinated in favor of a working capital credit facility.

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- Issuance of shares of Luna Common Stock to Hansen in the amount equal to 9.9% of the total outstanding shares and a warrant for Hansen to maintain that equity position for three years.
- A mutual release of outstanding claims in litigation between Hansen and Luna.

“This settlement with Hansen Medical clears the largest hurdle on our pathway to emerge from Chapter 11 reorganization and pay our creditors what they are owed. We look forward to integrating our shape sensing technology with Hansen’s surgical devices, as we expand the potential market for our products in robotically assisted procedures,” stated Kent Murphy, Luna’s Chairman and Chief Executive Officer. “It’s exciting for Luna and Hansen to move forward together in a long-term partnership that is focused on creating enhanced procedures that help save lives.”

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

Conference Call and Web Cast Information

Luna Innovations will conduct a live web cast on December 15 at 5:00 PM, EST, with Kent A. Murphy, Chairman and CEO, Scott A. Graeff, Chief Operating Officer and Dale E. Messick, Chief Financial Officer. For web cast, see Luna Innovations’ website, at www.lunainnovations.com, under the tab “Investor Relations.” To participate by telephone, the domestic dial-in number is **1.800.901.5248** and the international dial-in number is **1.617.786.4512**. The participant access code is **22744421**. Investors are advised to dial in at least five minutes prior to the call to register. The webcast will be archived on the company’s website under “Webcasts and Presentations” for 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. Its products are used to measure, monitor, protect and improve critical processes. 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 (i) the ability to meet the conditions precedent to settlement and obtain adequate plan confirmation in Chapter 11 reorganization and pay all of Luna’s creditors; (ii) the efficacy of Luna’s technology in providing real-time position measurements and improving medical procedures, and (iii) the expansion of markets for certain medical products. The company attempts, whenever possible, to identify forward-looking statements by words such as “intends,” “will,” “plans,” “anticipates,” “expects,” “may,” “estimates,” “believes,” “should,” “projects,” or “continue,” or the negative of those words and other comparable words. Similarly, statements that describe the company’s business strategy, goals, prospects, opportunities, outlook, objectives, plans or intentions are also forward-looking statements. Actual events or results may differ materially from the expectations expressed in such forward-looking statements as a result of various factors, including risks and uncertainties, many of which are beyond the company’s control. Additional factors that may affect the future results of the company are set forth in the company’s quarterly and annual reports on Form 10-Q and Form 10-K, respectively, and other filings with the Securities and Exchange Commission (“SEC”), which are available at the SEC’s website at <http://www.sec.gov>, and at the company’s website at <http://www.lunainnovations.com>. These risk factors are updated from time to time through the filing of periodic reports with the SEC. The statements made in this press 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 herein after the date of this press release.

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Luna Innovations Contact:

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Luna Innovations Incorporated

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