
**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): January 12, 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 1.03. Bankruptcy or Receivership

As previously reported, 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 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”). On December 11, 2009, the Company entered into a Confidential Settlement Agreement (the “Settlement Agreement”) with Hansen Medical, Inc. (“Hansen”) in order to resolve the disputes between them. Also on that date, the Company filed a First Amended Joint Plan of Reorganization (the “Plan”) and First Amended Disclosure Statement (the “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.

On January 12, 2010, the Bankruptcy Court approved the Disclosure Statement, as amended, and entered an order, attached hereto as Exhibit 2.1, confirming the Company’s Plan, as amended. The Plan went effective on January 12, 2010 (the “Effective Date”). The following is a summary of the material features of the Plan to occur on or after the Effective Date and is not a complete description of that document. Therefore, this summary is qualified in its entirety by reference to the Plan, attached hereto as Exhibit 2.2.

- (1) Valid claims against Luna received 100% recovery.
- (2) Luna stockholders retained all of their shares of Luna’s Common Stock. There are currently 12,599,297 shares of Common Stock issued and outstanding and 1,321,514 shares of Series A Convertible Preferred Stock issued and outstanding.
- (3) Luna issued shares of Common Stock to Hansen equal to 9.9% of Luna’s outstanding Common Stock after issuance, which shares are included in the total set forth above.
- (4) Luna granted 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 maintain its ownership of 9.9% of Luna’s outstanding Common Stock.
- (5) Hansen and Luna released each other from outstanding litigation claims.
- (6) The Company issued Hansen a secured promissory note in the principal amount of \$5 million, with interest at the rate of 8.5% per year.
- (7) The Company and Hansen entered into a Development and Supply Agreement (the “Hansen Development Agreement”), pursuant to which Luna will work to develop, in collaboration with Hansen, a fiber optic localization and shape sensing solution for Hansen’s medical robotic system.
- (8) The Company, Hansen and Intuitive Surgical, Inc. (“Intuitive”) entered into various license agreements whereby (i) the Company grants a co-exclusive license to Hansen and Intuitive, respectively, to the Company’s fiber optic shape sensing and localization technology within the field of medical robotics, and the parties agree to certain enforcement provisions for the licensed intellectual property, (ii) the Company grants certain co-exclusive (between Hansen and the Company) and exclusive licenses in various non-robotic medical fields to this same technology, (iii) Hansen licenses certain of its intellectual property to the Company non-exclusively for non-medical fields and certain non-robotic

medical fields, and (iv) the Company and Intuitive agree to certain amendments to the Intuitive Development and Supply Agreement, including to allow the foregoing license grants by the Company and for the Company to perform development work for Hansen under the Hansen Development Agreement.

Information regarding the assets and liabilities of the Company is hereby incorporated by reference to Exhibit A of the Disclosure Statement filed with the Bankruptcy Court, attached hereto as Exhibit 2.3.

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

Effective with the Company's emergence from bankruptcy on January 12, 2010, the Company elected three new independent directors to its Board of Directors. The three new directors are Jonathan Cool, Warner Dalhouse and John B. Williamson, III. It is expected that Mr. Williamson will serve on the Company's Audit Committee. Other committee assignments have not yet been determined.

The directors are eligible to receive stock awards and option grants under Luna's 2006 Equity Incentive Plan. Each of the three new independent directors was granted an option to purchase 120,000 shares of Common Stock, which vest over three years. One-third of the options will vest on the first anniversary of the grant date and the remaining two-thirds will vest ratably over the subsequent twenty-four months.

The election of these three new independent directors enabled the Company to satisfy the NASDAQ Capital Market initial listing requirement that the Company have three independent board members. With this election, the Company now has five independent directors. In addition, the Company's Board of Directors determined to separate the roles of Chairman and Chief Executive Officer. Effective January 12, 2010, Rich Roedel, who has served on the Company's Board of Directors since 2005, assumed the role of non-executive Chairman.

Item 9.01. Financial Statements and Exhibits

<u>Exhibit No.</u>	<u>Description</u>
2.1	Findings of Fact, Conclusions of Law, and Order under 11 U.S.C. §§ 1129(a) and (b) and Fed. R. Bankr. P. 3020 Confirming First Amended Joint Plan of Reorganization of Luna Innovations Incorporated and Luna Innovations, Inc, debtors and debtors-in-possession, dated January 12, 2010.
2.2	First Amended Joint Plan of Reorganization of Luna Innovations Incorporated and Luna Technologies, Inc., dated December 18, 2009.
2.3	First Amended Disclosure Statement in support of First Amended Joint Plan of Reorganization of Luna Innovations Incorporated, et al., under Chapter 11 of the Bankruptcy Code, dated December 18, 2009.

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: January 15, 2010

EXHIBIT INDEX

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UNITED STATES BANKRUPTCY COURT
FOR THE WESTERN DISTRICT OF VIRGINIA
ROANOKE DIVISION

In re:) Chapter 11
)
LUNA INNOVATIONS INCORPORATED,¹) Case Nos. 09-71811 (WFS)
et al.,) Jointly Administered
)
Debtors.) **Related Docket Nos. 478, 491 and 548**

**FINDINGS OF FACT, CONCLUSIONS OF LAW, AND
ORDER UNDER 11 U.S.C. §§ 1129(a) AND (b) AND FED. R.
BANKR. P. 3020 CONFIRMING FIRST AMENDED JOINT
PLAN OF REORGANIZATION OF LUNA INNOVATIONS
INCORPORATED AND LUNA INNOVATIONS, INC,
DEBTORS AND DEBTORS-IN-POSSESSION**

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COUNSEL TO THE DEBTORS, PROPONENTS OF THE PLAN

DATED: JANUARY 12, 2010

¹ The Debtors in these cases, along with the last four digits of each Debtor's federal tax identification number, are: Luna Innovations Incorporated (0050), and Luna Technologies, Inc. (0845). The address for both Debtors is 1 Riverside Circle, Suite 400, Roanoke, VA 24016.

Upon the Court's Order Fixing Last Day to File Objections to the Disclosure Statement and the Plan, Authorizing the Solicitation of Votes on the Plan, Fixing Last Day to File Acceptances and Rejections of the Plan, Combining the Hearing on the Approval of the Disclosure Statement with the Hearing on the Confirmation of the Plan, Directing that Ballots be Filed with Proponent's Attorney, and Directing Debtor's Attorney to File a Report on Ballots [Docket No. 487] (the "Disclosure Statement and Confirmation Hearing Order") entered with respect to the Debtors' First Amended Joint Plan of Reorganization of Luna Innovations Incorporated and Luna Technologies, Inc., under Chapter 11 of the Bankruptcy Code dated December 18, 2009 [Docket No. 491] (as amended at Docket No. 548, the "Plan") and their First Amended Disclosure Statement in Support of First Amended Plan of Reorganization of Luna Innovations Incorporated, et al., under Chapter 11 of the Bankruptcy Code dated December 18, 2010 [Docket No. 490] (as amended, the "Disclosure Statement") (i) combining the hearing for approval of the Disclosure Statement and confirmation of the Plan; (ii) fixing a voting record date and a voting deadline; (iii) establishing procedures for filing objections to the Plan and Disclosure Statement; (iv) establishing procedures for soliciting acceptances and rejections of the Plan; and (v) scheduling a hearing date to consider approval of the Disclosure Statement and confirmation of the Plan (the "Hearing"); and the Court's approving the Disclosure Statement at the Hearing by the Court's Order Approving Disclosure Statement to be entered on the docket for these Cases; and based upon this Court's review of (a) the Affidavits of Service for Notice of Non-Voting Status [Docket Nos. 505, 528 and 533] (b) the Declaration of James Katchadurian of Epiq Bankruptcy Solutions, LLC Certifying Acceptance or Rejection of First Amended Joint Plan of Reorganization of Accepting or Rejecting the Plan of Luna Innovations Incorporated and Luna Technologies, Inc. Under Chapter 11 of the Bankruptcy Code (the "Voting Declaration") [Docket No. 539]; (c) the Declaration and Statement of Scott Graeff in Support of Confirmation of First Amended

Joint Plan of Reorganization of Luna Innovations Incorporated and Luna Technologies, Inc., Under Chapter 11 of the Bankruptcy Code [Docket No. 543] (the “Graeff Declaration”); (d) the *Memorandum of Law in Support of Conformation of First Amended Joint Plan of Reorganization of Luna Innovations Incorporated and Luna Technologies, Inc., Under Chapter 11 of the Bankruptcy Code* [Docket No. 540]; (e) *Notice of Filing of Exhibit A to First Amended Joint Plan of Reorganization of Luna Innovations Incorporated and Luna Technologies, Inc. Dated December 18, 2009* [Docket No. 530]; (f) *First Amended Chapter 11 Plan with Exhibits and Blacklined Pages Showing Amendments* [Docket No. 548]; (g) *Supplement to First Amended Joint Plan of Reorganization of Accepting or Rejecting the Plan of Luna Innovations Incorporated and Luna Technologies, Inc. Under Chapter 11 of the Bankruptcy Code* [Docket No. 550]; (h) *Statement of Hansen Medical, Inc. in Support of Confirmation of Plan and Approval of Disclosure Statement*, [Docket No. 542], including the *Plan Supplement of Hansen Medical, Inc.* filed as Exhibit 2 to such Statement; (h) all of the evidence proffered or adduced at, objections, if any, filed in connection with and the responses filed thereto, if any, and arguments of counsel made at, the confirmation hearing on the Plan held on January 12, 2010 (the “Confirmation Hearing”), and (i) the entire record of these Chapter 11 Cases; and after due deliberation thereon and good and sufficient cause appearing therefore;

THIS COURT HEREBY FINDS AND CONCLUDES THAT:¹

A. Exclusive Jurisdiction; Venue; Core Proceeding (28 U.S.C. §§ 157 (b)(2) and 1334(a)). The Court has jurisdiction over the Chapter 11 Cases pursuant to 28 U.S.C. §§ 151 and 1334. Venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409. Confirmation of the Plan is a core proceeding under 28 U.S.C. § 157(b)(2), and the Court has exclusive jurisdiction to determine whether the Plan complies with the applicable provisions of the Bankruptcy Code and should be confirmed.

¹ Findings of fact shall be construed as conclusions of law and conclusions of law shall be construed as findings of fact when appropriate. Fed. R. Bankr. P. 7052.

B. Filing of Original Plan. On July 17, 2009, the Debtors filed their original plan (the “Original Plan”) and disclosure statement (the “Original Disclosure Statement”) contemporaneously with the filing of the Chapter 11 Cases [Docket Nos. 29 and 30].

C. Filing of Amended Disclosure Statement and Plan. On December 18, 2009, the Debtors filed their Plan and Disclosure Statement.

D. Disclosure Statement and Confirmation Hearing Order; Transmittal and Mailing of Materials; Notice. The Debtors have complied with the Disclosure Statement and Confirmation Hearing Order, and adequate notice has been given, to parties entitled to such notice, of the Hearing and of the opportunity to accept, reject or object to confirmation of the Plan.

E. Solicitation. Acceptances or rejections of the Plan were solicited in good faith and complied with sections 1125 and 1126 of the Bankruptcy Code, Bankruptcy Rules 3017 and 3018, the Disclosure Statement, the Disclosure Statement and Confirmation Hearing Order, all other applicable provisions of the Bankruptcy Code, and all other applicable rules, laws, and regulations.

F. Voting Reports. On December 18, 2009, in accordance with the Disclosure Statement and Confirmation Hearing Order, the Debtors’ claims and balloting agent, Epiq Bankruptcy Solutions, LLC (“Epiq”) filed the Voting Declaration, certifying the method and results of the tabulation for each of the Classes entitled to vote to accept or reject the Plan.

G. Impaired Classes that Have Voted to Accept the Plan. As evidenced by the Voting Report, which certified both the method and results of the voting, pursuant to the

requirements of sections 1124 and 1126 of the Bankruptcy Code, at least one impaired class of claims (Class 5a – Hansen Claims)), determined without including any acceptance by an insider of any of the Debtors, has accepted the Plan. There are no Claims in the other impaired Classes — Class 1 (Priority Employee Claims and Class 2 (Miscellaneous Secured Claims) under the Plan.

H. Classes Deemed to Have Accepted the Plan. Class 5a is impaired and is deemed to have accepted the Plan. Classes 3, 4, 5b and 6 are unimpaired and therefore are not entitled to vote on the Plan and are deemed to have accepted the Plan.

I. Burden of Proof. The Debtors, as proponents of the Plan, have met their burden of proving the elements of sections 1129(a) and (b) of the Bankruptcy Code, by a preponderance of the evidence, which is the applicable evidentiary standard in this Court. This Court also finds that the Debtors have satisfied the elements of sections 1129(a) and (b) of the Bankruptcy Code under the clear and convincing standard of proof.

J. Plan Compliance With Bankruptcy Code (11 U.S.C. § 1129(a)(1)). The Plan complies with the applicable provisions of the Bankruptcy Code, thereby satisfying section 1129(a)(1) of the Bankruptcy Code.

a. Proper Classification (11 U.S.C. §§ 1122, 1123(a)(1)). In addition to Administrative Claims and Priority Tax Claims (which are not required to be classified), Article 3 of the Plan designates six (6) Classes of Claims and one (1) Class of Interests. The Claims and Interests placed in each Class are substantially similar to other Claims or Interests in each such Class. Valid business, factual, and legal reasons exist for classifying the various Classes of Claims and Interests in the manner set forth in the Plan, and such Classes do not unfairly discriminate between holders of Claims or Interests. The Plan satisfies sections 1122 and 1123(a)(1) of the Bankruptcy Code.

b. Specification of Unimpaired Classes (11 U.S.C. § 1123(a)(2)). Article 3 of the Plan specifies the Classes of Claims and Interests that are Unimpaired (Classes 3, 4, 5b and 6). Thus, the Plan satisfies section 1123(a)(2) of the Bankruptcy Code.

c. Specification and Treatment of Impaired Classes (11 U.S.C. § 1123(a)(3)). Article 3 of the Plan specifies the Classes of Claims and Interests that are impaired under the Plan (Classes 1, 2 and 5b). Article 4 of the Plan specifies the treatment of those Claims and Interests. Thus, the Plan satisfies section 1123(a)(3) of the Bankruptcy Code.

d. No Discrimination (11 U.S.C. § 1123(a)(4)). The Plan provides for the same treatment for each Claim in each respective Class unless the holder of a particular Claim has agreed to less favorable treatment with respect to such Claim. Thus, the Plan satisfies section 1123(a)(4) of the Bankruptcy Code.

e. Implementation of Plan (11 U.S.C. § 1123(a)(5)). The Plan provides adequate and proper means for implementation of the Plan, including, without limitation, (i) the retention and revesting of each Debtor's assets by that Debtor into its respective Reorganized Debtor; (ii) the continued corporate existence of the Debtors, and (iii) issuance of the Hansen Common Stock and Hansen Warrant, (iv) entry of the Hansen Settlement Documents; and (v) consummation of the Hansen Settlement. Thus, the Plan satisfies section 1123(a)(5) of the Bankruptcy Code.

f. Prohibition Against Issuance of Non-Voting Equity Securities And Provisions for Voting Power of Classes of Securities (11 U.S.C. § 1123(a)(6)). Pursuant to Section 5.2.2 of the Plan, on the Effective Date, the Charter of each Debtor will be deemed to prohibit the issuance of non-voting securities as set forth in the Plan. Thus, the Plan satisfies section 1123(a)(6) of the Bankruptcy Code.

g. Selection of Officers, Directors, and the Trustee (11 U.S.C. § 1123(a)(7)). In Sections 5.2.5 and 5.2.6 of the Plan, or as identified publicly prior to the Confirmation Hearing, or as otherwise announced at the Confirmation Hearing, the Debtors have properly and adequately disclosed the identity of persons who will serve as officers and directors of the Reorganized Debtors, which persons have been selected in a manner consistent with the interests of creditor and equity security holders and with public policy with respect to such selection. Thus, section 1123(a)(7) of the Bankruptcy Code is satisfied.

h. Additional Plan Provisions 11 U.S.C. § 1123(b). The Plan's provisions are consistent with the section 1123(b) of the Bankruptcy Code.

i. Fed. R. Bankr. P. 3016(a). The Plan is dated and identifies the entities submitting it, thereby satisfying Fed. R. Bankr. P. 3016(a).

K. Debtors' Compliance With Bankruptcy Code (11 U.S.C. § 1129(a)(2)). The Debtors as proponents of the Plan have complied with the applicable provisions of the Bankruptcy Code, thereby satisfying section 1129(a)(2) of the Bankruptcy Code.

L. Plan Proposed in Good Faith (11 U.S.C. § 1129(a)(3)). The Debtors have proposed the Plan in good faith and not by any means forbidden by law, thereby satisfying section 1129(a)(3) of the Bankruptcy Code. The Debtors and Hansen, and their respective affiliates, shareholders, partners, directors, officers, employees, and advisors, among others, and each of their respective professionals negotiated certain provisions of the Plan in good faith and participated in the Plan formulation process in good faith.

M. Payments for Services or Costs and Expenses (11 U.S.C. § 1129(a)(4)). Fees incurred thus far in the Debtors' cases have been or will be fully disclosed. These fees have been or will be subject to objections by interested parties as well as to Court review and approval. The award of final fees is also subject to the fee application process and Court approval. Thus, the Plan complies with § 1129(a)(4).

N. Directors, Officers, and Insiders (11 U.S.C. § 1129(a)(5)). The Debtors have complied with section 1129(a)(5) of the Bankruptcy Code. Specifically, the Debtors have disclosed the identity and the affiliation of all of the initial officers of the Reorganized Debtors and the directors (as applicable) for the Reorganized Debtors. The officers and directors of Reorganized Luna are described in section 5.2.5 and 5.2.6 of the Plan, the appointment to or continuance in such office of such individual is consistent with the interests of creditors and equity security holders and with public policy, and the Debtors as proponents of the Plan have disclosed the identity of any insider that will be employed or retained by the Reorganized Debtors, and the nature of any compensation for such insider.

O. No Rate Changes (11 U.S.C. § 1129(a)(6)). Section 1129(a)(6) of the Bankruptcy Code is satisfied because the Plan does not provide for any change in rates over which a governmental regulatory commission has jurisdiction.

P. Best Interests Test (11 U.S.C. § 1129(a)(7)). The Plan satisfies section 1129(a)(7) of the Bankruptcy Code. The evidence proffered or adduced, as set forth in the Graeff Declaration or at the Hearing: (1) is persuasive, credible, and accurate as of the dates such evidence was prepared, presented, or proffered, (2) either has not been controverted by other persuasive evidence or has not been challenged, (3) is based upon reasonable and sound assumptions, (4) provides a reasonable estimate of the liquidation values of the Debtors upon

conversion to a case under chapter 7 of the Bankruptcy Code, (5) establishes that each holder of a Claim or Interest in an impaired Class (if any) that has not accepted or been deemed to have accepted the Plan will receive or retain under the Plan, on account of such Claim or Interest, property of a value, as of the Effective Date of the Plan, that is not less than the amount that it would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code on such date, and (6) establishes that the only holder of Claims in an impaired Class — Class 5a (Hansen Claims) — has accepted the Plan and accordingly the best interest of creditors test is satisfied pursuant to Bankruptcy Code § 1129(a)(7)(A)(i).

Q. Acceptance by Impaired Classes (11 U.S.C. § 1129(a)(8)). All voting impaired Classes in which there are Claims have voted to accept the Plan.

R. Treatment of Administrative and Priority Tax Claims (11 U.S.C. § 1129(a)(9)). The treatment of Administrative Claims under the Plan satisfies the requirements of section 1129(a)(9)(A) and (B) of the Bankruptcy Code, and the treatment of Priority Tax Claims under the Plan satisfies the requirements of section 1129(a)(9)(C) of the Bankruptcy Code.

S. Acceptance by Impaired Class (11 U.S.C. § 1129(a)(10)). Each impaired Class of Claims in which there are Claims has accepted or is deemed to have accepted the Plan, determined without including any acceptance by any insider, as such term is defined in 11 U.S.C. § 101(31). Thus, the Plan satisfies section 1129(a)(10) of the Bankruptcy Code.

T. Feasibility (11 U.S.C. § 1129(a)(11)). The Plan satisfies section 1129(a)(11) of the Bankruptcy Code. The financial projections in Exhibit A to the Disclosure Statement, the Graeff Declaration, and the other evidence proffered or adduced at the Confirmation Hearing (1) is persuasive and credible, (2) has not been controverted by other evidence or sufficiently challenged in any of the objections to the Plan, (3) establishes the ability of the Debtors to pay their debts as they mature, and (4) establishes that subject to, and upon consummation of, the

transactions set forth as conditions to the Effective Date in Article 7 of the Plan, the Plan is feasible and that confirmation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtors or the Reorganized Debtors.

U. Payment of Fees (11 U.S.C. § 1129(a)(12)). The Debtors have paid, or pursuant to sections 11.7 of the Plan will pay by the Effective Date, fees payable under 28 U.S.C. § 1930 plus accrued interest under 31 U.S.C. § 3717. Thus, the Plan satisfies section 1129(a)(12) of the Bankruptcy Code.

V. Non-Applicability of 11 U.S.C. § 1129(a)(13). Section 1129(a)(13) does not apply because the Debtors do not provide “retiree benefits” as defined in Section 1114(a).

W. Non-Applicability of 11 U.S.C. §§ 1129(a)(14-16). Section 1129(a)(14)-(15) do not apply because the Debtors are not individuals; Section 1129(a)(16) does not apply because each of the Debtors is a moneyed, business or commercial corporation or limited liability company.

X. Section 1129(b) – Confirmation of the Plan Over Nonacceptance of Impaired Classes. All voting impaired Classes in which there are Claims have accepted the Plan. With respect to Class 1 (Priority Employee Claims) and Class 2 Miscellaneous Secured Claims), the Plan is fair and equitable and does not discriminate unfairly against the holders of Class 1 or Class 2 Claims. Accordingly, even if there were Claims in impaired Class 1 or Class 2, and even if either or both of such Classes had rejected the Plan, then because all of the requirements of section 1129(a) of the Bankruptcy Code (other than section 1129(a)(8) assuming such rejection), with respect to such Classes have been met, the requirements of section 1129(b) of the Bankruptcy Code are is satisfied.

Y. Principal Purpose of Plan (11 U.S.C. § 1129(d)). The principal purpose of the Plan is not the avoidance of taxes or the avoidance of the application of section 5 of the Securities Act of 1933 (15 U.S.C. § 77e). Accordingly, the Plan satisfies the requirements of section 1129(d) of the Bankruptcy Code.

Z. Modifications to the Plan. The modifications to the Plan described and/or set forth at and submitted to the Court at the Hearing constitute non-material or technical changes and/or changes with respect to particular Claims or Interests by agreement with holders of such Claims or Interests, and do not materially adversely affect or change the treatment of any Claims or Interests. Accordingly, pursuant to Bankruptcy Rule 3019, these modifications do not require additional disclosure under section 1125 of the Bankruptcy Code or re-solicitation of votes under section 1126 of the Bankruptcy Code, nor do they require that holders of Claims or Interests be afforded an opportunity to change previously cast acceptances or rejections of the Plan.]

AA. Good Faith Solicitation (11 U.S.C. § 1125(e)). The Debtors and their agents, representatives, attorneys, and advisors, and other Persons involved in the solicitation process have solicited votes on the Plan in good faith and in compliance with the applicable provisions of the Bankruptcy Code and the Solicitation Procedures Order and are entitled to the protections afforded by section 1125(e) of the Bankruptcy Code.

BB. Executory Contracts. The Debtors have exercised reasonable business judgment in determining whether to assume or reject each of their executory contracts and unexpired leases as set forth in Article 6 of the Plan, including without limitation the Amendment to the Development and Supply Agreement between Intuitive and Luna dated June 11, 2007 substantially in the form filed at Docket No. (the "Amended Intuitive DSA"). Each assumption or rejection of an executory contract or unexpired lease as provided in Article 6 of

the Plan, including without limitation Amended Intuitive DSA, shall be legal, valid, and binding upon the applicable Reorganized Debtor and all non-Debtor parties to such executory contract or unexpired lease, all to the same extent as if such assumption or rejection had been effectuated pursuant to an appropriate authorizing order of the Court entered before the Confirmation Date under section 365 of the Bankruptcy Code.

CC. Adequate Assurance. The Debtors have cured, or provided adequate assurance that the Reorganized Debtors will cure, defaults (if any) under or relating to each of the Assumed Contracts and Leases which are being assumed by the Debtors pursuant to the Plan, including without limitation the Amended Intuitive DSA.

DD. Conditions to Confirmation. The conditions to Confirmation set forth in Article 7 of the Plan have been satisfied or waived, or will be satisfied or waived by entry of this Confirmation Order.

EE. Conditions to Effectiveness. The conditions to the Effective Date are set forth in Article 7 of the Plan. Certain conditions to the Effective Date set forth in Article 7 of the Plan may be waived as set forth in section 7.3 of the Plan, without any further notice to parties-in-interest or the Court and without a hearing.

FF. Retention of Jurisdiction. The Court properly may retain jurisdiction over the matters set forth in Article 9 of the Plan.

GG. Hansen Settlement Documents. The proposed Hansen Settlement, as memorialized herein and in the Disclosure Statement, Plan, and the Hansen Settlement Documents is an appropriate and essential provision of the Plan. As adequately described in Section V.D.5 of the Disclosure Statement, the Debtors and Hansen underwent extensive negotiations and determined that the consensual resolution of the Hansen Litigation — as set

forth in the Hansen Settlement Documents — is in the best interest of the Debtors' estates. Pursuant to (i) Bankruptcy Rule 9019, which is made applicable to the determination of the reasonableness of a settlement included within a plan as permitted under section 1123(b)(3)(A) of the Bankruptcy Code, and based on the admitted evidence and considerations by the Court of the probability of success, the difficulties in collection, and the expense, inconvenience and delay, and other factors; and (ii) Bankruptcy Code section 1123(b)(6), the provisions of the Plan regarding approval of the Hansen Settlement are not inconsistent with the applicable provisions of the Bankruptcy Code.

1. Any continuation of the Hansen Litigation in the absence of the Hansen Settlement would be very time consuming, resulting in the attendant expense, inconvenience, and delay to the Debtors' estates;
2. The releases pursuant to the Plan and the Hansen Settlement Documents are fair and equitable; and
3. The Hansen Settlement is the product of good faith negotiations and arm's-length bargaining without collusion or fraud between Hansen and the Debtors, all of whom were represented by competent and experienced counsel and other advisors, and is necessary to the Plan.

HH. Releases and Discharge. The discharge, limitation on liability, exoneration and release provisions set forth in Article 8 of the Plan constitute good faith compromises and settlements of the matters covered thereby. Such compromises and settlements are made in exchange for consideration and are in the best interests of the Debtors, their Estates, and holders of Claims and Interests, are fair, equitable, reasonable, and are integral elements of the restructuring and resolution of the Chapter 11 Cases in accordance with the Plan. Each of the discharge, limitation on liability, exoneration and release provisions set forth in the Plan:

1. is within the jurisdiction of the Court under 28 U.S.C. §§ 1334(a), (b), and (d),

2. is an essential means of implementing the Plan pursuant to section 1123(a)(5) of the Bankruptcy Code,
3. confers material benefit on, and is in the best interests of the Debtors, their estates, and the holders of Claims and Interests,
4. is important to the overall objectives of the Plan to formally resolve all Claims among or against the parties-in-interest in the Chapter 11 Cases with respect to the Debtors, their organization, capitalization, operation, and reorganization, and
5. is consistent with 11 U.S.C. §§ 105, 1123, and 1129, and other applicable provisions of the Bankruptcy Code. The failure to effect the discharge, limitation on liability, exoneration and release provisions described in Article 8 of the Plan would seriously impair the Debtors' ability to confirm the Plan.

II. Hansen Settlement Releases. The mutual releases of Hansen and the Debtors (collectively, the "Mutual Releases") more fully described in the Confidential Mutual Release Agreement, which is one of the Hansen Settlement Documents, attached to the Plan as Exhibit C-6, (i) are fair and equitable, reasonable, and in the best interests of the Debtors' estates and holders of Claims and Interests, (ii) are supported by circumstances that render the release terms important to the process of the Hansen Settlement and the Plan, and (iii) are integral elements of the Hansen Settlement and the restructuring and resolution of the Chapter 11 Cases.

JJ. Bulk Sales. No bulk sales law or any similar law of any state or other jurisdiction shall apply in any way to the transactions contemplated in the Hansen Settlement Documents; no brokers were involved in the consummation of the transactions contemplated in the Hansen Settlement Documents, and no brokers' commissions are due to any person in connection with such transactions.

KK. Distributions of Hansen Common Stock, Notes, and Warrant. The distribution of the Hansen Common Stock, Hansen Warrant, and Hansen Secured Promissory Note as contemplated by the Plan are exempt from the requirements of section 5 of the Securities Act of 1933, as amended, and state registration requirements.

LL. Judicial Notice. The Court takes judicial notice of the docket of the Chapter 11 Cases maintained by the Clerk of the Court and/or its duly-appointed agent, including, without limitation, all pleadings and other documents filed, all orders entered, and all evidence and arguments made, proffered, or adduced at the hearings held before the Court during the pendency of the Chapter 11 Cases.

IT IS ORDERED, ADJUDGED, AND DECREED THAT:

1. Confirmation. The Plan (as so amended, and all exhibits and supplements thereto, including the Hansen Settlement Documents and the Plan Supplement filed by Hansen as Exhibit 2 to Docket No. 542) is hereby approved and confirmed under section 1129 of the Bankruptcy Code. The exhibits to the Plan (as may be modified pursuant to the terms of the Plan and/or such exhibit, as applicable) are incorporated by reference into and comprise an integral part of the Plan and this Confirmation Order.

2. Objections. All Objections to confirmation of the Plan that have not been withdrawn, waived, settled or addressed in the Plan and all reservations of rights included therein, are overruled on the merits.

3. Provisions Of Hansen Settlement Documents Nonseverable And Mutually Dependent. The provisions of the Hansen Settlement Documents approved by this Confirmation Order, and the findings of fact and conclusions of law set forth herein with respect to the Hansen Settlement Documents, are nonseverable and mutually dependent.

4. Plan Classification Controlling. The classification of Claims and Interests for purposes of the distributions to be made under the Plan shall be governed solely by the terms of the Plan.

5. Effects Of Confirmation; Immediate Effectiveness; Successors And Assigns. The stay provided by Bankruptcy Rule 3020(e) shall not apply to this Confirmation Order. Immediately upon the entry of this Confirmation Order, this Confirmation Order and the terms of the Plan shall be deemed binding upon (a) the Debtors, (b) the Reorganized Debtors, (c) all holders of Claims against and Interests in the Debtors, whether or not impaired under the Plan and whether or not, if impaired, such holders accepted the Plan, (d) each Person acquiring any property under the Plan, (e) any other party-in-interest, (f) any Person making an appearance in these Chapter 11 Cases, and (g) each of the foregoing's respective heirs, successors, assigns, trustees, executors, administrators, affiliates, officers, directors, agents, representatives, attorneys, beneficiaries, or guardians.

6. Continued Corporate Existence; Vesting Of Assets. Except as otherwise provided in the Plan, each Reorganized Debtor shall continue to exist on the Effective Date as a separate corporate or other legal entity, with all the powers of a corporation or legal entity under

applicable law in the jurisdiction in which each applicable Debtor is incorporated or otherwise formed and pursuant to its certificate of incorporation and bylaws or other organizational documents in effect prior to the Effective Date, except to the extent such certificate of incorporation and bylaws or other organizational documents are amended by the Plan. Except as otherwise explicitly provided in the Plan or in this Confirmation Order, on the Effective Date, all property comprising the Estates shall revert in each of the Reorganized Debtors that owned such property or interest in property as of the Effective Date, free and clear of all Claims, liens, charges, encumbrances, rights, and interests of creditors and interest holders as of and following the Effective Date, the Reorganized Debtors may operate their businesses and use, acquire, and dispose of property and settle and compromise Claims or Interests without supervision of the Court, free of any restrictions of the Bankruptcy Code or Bankruptcy Rules, other than those restrictions expressly imposed by the Plan and this Confirmation Order. Furthermore, the lien to be granted to Hansen in the Collateral (as defined in the Patent and Trademark Security Agreement and the Security Agreement) shall have the priority permitted to such lien from time to time under the Security Agreement. The Hansen Common Stock and the Hansen Warrant shall be transferred to Hansen on the Effective Date pursuant to the Hansen Settlement Documents, free and clear of any lien pursuant to Bankruptcy Code Sections 1123(a)(5)(D), and, to the extent applicable, Sections 363(f) and 1141(c).

7. Retained Assets. To the extent that the succession to assets of the Debtors by the Reorganized Debtors pursuant to the Plan are deemed to constitute “transfers” of property, such transfers of property to Reorganized Debtors (a) are or shall be legal, valid, and effective transfers of property, (b) vest or shall vest the Reorganized Debtors with good title to such property, free and clear of all liens, charges, Claims, encumbrances, or Interests, except as

expressly provided in the Plan or this Confirmation Order, (c) do not and shall not constitute avoidable transfers under the Bankruptcy Code or under applicable nonbankruptcy law, and (d) do not and shall not subject the Reorganized Debtors to any liability by reason of such transfer under the Bankruptcy Code or under applicable nonbankruptcy law, including, without limitation, any laws affecting successor or transferee liability.

8. Consideration Reasonably Equivalent Value. The consideration given for the transactions contemplated by the Hansen Settlement Documents and the terms and conditions thereunder constitute transfers for reasonably equivalent value and fair consideration and may not be avoided under applicable provisions of the Bankruptcy Code.

9. Discharge, Releases, Limitations Of Liability, And Indemnification. Pursuant to applicable law, including sections 105(a) and 1123(b)(3) and (6) of the Bankruptcy Code, the discharge of the Debtors and any of their assets or properties provided in Article 8 of the Plan, the limitation of liability, exoneration and release provisions set forth in Article 8 of the Plan are deemed incorporated in this Confirmation Order as if set forth in full herein and are hereby approved as an integral part of the Plan and are fair, equitable, reasonable and in the best interests of the Debtors, their estates, and holders of Claims and Interests.

10. Injunction. Except as otherwise specifically provided in the Plan and except as may be necessary to enforce or remedy a breach of the Plan, the Debtors and all Persons shall be precluded and permanently enjoined on and after the Effective Date from (a) commencing or continuing in any manner any Claim, action, employment of process, or other proceeding of any kind with respect to any Claim, Interest, Cause of Action, or any other right or Claim against the Reorganized Debtors, which they possessed or may possess prior to the Effective Date, (b) the enforcement, attachment, collection, offset, recoupment, or recovery by any manner or means of

any judgment, award, decree, order or otherwise with respect to any Claim, Interest, Cause of Action or any other right or Claim against the Reorganized Debtors, which they possessed or may possess prior to the Effective Date, (c) creating, perfecting, or enforcing any encumbrance of any kind with respect to any Claim, Interest, Cause of Action or any other right or Claim against the Reorganized Debtors, which they possessed or may possess prior to the Effective Date, and (d) asserting any Claims, Interests, or Causes of Action that are satisfied, discharged, released, or subject to exculpation hereby or by the Plan.

11. Automatic Stay. The stay in effect in the Chapter 11 Cases pursuant to section 362(a) of the Bankruptcy Code shall continue to be in effect until the Effective Date, and at that time shall be dissolved and of no further force or effect, subject to the injunction set forth in the preceding paragraph and/or sections 524 and 1141 of the Bankruptcy Code.

12. Matters Relating To Implementation Of The Plan; General Authorizations. The approvals and authorizations specifically set forth in this Confirmation Order are nonexclusive and are not intended to limit the authority of any Debtor or Reorganized Debtor or any officer thereof to take any and all actions necessary or appropriate to implement, effectuate, and consummate any and all documents or transactions contemplated by the Plan or this Confirmation Order pursuant to section 1142(b) of the Bankruptcy Code or otherwise. In addition to the authority to execute and deliver, adopt, assign, or amend, as the case may be, the contracts, leases, instruments, releases, and other agreements specifically granted in this Confirmation Order, the Debtors and the Reorganized Debtors are authorized, and empowered, without necessity of action of their respective shareholders or boards of directors, to take any and all such actions as any of their executive officers may determine are necessary or appropriate to implement, effectuate, and consummate any and all documents or transactions contemplated by

the Plan or this Confirmation Order. Pursuant to section 1142 of the Bankruptcy Code, no action of the stockholders or boards of directors of the Debtors or the Reorganized Debtors shall be required for the Debtors or the Reorganized Debtors to (a) enter into, execute and deliver, adopt, or amend, as the case may be, any of the contracts, leases, instruments, releases, and other agreements or documents and plans to be entered into, executed and delivered, adopted, or amended in connection with the Plan, and, following the Effective Date, each of such contracts, leases, instruments, releases, and other agreements shall comprise a legal, valid, and binding obligation of the applicable Reorganized Debtor and enforceable against such Reorganized Debtor in accordance with its terms, (b) issue for distribution or reserve, for issuance in accordance with the terms of the Plan, the Hansen Common Stock, Hansen Warrant, or (c) issue the Hansen Secured Note in accordance with the Plan and the Hansen Settlement Documents (upon such issuance the Hansen Secured Promissory Note shall be duly authorized, validly issued and outstanding), or (d) authorize the Reorganized Debtors to engage in any of the activities set forth in this paragraph or otherwise contemplated by the Plan. The transfer of the Hansen Common Stock and the Hansen Warrant to Hansen on the Effective Date pursuant to the Hansen Settlement Documents shall be free and clear of any lien pursuant to Bankruptcy Code Sections 1123(a)(5) (D), and, to the extent applicable, Sections 363(f) and 1141(c). Each of the Debtors, or their respective designees, as appropriate, shall be authorized, and empowered to execute, deliver, file, or record such contracts, instruments, releases, indentures, and other agreements or documents, and take such actions as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan, this Confirmation Order, and any and all documents or transactions contemplated by the Plan or this Confirmation Order, all without further application to or order of the Court and whether or not such actions or documents are

specifically referred to in the Plan, the Disclosure Statement, the Disclosure Statement and Confirmation Hearing Order, this Confirmation Order, or the exhibits or appendices to any of the foregoing.

13. Post-Effective Date Action. Any and all actions necessary or appropriate to implement, effectuate, and consummate any and all documents or transactions contemplated by the Plan or this Confirmation Order to be taken after the Effective Date shall be authorized only in accordance with applicable organizational documents and corporate law.

14. Directors And Officers Of Reorganized Debtors. In accordance with the applicable governance documents, the officers of the Debtors set forth in the Plan shall serve in their current capacities after the Effective Date; provided, however, that, the board of directors of Reorganized Luna reserves the right to remove any officer and/or to identify and appoint new officers of Reorganized Luna at any time thereafter in accordance with the applicable governance documents. The initial directors of Reorganized Debtors set forth in the Plan shall continue to serve in their current capacities after the Effective Date, provided, however, that each Reorganized Debtor shall have the right, in accordance with the applicable provisions of its corporate governance documents and other applicable agreements, to select new members of its board of directors at any time thereafter.

15. Exemption From Certain Taxes And Recording Fees. Pursuant to section 1146(c) of the Bankruptcy Code, the issuance, transfer, or exchange of any security, or the making, delivery, filing, or recording of any instrument of transfer under, or in connection with, the Plan shall not be taxed under any law imposing a recording tax, stamp tax, transfer tax, or similar tax. Furthermore, and without limiting the foregoing, any transfers from a Debtor to a Reorganized Debtor or to any other Person pursuant to the Plan, as contemplated by the Plan or pursuant to

any agreement regarding the transfer of title to or ownership of any of the Debtors' property in the United States, shall not be subject to any document recording tax, stamp tax, real estate transfer tax, mortgage recording tax, Uniform Commercial Code filing or recording tax, or other similar tax or governmental assessment. All filing or recording officers (or any other Person with authority over any of the foregoing), wherever located and by whomever appointed, shall comply with the requirements of section 1146(c) of the Bankruptcy Code, shall forego the collection of any such tax or governmental assessment, and shall accept for filing and recordation any of the foregoing instruments or other documents without the payment of any such tax or governmental assessment. The Court shall retain specific jurisdiction with respect to these matters.

16. Assumptions. The executory contract and unexpired lease provisions of Article 6 of the Plan are approved. The executory contracts and unexpired leases to be assumed as described in Section 6.1 of the Plan, including without limitation the Amended Intuitive DSA, shall be deemed automatically assumed in accordance with the provisions and requirements of sections 365 and 1123 of the Bankruptcy Code as of the Effective Date, except to the extent otherwise provided in Article 6 of the Plan or otherwise ordered by this Court. This Confirmation Order shall constitute an order approving such assumptions, pursuant to section 1123 of the Bankruptcy Code, as of the Effective Date.

17. Professional Claims And Final Fee Applications. Any claim by a Professional for Professional Fees shall be filed and served in accordance with the Plan by the date that is not later than sixty (60) days after the Effective Date.

18. Record Date For Claims Distributions. The Reorganized Debtors shall have no obligation to recognize the transfer of, or the sale of any participation in, any Allowed Claim that

occurs after Effective Date of the Plan (the "Claims Record Date"), and shall be entitled for all purposes herein to recognize and distribute only to those holders of Allowed Claims who are holders of such Claims, or participants therein, as of the Claims Record Date. The Reorganized Debtors, shall instead be entitled to recognize and deal for all purposes under the Plan with only those record holders stated on the official claims register as of the Claims Record Date.

19. Payment Of Fees. All fees payable by each of the Debtors under 28 U.S.C. § 1930 shall be paid in accordance with section 11.7 of the Plan, by each Debtor and not on a consolidated basis.

20. Authorization To Consummate Plan. Notwithstanding Bankruptcy Rule 3020(e), the Court authorizes the Debtors to consummate the Plan upon entry of this Confirmation Order. The Debtors are authorized to execute, acknowledge, and deliver such deeds, assignments, conveyances, and other assurances, documents, instruments of transfer, uniform commercial code financing statements, trust agreements, mortgages, indentures, security agreements, and bills of sale and to take such other actions as may be reasonably necessary to perform the terms and provisions of the Plan, all transactions contemplated by the Plan, and all other agreements related thereto.

21. Retention Of Jurisdiction. Pursuant to sections 105(a) and 1142 of the Bankruptcy Code, and notwithstanding the entry of this Confirmation Order or the occurrence of the Effective Date, the Court shall retain jurisdiction as provided in the Plan as set forth in Article 9 of the Plan.

22. References to Plan or Hansen Settlement Document Provisions. The failure to include or specifically reference any particular provision of the Plan or any Hansen Settlement Document in this Confirmation Order shall not diminish or impair the effectiveness of such

provision, it being the intent of the Court that the Plan and the Hansen Settlement Documents be confirmed in their entirety. The provisions of the Plan and of this Confirmation Order shall be construed in a manner consistent with each other so as to effect the purposes of each; provided, however, that if there is determined to be any inconsistency between any Plan provision and any provision of this Confirmation Order that cannot be so reconciled, then, solely to the extent of such inconsistency, the provisions of this Confirmation Order shall govern and shall control and take precedence. Notwithstanding the provisions of section 8.6.3 of the Plan or Section 1141(a) of the Bankruptcy Code granting releases to a creditor that votes to accept the Plan, the Debtors and Hansen have acknowledged and agreed, and the Court by this Confirmation confirms, that the only releases that shall be effective by, and binding upon, the Debtors, the Reorganized Debtors, and Hansen with respect to the Hansen Settlement Documents shall be as set forth in the Hansen Settlement Documents as approved by this Confirmation Order.

23. Separate Confirmation Orders. This Confirmation Order is and shall be deemed a separate Confirmation Order with respect to each of the Debtors in each Debtors' separate Chapter 11 Case for all purposes. The Clerk of the Court is directed to file and docket this Confirmation Order in the Chapter 11 Case of each of the Debtors.

24. Filing And Recording. This Confirmation Order is and shall be binding upon and shall govern the acts of all entities including, without limitation, all filing agents, filing officers, title agents, title companies, recorders of mortgages, recorders of deeds, registrars of deeds, administrative agencies, governmental departments, secretaries of state, federal, state, and local officials, and all other persons and entities who may be required, by operation of law, the duties of their office, or contract, to accept, file, register, or otherwise record or release any document or instrument. Each and every federal, state, and local government agency is hereby directed to

accept any and all documents and instruments necessary, useful, or appropriate (including Uniform Commercial Code financing statements) to effectuate, implement, and consummate the transactions contemplated by the Plan and this Confirmation Order without payment of any recording tax, stamp tax, transfer tax, or similar tax imposed by state or local law.

25. Notice Of Confirmation Order And Occurrence Of Effective Date. On or before the tenth (10th) Business Day following the occurrence of the Effective Date, the Debtors shall serve notice of this Confirmation Order and occurrence of the Effective Date pursuant to Bankruptcy Rules 2002(f)(7), 2002(k), and 3020(c) on all holders of Claims and Interests, the United States Trustee for the Western District of Virginia, and other parties-in-interest, by causing a notice of this Confirmation Order and the occurrence of the Effective Date (the "Notice of Effective Date"), to be delivered to such parties by first class mail, postage prepaid; provided, however, that notice need not be given or served under the Bankruptcy Code, the Bankruptcy Rules, or this Confirmation Order to any Person to whom the Debtors mailed a notice of the Bar Date or Confirmation Hearing, but received such notice returned marked "undeliverable as addressed," "moved — left no forwarding address," "forwarding order expired," or similar marking, unless the Debtors have been informed in writing by such Person of that Person's new address. The notice described herein is adequate under the particular circumstances of the Chapter 11 Cases, and no other or further notice is necessary.

26. Hansen Settlement. The Hansen Settlement is hereby authorized and approved pursuant to section 1123(a) and (b) of the Bankruptcy Code, including the Hansen Settlement Documents, which set forth the continuing obligations of Hansen and Luna. The terms of the Hansen Settlement Documents, and the exhibits thereto, are incorporated by reference into and comprise an integral part of the Plan and this Confirmation Order. None of the parties to the

Hansen Settlement Documents shall contest the validity and enforceability of the Plan, the Hansen Settlement Documents, or this Confirmation Order. The Hansen Settlement Documents are consistent with applicable law. The Plan and the Hansen Settlement Documents, upon becoming effective, shall be binding upon and enforceable against the parties to the Hansen Settlement Documents and their successors and assigns.

27. Hansen Releases. This Court's approval of the releases set forth in the Hansen Settlement Documents under section 1123(a) and (b) of the Bankruptcy Code and Bankruptcy Rule 9019 does not amount to an adjudication of the underlying issues raised by the claims being released for the purposes of collateral estoppel (issue preclusion), provided, however, that the dismissal with prejudice of the claims as part of this Settlement does operate as an adjudication on the merits pursuant to the ordinary rules of res judicata (claim preclusion). In approving the releases and the Hansen Settlement generally, this Court approves the Debtors' agreement (i) under the Development and Supply Agreement [and the Hansen-Luna License Agreement], to provide for liquidated damages under the terms and conditions set forth therein in Section 2.5; and (ii) under the Hansen Secured Promissory Note, that the liability of Luna Innovations Incorporated and Luna Technologies, Inc. shall be joint and several and neither Luna Innovations Incorporated nor Luna Technologies, Inc. shall be an accommodation maker or secondary obligor as to the other.

28. Modifications To The Plan. The Plan is hereby modified pursuant to section 1127(a) of the Bankruptcy Code , and the Plan, as so modified, approved and confirmed, is attached as Exhibit A hereto.

Dated: Roanoke, Virginia
January 12, 2010

William F. Stone, Jr.
United States Bankruptcy Judge

Exhibit A
The Plan

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE WESTERN DISTRICT OF VIRGINIA
ROANOKE DIVISION

In re:)	Chapter 11
)	
LUNA INNOVATIONS)	
INCORPORATED, <u>et al.</u> , ¹)	Case No. 09-71811 (WFS)
)	
Debtors.)	Jointly Administered
)	

**FIRST AMENDED JOINT PLAN OF REORGANIZATION OF
LUNA INNOVATIONS INCORPORATED AND LUNA
TECHNOLOGIES, INC.²**

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DATED: DECEMBER 18, 2009

¹ The Debtors in these cases, along with the last four digits of each Debtor’s federal tax identification number, are: Luna Innovations Incorporated (0050) and Luna Technologies, Inc. (0845). The address for both Debtors is 1 Riverside Circle, Suite 400, Roanoke, VA 24016.

² This First Amended Joint Plan of Reorganization is revised from the First Amended Joint Plan of Reorganization filed on December 11, 2009 at Docket No. 478.

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The above-captioned debtors (the “Debtors”) jointly propose the following first amended plan of reorganization under Section 1121(a) of the Bankruptcy Code for the resolution of the Debtors’ outstanding Claims and Interests. All Creditors and other parties-in-interest should refer to the Disclosure Statement (as defined herein) for a discussion of each Debtor’s history, business, properties, results of operations, events leading up to the contemplated restructuring and for a summary and analysis of the Plan and certain related matters. **All holders of Claims against, and Interests in, either of the Debtors are encouraged to read the Plan, the Disclosure Statement and the related solicitation materials in their entirety before voting to accept or reject the Plan.**

Subject to the restrictions on modifications set forth in Section 1127 of the Bankruptcy Code and Bankruptcy Rule 3019, and those restrictions on modifications set forth in Section 10.1 of this Plan, the Proponents expressly reserve the right to alter, amend or modify the Plan one or more times before its substantial consummation.

ARTICLE 1

DEFINITIONS AND RULES OF INTERPRETATION

For purposes of this Plan, except as expressly provided or unless the context otherwise requires, all capitalized terms not otherwise defined herein have the meanings ascribed to them in Article 1 of the Plan. Any term used in the Plan that is not defined herein but is defined in the Bankruptcy Code or the Bankruptcy Rules, except for the definition of “intellectual property”, which retains the definition provided in the Hansen Settlement Documents, retains the meaning specified for such term in the Bankruptcy Code or the Bankruptcy Rules, as applicable. Whenever the context requires, such terms include the plural as well as the singular, the masculine gender includes the feminine gender, and the feminine gender includes the masculine gender.

The Hansen Settlement Documents are incorporated herein by reference pursuant to Section 11.13 of this Plan.

As used in this Plan, the following terms have the meanings specified below:

1.1 Administrative Claim. A Claim for an expense of administration of the Chapter 11 Cases that is Allowed under Section 503(b) of the Bankruptcy Code and entitled to priority under Section 507(a)(2) of the Bankruptcy Code, including, without limitation: (a) actual and necessary costs and expenses incurred in the ordinary course of the Debtors’ businesses; (b) actual and necessary costs and expenses of preserving the Estates or administering the Chapter 11 Cases, and (c) all Professional Fees to the extent Allowed by Final Order under Sections 330, 331, or 503 of the Bankruptcy Code. For purposes of this Plan, Administrative Claims shall also include (i) Plan Payments, if any, (ii) Assumption Obligations, if any, and (iii) fees payable under 28 U.S.C. § 1930.

1.2 Administrative Claim Bar Date. The last date established under the Disclosure Statement Order by which certain entities asserting an administrative expense against either of the Debtors (except with respect to Professional Fees) must have filed a request for payment with the Bankruptcy Court under Section 503(a) of the Bankruptcy Code, or be forever barred from asserting an administrative expense against the Debtors and/or sharing in any distribution under the Plan.

1.3 Agent. Any shareholder, director, officer, employee, partner, member, agent, attorney, accountant, advisor or other representative of any person or entity (solely in their respective capacities as such, and not in any other capacity).

1.4 Allowed. With respect to any Claim against, or Interest in, the Debtors: (a) proof of which, request for payment of which, or application for allowance of which, was filed on or before the Bar Date, Administrative Claim Bar Date, Rejection Claim Bar Date or Professional Fee Bar Date, as applicable, for filing proofs of Claim or Interest or requests for payment for Claims of such type against the Debtors; (b) if no proof of Claim or Interest is filed, which has been or is listed by the Debtors in the Schedules as liquidated in amount and not disputed or contingent; or (c) a Claim or Interest that is allowed in any contract, instrument, indenture, or other agreement entered into in connection with the Plan; unless, in any case, such Claim or Interest is Disputed. The term "Allowed," when used to modify a reference in the Plan to any Claim, Interest, Class of Claims or Class of Interests, means a Claim or Interest (or any Claim or Interest in any such Class) that is so allowed. The term "Allowed Claim," will not, for purposes of computing distributions under the Plan, include interest on such claim from and after the respective Petition Dates, other than as permitted under Section 506(b) of the Bankruptcy Code, provided that, the holders of Allowed Class 4 and Class 5b Claims shall be entitled to an additional distribution of interest on account of such claims as provided in Sections 4.4 and 4.6 of the Plan.

1.5 Assumption Obligations. Any undisputed monetary amounts payable to the non-debtor party to any executory contract or unexpired lease, pursuant to Section 365(b)(1) of the Bankruptcy Code, as a condition to the assumption of such contract or lease.

1.6 Bankruptcy Code. Title 11 of the United States Code, 11 U.S.C. §§ 101-1532, as amended from time to time and as applicable to the Chapter 11 Cases.

1.7 Bankruptcy Court. The United States Bankruptcy Court for the Western District of Virginia (Roanoke) having jurisdiction over the Chapter 11 Cases and, to the extent of any reference under 28 U.S.C. § 157, the unit of such District Court under 28 U.S.C. § 151.

1.8 Bankruptcy Rules. Collectively, the Federal Rules of Bankruptcy Procedure as promulgated under 28 U.S.C. § 2075 and any Local Rules of the Bankruptcy Court, as applicable to the Chapter 11 Cases.

1.9 Bar Date(s). September 30, 2009, which is the date fixed by the Bankruptcy Court by which all Persons (except governmental units or holders of Claims that appear in the Schedules and are **not** scheduled as disputed, contingent or unliquidated) asserting a Claim against such Debtors (except Administrative Claims) must file a proof of claim or be forever barred from asserting a Claim against such Debtors or their property, from voting on the Plan, and sharing in distributions under the Plan. The Debtors and Hansen have consensually extended the Bar Date for Hansen until December 11, 2009.

1.10 Business Day. Any day other than a Saturday, Sunday, or legal holiday, as defined in Bankruptcy Rule 9006(a).

1.11 Carilion. Carilion Clinic, formerly known as Carilion Health System, a Virginia non-profit, non-stock corporation.

1.12 Carilion Claims. The Claims of Carilion under the Carilion Notes.

1.13 Carilion Notes. The *Senior Convertible Promissory Notes* in the aggregate principal amount of \$5 million issued by Carilion to Luna on or about December 30, 2005, and maturing on December 31, 2012.

1.14 Cash. Cash and cash equivalents including checks drawn on a bank insured by the Federal Deposit Insurance Corporation, certified checks, money orders, negotiable instruments, and wire transfers of immediately available funds.

1.15 Chapter 11 Case(s). The case(s) under Chapter 11 of the Bankruptcy Code in which each Debtor is a debtor and debtor-in-possession pending before the Bankruptcy Court.

1.16 Charter. The articles or certificate of incorporation and the by-laws of a company, and any amendments to the foregoing.

1.17 Claim. A claim against a Person or its property as defined in Section 101(5) of the Bankruptcy Code, including, without limitation: (a) any right to payment, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, or unsecured, arising at any time before the Effective Date; or (b) any right to an equitable remedy for breach of performance if such breach gives rise to a right to payment, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured, or unsecured.

1.18 Class. A category of holders of Claims or Interests which are substantially similar in nature to the Claims or Interests of other holders placed in such category, as designated in Article 3 of this Plan.

1.19 Committee. The Official Committee of Unsecured Creditors, if one is appointed by the United States Trustee in the Chapter 11 Cases in accordance with Section 1102(a)(1) of the Bankruptcy Code, as it may be reconstituted from time to time.

1.20 Confirmation. Entry of the Confirmation Order.

1.21 Confirmation Date. The date on which the Bankruptcy Court enters the Confirmation Order.

1.22 Confirmation Hearing. The hearing or hearings held by the Bankruptcy Court to consider confirmation of the Plan under Section 1129 of the Bankruptcy Code, as such hearing may be adjourned from time to time.

1.23 Confirmation Order. The order of the Bankruptcy Court (1) confirming the Plan in accordance with the Bankruptcy Code, and (2) approving the Hansen Settlement Documents; provided in each case without any material and adverse (to either Hansen or the Debtors) modification(s) to the Plan or any of the terms and conditions of the Hansen Settlement Documents. The proposed Confirmation Order, in form acceptable to the Debtors and Hansen, is attached as Exhibit B to this Plan.

1.24 Contingent Claim. Any Claim for which a proof of Claim has been filed with the Bankruptcy Court which (a) has not accrued and is dependent on a future event that has not occurred and may never occur, and (b) has not been Allowed on or before the Confirmation Date, or such other date as the Bankruptcy Court may establish.

1.25 Creditor. Has the meaning set forth in Section 101(10) of the Bankruptcy Code.

1.26 Debtors. Collectively, Luna and LTI.

1.27 Disbursing Agent. (i) Reorganized Luna, and (ii) such other person or persons designated to act as, or assist, the disbursing agent under the Plan for the purpose of making the Distributions required under the Plan.

1.28 Disclosure Statement. The disclosure statement relating to the Plan including, without limitation, all exhibits and schedules to such disclosure statement, in the form approved by the Bankruptcy Court under Section 1125 of the Bankruptcy Code and Bankruptcy Rule 3017.

1.29 Disclosure Statement Order. The order approving the Disclosure Statement entered by the Bankruptcy Court, which may grant certain other relief, including establishing the Administrative Claim Bar Date. The Bankruptcy Court has scheduled the hearing on the Disclosure Statement on the same day as the Confirmation Hearing.

1.30 Disputed. With respect to Claims, any Claim: (a) that is listed in the Schedules as unliquidated, disputed, or contingent and for which no proof of claim has been filed by the creditor; (b) as to which the Debtor or any other proper party-in-interest has interposed a timely objection or request for estimation, or has sought to equitably subordinate or otherwise limit recovery in accordance with the Bankruptcy Code and the Bankruptcy Rules, or which is otherwise disputed by the Debtor in accordance with applicable law, and such objection, request for estimation, action to limit recovery or dispute has not been withdrawn or determined by a Final Order; or (c) that is a Contingent Claim. The term "Disputed," when used to modify a reference in the Plan to any Claim, Interest, Class of Claims or Class of Interests, means a Claim or Interest (or any Claim or Interest in any such Class) that is so disputed.

1.31 Distribution. A payment of Cash to the holder of an Allowed Claim pursuant to the Plan.

1.32 Effective Date. The Business Day on which all of the conditions set forth in Section 7.2 of the Plan have been satisfied or waived.

1.33 Employee Benefit Programs. All health, dental, flexible medical payment, pension, welfare and retirement plans, and life and disability insurance policies, established by the Debtors for the benefit of their employees, whether or not such plans or programs were or had been terminated according to their terms before the pertinent Petition Date or during the Chapter 11 Cases.

1.34 Estates. The estates for the Debtors created in the Chapter 11 Cases in accordance with Section 541 of the Bankruptcy Code or otherwise.

1.35 Final Order. An order or judgment of the Bankruptcy Court: (a) as to which the time to appeal, petition for certiorari, or move for reargument or rehearing has expired; or (b) as to which no appeal, petition for certiorari, or other proceedings for reargument or rehearing is pending; or (c) as to which any right to appeal, petition for certiorari, reargue, or rehear has been waived in writing in form and substance satisfactory to the Debtors or the Reorganized Debtor; or (d) if an appeal, writ of certiorari, or reargument or rehearing has been sought, as to which the highest court to which such order was appealed, or certiorari, reargument or rehearing has determined such appeal, writ of certiorari, reargument, or rehearing, or has denied such appeal, writ of certiorari, reargument, or rehearing, and the time to take any further appeal, petition for certiorari, or move for reargument or rehearing has expired; provided, however, that the possibility that a motion under Rule 59 or Rule 60 of the Federal Rules of Civil Procedure, or any analogous rule under the Bankruptcy Rules, may be filed with respect to such order does not prevent such order from being a Final Order.

1.36 Hansen. Hansen Medical, Inc., a Delaware corporation.

1.37 Hansen Claims. The Claims of Hansen under the Hansen Litigation and in the Hansen Proofs of Claim filed by Hansen in the Chapter 11 Cases, which are separate from the Hansen Nonmonetary Rights.

1.38 Hansen Common Stock. Shares of common stock of Luna to be issued to Hansen, representing 9.9% of the shares of issued and outstanding common stock of Luna, calculated at the time of such issuance to Hansen.

1.39 Hansen Licensed IP. Has the meaning given to such term in the License Agreement Between Hansen and Luna, attached to this Plan as Exhibit C-4.

1.40 Hansen Litigation. That certain litigation commenced by Hansen through the filing of its complaint on or about June 22, 2007, in the Superior Court of the State of California, County of Santa Clara, as amended on or about March 18, 2008, titled *Hansen Medical, Inc. v. Luna Innovations Incorporated and Does 1-10*, Case No. 107CV088551, together with the "Hansen Estimation Record" described and incorporated into the Hansen Proofs of Claim.

1.41 Hansen Nonmonetary Rights. All rights (including rights to ownership of intellectual property) asserted by Hansen in the Hansen Litigation or the Hansen Proofs of Claim, which rights are not included in the definition of "Claim" herein or under Section 101(5) of the Bankruptcy Code.

1.42 Hansen Proofs of Claim. The proofs of claim filed by Hansen in the Chapter 11 Cases of Luna and LTI on December 11, 2009, as they may be amended and supplemented from time to time.

1.43 Hansen Secured Promissory Note. That certain \$5 million secured promissory note to be issued by the Debtors in favor of Hansen pursuant to the Hansen Settlement. The Hansen Secured Promissory Note is a Hansen Settlement Document, in the form attached as Exhibit C-7 to this Plan.

1.44 Hansen Settlement. The settlement of the Hansen Claims and Hansen Nonmonetary Rights pursuant to the Hansen Settlement Documents.

1.45 Hansen Settlement Documents. Collectively, that certain (i) Confidential Settlement Agreement; (ii) Cross License Agreement Between Intuitive and Hansen; (iii) License Agreement Between Intuitive and Luna; (iv) License Agreement Between Hansen and Luna; (v) Development and Supply Agreement; (vi) Confidential Mutual Release Agreement; (vii) Hansen Secured Promissory Note; (viii) Patent and Trademark Security Agreement; (ix) Security Agreement; and (x) Warrant to Purchase Common Stock of Luna Innovations Incorporated, each in the form attached to the Disclosure Statement as Exhibits C-1 through C-10 and to this Plan as Exhibits C-1 through C-10, as such documents may be revised or amended by the parties.

1.46 Hansen Warrant. The Warrant to Purchase Common Stock of Luna Innovations Incorporated, in the form attached to this Plan as Exhibit C-10.

1.47 Hansen-Luna Agreement IP. Has the meaning given to such term in section 1.12 of the License Agreement Between Hansen and Luna, attached to this Plan as Exhibit C-4.

1.48 Interests. All Luna Interests and LTI Interests.

1.49 Lien. A lien as defined in Section 101(37) of the Bankruptcy Code, but not including a lien that has been avoided in accordance with Sections 544, 545, 546, 547, 548, 553, or 549 of the Bankruptcy Code.

1.50 Litigation Claim. Any Contingent or unliquidated Claim against the Debtors that, as of the Petition Date, is the subject of a pending civil action or other judicial proceeding, other than the Hansen Claims.

1.51 LTI. Luna Technologies, Inc., a Delaware corporation.

1.52 LTI Assets. All of the property of the Estate of LTI under Section 541 of the Bankruptcy Code. The LTI Assets do not include the Hansen-Luna Agreement IP.

1.53 LTI Available Assets. All readily available Cash from the LTI Assets as of the Effective Date.

1.54 LTI Director. The following member of the board of directors of LTI: Kent A. Murphy, Ph.D.

1.55 LTI Interests. The rights of Luna, as the owner and holder of 100% of the issued and outstanding equity securities of LTI.

1.56 LTI Officer. Kent A. Murphy, Ph.D., in his capacity as Chief Executive Officer of LTI.

1.57 Luna. Luna Innovations Incorporated, a Delaware corporation.

1.58 Luna Assets. All of the property of the Estate of Luna under Section 541 of the Bankruptcy Code. The Luna Assets do not include the Hansen-Luna Agreement IP.

1.59 Luna Available Assets. All readily available Cash from the Luna Assets as of the Effective Date.

1.60 Luna Directors. The following members of the board of directors of Luna: Kent A. Murphy, Ph.D., Edward G. Murphy, M.D., N. Leigh Anderson, Ph.D., and Richard W. Roedel.

1.61 Luna Equity Security. (i) Any share of common or preferred stock of Luna issued and outstanding as of the Petition Date, and (ii) any unexpired and enforceable right, put, award, option or warrant, whether under one or more contracts or plans in existence on the Petition Date of the Chapter 11 Case of Luna (including the Luna Incentive Plans), to purchase, sell, grant or otherwise transfer any such shares.

1.62 Luna Incentive Plans. The (i) *Luna Innovations Incorporated 2003 Stock Plan*, (ii) *2006 Equity Incentive Plan*, (iii) *2008 Senior Management Bonus Plan*, (iv) *Non-Employee Directors' Deferred Compensation Plan* and (v) *2009 Senior Management Incentive Compensation Plan*.

1.63 Luna Interests. The rights of an owner and holder of a Luna Equity Security.

1.64 Luna Officers. (i) Kent A. Murphy, Ph.D., in his capacity as President and Chief Executive Officer of Luna, (ii) Dale E. Messick, in his capacity as Chief Financial Officer of Luna, (iii) Mark E. Froggat, Ph.D., in his capacity as Chief Technology Officer of Luna, (iv) Scott A. Graeff, in his capacity as Chief Operating Officer and Treasurer of Luna, (v) Talfourd H. Kemper, Jr., in his capacity as Vice President, General Counsel and Secretary of Luna, and (vi) Robert P. Lenk, Ph.D., in his capacity as President of the nanoWorks division of Luna.

1.65 Notice Procedures. Those procedures governing notice of certain post-Confirmation matters set forth in Section 11.12.3 of the Plan.

1.66 Permitted Employee Payments. All amounts paid by the Debtors during the Chapter 11 Cases on account of Claims arising prior to the Petition Date in the amounts and according to the conditions set forth in the orders approving the *Motion Of The Debtors Pursuant To Bankruptcy Code Sections 105(A), 362(D), 363 And 507(A) For An Order Authorizing The Debtors To: (I) Pay Prepetition Wages, Salaries, Commissions, Employee Benefits And Other Compensation; (II) Remit Withholding Obligations; (III) Maintain Employee Benefits Programs And Pay Related Administrative Obligations; (IV) Allow Debtors To Proceed With Outstanding Prepetition Workers Compensation Claims; And (V) Authorize Applicable Banks And Other Financial Institutions To Receive, Process, Honor And Pay Certain Checks Presented For Payment And To Honor Certain Fund Transfer Requests* filed on July 17, 2008, including the orders entered by the Bankruptcy Court on July 23 and August 20, 2009.

1.67 Person. Any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated association or organization, or other "person" as defined in Bankruptcy Code § 101, as well as any governmental agency, governmental unit or associated political subdivision.

1.68 Petition Date(s). July 17, 2009.

1.69 Plan. This Chapter 11 plan of reorganization, either in its present form or as it may be amended, supplemented or modified from time to time, including all of its annexed exhibits and schedules.

1.70 Plan Assets. The aggregate amount of the (a) Luna Available Assets, (b) the LTI Available Assets and (c) if either of the foregoing is insufficient to make the Distributions to Creditors required by the Plan, the Luna Assets and the LTI Assets.

1.71 Plan Interest Rate. The greater of (a) the federal statutory rate of interest pursuant to 28 U.S.C. § 1961(a) as of the Petition Date, or (b) the rate of interest determined in accordance with the underlying agreement or the nonbankruptcy law applicable to a particular Claim.

1.72 Plan Payments. All amounts to be paid by the Debtors or by any person for services or expenses in or in connection with the Chapter 11 Cases or the Plan pursuant to Section 1129(a)(4) of the Bankruptcy Code.

1.73 Plan Supplement. The supplement to the Plan that will be filed with the Bankruptcy Court on or before ten (10) Business Days prior to the date of the Confirmation Hearing, or such other date as the Bankruptcy Court may determine. The Plan Supplement is incorporated into the Plan as if fully set forth in the Plan.

1.74 Preference Actions. Avoidance actions under Sections 547 and 550 of the Bankruptcy Code, whether or not such actions seek an affirmative recovery or are raised as a defense to or offset against the allowance of a Claim.

1.75 Priority Employee Claim. Any Claim (or portion of such Claim) entitled to priority under Sections 507(a)(4) and (a)(5) of the Bankruptcy Code.

1.76 Priority Tax Claim. Any Claim (or portion of such Claim) of a governmental unit entitled to priority under Section 507(a)(8) of the Bankruptcy Code.

1.77 Proceeds. All Cash, interest, profits, dividends, proceeds, products, and rents earned, accrued, collected, derived, received or recovered on account of the liquidation, sale, transfer, enforcement or other disposition of property, including all "proceeds" as defined under Article 9 of the Uniform Commercial Code of the Commonwealth of Virginia.

1.78 Professional. Any Person (a) employed in accordance with an order of the Bankruptcy Court under Sections 327 or 1103 of the Bankruptcy Code and to be compensated for services under Sections 327, 328, 329, 330 and 331 of the Bankruptcy Code, or (b) for which compensation and reimbursement has been Allowed by the Bankruptcy Court under Section 503(b) of the Bankruptcy Code.

1.79 Professional Fees. Any claim by a Professional for compensation for services rendered and reimbursement for expenses submitted in accordance with Sections 330, 331, or 503(b) of the Bankruptcy Code.

1.80 Professional Fees Bar Date. The date fixed under the Confirmation Order, approximately sixty (60) days following the Effective Date, by which any Professional seeking an award of Professional Fees must have filed an application with the Bankruptcy Court under Section 330(a) of the Bankruptcy Code, or be forever barred from an award of Professional Fees against the Debtors and/or sharing in any distribution under the Plan.

1.81 Proponents. Collectively, the Debtors.

1.82 Rejection Claim Bar Date. The date fixed under the Confirmation Order, approximately thirty (30) days following the Effective Date, by which any Person asserting a Claim for damages arising from the rejection of an executory contract or unexpired lease under this Plan must have filed a proof of Claim with the Bankruptcy Court under Section 502(g) of the Bankruptcy Code, or be forever barred from asserting such Claim against the Debtors and/or sharing in any Distribution.

1.83 Reorganized Debtors. Collectively, Reorganized Luna and Reorganized LTI.

1.84 Reorganized Debtor Expenses. The expenses incurred by the Reorganized Debtors, the Disbursing Agent or the Committee on and after the Effective Date (including the fees and costs of their attorneys and other professionals).

1.85 Reorganized LTI. LTI, as revested with the LTI Assets on the Effective Date.

1.86 Reorganized Luna. Luna, as revested with the Luna Assets on the Effective Date.

1.87 Retained Claims and Defenses. All claims, rights, interests, causes of action, defenses, counterclaims, cross-claims, third-party claims, or rights of offset, recoupment, subrogation or subordination held by the Debtors or their respective Estates, whether or not pending on the Effective Date of Confirmation, not otherwise released or settled (i) pursuant to a Final Order entered before the Effective Date, or (ii) pursuant to the Hansen Settlement.

1.88 Schedules. The schedules of assets and liabilities, the list of holders of Interests, and the statements of financial affairs filed by the Debtors on July 20, 2009, under Section 521 of the Bankruptcy Code and Bankruptcy Rule 1007, as such schedules, lists, and statements may have been or may be supplemented or amended from time to time.

1.89 Section 365(n) Finding. The determination by the Bankruptcy Court as contemplated by section 6.6 of the License Agreement Between Hansen and Luna, and section 10.8 of the Development and Supply Agreement, attached to this Plan as Exhibits C-4 and C-5, respectively.

1.90 Secured Claim. Any Claim secured by a valid, perfected and enforceable Lien that is not subject to avoidance under bankruptcy or non-bankruptcy law, equal to the value, as determined by the Bankruptcy Court pursuant to Sections 506(a) and 1129(b) of the Bankruptcy Code and Bankruptcy Rule 3012, of (i) the interest of the holder of such Claim in the property of the Debtors securing such Claim, or (ii) the amount subject to setoff under Section 553 of the Bankruptcy Code.

1.91 Unsecured Claim. Any Claim that is not (i) an Administrative Claim, (ii) a Secured Claim, (iii) a Priority Employee Claim, (iv) a Priority Tax Claim, or (v) a Litigation Claim.

1.92 Unsecured Deficiency Claim. Any Claim by a Person holding a Secured Claim to the extent the value of such Creditor's collateral, as determined in accordance with Section 506(a) of the Bankruptcy Code, is less than the Allowed amount of such Creditor's Secured Claim as of the Petition Date, after taking into account any election made pursuant to Section 1111(b) of the Bankruptcy Code.

ARTICLE 2

TREATMENT OF UNCLASSIFIED CLAIMS

2.1 Unclassified Claims. As provided in Section 1123(a)(1) of the Bankruptcy Code, Administrative Claims and Priority Tax Claims against the Debtors are not classified for purposes of voting on, or receiving distributions under, the Plan. Holders of such Claims are not entitled to vote on the Plan. All such Claims are instead treated separately in accordance with this Article 2 and in accordance with the requirements set forth in Section 1129(a)(9)(A) of the Bankruptcy Code.

2.2 Administrative Claims.

2.2.1 Generally. Each Administrative Claim shall, unless the holder of such Claim shall have agreed to different treatment of such Claim, be paid in full in Cash by the Reorganized Debtors on the latest of: (a) the Effective Date, or as soon thereafter as practicable; (b) such date as may be fixed by the Bankruptcy Court, or as soon thereafter as practicable; (c) the tenth Business Day after such Claim is Allowed, or as soon thereafter as practicable; and (d) such date as the holder of such Claim and the Reorganized Debtors may agree.

2.2.2 Administrative Claim Bar Date. All requests for payment of Administrative Claims must be filed by the Administrative Claim Bar Date or the holders thereof shall be forever barred from asserting such Administrative Claims against the Debtors or the Reorganized Debtors or from sharing in any distribution under the Plan. Holders of Administrative Claims based on liabilities incurred in the ordinary course of the Debtors' business following the Petition Dates shall not be required to comply with the Administrative Claim Bar Date, provided that, (i) such holders have otherwise submitted an invoice, billing statement or other evidence of indebtedness to the Debtors in the ordinary course of business, and (ii) such Claims are not past due according to their terms.

2.2.3 Plan Payments. The Proponents are not currently aware of the existence of any Plan Payments that are not otherwise subject to disclosure and approval by the Bankruptcy Court (e.g., Professional Fees) or were otherwise approved by order of the Bankruptcy Court.

2.3 Allowed Priority Tax Claims. Each Allowed Priority Tax Claim shall, unless the holder of such Claim shall have agreed to different treatment of such Claim, (i) be paid in full in Cash, without interest, by the Reorganized Debtors on the latest of: (a) the Effective Date, or as soon thereafter as practicable; (b) such date as may be fixed by the Bankruptcy Court, or as soon thereafter as practicable; (c) the tenth Business Day after such Claim is Allowed, or as soon thereafter as practicable; and (d) such date as the holder of such Claim and the Reorganized Debtors may agree, or (ii) receive deferred cash payments to the extent permitted by Section 1129(a)(9) of the Bankruptcy Code with interest on the unpaid portion of such Claim at the statutory rate under applicable nonbankruptcy law or at a rate to be agreed upon by the Reorganized Debtors and the appropriate governmental unit or, if they are unable to agree, to be determined by the Bankruptcy Court; provided, however, that the Reorganized Debtors may prepay any or all such Claims at any time, without premium or penalty. For the purpose of option (ii), the payment of each Allowed Priority Tax Claim shall be made in equal quarterly installments with the first installment due on the latest of: (i) the first Business Day following the end of the first full calendar quarter following the Effective Date, (ii) the first Business Day following the end of the first full calendar quarter following the date an order allowing such claim becomes a Final Order, and (iii) such other time or times as may be agreed with the holder of such claim. Each installment shall include simple interest on the unpaid balance of the Allowed Priority Tax Claim, without penalty of any kind, at the non-default rate of interest prescribed, agreed or determined under option (ii).

2.4 Claims for Professional Fees. Each Professional seeking an award by the Bankruptcy Court of Professional Fees: (a) must file its final application for allowance of compensation for services rendered and reimbursement of expenses incurred through the Effective Date on or before the Professional Fees Bar Date; and (b) if the Bankruptcy Court grants such an award, each such Person will be paid in full in Cash in such amounts as are allowed by the Bankruptcy Court as soon thereafter as practicable. All final applications for allowance and disbursement of Professional Fees must be in compliance with all of the terms and provisions of any applicable order of the Bankruptcy Court, including the Confirmation Order. The fees and expenses of Professionals incurred on and after the Effective Date shall be Reorganized Debtor Expenses payable according to Section 5.2.3 of the Plan.

ARTICLE 3

CLASSIFICATION OF CLAIMS AND EQUITY INTERESTS

3.1 Summary of Classification. In accordance with Section 1123(a)(1) of the Bankruptcy Code, all Claims of Creditors (except those Claims receiving treatment as set forth in Article 2) and holders of Interests are placed in the Classes described below for all purposes, including voting on, confirmation of, and distribution under, the Plan:

Class 1	Priority Employee Claims	Impaired, entitled to vote
Class 2	Miscellaneous Secured Claims (each secured creditor in a separate subclass identified as Class 2A, Class 2B, etc.)	Impaired, entitled to vote

Class 3	Carilion Claims	Unimpaired, deemed to accept
Class 4	Unsecured Claims	Unimpaired, deemed to accept
Class 5a	Hansen Claims	Impaired, and deemed to accept
Class 5b	Litigation Claims	Unimpaired, deemed to accept
Class 6	Interests	Unimpaired, deemed to accept

3.2 Specific Classification.

3.2.1 Class 1 – Priority Employee Claims. Class 1 consists of all Priority Employee Claims against the Debtors.

3.2.2 Class 2 – Miscellaneous Secured Claims. Class 2 consists of all Secured Claims against the Debtors, if any. Each holder of a Secured Claim is considered to be in its own separate subclass within Class 2, and each such subclass is deemed to be a separate Class for purposes of the Plan and is numbered Class 2A, Class 2B, etc.

3.2.3 Class 3 – Carilion Claims. Class 3 consists of the Carilion Claims.

3.2.4 Class 4 – Unsecured Claims. Class 4 consists of all Unsecured Claims against the Debtors.

3.2.5 Class 5a – Hansen Claims. Class 5a consists of the Hansen Claims against the Debtors.

3.2.6 Class 5b – Litigation Claims. Class 5b consists of all Litigation Claims against the Debtors.

3.2.7 Class 6 – Interests. Class 6 consists of all Interests.

ARTICLE 4

TREATMENT OF CLAIMS AND EQUITY INTERESTS

4.1 Class 1 – Priority Employee Claims.

4.1.1 Impairment and Voting. Class 1 is impaired under the Plan and all holders of Priority Employee Claims are entitled to vote on the Plan.

4.1.2 Treatment. Each holder of an Allowed Priority Employee Claim shall, unless the holder of such Claim shall have agreed to different treatment of such Claim, receive a Cash payment by the Reorganized Debtors in an amount equal to the difference between (i) such Allowed Employee Priority Claim, and (ii) the amount of any Permitted Employee Payments made to the holder of such Claim, on the latest of: (a) the Effective Date, or as soon thereafter as practicable; (b) such date as may be fixed by the Bankruptcy Court, or as soon thereafter as practicable; (c) the tenth Business Day after such Claim is Allowed, or as soon thereafter as practicable; and (d) such date as the holder of such Claim and the Reorganized Debtors may agree.

4.2 Class 2 – Miscellaneous Secured Claims.

4.2.1 Impairment and Voting. Class 2 is impaired under the Plan and all holders of Secured Claims are entitled to vote on the Plan. For purposes of voting and receiving distributions under the Plan, each holder of a Secured Claim in Class 2 is considered to be in its own separate subclass within Class 2, and each such subclass is deemed to be a separate Class for purposes of the Plan.

4.2.2 Alternative Treatment. On or before the date of a distribution to each holder of an Allowed Secured Claim in Class 2, each Debtor shall elect, in its discretion, one of the following alternative treatments for each such Allowed Secured Claim in a particular subclass:

(a) **Reinstatement.** Luna or LTI, as applicable, will leave unaltered the legal, equitable, and contractual rights constituting such Claim, including, without limitation, any Liens related thereto and, on the Effective Date, such Claim shall be reinstated and cured.

(b) **Abandonment or Surrender.** Luna or LTI, as applicable, will abandon or surrender to the holder of such Claim the property of the respective Estate securing such Allowed Secured Claim, in full satisfaction and release of such Claim.

(c) **Cash Payment.** Luna or LTI, as applicable, will pay to the holder of such Claim Cash equal to the amount of such Claim, or such lesser amount to which the holder of such Claim and the applicable Debtor shall agree, in full satisfaction and release of such Claim.

4.2.3 Unsecured Deficiency Claim. Any Unsecured Deficiency Claim asserted by a holder of an Allowed Secured Claim in Class 2 shall be filed with the Bankruptcy Court within thirty (30) days following the date of the surrender or abandonment of such Creditor's property or the Distribution to such Creditor. Any such Allowed Unsecured Deficiency Claim shall be treated in accordance with Section 4.4 of the Plan.

4.3 Class 3 – Carilion Claims.

4.3.1 Impairment and Voting. Class 3 is not impaired under the Plan. Holders of the Carilion Claims are deemed to have accepted the Plan under Section 1126(f) of the Bankruptcy Code and are not entitled to vote on the Plan.

4.3.2 Treatment. The Plan shall leave unaltered the legal, equitable, and contractual rights constituting the Carilion Claims. On the Effective Date, the Carilion Notes shall be reinstated and the Reorganized Luna shall cure and satisfy such Claims in full by the payment, in Cash, when due and payable under the Carilion Notes (not taking into account any pre-Effective Date default, if any), of (a) accrued interest at the non-default rate established under the Carilion Notes, *plus* (b) any reasonable fees, costs or charges provided for under the Carilion Notes.

4.4 Class 4 – Unsecured Claims.

4.4.1 Impairment and Voting. Class 4 is not impaired under the Plan. Holders of Unsecured Claims are deemed to have accepted the Plan under Section 1126(f) of the Bankruptcy Code and are not entitled to vote on the Plan.

4.4.2 Treatment. Except to the extent that a holder of an Allowed Unsecured Claim shall have otherwise agreed with the Debtor(s) in writing, each holder of an Allowed Unsecured Claim shall receive, in exchange for and in full and final satisfaction of such Claim, a Cash payment equal to the sum of (a) 100% of the amount of such Claim, and (b) interest at the Plan Interest Rate from the Petition Date through the date of Distribution on such Claim or portion thereof.

4.5 Class 5a – Hansen Claims.

4.5.1 Impairment and Voting. Class 5a is impaired under the Plan, but shall be deemed to accept the Plan.

4.5.2 Treatment. The Hansen Claims and the Hansen Nonmonetary Rights shall be resolved by and as set forth in the Hansen Settlement Documents. Hansen reserves its rights to the Hansen-Luna Agreement IP, subject to the terms, covenants and conditions of the Hansen Settlement Documents.

4.6 Class 5b – Litigation Claims.

4.6.1 Impairment and Voting. Class 5b is not impaired under the Plan. Holders of Litigation Claims are deemed to have accepted the Plan under Section 1126(f) of the Bankruptcy Code and are not entitled to vote on the Plan.

4.6.2 Treatment. Except to the extent that a holder of an Allowed Litigation Claim shall have otherwise agreed with the Debtor(s) in writing, each holder of an Allowed Litigation Claim shall receive, in exchange for and in full and final satisfaction of such Claim, a Cash payment equal to the sum of (a) 100% of the amount of such Claim, and (b) interest at the Plan Interest Rate from the Petition Date through the date of Distribution on such Claim or portion thereof.

4.7 Class 6 – Interests.

4.7.1 Impairment and Voting. Class 6 is not impaired under the Plan. Holders of Interests are deemed to have accepted the Plan under Section 1126(f) of the Bankruptcy Code and are not entitled to vote on the Plan.

4.7.2 Treatment. Each holder of an Interest shall retain unaltered the legal, equitable and contractual rights to which such interests entitle such holder and such interests shall be fully reinstated and retained.

4.8 Nonconsensual Confirmation.

The Proponents hereby request confirmation of the Plan pursuant to Section 1129(b) of the Bankruptcy Code on the basis that the Plan is fair and equitable as to the holders of Class 1 and Class 2 Claims. In the event that any other impaired Class of Claims does not accept the Plan in accordance with Sections 1126 and 1129(a)(8) of the Bankruptcy Code, the Proponents hereby reserve the right to (i) request that the Bankruptcy Court confirm the Plan in accordance with Section 1129(b) of the Bankruptcy Code on the basis that the Plan is fair and equitable as to the holders of Claims in any such Class, or (ii) amend or modify the Plan in accordance with its terms or as otherwise permitted.

ARTICLE 5

IMPLEMENTATION OF THE PLAN

The Plan shall be implemented on the Effective Date. In addition to the provisions set forth elsewhere in this Plan regarding means of execution, the following shall constitute the principal means for the implementation of the Plan.

5.1 Retention of Property of the Estates.

5.1.1 Revesting of Luna Assets. Upon the Effective Date, (a) Reorganized Luna shall be vested with all right, title and interest in the Luna Assets for the purposes set forth in this Plan, and (b) pursuant to Section 1123(b)(3) of the Bankruptcy Code, Reorganized Luna shall retain and enforce all Retained Claims and Defenses belonging to Luna or its Estate.

5.1.2 Revesting of LTI Assets. Upon the Effective Date, (a) Reorganized LTI shall be vested with all right, title and interest in the LTI Assets for the purposes set forth in this Plan, and (b) pursuant to Section 1123(b)(3) of the Bankruptcy Code, Reorganized LTI shall retain and enforce all Retained Claims and Defenses belonging to LTI or its Estate.

5.1.3 Continued Corporate Existence. Luna and LTI shall each continue to maintain their respective separate corporate existence for all purposes under this Plan with all the powers of a corporation under applicable law in the jurisdiction in which each of them is incorporated.

5.1.4 No Substantive Consolidation. Notwithstanding anything to the contrary in this Plan, neither of the Reorganized Debtors shall assume any liability whatsoever for any Claims against the other. **Nothing in this Plan is intended to substantively consolidate the Estates of Luna and LTI and each such entity shall maintain its separate corporate existence and assets.**³

5.2 Postconfirmation Operations of the Debtors.

5.2.1 Continued Business of Luna and LTI. On and after the Effective Date, each of the Reorganized Debtors shall continue to engage in business and may use, acquire and dispose of the Luna Assets and the LTI Assets, respectively, without supervision by the Bankruptcy Court and free of any restrictions under the Bankruptcy Code or the Bankruptcy Rules.

5.2.2 Amendment of Charters. Upon the Effective Date, the Debtors' Charters shall each be deemed amended to prohibit the issuance by the Debtors of nonvoting securities to the extent required under Section 1123(a)(6) of the Bankruptcy Code, subject to further amendment of such charters as permitted by applicable law.

5.2.3 Payment of Reorganized Debtor Expenses. All Reorganized Debtor Expenses may be paid by the Reorganized Debtors in the ordinary course of business without further notice to Creditors or approval of the Bankruptcy Court.

5.2.4 Creditors' Committee. On the date of the first distribution to the holders of Allowed Class 4 Claims, the Committee shall be dissolved and the members of the Committee shall be

³ For the avoidance of doubt, the Hansen Secured Promissory Note provides that Luna and LTI are jointly and severally liable thereunder.

released and discharged from any further rights and duties in connection with the Chapter 11 Cases, except with respect to any applications for interim or final award of compensation and reimbursement of expenses to the members of the Committee and any Professional for services rendered prior to the Effective Date.

5.2.5 Management of Luna.

(a) Board of Directors. On and after the Effective Date, the management, control and operation of Reorganized Luna shall become the general responsibility of the board of directors of Reorganized Luna. Unless otherwise specified in the Plan Supplement, the initial board of directors of Reorganized Luna shall continue to be composed of the current Luna Directors. Each of the members of such initial board of directors shall serve in accordance with applicable nonbankruptcy law and Reorganized Luna's Charter, as the same may be amended from time to time. From and after the Effective Date, the members of the board of directors of Reorganized Luna shall be selected and determined in accordance with the provisions of applicable law and Reorganized Luna's Charter. Entry of the Confirmation Order shall ratify and approve all actions taken by the Luna Directors from the Petition Date through and until the Effective Date.

(b) Officers. The initial officers of Reorganized Luna shall continue to be composed of the current Luna Officers. Upon and following the Effective Date, the Luna Officers shall be deemed appointed to serve as officers of Reorganized Luna without further action under applicable law, regulation, order or rule including, without limitation, any action by the stockholders of Reorganized Luna or the Luna Directors. Each of the Luna Officers shall serve in accordance with applicable nonbankruptcy law, any employment agreement with Reorganized Luna, and Reorganized Luna's Charter, as the same may be amended from time to time.

5.2.6 Management of LTI.

(a) Board of Directors. On and after the Effective Date, the management, control and operation of Reorganized LTI shall become the general responsibility of the board of directors of Reorganized LTI. Unless otherwise specified in the Plan Supplement, the initial board of directors of Reorganized LTI shall continue to be composed of the current LTI Director. The member of such initial board of directors shall serve in accordance with applicable nonbankruptcy law and Reorganized LTI's Charter, as the same may be amended from time to time. From and after the Effective Date, the members of the board of directors of Reorganized LTI shall be selected and determined in accordance with the provisions of applicable law and Reorganized LTI's Charter. Entry of the Confirmation Order shall ratify and approve all actions taken by the LTI Director from the Petition Date through and until the Effective Date.

(b) Officer. The initial officer of Reorganized LTI shall continue to be composed of the current LTI Officer. Upon and following the Effective Date, the LTI Officer shall be deemed appointed to serve as an officer of Reorganized LTI without further action under applicable law, regulation, order or rule including, without limitation, any action by the stockholders of Reorganized LTI or the LTI Director. The LTI Officer shall serve in accordance with applicable nonbankruptcy law, any employment agreement with Reorganized LTI, and Reorganized LTI's Charter, as the same may be amended from time to time.

5.3 Hansen Settlement.

5.3.1 Hansen Settlement. The Debtors shall seek approval of the Hansen Settlement Documents for purposes of Confirmation of this Plan.

5.3.2 Section 365(n) Finding. The Debtors and Hansen shall seek the Section 365(n) Finding at the Confirmation Hearing. In connection with the proposed Section 365(n) Finding, Hansen shall be entitled, in its discretion, to designate any of the Hansen Settlement Documents as “agreements supplementary” to any “Section 365(n) Contract” as defined in the License Agreement Between Hansen and Luna and the Development and Supply Agreement, attached to this Plan as Exhibits C-4 and C-5, respectively, at any time prior to the Confirmation Hearing, by specifying such Hansen Settlement Document in the Plan Supplement.

5.3.3 Timing and Effectiveness of Liens. If the Plan is modified to provide for a lien to be granted by the Debtors in connection with any exit financing or otherwise, in any assets that are subject to a lien under the Hansen Security Agreement, then such lien shall be effective following the effectiveness of the Hansen Settlement Documents, provided that the lien granted to Hansen pursuant to the Hansen Security Agreement shall be subordinated only to the extent permitted under the Hansen Settlement Documents. As among the Hansen Settlement Documents, the Security Agreement (and security interest thereunder) shall be the last in order of each Hansen Settlement Document to become effective and attach on the Effective Date.

5.3.4 Other. Each party to the Hansen Settlement Documents shall be entitled to enforce each provision contained in any Hansen Settlement Document, including all of its rights and remedies thereunder, at any time after the Effective Date. Except for the rights and licenses expressly granted to the Debtors under the Hansen Settlement Documents, and subject to the Reorganized Debtors’ rights under the Hansen Settlement Documents, Hansen owns all Hansen Licensed IP, and Hansen retains all right, title and interest in and to the Hansen Licensed IP, and all of Hansen’s other intellectual and industrial property rights as described in the Hansen Settlement Documents. The lien to be granted to Hansen in the Collateral (as defined in the Patent and Trademark Security Agreement and the Security Agreement) shall have the priority permitted to such lien from time to time under the Security Agreement. The Hansen Common Stock and the Hansen Warrants shall be transferred to Hansen on the Effective Date pursuant to the Hansen Settlement Documents, free and clear of any lien pursuant to Bankruptcy Code Sections 1123(a)(5)(D), and, to the extent applicable, Sections 363(f) and 1141(c). Pursuant to Bankruptcy Code Section 524(e), and except as otherwise provided in Article 8 or any other provision of this Plan, the discharge of the Hansen Claims pursuant to this Plan does not affect the liability of any other entity, or the property of any other entity, for the Hansen Claims. Notwithstanding the retention of jurisdiction provisions of Article 9 of this Plan, the choice of forum provisions, if any, contained in the Hansen Settlement Documents shall apply to disputes between the Debtors and Hansen that are governed by such choice of forum provisions. Notwithstanding the provisions of section 8.6.3 of this Plan granting releases to a creditor that votes to accept this Plan, the Debtors and Hansen acknowledge and agree that the only releases that shall be effective by, and binding upon, the Debtors, the Reorganized Debtors, and Hansen shall be as set forth in the Hansen Settlement Documents.

5.4 Retained Claims and Defenses.

5.4.1 Retention. None of the Retained Claims or Defenses shall be precluded, barred or subject to estoppel because the Plan or the accompanying Disclosure Statement does not specifically identify a Retained Claim or Defense or the person against whom a Retained Claim or Defense may be asserted. Parties in interest, including Creditors, may not rely on the absence of a reference in the Disclosure Statement or the Plan as any indication that the Debtors will not pursue any available Retained

Claims and Defenses against such parties. The Bankruptcy Court shall retain jurisdiction to determine any Retained Claims or Defenses. Following the Effective Date, the Reorganized Debtors may compromise or dispose of the Retained Claims and Defenses without further notice to Creditors or authorization of the Bankruptcy Court.

5.4.2 Investigation and Enforcement. Pursuant to Section 1123(b)(3) of the Bankruptcy Code, the Reorganized Debtors shall have and may enforce all powers and authority of a debtor in possession or trustee under the Bankruptcy Code to the extent of and consistent with their authority under the Plan. The Reorganized Debtors may investigate Retained Claims and Defenses and may assert, settle or enforce any such claims or defenses in a manner consistent with the Plan. Any proceeds received from or on account of the Retained Claims and Defenses shall be either Luna Assets or LTI Assets, as the case may be.

5.4.3 Preference Actions Deemed Waived. Upon the Effective Date, all Preference Actions of the Debtors shall be deemed waived and released.

5.5 Distributions.

5.5.1 Reserves for Disputed Claims. On the Effective Date, and from time to time thereafter as and when Disputed Claims against Luna or LTI may be Allowed, amended, settled or withdrawn, the Reorganized Debtors will establish adequate and prudent reserves from the Plan Assets in an amount that is sufficient to make the payments required under the Plan to the holders of Disputed Claims against the Debtors, as and when such claims may be Allowed. The funds reserved on account of Disputed Claims will not be distributed but will be retained by the Disbursing Agent in accordance with this Plan pending resolution of such Disputed Claims. No holder of a Disputed Claim shall have any Claim against the Cash reserved with respect to such Claim until such Disputed Claim shall become an Allowed Claim.

5.5.2 Full and Final Satisfaction. Upon the Effective Date, the Disbursing Agent shall be authorized and directed to distribute the amounts required under the Plan to the holders of Administrative Claims and Allowed Claims according to the provisions of the Plan. Upon the Effective Date, all Debts of the Debtors shall be deemed fixed and adjusted pursuant to this Plan and the Debtors shall have no further liability on account of any Claims except as set forth in this Plan. All Distributions made by the Disbursing Agent under the Plan shall be in full and final satisfaction, settlement and release of all Claims, other than the Hansen Claims. The Hansen Settlement Documents, and related provisions of the Plan and Confirmation Order, shall be in full and final satisfaction, settlement, and release of the Hansen Claims.

5.5.3 Source of Funds for Distributions. The Plan Assets shall be used to make Distributions, according to the provisions of the Plan, to the holders of (i) Reorganized Debtor Expenses, (ii) Administrative Claims, (iii) Allowed Priority Tax Claims, (iv) Allowed Secured Claims, if any, (v) Allowed Priority Employee Claims, and (vi) Allowed Unsecured Claims and (viii) Allowed Litigation Claims.

5.5.4 Distribution Procedures. Except as otherwise agreed by the holder of a particular Claim, or as provided in this Plan, or under the Hansen Settlement Documents, all amounts to be paid by the Disbursing Agent under the Plan shall be distributed in such amounts and at such times as is reasonably prudent. The Reorganized Debtors shall file all objections to Disputed Claims on or before the 90th day following the Effective Date, unless the Bankruptcy Court, for cause shown, extends such deadline. On the Effective Date, or as soon as thereafter as practicable, the Disbursing Agent shall make a Distribution in full, plus applicable interest, to all holders of Class 1, 4 and 5b Claims that, as of such

date, have been Allowed. Thereafter, on or prior to the 10th Business Day of each month following the first Distribution date, the Disbursing Agent shall make a Distribution in full, plus applicable interest, to the holders of Class 1, 4 and 5b Claims that have been Allowed as of the last day of the preceding month. The Disbursing Agent shall make the Cash payments to the holders of Allowed Claims and Administrative Claims: (X) in U.S. dollars by check, draft or warrant, drawn on a domestic bank selected by the Disbursing Agent in its sole discretion, or by wire transfer from a domestic bank, at the Disbursing Agent's option, and (Y) by first-class mail (or by other equivalent or superior means as determined by the Disbursing Agent).

5.5.5 Disbursing Agent. The Disbursing Agent may employ or contract with other persons or entities to perform the payment, tax withholding and remittance obligations created under the Plan. The Disbursing Agent may delegate any of its rights and responsibilities under the Plan to other persons or entities as necessary or appropriate to carry out speedy and inexpensive Distributions to Creditors under the Plan. Such persons or entities shall receive reasonable compensation for services rendered and reimbursement for expenses incurred in connection with this Plan or any functions or responsibilities adopted under the Plan, which amounts may be paid as Reorganized Debtor Expenses.

5.5.6 Disputed Claims. The Reorganized Debtors shall be authorized to settle, or withdraw any objections to, any Disputed Claims following the Confirmation Date without further notice to Creditors or authorization of the Bankruptcy Court, in which event such Claim shall be deemed to be an Allowed Claim in the amount compromised for purposes of this Plan. No Distributions shall be made by the Disbursing Agent on account of Disputed Claims unless and to the extent such Claims become Allowed Claims.

5.5.7 Unclaimed Distributions. Any entity which fails to claim any Cash within ninety (90) days from the date upon which a Distribution is first made to such entity shall forfeit all rights to any Distribution under the Plan and the Disbursing Agent shall be authorized to cancel any Distribution that is not timely claimed, provided that, prior to and as a condition to such forfeiture, the Disbursing Agent shall file with the Bankruptcy Court and serve (by first-class mail, using addresses or forwarding instructions that are reasonably available to the Disbursing Agent), a notice of forfeiture specifying the amount and payee of each Distribution that is subject to forfeiture if it is not claimed within thirty (30) days of the date of service of the notice. Pursuant to Section 347(b) of the Bankruptcy Code, upon forfeiture, such Cash (including interest thereon, if any) shall (a) in the case of Distributions to Creditors of Luna, revert to Reorganized Luna and be treated for all purposes as Luna Assets, free of any restrictions under the Plan, the Bankruptcy Code or the Bankruptcy Rules, or (b) in the case of Distributions to Creditors of LTI, revert to Reorganized LTI and be treated for all purposes as LTI Assets, free of any restrictions under the Plan, the Bankruptcy Code or the Bankruptcy Rules. Upon forfeiture, the claim of any Creditor with respect to such funds shall be discharged and forever barred notwithstanding any federal or state escheat laws to the contrary, and such Creditors shall have no claim whatsoever against the Reorganized Debtors or any holder of an Allowed Claim to whom distributions are made by the Disbursing Agent.

5.5.8 Setoff. Nothing contained in this Plan shall constitute a waiver or release by the Debtors of any right of setoff or recoupment the Debtors may have against any Creditor, except with respect to the extent provided in the Hansen Settlement Documents. The Reorganized Debtors may, but are not required to, set off or recoup against any Claim or Interest and the payments or other distributions to be made under the Plan in respect of such Claim, claims of any nature whatsoever that arose before the Petition Date that the Debtors may have against the holder of such Claim or Interest.

5.5.9 Taxes. Pursuant to Section 346(f) of the Bankruptcy Code, the Disbursing Agent shall be entitled to deduct any federal, state or local withholding taxes from any Cash payments made

with respect to Allowed Claims, as appropriate. The Reorganized Debtors shall be authorized to take all actions necessary to comply with applicable withholding and recording requirements. Notwithstanding any other provision of this Plan, each holder of an Allowed Claim that has received a distribution of Cash shall have sole and exclusive responsibility for the satisfaction or payment of any tax obligation imposed by any governmental unit, including income, withholding and other tax obligation on account of such distribution. For tax purposes, distributions received in respect of Allowed Claims will be allocated first to the principal amount of such Claims, with any excess allocated to unpaid accrued interest.

5.5.10 De Minimis Distributions. If any interim distribution under the Plan to the holder of an Allowed Claim would be less than \$100.00, the Disbursing Agent may withhold such distribution until a final distribution is made to such holder. If any final distribution under the Plan to the holder of an Allowed Claim would be less than \$10.00, the Disbursing Agent may cancel such distribution, unless a request therefore is made in writing to the Reorganized Debtors. Any unclaimed distributions pursuant to this Section 5.5.10 shall be treated as unclaimed property under Section 5.5.7 of the Plan.

ARTICLE 6

EXECUTORY CONTRACTS AND UNEXPIRED LEASES

6.1 Assumption. On the Effective Date, pursuant to Section 1123(b)(2) of the Bankruptcy Code, Luna will assume the Amendment to the Development and Supply Agreement Between Intuitive and Luna dated June 11, 2007 substantially in the form to be filed prior to the Confirmation Hearing, and the Debtors, respectively, will assume all other executory contracts and unexpired leases of Luna and LTI *except* for those contracts and leases that (i) have been expressly identified for rejection on **Exhibit A** to this Plan (together with any additions, deletions, modifications or other revisions to such Exhibit as may be made by the Proponents prior to the Confirmation Date), (ii) have otherwise been rejected by order of the Bankruptcy Court, or (iii) are the subject of a pending motion to reject as of the Confirmation Date.

6.2 Rejection. On the Effective Date, pursuant to Section 1123(b)(2) of the Bankruptcy Code, the Debtors, respectively, will reject the executory contracts and unexpired leases of Luna and LTI that have been expressly identified for rejection on **Exhibit A** to this Plan (together with any additions, deletions, modifications or other revisions to such Exhibit as may be made by the Proponents prior to the Confirmation Date). Each executory contract and unexpired lease listed in **Exhibit A** shall include any modifications, amendments and supplements to such agreement, whether or not listed in **Exhibit A**. Any Person asserting any Claim for damages arising from the rejection of an executory contract or unexpired lease of Luna or LTI under this Plan shall file such Claim on or before the Rejection Claim Bar Date, or be forever barred from (i) asserting such Claim against the Reorganized Debtors, Luna, LTI or any property of Luna or LTI, and (ii) sharing in any Distribution.

6.3 Assumption Obligations. The Reorganized Debtors shall satisfy all Assumption Obligations, if any, by making a Cash payment in the manner provided in Section 2.2 of the Plan.

6.4 Effect of Confirmation Order. The Confirmation Order shall constitute an order of the Bankruptcy Court approving, as of the Effective Date, the assumption or rejection by Luna and LTI, as the case may be, pursuant to Sections 365(a) and 1123(b)(2) of the Bankruptcy Code of all executory contracts and unexpired leases identified under this Article of the Plan. The contracts and leases identified in this Plan will be assumed or rejected, respectively, only to the extent that such contracts or leases constitute pre-petition executory contracts or unexpired leases of the Debtors, and the identification of such agreements under this Plan does not constitute an admission with respect to the characterization of

such agreements or the existence of any unperformed obligations, defaults, or damages thereunder. This Plan does not affect any executory contracts or unexpired leases that (a) have been previously assumed, rejected or terminated prior to the Confirmation Date, (b) are the subject of a pending motion to assume, reject or terminate as of the Confirmation Date, or (c) are not identified for assumption or rejection in this Plan. In the case of the Hansen Settlement Documents, such documents are approved by and incorporated into the Confirmation Order.

6.5 Post-Petition Agreements. Unless inconsistent with the provisions of the Plan, all contracts, leases and other agreements entered into or restated by the Debtors on or after the Petition Date, or previously assumed by the Debtors prior to the Confirmation Date (or the subject of a pending motion to assume by the Debtors as of the Confirmation Date), which have not expired or been terminated in accordance with their terms, shall be performed by the Reorganized Debtors in the ordinary course of business and shall survive and remain in full force and effect following the Effective Date.

6.6 Insurance of Debtors. Any insurance policy acquired for the benefit of the Debtors (or any officers and directors of any of the Debtors) before or after the Petition Date shall remain in full force and effect after the Effective Date according to its terms.

6.7 Employee Benefit Programs. All Employee Benefit Programs shall be treated as “executory contracts” and shall be assumed by the Reorganized Debtors pursuant to Sections 365 and 1123(b)(2) of the Bankruptcy Code by operation of the Plan. The Debtors do not provide “retiree benefits” as that term is defined in Section 1114(a) of the Bankruptcy Code. Therefore, on and after the Effective Date the Debtors will not pay retiree benefits.

6.8 Luna Incentive Plans. The Luna Incentive Plans shall remain in full force and effect after the Effective Date according to their respective terms.

6.9 Survival of Indemnification Obligations. Any and all obligations of Luna or LTI to indemnify, reimburse or limit the liability of its past and present directors, officers, agents, employees and representatives pursuant to their respective Charters, applicable law or specific agreements, or any combination of the foregoing, against any actions, suits and proceedings based upon any act or omission related to service with or for the Debtors shall not be discharged or impaired by Confirmation.

ARTICLE 7

CONDITIONS PRECEDENT

7.1 Conditions to Confirmation. The following are conditions precedent to confirmation of this Plan:

- (a) The execution and effectiveness of the Hansen Settlement Documents;
- (b) The Bankruptcy Court shall have entered an order approving a Disclosure Statement with respect to this Plan in form and substance satisfactory to the Proponents; and
- (c) The Confirmation Order shall have been entered.

7.2 Conditions to Effectiveness. The following are conditions precedent to the occurrence of the Effective Date:

(a) The Confirmation Date shall have occurred; and

(b) The Confirmation Order shall be a Final Order, except that the Proponents collectively reserve the right, in their sole discretion, to cause the Effective Date to occur notwithstanding the pendency of an appeal of the Confirmation Order.

7.3 Waiver of Conditions. Conditions to Confirmation and the Effective Date may be waived in whole or in part by the Proponents (with Hansen's consent with respect to the conditions set forth in Sections 7.1(a) and (c)) at any time without notice, an order of the Bankruptcy Court, or any further action other than proceeding to Confirmation and consummation of the Plan.

ARTICLE 8

EFFECTS OF CONFIRMATION

8.1 Binding Effect. The rights afforded under the Plan and the treatment of all Claims and Interests under the Plan shall be the sole and exclusive remedy on account of such Claims and Interests against the Debtors, the Reorganized Debtors, the Luna Assets and the LTI Assets, including any interest accrued on such Claims from and after the Petition Date or interest which would have accrued but for the commencement of the Chapter 11 Cases. Confirmation of the Plan shall bind and govern the acts of the Reorganized Debtors and all holders of all Claims and Interests against the Debtors, whether or not: (i) a proof of Claim or proof of Interest is filed or deemed filed pursuant to Section 501 of the Bankruptcy Code; (ii) a Claim or Interest is allowed pursuant to Section 502 of the Bankruptcy Code, or (iii) the holder of a Claim or Interest has accepted the Plan. To the extent that the Bankruptcy Court makes the Section 365(n) Finding and, in connection with any Section 365(n) Finding that the Bankruptcy Court makes, to the maximum extent possible under applicable law, including by the incorporation by reference of the Development and Supply Agreement, Settlement Agreement, Confidential Mutual Release, and the License Agreement Between Hansen and Luna into the Confirmation Order as a litigation settlement, the Development and Supply Agreement, Settlement Agreement, Confidential Mutual Release, and the License Agreement Between Hansen and Luna are not executory contracts for the purposes of 11 U.S.C. § 365, but rather constitute a settlement allocation and partition of intellectual property and other rights disputed in the Hansen Litigation and in the Hansen Proofs of Claim to be resolved by this Plan and entry of the Confirmation Order.

8.2 Property Reverts Free and Clear. Upon the Effective Date, title to all Luna Assets and LTI Assets shall vest in the Reorganized Debtors, respectively, for the purposes contemplated under the Plan and shall no longer constitute property of the Estates created for Luna and LTI in the Chapter 11 Cases pursuant to Section 541 of the Bankruptcy Code. Except as otherwise provided in the Plan, upon Confirmation all Luna Assets and LTI Assets shall be free and clear of all Claims and Interests, including Liens, charges or other encumbrances of Creditors of the Debtors. Following the Effective Date, the Reorganized Debtors may use, transfer and dispose of any such property free of any restrictions imposed by the Bankruptcy Code or the Bankruptcy Rules and without further approval of the Bankruptcy Court or notice to Creditors, except as may otherwise be required under the Plan or the Confirmation Order.

8.3 Discharge. Except as provided in the Plan, or the Confirmation Order, the rights afforded under the Plan (including, with respect to Hansen, under the Hansen Settlement Documents) and the treatment of Claims and Interests under the Plan are in exchange for and in complete satisfaction,

discharge, and release of, all Claims against the Debtors. Confirmation of the Plan shall discharge the Debtors from all Claims or other debts that arose at any time before the Confirmation Date, and all debts of the kind specified in Sections 502(g), 502(h) or 502(i) of the Bankruptcy Code, whether or not: (i) a proof of claim based on such debt is filed or deemed filed under Section 501 of the Bankruptcy Code; (ii) a Claim based on such debt is Allowed under Section 502 of the Bankruptcy Code; or (iii) the holder of a Claim has accepted the Plan. As of the Confirmation Date, all entities that have held, currently hold or may hold a Claim or other debt or liability that is discharged or any other right that is terminated under the Bankruptcy Code or the Plan are permanently enjoined from commencing or continuing any action, the employment of process, or other action, to collect, recover or offset any such Claim as a personal liability of Luna, LTI or the Reorganized Debtors to the full extent permitted by Bankruptcy Code § 524. Notwithstanding anything in Section 1141(d)(1)(B) of the Bankruptcy Code, all Interests shall be retained as set forth in this Plan.

8.4 Limitation of Liability. The Debtors, the Reorganized Debtors, the Committee and each of their respective Agents shall have all of the benefits and protections afforded under 11 U.S.C. § 1125(e) and applicable law.

8.5 Exoneration. The Debtors, the Reorganized Debtors, the Committee, and each of their respective Agents shall not be liable, other than for gross negligence or willful misconduct, to any holder of a Claim or Interest or any other entity with respect to any action, omission, forbearance from action, decision, or exercise of discretion taken at any time after the Petition Date and prior to the Effective Date in connection with: (a) the management or operation of the Debtors or the discharge of their duties under the Bankruptcy Code, (b) the implementation of any of the transactions provided for, or contemplated in, this Plan, (c) any action or inaction taken in connection with either the enforcement of the Debtors' rights against any entities or the defense of Claims asserted against the Debtors with regard to the Chapter 11 Cases, (d) any action taken in the negotiation, formulation, development, proposal, disclosure, Confirmation or implementation of the Plan, or (e) the administration of this Plan or the assets and property to be distributed pursuant to this Plan. The provisions of the preceding sentence shall not prohibit the SEC's enforcement of federal securities laws. Hansen (in connection with the Hansen Settlement and Hansen Settlement Documents) shall not be liable, other than for gross negligence or willful misconduct, to any holder of a Claim or Interest or any other entity with respect to any action, omission, forbearance from action, decision, or exercise of discretion taken at any time after the Petition Date and prior to the Effective Date in connection with the negotiation of the provisions of this Plan regarding the Hansen Settlement Documents. The Debtors, the Reorganized Debtors, the Committee, Hansen (in connection with the Hansen Settlement and Hansen Settlement Documents), and each of their respective Agents may reasonably rely upon the opinions of their respective counsel, accountants, and other experts and professionals and such reliance, if reasonable, shall conclusively establish good faith and the absence of gross negligence or willful misconduct; provided however, that a determination that such reliance is unreasonable shall not, by itself, constitute a determination or finding of bad faith, gross negligence or willful misconduct. Any action, suit or proceeding by any holder of a Claim or Interest or any other entity contesting any action, omission, forbearance from action, decision or exercise of discretion in connection with the matters in subsections (a) through (e) above, by the Debtors, the Reorganized Debtors, the Committee, Hansen and each of their respective Agents, or any of them, whether commenced before or after the Effective Date, shall be commenced only in the Bankruptcy Court.

8.6 Releases. As part of the Plan, the releases set forth below shall be granted pursuant to this Plan and the Confirmation Order:

8.6.1 Debtors' Release of Agents. On the Effective Date, the Debtors (for and on behalf of their respective Estates), and the Reorganized Debtors shall be deemed to waive and release any

and all debts, claims, rights, damages and causes of action which any of them has or may have against any of their Agents as of the Confirmation Date; *provided, however*, that the foregoing shall not operate as a waiver of or release from any debts, claims, rights, damages and causes of action arising out of (i) any express contractual obligation owing by any such Agents, or (ii) the willful misconduct or gross negligence of any such Agents in connection with, related to, or arising out of the Chapter 11 Cases, the pursuit of Confirmation of the Plan, the Consummation of the Plan, the administration of the Plan, or the property to be distributed under the Plan.

8.6.2 Mutual, General Release. On the Effective Date, the Debtors (for and on behalf of their respective Estates), the Reorganized Debtors, the Committee and each of their respective affiliates and Agents, shall be deemed to waive and release each other and each of their respective affiliates and Agents (“Released Parties”), from any and all debts, claims, rights, damages and causes of action, whether known or unknown, which each of them now has or may have against each other by reason of any transaction, occurrence, act or omission giving rise to any Claim or Interest that is treated in the Plan or any transaction, occurrence, act or omission related to the Chapter 11 Cases, except for the rights and Claims established by the Plan. It is the intention of the Released Parties that this release shall be effective as a full and final release of all claims and obligations against each other arising out of the matters described, except for the rights and Claims established by the Plan. In furtherance of this intention, the Released Parties waive the benefit of the provisions of California Civil Code § 1542 (or, if inapplicable, any other similar applicable statute), which provides as follows: *“A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.”*

8.6.3 Creditor’s Release. Each Person participating in a distribution under the Plan or pursuant to the Plan, for itself and its respective successors, assigns, transferees and current and former affiliates and Agents, who affirmatively votes to accept the Plan, shall, by virtue of Sections 1126(c) and 1141(a) of the Bankruptcy Code, be deemed to have released any and all Claims and causes of action against (A) the Debtors, the Reorganized Debtors and each of their respective Agents, and (B) the Committee and its Agents.

ARTICLE 9

RETENTION OF JURISDICTION

Notwithstanding the entry of the Confirmation Order and the occurrence of the Effective Date (and subject to the Hansen Settlement Documents with respect to Hansen and the Reorganized Debtors only), the Bankruptcy Court shall retain jurisdiction over the Chapter 11 Cases after the Effective Date to the extent legally permissible, including, without limitation, jurisdiction to:

- (a) Allow, disallow, determine, liquidate, classify, estimate, or establish the priority or secured or unsecured status of any Claim, including the resolution of any request for payment of any Administrative Claim and the resolution of any objections to the allowance or priority of Claims;
- (b) Grant or deny any applications for allowance of compensation or reimbursement of expenses authorized under the Bankruptcy Code or the Plan;

(c) Resolve any matters related to the assumption, assumption and assignment, or rejection of any executory contract or unexpired lease to which any Debtor is a party and to hear, determine and, if necessary, liquidate, any Claims arising from, or cure amounts related to, such assumption or rejection;

(d) Ensure that Distributions to holders of Allowed Claims are accomplished in accordance with the Plan;

(e) Decide or resolve any motions, adversary proceedings, contested or litigated matters, and any other matters and grant or deny any applications or motions involving any Debtor that may be pending on the Effective Date;

(f) Enter such orders as may be necessary or appropriate to implement or consummate the provisions of the Plan and all contracts, instruments, releases, and other agreements or documents created in connection with the Plan or the Disclosure Statement;

(g) Resolve any cases, controversies, suits or disputes that may arise in connection with the consummation, interpretation or enforcement of the Plan or any Person's obligations incurred in connection with the Plan;

(h) Modify the Plan before or after the Effective Date under Section 1127 of the Bankruptcy Code or modify the Disclosure Statement or any contract, instrument, release, or other agreement or document created in connection with the Plan or the Disclosure Statement; or remedy any defect or omission or reconcile any inconsistency in any Bankruptcy Court order, the Plan, the Disclosure Statement, or any contract, instrument, release, or other agreement or document created in connection with the Plan and the Disclosure Statement, in such manner as may be necessary or appropriate to consummate the Plan, to the extent authorized by the Bankruptcy Code;

(i) Issue injunctions, enter and implement other orders, or take such other actions as may be necessary or appropriate to restrain interference by any entity with consummation or enforcement of the Plan, except as otherwise provided in the Plan;

(j) Enter and implement such orders as are necessary or appropriate if the Confirmation Order is for any reason modified, stayed, reversed, revoked, or vacated;

(k) Determine any other matters that may arise in connection with or related to the Plan, the Disclosure Statement, the Confirmation Order or any contract, instrument, release, or other agreement or document created in connection with the Plan, the Disclosure Statement or the Confirmation Order, except as otherwise provided in the Plan;

(l) Hear and determine Retained Claims and Defenses commenced by the Debtors or the Reorganized Debtors; and

(m) Enter an order closing the Chapter 11 Cases which provides for retention of jurisdiction for the Bankruptcy Court for purposes of this Article 9.

ARTICLE 10

AMENDMENT AND WITHDRAWAL OF PLAN

10.1 Amendment of the Plan. At any time before the Confirmation Date, the Proponents may alter, amend, or modify the Plan under Section 1127(a) of the Bankruptcy Code, provided that, such alteration, amendment, or modification does not materially and adversely alter the treatment and rights of Hansen with respect to the Hansen Settlement and the Hansen Settlement Documents without Hansen's consent, and does not materially and adversely affect the treatment and rights of the holders of other Claims under this Plan. After the Confirmation Date and before substantial consummation of the Plan as defined in Section 1101(2) of the Bankruptcy Code, the Proponents may, under Section 1127(b) of the Bankruptcy Code, institute proceedings in the Bankruptcy Court to remedy any defect or omission or reconcile any inconsistencies in the Plan, the Disclosure Statement, or the Confirmation Order, or as otherwise may be necessary to carry out the purposes and effects of the Plan so long as such proceedings do not involve the remedy or reconciliation of any provisions that would materially and adversely alter the treatment and rights of Hansen with respect to the Hansen Settlement and Hansen Settlement Documents without Hansen's consent, and do not materially and adversely affect the treatment of holders of Claims under the Plan; provided, however, that prior notice of such proceedings shall be served in accordance with the Bankruptcy Rules or applicable order of the Bankruptcy Court.

10.2 Revocation or Withdrawal of the Plan. The Proponents reserve the right to revoke or withdraw this Plan in the event that the Proponents determine in good faith that any condition to Confirmation of this Plan is unlikely to be satisfied as required herein. If the Plan is withdrawn, revoked, then the Plan (and the Hansen Settlement Documents to the extent set forth therein) shall be deemed null and void, and nothing contained in the Plan (and the Hansen Settlement Documents to the extent set forth therein) shall be deemed a waiver of any Claims or rights by or against the Debtors or any other Person in any further proceedings involving the Debtors or an admission of any sort, and this Plan and any transaction contemplated by this Plan shall not be admitted into evidence in any proceeding.

ARTICLE 11

MISCELLANEOUS

11.1 Effectuating Documents; Further Transactions; Timing. The Debtors and the Reorganized Debtors shall be authorized and directed to execute, deliver, file, or record such contracts, instruments, releases, and other agreements or documents, and to take such actions as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan. All transactions required to occur on the Effective Date under the terms of the Plan shall be deemed to have occurred simultaneously, except as provided for in Section 5.3.3 herein.

11.2 Exemption From Transfer Taxes. In accordance with Section 1146(c) of the Bankruptcy Code, the making, delivery, or recording of a deed or other instrument of transfer under this Plan shall not be subject to any stamp tax or similar tax and the appropriate state or local government officials or agents shall be directed to forego the collection of any such tax and to accept for filing or recordation any of the foregoing instruments or other documents without the payment of any such tax.

11.3 Governing Law. Except to the extent that (i) the Bankruptcy Code or other federal law is applicable, or (ii) the Hansen Settlement Documents otherwise specify other applicable law with respect to such documents), the rights, duties and obligations of the Debtors, the Reorganized Debtors and any other Person arising under the Plan shall be governed by, and construed and enforced in accordance with, the internal laws of the Delaware, without giving effect to Delaware choice of law provisions.

11.4 Modification of Payment Terms. The Reorganized Debtor may modify the treatment of any Allowed Claim or Interest in any manner adverse only to the holder of such Claim or Interest at any time after the Effective Date upon the prior written consent of the holder whose Allowed Claim or Interest treatment is being adversely affected.

11.5 Authority of Luna or Reorganized Luna Under Plan. Whenever any provision of this Plan provides for the consent, approval, waiver, election or other determination of the Debtors or the Reorganized Debtors, any such act may be taken by Luna or Reorganized Luna with like effect as if taken by both of the Debtors or the Reorganized Debtors.

11.6 Provisions Enforceable. The Confirmation Order shall constitute a judicial determination and shall provide that each term and provision of this Plan, including each Hansen Settlement Document, as it may have been altered or interpreted in accordance with the foregoing, is valid, binding and enforceable in accordance with its terms.

11.7 Quarterly Fees to the United States Trustee. All fees payable under 28 U.S.C. § 1930(a)(6) shall be paid by the Debtors in the amounts and at the times such fees may become due up to and including the Effective Date. Thereafter, the Reorganized Debtors shall pay all fees payable under 28 U.S.C. § 1930(a)(6) until the Chapter 11 Cases are closed, dismissed or converted. Upon the Effective Date, the Reorganized Debtors shall be relieved from the duty to make the reports and summaries required under Bankruptcy Rule 2015(a). Notwithstanding the foregoing, until the Chapter 11 Cases are closed, dismissed or converted, the Reorganized Debtors shall prepare and submit to the Office of the United States Trustee, on or before the last day of the month after each calendar quarter, the post-confirmation report for a revested debtor in the form suggested by the Office of the United States Trustee for Region 4. The report shall be made, and the fees shall be payable, on a consolidated basis by the Reorganized Debtor. The first report shall be due following the first full calendar quarter following the Effective Date.

11.8 Method of Payment. Payments of Cash required to be made under the Plan shall be made by check drawn on a domestic bank or by wire transfer from a domestic bank at the election of the Person making such payment. Whenever any payment or distribution to be made under the Plan is due on a day other than a Business Day, such payment or distribution may instead be made, without interest, on the immediately following Business Day.

11.9 Notice of Confirmation. As soon as practicable following the Effective Date of the Plan, the Reorganized Debtors shall file and serve notice of the entry of the Confirmation Order in the manner required under Bankruptcy Rule 2002(f). The notice shall further identify the Effective Date and shall set forth the Administrative Claim Bar Date, Professional Fees Bar Date, the Rejection Claim Bar Date and any other deadlines that may be established under the Plan or the Confirmation Order.

11.10 Severability of Plan Provisions. If, prior to the Confirmation Date, any provision of the Plan is judicially determined to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby and the Bankruptcy Court will have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable and consistent with the original purpose of the term or provision held to be invalid.

11.11 Successors and Assigns. The Plan is binding upon and will inure to the benefit of the Debtors, the Committee, the holders of Claims and Interests, the Responsible Individual and each of their respective successors, agents and assigns, including, without limitation, the Reorganized Debtors, any bankruptcy trustees and estate representatives and any parent, subsidiary and affiliated entity of each party.

11.12 Notices. Except as otherwise provided in the Plan, any notice or other communication required or permitted under the Plan will be in writing and deemed to have been validly served, given, delivered, and received upon the earlier of: (x) the first business day after transmission by facsimile or hand delivery or deposit with an overnight express service or overnight mail delivery service; or (y) the third calendar day after deposit in the United States mail, with proper first class postage prepaid. If such notice is made to the Reorganized Debtor or LTI, it shall be addressed as follows:

Luna Innovations Incorporated
1 Riverside Circle
Roanoke, VA 24016
Telephone: 540-769-8400
Facsimile: 540-581-0951
kemperf@lunainnovations.com
Attn: Talfourd H. Kemper, Jr., Esq.

with copies to:

Pachulski Stang Ziehl & Jones LLP
919 North Market Street, 17th Floor
P.O. Box 8705
Wilmington, DE 19899-8705 (Courier 19801)
Telephone: 302-652-4100
Facsimile: 302-652-4400
ljones@pszjlaw.com
Attn: Laura Davis Jones, Esq.

If such notice is made to Hansen, it shall be addressed as follows:

Hansen Medical, Inc.
Attn: Arthur S. Hsieh
800 East Middlefield Road
Mountain View, CA 94043
Telephone: 650-404-2728
Facsimile: 650-404-5901
Arthur_Hsieh@HansenMedical.com

with copies to:

Morrison & Foerster LLP
Attn: G. Larry Engel
425Market Street, 36th Floor
San Francisco, CA 94105-2483
Telephone: 415-268-6927
Facsimile: 415-276-7160
lengel@mfo.com

11.12.1 Notice to Claim and Interest Holders. Notices to Persons holding a Claim or Interest will be sent to the addresses set forth in such Person's proof of Claim or Interest or, if none was filed, at the address set forth in the Schedules.

11.12.2 Post Effective Date Notices. Following the Effective Date, notices will only be served on the Reorganized Debtors, the Office of the United States Trustee and those Persons who file with the Bankruptcy Court and serve upon the Reorganized Debtors a request, which includes such Person's name, contact person, address, telephone number and facsimile number, that such Person receive notice of post-Confirmation matters. Persons who had previously filed with the Bankruptcy Court requests for special notice of the proceedings and other filings in the Chapter 11 Cases will not receive notice of post-Confirmation matters unless such Persons file a new request in accordance with this Section 11.12.2, except for Hansen, which shall be entitled to continue to receive notice in accordance with its prior request for notice without further obligation to file any such new request.

11.12.3 Notice Procedures. In the event (i) the Reorganized Debtors propose to take an action respecting a matter that is not expressly provided for by the Plan, or (ii) the Plan requires compliance with the Notice Procedures, the Person proposing such action shall transmit a written notice to the Reorganized Debtors and those parties requesting notice of post-Confirmation matters (unless the Plan requires notice to additional persons) setting forth the proposed action. The recipients of such notice shall have 10 days from the date of such notice to transmit a written objection thereto or to request copies of all pertinent documentation. If documentation relating to the proposed action is requested, the requesting party shall have 8 days from the date of delivery of the documentation to transmit to the Person giving the notice a written objection to the proposed action. Notwithstanding the foregoing, the rights of Hansen to notice and to object to such action shall be the same as for any contested matter in the Bankruptcy Case. If an objection is timely made, and the dispute is not promptly resolved by the parties, such matter shall be presented to the Bankruptcy Court for resolution. Absent timely objection, the proposed action will be binding without the necessity for approval by the Bankruptcy Court. Notwithstanding the foregoing, the Person proposing the action may seek Bankruptcy Court approval of any matter.

11.13 Incorporation by Reference. All Exhibits, schedules and supplements to the Plan, including the Hansen Settlement Documents, are incorporated and are made a part of each of the Plan and the Confirmation Order as if set forth in full in the Plan and the Confirmation Order.

11.14 Computation of Time. In computing any period of time prescribed or allowed by the Plan, the provisions of Bankruptcy Rule 9006(a) shall apply. Any reference to "day" or "days" shall mean calendar days, unless otherwise specified herein.

11.15 Conflict of Terms. In the event of a conflict between the terms of this Plan and the Disclosure Statement, the terms of this Plan will control. In the event of a conflict between the terms of any Hansen Settlement Document and the Plan with respect to the Hansen Settlement, the terms of the Hansen Settlement Document shall control. In the event of a conflict between the terms of the Confirmation Order and the Plan and any other document, the Confirmation Order shall control over the Plan and any other document. The headings of the articles, paragraphs, and sections of the Plan shall have no effect on the interpretation of the Plan, and inserted in the Plan merely for convenience.

11.16 Securities Law Matters. It is an integral and essential element of this Plan that the issuance of any securities pursuant to this Plan shall be exempt from registration under the Securities Act pursuant to section 1145 of the Bankruptcy Code and from registration under state securities laws, to that extent that any such registration is required.

11.17 Plan Interpretation. The parties involved in drafting this Plan are sophisticated parties, represented by competent attorneys who have carefully negotiated the provisions hereof. The interpretation of this Plan shall not take into consideration the party (or such party's representative) who drafted any portion of this Plan, and no canon of statutory construction shall be applied that resolves any ambiguities against the drafter of any portion of this Plan.

Dated: Roanoke, Virginia
December 18, 2009

Respectfully submitted,

Luna Innovations Incorporated

By: Kent A. Murphy
Kent A. Murphy, Ph.D.
President and Chief Executive Officer

Luna Technologies, Inc.

By: Kent A. Murphy
Kent A. Murphy, Ph.D.
Chief Executive Officer

EXHIBIT A

EXECUTORY CONTRACTS AND UNEXPIRED LEASES TO BE REJECTED

[To Follow]

EXHIBIT B
CONFIRMATION ORDER

EXHIBITS C-1 THROUGH C-10

HANSEN SETTLEMENT DOCUMENTS

(Exhibit C-2, C-3, C-4 and C-5 contain redactions)

PLEASE TAKE NOTICE that copies of the exhibits to this First Amended Joint Plan or Reorganization (the "Plan") can be obtained by using the Bankruptcy Court's electronic case filing system at www.vawb.uscourts.gov using a PACER password. To obtain a PACER password, go to the PACER website, <http://pacer.psc.uscourts.gov>. In addition, the Company will provide any exhibit to the Plan free of charge upon written request to the Company's Vice President and General Counsel at 1 Riverside Circle, Suite 400, Roanoke, Virginia 24016.

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE WESTERN DISTRICT OF VIRGINIA
ROANOKE DIVISION

In re:)	Chapter 11
)	
LUNA INNOVATIONS)	
INCORPORATED, <u>et al.</u> , ¹)	Case No. 09-71811 (WFS)
)	
Debtors.)	Jointly Administered
)	

**FIRST AMENDED DISCLOSURE STATEMENT IN SUPPORT OF
FIRST AMENDED JOINT PLAN OF REORGANIZATION OF
LUNA INNOVATIONS INCORPORATED, ET AL.,
UNDER CHAPTER 11 OF THE BANKRUPTCY CODE²**

Important Dates

Date by which ballots must be received:	January 8, 2010 by 11:59 p.m. Prevailing Eastern Time
Date by which objections to Confirmation of the Plan must be filed and served:	January 11, 2010 by 12:00 noon Prevailing Eastern Time
Hearing on Confirmation of the Plan:	January 12, 2010 at 2:00 p.m. Prevailing Eastern Time

¹ The Debtors in these cases, along with the last four digits of each Debtor's federal tax identification number, are: Luna Innovations Incorporated (0050) and Luna Technologies, Inc. (0845). The address for both Debtors is 1 Riverside Circle, Suite 400, Roanoke, VA 24016.

² This First Amended Disclosure Statement is revised from the First Amended Disclosure Statement filed on December 11, 2009 at Docket No. 479.

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PRELIMINARY STATEMENT AND DEFINITIONS

Luna Innovations Incorporated (“Luna”), and its related debtor affiliate Luna Technologies, Inc. (“LTI,” and, with Luna, the “Debtors”), in the above-captioned cases under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”), submit this first amended disclosure statement, as it may be further amended (the “Disclosure Statement”) in support of the *First Amended Joint Plan of Reorganization of Luna Innovations Incorporated and Luna Technologies, Inc. dated December 18, 2009* (as it may be further amended, and together with the Exhibits to it, the “Plan”). **The Plan provides for a 100% pay-out to creditors holding Claims, with postpetition interest, other than Hansen Medical Inc. (“Hansen”), which has agreed to different treatment as set forth in this Disclosure Statement and the Plan. For the reasons set forth herein, if the Plan is not confirmed, the Debtors believe that creditors holding Claims will receive a lesser recovery. Consequently, the Debtors urge all Creditors to vote for the Plan.**

The Debtors filed their original plan (the “Original Plan”) and disclosure statement (the “Original Disclosure Statement”) on July 17, 2009 (Docket No. 30) contemporaneously with the filing of the Chapter 11 Cases. The Debtors have filed this first amended Disclosure Statement in connection with the Plan, to reflect a proposed settlement (the “Hansen Settlement”) with Hansen as described herein, among other things. The Debtors intend to seek the expeditious confirmation of the Plan for the purpose of preserving the Debtors’ business as a going concern, restructuring the Debtors’ business, preserving the jobs of the Debtors’ employees, and obtaining a prompt exit from these bankruptcy proceedings for the benefit of the Debtors’ estates, creditors, and employees.

Unless otherwise noted, the definitions contained in the Bankruptcy Code are incorporated herein by this reference, provided that the definitions set forth in Article I of the Plan shall apply to capitalized terms that are not otherwise defined herein.

Enclosed with the copy of this Disclosure Statement that is being served are the Plan and all Exhibits thereto, including the Hansen Settlement Documents (Exhibits C-1 through C-10 to the Plan), and the proposed form of order for confirmation of the Plan (the "Confirmation Order"), which form is acceptable to the Debtors and Hansen;

The Debtors do not believe that there are any valid Claims in Class 1 (Priority Employee Claims) or Class 2 (Miscellaneous Secured Claims), which are impaired under the Plan. The only other impaired Class, Class 5a (Hansen Claims), is deemed to have accepted the Plan. Accordingly, there are no holders of Claims in any impaired Class to whom the Debtors could send a ballot.

Attached as Exhibits to this Disclosure Statement are copies of the following documents:

- Projected Financial Information (Exhibit A); and

The documents filed with the SEC are available at a website maintained by the SEC at <http://www.sec.gov> that contains reports, proxy and information statements and other information filed electronically with the SEC.

This Disclosure Statement contains information with respect to the Debtors and the Plan. On [], 2010, after notice and a hearing, the Bankruptcy Court entered the Disclosure Statement Order approving this Disclosure

Statement as containing adequate information of a kind and in sufficient detail to enable hypothetical reasonable investors typical of the holders of Claims against and Interests in the Debtors to make an informed judgment in voting to accept or reject the Plan. APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT, HOWEVER, CONSTITUTE A DETERMINATION BY THE BANKRUPTCY COURT AS TO THE FAIRNESS OR MERITS OF THE PLAN.

II.

INTRODUCTION AND PLAN OVERVIEW

A. Introduction

On July 17, 2009 (the "Petition Date"), each of the Debtors commenced their respective chapter 11 cases (collectively, the "Chapter 11 Cases") by filing voluntary petitions for relief under the Bankruptcy Code. The Chapter 11 Cases are being administered in the United States Bankruptcy Court for the Western District of Virginia (Roanoke Division) (the "Bankruptcy Court"). The Debtors are also collectively referred to herein as the "Company."

The Original Plan provided for the estimation of the Hansen Claims. After the Original Plan was filed, Hansen opposed the Debtors' attempt to estimate the Hansen Claims. However, both the Debtors and Hansen were concerned about the prospects of ongoing litigation. As a consequence, Hansen and the Debtors fashioned the Hansen Settlement, comprised of several interrelated agreements (each, as appended to the Plan, a "Hansen Settlement Document," and collectively, the "Hansen Settlement Documents") the effectiveness of which the Debtors believe will enable them to reorganize under the Plan. The Hansen

Settlement is described more specifically herein in Section V.D and in the Hansen Settlement Documents whose terms are incorporated into the Plan and are proposed to be approved by the Confirmation Order.

Pursuant to section 1125 of the Bankruptcy Code, this Disclosure Statement is being distributed to you for the purpose of enabling you to make an informed judgment about the Plan. The Debtors have examined various alternatives and, based on information contained in this Disclosure Statement, have concluded that the Plan provides the best recovery possible to Creditors.

The Plan is subject to the satisfaction of several conditions, including each of the following:

- (i) The execution and effectiveness of the Hansen Settlement Documents.
- (ii) The Confirmation Order shall have been entered.

This Disclosure Statement describes the Plan and contains information concerning, among other matters, (1) the history, business, results of operations, management, properties and liabilities of and pending litigation of and against the Debtors, and (2) the amounts that will be available for distribution to Creditors under the Plan. The Debtors strongly urge you to carefully review the contents of this Disclosure Statement and the Plan (including the exhibits to each) before making a decision to accept or reject the Plan.

Your vote on the Plan is important. In order for the Plan to be accepted by an impaired Class of Claims, the holders of two-thirds (2/3) in dollar amount and more than one-half

(1/2) in number of Allowed Claims in such Class who vote on the Plan must vote for acceptance. Under the Plan, however, most Classes of Claims are not impaired and will be paid in full with post-petition interest.

The Debtors urge you to accept the Plan by completing and returning the enclosed ballot by no later than the deadline set forth above.

B. Information Regarding The Plan

1. Plan Governing Document.

Although the Debtors believe that this Disclosure Statement accurately describes the Plan, all summaries of the Plan contained in this Disclosure Statement are qualified by the Plan itself and the documents described therein which are controlling, including the Hansen Settlement Documents.

2. Source of Information.

Factual information contained in this Disclosure Statement has been provided by the Debtors or has been obtained from the Debtors' records, except where otherwise specifically noted. All financial information contained in this Disclosure Statement has been prepared by the Debtors or has been obtained from their records. None of the Debtors' attorneys, accountants, or other professionals makes any representation regarding such information. The Debtors do not represent or warrant that the information contained in this Disclosure Statement is free from any inaccuracy. The Debtors have, however, attempted to present the information accurately and fairly and believe that the information is substantially accurate. The assumptions underlying the projections contained in this Disclosure Statement concerning sources and amounts of payments to Creditors represent the best estimate of the Debtors as to what they expect will happen.

Because these are only assumptions about or predictions of future events, many of which are beyond the Debtors' control, there can be no assurances that the assumptions will in fact materialize or that the projected realizations will in fact be met. Except as otherwise provided herein, this Disclosure Statement will not reflect any events which occurred subsequent to the date that the Debtors submitted this Disclosure Statement to the Bankruptcy Court for approval.

3. Warning Regarding Federal and State Income Tax Consequences of the Plan.

The tax consequences of the Plan will vary based on the individual circumstances of each holder of a Claim or Interest. Accordingly, each Creditor and Interest holder is strongly urged to consult with its own tax advisor regarding the federal, state, local and foreign tax consequences of the Plan and to carefully read Article V.K of this Disclosure Statement.

4. Bankruptcy Court Approval.

At the Confirmation Hearing scheduled for January 12, 2010, the Debtors will seek approval of this Disclosure Statement as containing information of a kind and in sufficient detail adequate to enable a hypothetical, reasonable investor to make an informed judgment about the Plan. The Bankruptcy Court has approved the Debtors' sending this Disclosure Statement to you and, if applicable, soliciting your acceptance or rejection of the Plan, prior to such hearing on the approval of this Disclosure Statement. The Bankruptcy Court has not passed on the Plan itself, nor has it conducted a detailed investigation into the contents of this Disclosure Statement.

C. Voting Instructions

1. **Who May Vote.**

The Plan divides Allowed Claims and Interests into multiple Classes. Under the Bankruptcy Code, only Classes that are “impaired” by the Plan are entitled to vote (unless the Class receives no compensation or payment, in which event the Bankruptcy Code provides that the Class is conclusively deemed not to have accepted the Plan). A Class is “impaired” if the legal, equitable or contractual rights attaching to the Claims or Interests of the Class are modified, other than by curing defaults and reinstating maturities.

Under the Plan, Administrative Claims, including Claims for Professional Fees, and Priority Tax Claims, are unclassified and are not entitled to vote.

Class 1 (Priority Employee Claims) and Class 2 (Miscellaneous Secured Claims) are impaired by the Plan. Class 5a (Hansen Claims) is impaired, but is deemed to have accepted the Plan. Class 3 (Carilion Claims), Class 4 (Unsecured Claims), Class 5b (Litigation Claims) and Class 6 (Interests) are unimpaired under the Plan and are each conclusively deemed to have accepted the Plan.

Accordingly, only the holders, if any, of Claims in Classes 1 (Priority Employee Claims) and Class 2 (Miscellaneous Secured Claims) are entitled to vote to accept or reject the Plan.

2. **How to Vote.**

The Debtors do not believe that there are any valid Claims in Class 1 (Priority Employee Claims) or Class 2 (Miscellaneous Secured Claims), which Classes are impaired under the Plan. The only other impaired Class, Class 5a (Hansen Claims), is deemed to have accepted

the Plan. Accordingly, there are no holders of Claims in any impaired Class to whom the Debtors could send a ballot. If the Debtors determine otherwise, they reserve the right to provide a form of ballot to Creditors in Classes 1 and 2, by which Creditors in such Classes may vote their acceptance or rejection of the Plan. The ballot for voting on the Plan, if any, will give you if you are a Creditor in either such Class, the choice to vote for or against the Plan. To vote on the Plan if you receive such ballot, please complete the ballot, as indicated thereon, (1) by indicating on the enclosed ballot that (a) you accept the Plan or (b) reject the Plan, and (2) by signing your name and mailing the ballot in the envelope provided for this purpose. Epiq Bankruptcy Solutions, LLC, as the claims, notice and balloting agent (the "Claims Agent") appointed by the Bankruptcy Court in these Chapter 11 Cases, will count the votes on any such ballots.

IN ORDER TO BE COUNTED, BALLOTS (IF ANY) MUST BE COMPLETED, SIGNED AND RECEIVED BY THE CLAIMS AGENT BY NO LATER THAN 4:00 P.M. EASTERN TIME ON JANUARY 8, 2010 AT THE FOLLOWING ADDRESS:

If by overnight courier or hand delivery:

**Luna Innovations Incorporated, et al., Ballot Processing
c/o Epiq Bankruptcy Solutions, LLC
757 Third Avenue, 3rd floor
New York, NY 10017
Attention: Herb Baer**

If by standard mail (including U.S. Express Mail):

**Luna Innovations Incorporated, et al., Ballot Processing
c/o Epiq Bankruptcy Solutions, LLC
FDR Station
P.O. Box 5014**

DO NOT SEND YOUR BALLOT VIA FACSIMILE OR E-MAIL.

In determining acceptances of the Plan, the vote of a Creditor will only be counted if submitted by a Creditor whose Claim is an Allowed Claim. Generally speaking, a Creditor holds an Allowed Claim if such Claim is duly scheduled by the Debtors as other than disputed, contingent or unliquidated, or the Creditor has timely filed with the Bankruptcy Court a proof of claim which has not been objected to or disallowed prior to computation of the votes on the Plan. The ballot form which you received does not constitute a proof of claim.

IF YOUR BALLOT IS NOT PROPERLY COMPLETED, SIGNED AND RECEIVED AS DESCRIBED ABOVE, IT WILL NOT BE COUNTED. IF YOUR BALLOT IS DAMAGED OR LOST, YOU MAY REQUEST A REPLACEMENT BY SENDING A WRITTEN REQUEST TO THE ADDRESS SHOWN ABOVE. FACSIMILE OR ELECTRONICALLY TRANSMITTED BALLOTS WILL NOT BE COUNTED.

D. Confirmation

“Confirmation” is the technical phrase for the Bankruptcy Court’s approval of a plan under chapter 11 of the Bankruptcy Code. At the hearing on Confirmation of the Plan (the “Confirmation Hearing”), the Debtors must demonstrate that they have met the requirements of section 1129 of the Bankruptcy Code in order to confirm the Plan. If the Bankruptcy Court determines that all of the requirements of section 1129 have been satisfied, the Bankruptcy Court will enter an order confirming the Plan.

Voting is tabulated by Class. As discussed above, an impaired Class of Creditors has accepted a Plan if the Plan has been accepted by two-thirds (2/3) in dollar amount and more than one-half (1/2) in number of Creditors holding Allowed Claims in that Class who actually vote to accept or reject the Plan.

E. Hearing on Confirmation

The Bankruptcy Court has scheduled the Confirmation Hearing to occur on January 12, 2010 at 2:00 p.m., to determine whether the Plan has been accepted by the requisite number of Creditors and whether the other requirements for Confirmation of the Plan have been satisfied. The Confirmation Hearing will be held at the United States Bankruptcy Court for the Western District of Virginia (Roanoke Division), located at 210 Church Avenue, S.W., Roanoke, Virginia 24011, before the Honorable William F. Stone. The Confirmation Hearing may be continued from time to time and day to day by announcement in open court without further notice. If the Bankruptcy Court confirms the Plan, it will enter the Confirmation Order.

Class 5a (Hansen Claims) has agreed to the terms of the Plan and is deemed to have accepted the Plan. Even if there are Creditors in Class 1 (Priority Employee Claims) or Class 2 (Miscellaneous Secured Claims), and either or both of Class 1 (Priority Employee Claims) or Class 2 (Miscellaneous Secured Claims) votes against the Plan, the Plan may nevertheless be confirmed by the Bankruptcy Court, notwithstanding the negative vote of that Class, so long as certain statutory requirements, including the acceptance of the Plan by Class 5a (Hansen Claims) as set forth above, are met by the Plan. This is called a "cram down" and is further explained below. The Debtors may seek confirmation of the Plan through a cram down.

F. Objections to Confirmation

Any objections to Confirmation of the Plan (“Confirmation Objections”) must be in writing, conform to the Federal Rules of Bankruptcy Procedure and the Local Bankruptcy Rules for the Western District of Virginia and be filed with the United States Bankruptcy Court on or before January 11, 2010 at 12:00 noon (the “Confirmation Objection Deadline”), which is the date set forth in the notice of the Confirmation Hearing sent to you with this Disclosure Statement and the Plan.

Counsel on whom Confirmation Objections must be served are:

Counsel for the Debtors

Pachulski Stang Ziehl & Jones LLP
Attn: Laura Davis Jones, Esquire
919 North Market Street, 17th Floor
P.O. Box 8705
Wilmington, DE 19899-8705 (Courier 19801)

and

Magee, Foster, Goldstein & Sayers, P.C.
Attn: A. Carter Magee, Jr., Esq.
310 First Street, S.W., Suite 1200
Roanoke, Virginia 24011

Counsel for Hansen

Morrison & Foerster LLP
Attn: G. Larry Engel
425 Market Street
San Francisco, CA 94105-2482

and

Hunton & Williams LLP
Attn: Benjamin C. Ackerly
Riverfront Plaza, East Tower
951 East Byrd Street
Richmond, Virginia 23219-4074

Office of the United States Trustee
for the Western District of Virginia (Roanoke Office)
First Campbell Square Building
210 First Street, SW, Suite 505
Roanoke, VA 24011

G. Cramdown

A court may confirm a plan, even if it is not accepted by all impaired classes, if the plan has been accepted by at least one impaired class of claims and the plan meets the “cram down” requirements set forth in section 1129(b) of the Bankruptcy Code. Section 1129(b) of the Bankruptcy Code requires that the court find that a plan is “fair and equitable” and does not “discriminate unfairly” with respect to each non-accepting impaired class of claims or interests. With respect to a dissenting class of unsecured claims, the “fair and equitable” standard requires, among other things, that a plan contain one of two elements. It must either provide that (a) each holder of an unsecured claim in such class will receive or retain property having a value, as of the effective date of the plan, equal to the allowed amount of its claim, or (b) no holder of an allowed claim or interest in any junior class will receive or retain any property on account of such claim or interest. With respect to a dissenting class of interests, the “fair and equitable” standard requires that the plan contain one of two elements. It must either provide that (i) each holder of an interest in the class receive or retain property having a value, as of the effective date of the plan, equal to the greater of the allowed amount of any fixed liquidation preference to which such holder is entitled, or the value of such interest, or (ii) no holder of an interest in any junior class will receive or retain any property on account of such interest. The strict requirement of the allocation of full value to dissenting classes before junior classes can receive a distribution is known as the “absolute priority rule.”

The Debtors may request that the Bankruptcy Court confirm the Plan in accordance with section 1129(b) of the Bankruptcy Code based on the acceptance of the Plan by Class 5a (Hansen Claims), even if either or both of Class 1 (Priority Employee Claims) and Class 2 (Miscellaneous Secured Claims) votes to reject the Plan.

H. Disclaimers

THIS DISCLOSURE STATEMENT CONTAINS INFORMATION WHICH MAY BEAR UPON YOUR DECISION TO ACCEPT OR REJECT THE DEBTORS' PROPOSED PLAN. PLEASE READ THIS DOCUMENT WITH CARE. THE PURPOSE OF THE DISCLOSURE STATEMENT IS TO PROVIDE "ADEQUATE INFORMATION" OF A KIND, AND IN SUFFICIENT DETAIL, AS FAR AS IS REASONABLY PRACTICABLE IN LIGHT OF THE NATURE AND HISTORY OF THE DEBTORS AND THE CONDITION OF THE DEBTORS' BOOKS AND RECORDS, THAT WOULD ENABLE A HYPOTHETICAL REASONABLE INVESTOR TYPICAL OF HOLDERS OF CLAIMS OR INTERESTS OF THE RELEVANT CLASS TO MAKE AN INFORMED JUDGMENT CONCERNING THE PLAN.

FOR THE CONVENIENCE OF CREDITORS, THIS DISCLOSURE STATEMENT SUMMARIZES THE TERMS OF THE PLAN, BUT THE PLAN ITSELF QUALIFIES ANY SUMMARY. **IF ANY INCONSISTENCY EXISTS BETWEEN THE PLAN AND THE DISCLOSURE STATEMENT, THE TERMS OF THE PLAN ARE CONTROLLING.**

NO REPRESENTATIONS CONCERNING THE DEBTORS' FINANCIAL CONDITION OR ANY ASPECT OF THE PLAN ARE AUTHORIZED BY THE DEBTORS OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE YOUR ACCEPTANCE WHICH ARE OTHER THAN AS CONTAINED IN OR INCLUDED WITH THIS DISCLOSURE STATEMENT SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING AT YOUR DECISION TO ACCEPT OR REJECT THE PLAN.

THE FINANCIAL INFORMATION CONTAINED HEREIN, UNLESS OTHERWISE INDICATED, IS UNAUDITED. MOREOVER, BECAUSE OF THE COMPLEXITY OF THE DEBTORS' FINANCIAL MATTERS, THE BOOKS AND RECORDS OF THE DEBTORS, UPON WHICH THIS DISCLOSURE STATEMENT IN PART IS BASED, MAY BE INCOMPLETE OR INACCURATE. REASONABLE EFFORT HAS BEEN MADE, HOWEVER, TO ENSURE THAT ALL SUCH INFORMATION IS FAIRLY PRESENTED.

PACHULSKI STANG ZIEHL & JONES LLP ("PSZJ"), COMMENCED REPRESENTING THE COMPANY ON OR ABOUT APRIL 20, 2009, AS GENERAL BANKRUPTCY COUNSEL. PSZJ AND ALL COUNSEL TO THE DEBTORS HAVE RELIED UPON INFORMATION PROVIDED BY THE DEBTORS IN CONNECTION WITH PREPARATION OF THIS DISCLOSURE STATEMENT. ALTHOUGH COUNSEL FOR THE DEBTORS HAVE PERFORMED CERTAIN LIMITED DUE DILIGENCE IN CONNECTION WITH THE PREPARATION OF THIS DISCLOSURE STATEMENT, COUNSEL HAVE NOT INDEPENDENTLY VERIFIED ALL OF THE INFORMATION CONTAINED HEREIN.

THIS DISCLOSURE STATEMENT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR APPLICABLE STATE SECURITIES LAWS. NEITHER THE SEC NOR ANY STATE REGULATORY AUTHORITY HAS PASSED UPON THE ACCURACY OR ADEQUACY OF THIS DISCLOSURE STATEMENT, THE EXHIBITS HERETO OR THE STATEMENTS CONTAINED HEREIN.

THE CONTENTS OF THIS DISCLOSURE STATEMENT SHOULD NOT BE CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE. EACH CREDITOR OR INTEREST HOLDER SHOULD CONSULT HIS OR HER OWN LEGAL COUNSEL AND ACCOUNTANT AS TO LEGAL, TAX AND OTHER MATTERS CONCERNING HIS OR HER CLAIM.

I. An Overview of the Chapter 11 Process

Chapter 11 of the Bankruptcy Code contains numerous provisions, the general effect of which are to provide the debtor with "breathing space" within which to propose a restructuring of its obligations to third parties. The filing of a chapter 11 bankruptcy petition creates a bankruptcy "estate" comprised of all of the property interests of the debtor. Unless a trustee is appointed by the Bankruptcy Court for cause (no trustee has been appointed in these Chapter 11 Cases), a debtor remains in possession and control of all its assets as a "debtor in possession." The debtor may continue to operate its business in the ordinary course on a day-to-day basis without Bankruptcy Court approval. Bankruptcy Court approval is only required for

various enumerated kinds of transactions (such as certain financing transactions) and transactions out of the ordinary course of the debtor's business. The filing of the bankruptcy petition also gives rise to what is known as the "automatic stay" which is a federal injunction that, generally, enjoins creditors from taking any action to collect or recover obligations owed by a debtor prior to the commencement of a chapter 11 case. The Bankruptcy Court, however, can grant relief from the automatic stay, under certain specified conditions or for cause.

The Bankruptcy Code authorizes the creation of one or more official committees to protect the interests of some or all creditors or equity security interest holders. No committee was appointed in these Chapter 11 Cases, to represent the collective interests of general unsecured creditors or otherwise.

A chapter 11 debtor emerges from bankruptcy as a reorganized debtor by successfully confirming a plan of reorganization. A plan may either be consensual or non-consensual and provides, among other things, for the treatment of the claims of creditors and interests of shareholders. The provisions of the Plan are summarized below.

J. Plan Overview

The following is a brief overview of the material provisions of the Plan and is qualified in its entirety by reference to the full text of the Plan and the Hansen Settlement Documents that are exhibits thereto. A "Summary of Classification and Treatment of Claims and Interests Under the Plan" is set forth in Section II.J.1 below.

The Plan provides for the classification and treatment of Claims against and Interests in the Debtors. The Plan designates 7 (seven) Classes, and certain subclasses, which classify all Claims and Interests in the Debtors.

1. Summary of Classification and Treatment of Claims and Interests Under the Plan

The following chart briefly summarizes the treatment of Creditors and Interest holders under the Plan.³ Amounts listed below are estimated. Actual Claims will vary depending upon the outcome of possible objections to Claims.

CLASS	DESCRIPTION	ESTIMATE OF CLAIM AMOUNTS AND RECOVERIES ⁴	TREATMENT
N/A	ADMINISTRATIVE CLAIMS	Amount: \$986,456.00 Recovery: 100%	CASH EQUAL TO THE ALLOWED AMOUNT OF SUCH CLAIM, UNLESS SUCH HOLDER SHALL HAVE AGREED TO DIFFERENT TREATMENT OF SUCH CLAIM, AT THE SOLE OPTION OF THE DEBTORS OR THE REORGANIZED DEBTORS, AS THE CASE MAY BE: (A) ON OR AS SOON AS PRACTICABLE AFTER THE LATER OF (I) THE EFFECTIVE DATE, OR (II) THE DATE UPON WHICH THE BANKRUPTCY COURT ENTERS A FINAL ORDER DETERMINING OR APPROVING SUCH CLAIM; (B) IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF AGREEMENTS BETWEEN THE HOLDERS OF SUCH CLAIMS AND THE DEBTORS OR THE REORGANIZED DEBTORS, AS THE CASE MAY BE; (C) WITH RESPECT TO ADMINISTRATIVE CLAIMS REPRESENTING OBLIGATIONS INCURRED IN THE ORDINARY COURSE OF THE DEBTORS' BUSINESS, UPON SUCH REGULAR AND CUSTOMARY PAYMENT OR PERFORMANCE TERMS AS MAY EXIST IN THE ORDINARY COURSE OF THE DEBTORS' BUSINESS OR AS OTHERWISE PROVIDED IN THE PLAN; OR (D) WITH RESPECT TO STATUTORY FEES DUE PURSUANT TO 28 U.S.C. § 1930(A)(6), AT ALL APPROPRIATE TIMES, UNTIL THE ENTRY OF A FINAL DECREE OR AN ORDER CONVERTING OR DISMISSING THE CASE.
N/A	PROFESSIONAL FEE CLAIMS	Amount: \$1,221,336.00 Recovery: 100%	UNLESS DIFFERENT TREATMENT IS AGREED UPON BY THE APPLICABLE PROFESSIONAL AND THE DEBTORS, THE DEBTORS SHALL

³ This chart is only a summary of the classification and treatment of Claims and Interests under the Plan. References should be made to the entire Disclosure Statement and the Plan for a complete description of the classification and treatment of Claims and Interests.

⁴ The foregoing estimates are provided solely for informational purposes and shall not constitute an admission as to the Debtors' liability on any Claims asserted against any of their Estates and shall not be binding on the Debtors. The Debtors reserve all rights to object to any Claim on any and all available grounds. The estimated recovery amounts may change based on the actual amount of Claims in each Class that become Allowed Claims.

CLASS	DESCRIPTION	ESTIMATE OF CLAIM AMOUNTS AND RECOVERIES ⁴	TREATMENT
N/A	PRIORITY TAX CLAIMS	Amount: \$73,758.00 Recovery: 100%	PAY PROFESSIONALS FOR ALL OF THEIR RESPECTIVE ACCRUED AND ALLOWED FEES AND REIMBURSEMENT OF EXPENSES ARISING PRIOR TO THE EFFECTIVE DATE AFTER APPROVAL BY THE BANKRUPTCY COURT, PLUS ANY POST-EFFECTIVE DATE FEES.
1	PRIORITY EMPLOYEE CLAIMS	Amount: \$0 Recovery: 100%	ONE OF THE FOLLOWING TREATMENTS: (I) PAYMENT IN FULL WITHOUT INTEREST FROM THE PETITION DATE, ON THE LATER TO OCCUR OF (A) THE EFFECTIVE DATE, OR AS SOON AS PRACTICABLE THEREAFTER, OR (B) THE DATE ON WHICH SUCH CLAIM SHALL HAVE BECOME AN ALLOWED CLAIM; OR (II) DEFERRED CASH PAYMENTS TO THE EXTENT PERMITTED BY SECTION 1129(A)(9) OF THE BANKRUPTCY CODE WITH INTEREST ON THE UNPAID PORTION OF SUCH CLAIM AT THE RATE OF FIVE PERCENT (5%) PER ANNUM, OR SUCH OTHER RATE AS MAY BE DETERMINED BY THE BANKRUPTCY COURT OR AGREED UPON BY THE REORGANIZED DEBTOR(S) AND SUCH HOLDER PROVIDED THAT, IN THE EVENT THE REORGANIZED DEBTORS CHOOSE PAYMENT OPTION (II), THE REORGANIZED DEBTORS MAY PREPAY ANY SUCH CLAIMS AT ANY TIME WITHOUT PREMIUM OR PENALTY; THE DEBTORS ARE NOT CURRENTLY AWARE OF THE EXISTENCE OF ANY PRIORITY TAX CLAIMS AGAINST EITHER DEBTOR
2	MISCELLANEOUS SECURED CLAIMS (EACH SECURED)	Amount: \$0 Recovery: 100%	EACH DEBTOR SHALL ELECT, IN ITS DISCRETION, ONE OF THE FOLLOWING ALTERNATIVE TREATMENTS FOR EACH

CLASS	DESCRIPTION	ESTIMATE OF CLAIM AMOUNTS AND RECOVERIES ⁴	TREATMENT
	CREDITOR IN A SEPARATE SUBCLASS IDENTIFIED AS CLASS 2A, CLASS 2B, ETC.)		SUCH ALLOWED SECURED CLAIM IN A PARTICULAR SUBCLASS: (A) LUNA OR LTI, AS APPLICABLE, WILL LEAVE UNALTERED THE LEGAL, EQUITABLE, AND CONTRACTUAL RIGHTS CONSTITUTING SUCH CLAIM, INCLUDING, WITHOUT LIMITATION, ANY LIENS RELATED THERETO AND, ON THE EFFECTIVE DATE, SUCH CLAIM SHALL BE REINSTATED AND CURED; (B) LUNA OR LTI, AS APPLICABLE, WILL ABANDON OR SURRENDER TO THE HOLDER OF SUCH CLAIM THE PROPERTY OF THE RESPECTIVE ESTATE SECURING SUCH ALLOWED SECURED CLAIM, IN FULL SATISFACTION AND RELEASE OF SUCH CLAIM; OR (C) LUNA OR LTI, AS APPLICABLE, WILL PAY TO THE HOLDER OF SUCH CLAIM CASH EQUAL TO THE AMOUNT OF SUCH CLAIM, OR SUCH LESSER AMOUNT TO WHICH THE HOLDER OF SUCH CLAIM AND THE APPLICABLE DEBTOR SHALL AGREE, IN FULL SATISFACTION AND RELEASE OF SUCH CLAIM; THE DEBTORS ARE NOT CURRENTLY AWARE OF THE EXISTENCE OF ANY MISCELLANEOUS SECURED CLAIMS AGAINST EITHER DEBTOR
3	CARILION CLAIMS	<p>Amount: \$5,000,000.00 plus \$1,225,000.00 of accrued interest not yet due</p> <p>Recovery: 100%</p>	ON THE EFFECTIVE DATE, THE CARILION NOTES SHALL BE REINSTATED AND THE REORGANIZED DEBTORS SHALL CURE AND SATISFY SUCH CLAIMS IN FULL BY THE PAYMENT, IN CASH, WHEN DUE AND PAYABLE UNDER THE CARILION NOTES (NOT TAKING INTO ACCOUNT ANY PRE-EFFECTIVE DATE DEFAULT, IF ANY), OF (A) ACCRUED INTEREST AT THE NON-DEFAULT RATE ESTABLISHED UNDER THE CARILION NOTES, <i>PLUS</i> (B) ANY REASONABLE FEES, COSTS OR CHARGES PROVIDED FOR UNDER THE CARILION NOTES

CLASS	DESCRIPTION	ESTIMATE OF CLAIM AMOUNTS AND RECOVERIES ⁴	TREATMENT
4	UNSECURED CLAIMS	Amount: \$2,066,747.00 Recovery: 100%	EXCEPT TO THE EXTENT THAT A HOLDER OF AN ALLOWED UNSECURED CLAIM SHALL HAVE OTHERWISE AGREED WITH THE DEBTOR(S) IN WRITING, EACH HOLDER OF AN ALLOWED UNSECURED CLAIM SHALL RECEIVE, IN EXCHANGE FOR AND IN FULL AND FINAL SATISFACTION OF SUCH CLAIM, A CASH PAYMENT EQUAL TO THE SUM OF (A) 100% OF THE AMOUNT OF SUCH CLAIM, AND (B) INTEREST AT THE PLAN INTEREST RATE FROM THE PETITION DATE THROUGH THE DATE OF DISTRIBUTION ON SUCH CLAIM OR PORTION THEREOF
5a	HANSEN CLAIMS	Amount Claimed by Hansen: \$36,303,643.00 ⁵ Recovery: 15% to 20% depending on a number of variables, including fair value and present value calculations	\$5 MILLION SECURED NOTES, SUBJECT TO CONDITIONAL SUBORDINATION TO ONE WORKING CAPITAL LENDER; CERTAIN PURCHASE DISCOUNT CREDITS AGGREGATING UP TO \$5 MILLION OVER TIME; ISSUANCE OF 9.9% OF THE LUNA COMMON STOCK WITH A THREE-YEAR WARRANT TO ENABLE HANSEN TO PRESERVE SUCH OWNERSHIP PERCENTAGE; ENTRY OF A DEVELOPMENT AND SUPPLY AGREEMENT BY AND BETWEEN HANSEN AND LUNA (AS DEFINED IN THE HANSEN SETTLEMENT DOCUMENTS); ENTRY OF A LICENSE AGREEMENT BY AND BETWEEN HANSEN AND LUNA (AS DEFINED IN THE HANSEN SETTLEMENT DOCUMENTS); ENTRY OF A CROSS LICENSE AGREEMENT BY AND BETWEEN INTUITIVE AND HANSEN (AS DEFINED IN THE HANSEN SETTLEMENT DOCUMENTS); AND CERTAIN MUTUAL RELEASES.
5b	LITIGATION CLAIMS	Amount: \$13,000.00 Recovery: 100%	EXCEPT TO THE EXTENT THAT A HOLDER OF AN ALLOWED LITIGATION CLAIM SHALL HAVE OTHERWISE AGREED WITH THE DEBTOR(S) IN WRITING, EACH HOLDER OF AN ALLOWED LITIGATION CLAIM SHALL RECEIVE, IN EXCHANGE FOR AND IN FULL AND FINAL SATISFACTION OF SUCH CLAIM, A CASH PAYMENT EQUAL TO THE SUM OF

⁵ This amount is neither an admission by the Debtors that such an amount is valid, allowable or payable, nor is it an admission by Hansen that its rights and claims are not far larger.

CLASS	DESCRIPTION	ESTIMATE OF CLAIM AMOUNTS AND RECOVERIES ⁴	TREATMENT
			(A) 100% OF THE AMOUNT OF SUCH CLAIM, AND (B) INTEREST AT THE PLAN INTEREST RATE FROM THE PETITION DATE THROUGH THE DATE OF DISTRIBUTION ON SUCH CLAIM OR PORTION THEREOF
6	INTERESTS	Amount: All Issued and Outstanding Shares	EACH HOLDER OF AN INTEREST SHALL RETAIN THEIR INTERESTS.

2. Projected Distributions Under the Plan

a. Distributions to Holders of Secured Claims

As stated above, the Plan creates one (1) Class of Secured Claims: Class 2 (Miscellaneous Secured Claims). The Debtors do not believe that there are any Class 2 Miscellaneous Secured Claims.

b. Distributions to Holders of Class 1 Priority Employee Claims, Class 3 Carilion Claims, Class 4 Unsecured Claims and Class 5b Litigation Claims

The Debtors estimate that the amounts of the prepetition Claims in Class 1 (Priority Employee Claims), Class 3 (Carilion Claims), Class 4 (Unsecured Claims) and Class 5b (Litigation Claims) are as follows: Class 1 – \$0; Class 3 – approximately \$6,225,000.00; Class 4 – approximately \$2,066,747.00 (exclusive of potential claims arising from any rejection of executory contracts or unexpired leases rejected pursuant to the Plan, if any); Class 5a – for purposes of this section, as described herein and as set forth in the Hansen Settlement Documents, and Class 5b – \$13,000.00.

Summary of Projected Distributions Under the Plan

Cash Required to for Payments Under the Plan	\$4,061,296.00
Amount of Cash to Fund Distributions on Allowed Administrative Claims, including Professional Fees	\$3,207,791.00
Amount of Cash to Fund Distributions on Allowed Priority Tax Claims	\$73,758.00
Amount of Cash to Fund Distributions on Allowed Class 1 Employee Priority Claims	\$0
Amount of Cash for Distributions on Class 2 Miscellaneous Secured Claims	\$0
Amount of Cash for Distribution on Allowed Class 3 Carilion Claims	\$0 (Reinstated and Paid at Maturity)
Amount of Cash to Fund Distributions on Allowed Class 4 Unsecured Claims	\$1,066,747.00
Amount of Cash to Fund Distributions on Allowed Class 5a Hansen Claims	Notes and discounts to be paid after the Effective Date, issuance of 9.9% of Luna Common Stock, and entry of the Hansen Settlement Documents.
Amount of Cash to Fund Distributions on Allowed Class 5b Litigation Claims	\$13,000.00
TOTAL	\$4,061,296.00

III.

HISTORY, ORGANIZATION AND ACTIVITIES OF THE DEBTORS

A. Description of the Debtors⁶

The Debtors are engaged in the research, development and commercialization of innovative technologies in the areas of sensing and instrumentation products and health care products. The Debtors have a disciplined and integrated business model that is designed to accelerate the process of bringing new and innovative products to market. The Debtors identify technologies that can fulfill large and unmet market needs and then take these technologies from the applied research stage through commercialization.

⁶ If for any reason the Plan and Hansen Settlement Documents fail to become effective, Hansen has reserved the right to dispute the truth or accuracy of any of the Debtors' statements in any subsequent plan or disclosure statement.

The Debtors are headquartered in Roanoke, Virginia and currently employ 202 full and part-time U.S. employees in hourly, salaried, supervisory, management, and administrative positions to perform the functions necessary to effectively and efficiently operate the Debtors' business. The Debtors' employ 186 full-time and 16 part-time employees. In addition, nearly half of the Debtors' employees hold either Ph.D.'s or other advanced degrees.

The Debtors are organized into two main groups, which work closely together to turn ideas into products: the Debtors' "Technology Development Division," and the Debtors' "Product and License Division." These groups work together through all product development stages, including: (i) inventing and searching for emerging technologies based on market needs; (ii) conducting applied research; (iii) developing and commercializing innovative products; and (iv) applying proven technologies and building new products for specific market opportunities.

Technology Development Division

The Technology Development Division provides applied research to customers in the Debtors' primary areas of focus and accounts for approximately two-thirds of the Debtors' revenue. The focus areas today consist of advanced technology in (1) optical and acoustic sensing and instrumentation, (2) nanomaterials, (3) secure communications and computing for the defense department, and (4) advanced polymers. The Technology Development Division competes to win contracts in these areas on a fee-for-service basis from government agencies and industrial customers who seek innovative solutions to practical problems that require products based on new technologies. The Technology Development Division derives its revenue from

these services. This division has a successful track record of evaluating innovative technologies to address the needs of the Debtors' customers. The Technology Development Division identifies these needs by utilizing the Debtors' knowledge of the markets in the Debtors' areas of focus and by consulting with major government entities, leading research universities, federal laboratories and large corporations. The Debtors also use this network to obtain favorable technology transfer agreements, contract research revenues and strategic partnerships for the products that the Debtors develop based on the Debtors' applied research.

Through the Technology Development Division, the Debtors seek to continue to maximize the benefits they derive from their contract research business, including revenue generation and identification of promising technologies for further development. The Debtors focus primarily on opportunities with the highest commercial potential. The Debtors take a disciplined approach to contract research to try to ensure that the costs of contracts the Debtors undertake are fully covered. This approach enables the Debtors to cover the costs of riskier stage technology development with third-party funding. For the fiscal year ending December 31, 2008, the Debtors derived approximately \$26.8 million in gross revenues from this business segment and approximately \$6.9 million in gross revenues for the first quarter of 2009.

Products and License Division

Through the Products and License Division, the Debtors capitalize on the work created by the Technology Development Division. The Debtors create value through the Products and License Division by (1) building and selling stand-alone Luna-branded products, (2) providing component parts for integration into our customers' products, and (3) licensing of the technology to third parties.

The Products and License Division derives its revenue from product sales, funded product development and technology licenses. The primary source of revenue for the Products and License Division is the sale of Luna-branded products around the world. The products sold by the Debtors today provide for an efficient design, manufacturing, installation, and maintenance of high speed optical telecommunications networks, and provide a completely unique set of measurement data generally not available by other competitor sources in the world. The majority of these revenues are from the manufacturing and distribution of telecommunication instrumentation from the Debtors' acquisition of Luna Technologies in 2005. Luna Technologies developed and maintains an optical platform that can address many different markets. The Debtors' platform was licensed by the Debtors from technology originally invented at NASA Langley Research Center ("NASA LaRC"). The Debtors spent more than 10 years developing this platform in order to provide unique capabilities for the telecommunications world, as well as other applications described below.

Other applications of the Debtors' optical platform pursuant to which the Debtors either sell products or develop new products for existing needs include the measurement of key parameters needed during the extraction of oil and gas, monitoring the shape of both robotic and non-robotic surgical tools, monitoring energy generation equipment, including gas and wind turbines, and monitoring military needs in aircraft and submarine missions.

In addition, the Debtors' Products and License Division also manufactures and distributes an FDA cleared emboli detection system, which incorporates an acoustic technology also licensed from NASA LaRC. This device is used to measure emboli that are created during heart surgery that may go to the brain and potentially cause permanent damage and loss of brain

function after surgery. The emboli detection device is being used by key opinion leaders around the world to change surgical procedures in a manner that will reduce permanent brain damage for patients undergoing heart surgery such as bypass and heart valve replacements. Additionally, recent developments by the Debtors, working with the largest heart surgery instrument maker, have demonstrated a technique to remove emboli using acoustic energy and expects to launch this product in the near future.

Certain nanomaterial expertise is also unique to the Debtors through a license of a breakthrough discovery at Virginia Tech. The Debtors have an exclusive license for a class of new molecules. This molecule and related versions of the cage of carbon atoms called a “fullerene” are manufactured in a recognized world-leading nanomaterial facility in Danville, Virginia. The Debtors are developing diagnostics to enhance the early detection and diagnosis of diseases by targeting the nanomaterial to specific disease states such as cancer cells that can be seen using magnetic resonance imaging (MRI).

The Debtors are also partners with major universities, Virginia Commonwealth University and Harvard to develop therapeutics using our proprietary nanomaterials for the treatment of diseases such as asthma, Alzheimer’s, arthritis, diabetes and other disease that cause damage through free radicals.

The Debtors had been awarded a large contract through the Department of Defense for classified work regarding secure communication and computing.

The Debtors’ advanced polymers are also being demonstrated for use in military applications and through partnerships with major US material suppliers.

Together these optical, acoustic, nanomaterial, secure communication and computing, and polymer technology platforms provide products that are generally not available by other sources. They impact lives today and will have a larger positive impact on the quality of life in the future, as well as providing growth in high quality jobs in the more rural parts of Virginia.

For the fiscal year ending December 31, 2008, the Debtors derived approximately \$10.1 million in gross revenues from their products development business segment, and derived approximately \$1.6 million in gross revenues for the first quarter of 2009 from this business segment.

Company History.

Luna Innovations was incorporated in the Commonwealth of Virginia in 1990 as FEORC, Inc., and was a fiber optic sensing company. In 1998 FEORC, Inc. changed its name to F&S Technologies, Inc. In 1999, it changed its name to Luna and began diversifying its technology solutions to include ultrasonics, polymers and nanomaterials. In 2003, the company reincorporated through a merger as a Delaware corporation and retained the name Luna Innovations Incorporated. Luna Innovations Incorporated, became a public company on the NASDAQ in June 2006.

Luna Technologies, Inc. was originally incorporated on July 24, 1998, in the Commonwealth of Virginia as a wholly-owned subsidiary of Luna Innovations Incorporated. On December 11, 2000, Luna Technologies, Inc., was reincorporated in the State of Delaware. Luna Innovations re-acquired Luna Technologies, Inc., in 2005.

Luna is headquartered at 1 Riverside Circle, Suite 400, Roanoke, Virginia 24016. Luna has three additional facilities: Luna Technologies Division, 3157 State St., Blacksburg, Virginia; Luna Charlottesville, 706 Forest St., Suite A, Charlottesville, Virginia 22903 and Luna nanoWorks Division, 521 Bridge St., Danville, Virginia 24541.

Capital Structure

For the fiscal year ending December 31, 2008, the Debtors reported approximately \$34.0 million in assets and \$19.7 million liabilities. For the fiscal year ending December 31, 2008, the Debtors recorded gross revenues of approximately \$36.4 million. For the same period, the Debtors reported net operating losses of approximately \$7.3 million, resulting from operating expenses of approximately \$21.3 million and product, license, and technology development costs of approximately \$22.9 million.⁷

Equity and Significant Indebtedness

Luna is a Delaware Corporation and owns 100% of the outstanding shares of its subsidiary, LTI. The stock of Luna is publicly held and traded on the NASDAQ Global Market under the symbol "LUNA" since June 2, 2006. As of December 31, 2008, there were approximately 2,200 stockholders of record of Luna's common stock.

The Debtors have \$5 million in unsecured convertible-note debt owed to Carilion Clinic. The Debtors also owe approximately \$2.45 million in trade debt as of the Petition Date. In addition, the Debtors previously had a \$10 million dollar credit facility with Silicon Valley

⁷ The costs of revenues associated with technology development revenues consists of costs associated with performing the related research activities, including direct labor, amounts paid to subcontractors and overhead allocated to technology development activities. The costs of revenues associated with product sales and license revenues consists of license fees for use of certain technologies, product manufacturing costs including all direct material and direct labor costs, amounts paid to contract manufacturers, manufacturing, shipping and handling, provisions for product warranty and inventory obsolescence, as well as overhead allocated to these activities.

Bank secured by substantially all of the Debtors' assets. Prepetition, the Debtors paid off the \$4 million balance on their credit facility and terminated it. The Debtors had been able to manage their capital and liquidity needs before a recent jury verdict in the litigation in California with Hansen Medical, Inc.

B. Events Leading to Bankruptcy.

In early 2006, representatives from Hansen and Luna began discussions regarding a collaboration involving the use of Luna's fiber optic shape sensing technology in Hansen's robotic catheter.⁸ On April 1, 2006, Hansen and Luna entered into a nondisclosure agreement (the "NDA"),⁹ and on September 28, 2006, Hansen and Luna entered into a Terms & Conditions Agreement (the "TCA") under which Luna performed certain work for Hansen involving fiber optic shape sensing.¹⁰ The TCA addressed, among other things, ownership of intellectual property developed under the TCA, and potential additional work going forward. On June 13, 2007, Luna announced that it was entering into an exclusive agreement with Intuitive Surgical, Inc. ("Intuitive") to provide fiber optic shape sensing for Intuitive's product.¹¹

On June 22, 2007, Hansen filed suit against Luna (the "Hansen Litigation") in the Superior Court of the State of California, County of Santa Clara (the "California Court"). The

⁸ Hansen continues to dispute the propriety and consequences of Luna's actions in connection with this collaboration, and Luna continues to dispute Hansen's contentions. Hansen and Luna nonetheless agree that absent a mutually agreeable settlement, ongoing protracted litigation would ensue.

⁹ To the extent the documents referred to herein have already been provided to the Bankruptcy Court, or remain currently under seal, such documents will be referenced either to the Consolidated Appendix (the "Con. App."), Docket No., or to the seal order, as appropriate. Pursuant to this Court's *Order Authorizing Debtors to File Documents Under Seal* [Docket No. 74], a copy of the NDA has not been attached. A copy of the NDA was previously provided to the Court by the Debtors.

¹⁰ Pursuant to this Court's *Order Authorizing Debtors to File Documents Under Seal* [Docket No. 74], a copy of the TCA has not been attached.

¹¹ A copy of the Luna-Intuitive Agreement has not been attached as it was already provided to the Bankruptcy Court by Luna during the Stage One Estimation Litigation (as defined below) hearing, which took place on September 11, 2009.

complaint in the Hansen Litigation (as amended, the “Hansen Complaint”)¹² included claims for (a) trade secret misappropriation, (b) breach of the NDA, (c) breach of the TCA, (d) breach of the covenant of good faith and fair dealing, (e) conversion, (f) intentional interference with contract, (g) inducing breach of fiduciary duty, and (h) fraud, and included claims for (1) damages, (2) unjust enrichment, (3) specific performance, (4) declaratory judgment, (5) injunctive relief, (6) punitive damages, and (7) costs and attorneys’ fees. After pre-trial motion practice, including demurrers and summary adjudication motions, the parties went to trial on several claims. The relevant history and facts, the applicable law, and many other issues were the subject of litigation between the Debtors and Hansen, as documented in a substantial record in the Hansen Litigation and in this Bankruptcy Case which has been set forth by each side in the Stage One Estimation Litigation as the Stage One Estimation Litigation Record (as defined below).

Trial of the Hansen Litigation began on March 20, 2009. Hansen asserted that Luna was liable to Hansen for at least \$36,788,826, including \$580,988 in out-of-pocket damages, \$26,012,057 for lost profit damages, and \$10,195,771 for unjust enrichment. On April 21, 2009, the jury entered a verdict (the “Jury Verdict”) finding Luna liable for trade secret misappropriation, breach of the NDA, breach of four provisions of the TCA (including the obligation to license its intellectual property to Hansen), and breach of the covenant of good faith and fair dealing,¹³ finding that Luna’s trade secret misappropriation had been willful or malicious. The jury also found in Luna’s favor on Hansen’s fraud claim. The Jury Verdict totaled \$36,303,643, including \$95,815 in out-of-pocket damages, \$26,012,057 for lost profits, and \$10,195,771 in unjust enrichment.

¹² See Hansen Complaint at Con. App. Tab 1.

¹³ See Con. App. at Tab 20.

After the Jury Verdict, Luna filed post-trial motions, including motions for judgment notwithstanding the Jury Verdict and motions for new trial. Hansen filed a motion for specific performance, injunctive relief, and punitive damages. All of the post-trial motions were briefed. Before the hearing on the motions, Luna filed its Chapter 11 Cases, thereby staying the Hansen Litigation. As a result, judgment has not been entered on the Jury Verdict, and no appeals have been taken in the Hansen Litigation.¹⁴

IV.

THE REORGANIZATION CASE

A. The Voluntary Petitions and Notice of Commencement of Case

On the Petition Date, the Debtors commenced their Chapter 11 Cases by filing their respective voluntary petitions for relief under the Bankruptcy Code in the Bankruptcy Court. Since the Petition Date, the Debtors have continued to operate as debtors in possession subject to the supervision of the Bankruptcy Court in accordance with the Bankruptcy Code.

An immediate effect of the filing of the bankruptcy petitions was the imposition of the automatic stay under the Bankruptcy Code which, with limited exceptions, enjoined the commencement or continuation of all collection efforts by creditors, the enforcement of liens against the Debtors and the prosecution of litigation against the Debtors. This injunction remains in effect, unless modified or lifted by order of the Bankruptcy Court, until such matters are addressed through the Plan.

¹⁴ The Debtors and Hansen disagree on the substantive merits underlying the claims in the Hansen Litigation, among many other things.

B. Professionals Employed by the Debtors

Since the Petition Date, the Bankruptcy Court has authorized the Debtors' employment of various attorneys, accountants and other professionals. In particular, the Debtors employed the following Professionals (the "Debtors' Professionals") to assist them in carrying out their duties and to otherwise represent their interests in the Chapter 11 Cases: Pachulski Stang Ziehl & Jones LLP as general bankruptcy counsel; Magee, Foster, Goldstein & Sayers, P.C. as co-general bankruptcy counsel; and Munger, Tolles & Olsen, LLP as special counsel, Epiq Bankruptcy Solutions, LLC as the Claims Agent; and Grant Thornton LLP as auditor and financial adviser. The Debtors' retention of these professionals was approved by the Bankruptcy Court. In addition, the Debtors also employed various Professionals in the ordinary course of their business and pursuant to applicable order of the Bankruptcy Court, as described below.

C. Committee of Unsecured Creditors Not Appointed

An official committee of unsecured creditors has not been appointed in these cases.

D. First-Day Motions and Other Related Relief¹⁵

On the Petition Date, the Debtors sought approval from the Bankruptcy Court of certain motions and applications (collectively, the "First Day Motions"), which the Debtors filed simultaneously with their petitions for relief commencing the Chapter 11 Cases. The Debtors

¹⁵ Unless otherwise defined herein or in the Plan, capitalized terms used in the descriptions of motions and applications shall have the meanings ascribed to such terms in such motion or application.

sought this relief to minimize disruption of their business operations as a result of the chapter 11 filings and to establish procedures in the Chapter 11 Cases in connection with the administration of the Debtors' bankruptcy cases. The Debtors' First Day Motions included the Debtors' motions for: (1) procedural joint administration of the Chapter 11 Cases; (2) maintenance of certain of the Debtors' bank accounts and continued use of the Debtors' cash management system and business forms, and waivers of certain deposit and investment requirements; (3) payment of certain prepetition wages and salaries and maintenance of employee benefits obligations; (4) authorization for the Debtors to pay certain prepetition sales and use taxes and similar taxes in the ordinary course of business; (5) authorization for the Debtors to honor certain prepetition obligations to customers and to otherwise continue customer practices and programs in the ordinary course of business; (6) an order prohibiting utilities from altering, refusing or discontinuing service and establishing procedures with respect to adequate assurance of future performance; and (7) authorization for the Debtors' use of cash collateral and to provide adequate assurance to those parties asserting an interest in cash collateral.

Contemporaneously with the filing of the Original Disclosure Statement, the Debtors also filed their motion requesting this Court to estimate the Hansen Claims for all purposes (the "Hansen Claims Determination"), including allowance or disallowance of claims, voting, feasibility and other plan confirmation issues, and distributions (the "Hansen Estimation Motion"). As set forth in the proposed order attached to the Hansen Estimation Motion, the Debtors proposed that the Bankruptcy Court schedule a one-day evidentiary hearing and set dates for the parties to file briefs and written evidence in support of their respective positions on the appropriate estimation of the Hansen Claims for all purposes. The Debtors asserted that the Hansen Claims should be estimated at no more than \$1,258,177.

Hansen appeared at the First Day Hearing to oppose the Hansen Estimation Motion and later filed formal opposition, as well as motions for relief from stay and abstention to allow the Hansen Litigation to be resolved in the California courts. At the First Day Hearing, the Bankruptcy Court ordered a two-stage process for resolving these disputes as described below. The first-stage hearing took place on September 11, 2009, but the Court, at the request of the parties, has not issued a ruling to date in order to permit settlement discussions to go forward.

E. Other Significant Events During the Chapter 11 Cases

1. Filing of Schedules and Statements

Contemporaneously with the filing the Debtors' petitions, each of the Debtors filed their Schedules of Liabilities (the "Schedules") and Statement of Financial Affairs (the "SOFAs").

2. Meeting of Creditors

The U.S. Trustee conducted the meeting of creditors for these Chapter 11 Cases pursuant to section 341 of the Bankruptcy Code on August 19, 2009.

3. Establishment of Claim Bar Dates

In a chapter 11 case, prepetition claims against the debtor are generally established either as a result of being listed in the debtor's schedules of liabilities or through assertion by a creditor in a timely filed proof of claim. Claims asserted by creditors are either allowed or disallowed. If a claim is allowed, the claim will be recognized and treated pursuant to a plan. If a claim is disallowed, the creditor will have no right to obtain any recovery on or to

otherwise enforce the claim against the debtors. Disallowed claims include claims disallowed by final order of the Bankruptcy Court, claims listed on a debtor's Schedules as zero or as contingent, disputed, or unliquidated and as to which no proof of claim has been timely filed or deemed timely filed, and claims not listed in the Schedules and for which no proof of claim has been timely filed or deemed timely filed.

As noted above, the Debtors filed their Schedules contemporaneously with the filing of this Disclosure Statement, which Schedules, among other things, scheduled prepetition claims against the Debtors based on the Debtors' books and records. Also contemporaneously with the filing of this Disclosure Statement, the Debtors filed their motion for an order (1) fixing the bar date for the filing of proofs of claim, (2) fixing the bar date for the filing of proofs of claim by governmental units, (3) fixing the bar date for certain administrative claims, (4) designating the form and manner of notice thereof, and (5) granting related relief (the "Bar Date Motion"). Pursuant to the Bar Date Motion, the Debtors sought to establish the following deadlines by which creditors would be required to file proofs of claim in these Chapter 11 Cases: (a) August 31, 2009 as the general bar date for the filing of prepetition claims; and (b) the date that is one hundred eighty (180) days after the Petition Date as the deadline for governmental units to file prepetition claims against the Debtors. The Bankruptcy Court approved the Bar Date Motion and fixed the bar dates as requested. The Debtors and Hansen have consensually extended the Bar Date for Hansen until December 11, 2009. Schedules of the filed proofs of claim asserted against the Debtors are maintained by the Claims Agent.

4. Stage One Estimation Litigation.

Pursuant to the Hansen Estimation Motion the Debtors moved the Bankruptcy Court to estimate the final value of the Hansen Claims for all purposes in an amount not to exceed \$1,258,177. Hansen opposed the Hansen Estimation Motion and filed, among other things, a motion for relief from the automatic stay, requesting that the California Court be permitted to hear post-trial motions and issue a judgment in the Hansen Litigation. The Bankruptcy Court set a combined hearing for September 11, 2009, to address stage one of the estimation dispute by hearing argument regarding: (i) Luna's request pursuant to the Hansen Estimation Motion to estimate and fix the Hansen Claims for all purposes under Section 502(c), and Hansen's opposition thereto; and (ii) Hansen motions seeking relief from the automatic stay, permissive abstention and other relief (collectively, the "Stage One Estimation Litigation").

The Bankruptcy Court heard argument by the Debtors and Hansen on the Stage One Estimation Litigation on September 11, 2009, but in accordance with the parties' requests, has not yet issued a ruling. Shortly after the hearing on September 11, 2009, Hansen and the Debtors began settlement discussions. On October 8, 2009 and subsequent dates, the Bankruptcy Court agreed to delay entering any orders on the Stage One Estimation Litigation, ultimately to December 11, 2009. Furthermore, beginning on October 8, 2009, the parties and the Bankruptcy Court agreed to extend the deadline several times for Hansen to file its proof of claim.

Following that process, the Debtors and Hansen negotiated the proposed Hansen Settlement Documents, the specific terms of which are incorporated by reference into the Plan and described below. The Hansen Settlement Documents, effective upon the Effective Date of the Plan, generally provide for the Debtors and Hansen to jointly support an amended plan of

reorganization that embodies the terms and conditions contained in the Hansen Settlement Documents. Pursuant to the Hansen Settlement Documents, among other things, the Debtors and Hansen will settle the Hansen Litigation on the terms set forth in the Hansen Settlement Documents, and Hansen, with the agreement of the Debtors, will dismiss the Hansen Litigation with prejudice. Pursuant to the Hansen Settlement Documents, (1) the Debtors shall pay to Hansen a total aggregate payment of \$5 million in the form of a secured promissory note payable over approximately 4 years, which note can be subordinated under defined conditions to a senior working capital facility obtained by Luna; (2) on the Effective Date, Luna Innovations, Inc. shall deliver to Hansen a certificate representing shares of Common Stock, which, as of the Effective Date, shall represent not less than 9.9% of the outstanding capital stock of Luna, calculated at the time of such issue and delivery to Hansen, as well as a warrant to protect Hansen from dilution of its ownership interest for a period of 3 years; (3) pursuant to a License Agreement Between Intuitive and Luna, Luna shall license to Intuitive certain technology and intellectual property within the medical robotics field and Luna and Intuitive shall amend their existing development and supply agreement to accommodate such license and an equivalent license to Hansen within the medical robotics field pursuant to the License Agreement Between Hansen and Luna; (4) pursuant to a License Agreement Between Hansen and Luna, Luna and Hansen shall grant and confirm certain rights and licenses to certain technology and intellectual property within the medical robotics field and certain non-robotic fields; (5) pursuant to a Cross License Agreement Between Intuitive and Hansen, Intuitive and Hansen shall license to each other certain technology and intellectual property in the medical robotics field; (6) the Debtors and Hansen will enter into a Development and Supply Agreement setting forth the specific terms for the

development and supply by Luna of certain products for Hansen as well as certain product discounts up to \$5 million; and (7) each of Hansen and the Debtors, on behalf of themselves, their predecessors, successors, assigns, and affiliates shall release and discharge the other from any and all claims made by the other in the Hansen Litigation, although Hansen shall retain certain intellectual property and non-monetary rights without any impairment by the release, and the Hansen Litigation shall be dismissed with prejudice.

V.

DESCRIPTION OF THE PLAN

A DISCUSSION OF THE PRINCIPAL PROVISIONS OF THE PLAN AS THEY RELATE TO THE TREATMENT OF CLASSES OF ALLOWED CLAIMS AND INTERESTS IS SET FORTH BELOW. THE DISCUSSION OF THE PLAN WHICH FOLLOWS CONSTITUTES A SUMMARY ONLY, AND SHOULD NOT BE RELIED UPON FOR VOTING PURPOSES. YOU ARE URGED TO READ THE PLAN IN FULL IN EVALUATING WHETHER TO ACCEPT OR REJECT THE DEBTORS' PROPOSED PLAN OF REORGANIZATION. IF ANY INCONSISTENCY EXISTS BETWEEN THIS SUMMARY AND THE PLAN, THE TERMS OF THE PLAN AND THE DOCUMENTS DESCRIBED THEREIN WILL CONTROL.

A. Description Of Classes

The Plan divides Creditors and Interests into Classes. Creditors with similar Claims are placed in the same Class as summarized below:

Class 1 Claims. Class 1 consists of Priority Employee Claims against the Debtors.

Class 2 Claims. Class 2 consists of Miscellaneous Secured Claims (each secured creditor in a separate subclass identified as Class 2A, Class 2B, etc.).

Class 3 Claims. Class 3 consists of the Carilion Claims.

Class 4 Claims. Class 4 of Unsecured Claims other than Administrative Claims, Priority Employee Claims, Carilion Claims, Hansen Claims, and Litigation Claims.

Class 5a Claims. Class 5a consists of the Hansen Claims.

Class 5b Claims. Class 5b consists of Litigation Claims.

Class 6 Interests. Class 6 consists of Interests in the Debtors.

B. Treatment of Classified Claims

Class 1 (Priority Employee Claims). Each holder of an Allowed Priority Employee Claim shall, unless the holder of such Claim shall have agreed to different treatment of such Claim, receive a Cash payment by the Reorganized Debtors in an amount equal to the difference between (i) such Allowed Employee Priority Claim, and (ii) the amount of any Permitted Employee Payments made to the holder of such Claim, on the latest of: (a) the Effective Date, or as soon thereafter as practicable; (b) such date as may be fixed by the Bankruptcy Court, or as soon thereafter as practicable; (c) the tenth Business Day after such Claim is Allowed, or as soon thereafter as practicable; and (d) such date as the holder of such Claim and the Reorganized Debtors may agree.

Class 2 (Miscellaneous Secured Claims). On or before the date of a distribution to each holder of an Allowed Secured Claim in Class 2, each Debtor shall elect, in its discretion,

one of the following alternative treatments for each such Allowed Secured Claim in a particular subclass: (a) reinstatement—Luna or LTI, as applicable, will leave unaltered the legal, equitable, and contractual rights constituting such Claim, including, without limitation, any Liens related thereto and, on the Effective Date, such Claim shall be reinstated and cured; (b) abandonment or surrender—Luna or LTI, as applicable, will abandon or surrender to the holder of such Claim the property of the respective Estate securing such Allowed Secured Claim, in full satisfaction and release of such Claim; or (c) Luna or LTI, as applicable, will pay to the holder of such Claim Cash equal to the amount of such Claim, or such lesser amount to which the holder of such Claim and the applicable Debtor shall agree, in full satisfaction and release of such Claim. The Debtors are not currently aware of the existence of any Class 2 Claims against either Luna or LTI.

Class 3 Claims (Carilion Claims). The Plan shall leave unaltered the legal, equitable, and contractual rights constituting the Carilion Claims. On the Effective Date, the Carilion Notes shall be reinstated and the Reorganized Debtor shall cure and satisfy such Claims in full by the payment, in Cash, when due and payable under the Carilion Notes (not taking into account any pre-Effective Date default, if any), of (a) accrued interest at the non-default rate established under the Carilion Notes, *plus* (b) any reasonable fees, costs or charges provided for under the Carilion Notes.

Class 4 (Unsecured Claims). Except to the extent that a holder of an Allowed Unsecured Claim shall have otherwise agreed with the Debtor(s) in writing, each holder of an Allowed Unsecured Claim shall receive, in exchange for and in full and final satisfaction of such Claim, a Cash payment equal to the sum of (a) 100% of the amount of such Claim, and (b) interest at the Plan Interest Rate from the Petition Date through the date of Distribution on such Claim or portion thereof.

Class 5a (Hansen Claims). The Hansen Claims and the Hansen Nonmonetary Rights shall be resolved as set forth in the Hansen Settlement Documents, which generally provide a (i) \$5 million secured note, subject to conditional subordination to one working capital lender; (ii) certain purchase discount credits on products supplies aggregating to \$5 million over time; (iii) issuance of 9.9% of Luna Common Stock, calculated at the time of such issuance to Hansen, with a three-year warrant enabling Hansen to preserve 9.9% ownership of Luna; (iv) entry of a Development and Supply Agreement by and between Hansen and the Debtors; (v) entry of a License Agreement Between Hansen and Luna; (vi) entry of a Cross License Agreement Between Hansen and Intuitive; and (vii) certain mutual releases. Hansen's treatment will also include any additional rights or protections provided in the Plan and in the Confirmation Order.

Class 5b (Litigation Claims). Except to the extent that a holder of an Allowed Litigation Claim shall have otherwise agreed with the Debtor(s) in writing, each holder of an Allowed Litigation Claim shall receive, in exchange for and in full and final satisfaction of such Claim, a Cash payment equal to the sum of (a) 100% of the amount of such Claim, and (b) interest at the Plan Interest Rate from the Petition Date through the date of Distribution on such Claim or portion thereof.

Class 6 (Interests). Each holder of an Interest shall retain unaltered the legal, equitable and contractual rights to which such interests entitle such holder and such interests shall be fully reinstated.

C. Treatment Of Unclassified Claims

Administrative Claims.

Each Administrative Claim shall, unless the holder of such Claim shall have agreed to different treatment of such Claim, be paid in full in Cash by the Reorganized Debtors on the latest of: (a) the Effective Date, or as soon thereafter as practicable; (b) such date as may be fixed by the Bankruptcy Court, or as soon thereafter as practicable; (c) the tenth Business Day after such Claim is Allowed, or as soon thereafter as practicable; and (d) such date as the holder of such Claim and the Reorganized Debtors may agree.

All requests for payment of Administrative Claims must be filed by the Administrative Claim Bar Date or the holders thereof shall be forever barred from asserting such Administrative Claims against the Debtors or the Reorganized Debtors or from sharing in any distribution under the Plan. Holders of Administrative Claims based on liabilities incurred in the ordinary course of the Debtors' business following the Petition Dates shall not be required to comply with the Administrative Claim Bar Date, provided that, (i) such holders have otherwise submitted an invoice, billing statement or other evidence of indebtedness to the Debtors in the ordinary course of business, and (ii) such Claims are not past due according to their terms.

Priority Tax Claims.

Each Allowed Priority Tax Claim shall, unless the holder of such Claim shall have agreed to different treatment of such Claim, (i) be paid in full in Cash, without interest, by the Reorganized Debtors on the latest of: (a) the Effective Date, or as soon thereafter as practicable; (b) such date as may be fixed by the Bankruptcy Court, or as soon thereafter as practicable; (c) the tenth Business Day after such Claim is Allowed, or as soon thereafter as

practicable; and (d) such date as the holder of such Claim and the Reorganized Debtors may agree, or (ii) receive deferred cash payments to the extent permitted by Section 1129(a)(9) of the Bankruptcy Code with interest on the unpaid portion of such Claim at the statutory rate under applicable nonbankruptcy law or at a rate to be agreed upon by the Reorganized Debtors and the appropriate governmental unit or, if they are unable to agree, to be determined by the Bankruptcy Court; provided, however, that the Reorganized Debtors may prepay any or all such Claims at any time, without premium or penalty. For the purpose of option (ii), the payment of each Allowed Priority Tax Claim shall be made in equal quarterly installments with the first installment due on the latest of: (i) the first Business Day following the end of the first full calendar quarter following the Effective Date, (ii) the first Business Day following the end of the first full calendar quarter following the date an order allowing such claim becomes a Final Order, and (iii) such other time or times as may be agreed with the holder of such claim. Each installment shall include simple interest on the unpaid balance of the Allowed Priority Tax Claim, without penalty of any kind, at the non-default rate of interest prescribed, agreed or determined under option (ii).

Professional Fee Claims.

Each Professional seeking an award by the Bankruptcy Court of Professional Fees: (a) must file its final application for allowance of compensation for services rendered and reimbursement of expenses incurred through the Effective Date on or before the Professional Fees Bar Date; and (b) if the Bankruptcy Court grants such an award, each such Person will be paid in full in Cash in such amounts as are allowed by the Bankruptcy Court as soon thereafter as practicable. All final applications for allowance and disbursement of Professional Fees must be

in compliance with all of the terms and provisions of any applicable order of the Bankruptcy Court, including the Confirmation Order. The fees and expenses of Professionals incurred on and after the Effective Date shall be Reorganized Debtor Expenses payable according to Section 5.2.3 of the Plan.

Payment of United States Trustee Fees.

All outstanding amounts due under 28 U.S.C. § 1930 that have not been paid shall be paid by the Debtors on or before the Effective Date. Thereafter, the Reorganized Debtors shall pay any statutory fees due pursuant to 28 U.S.C. § 1930(a)(6) and such fees shall be paid until entry of a final decree or an order converting or dismissing the Chapter 11 Cases.

D. Implementation Of The Plan

The Plan shall be implemented on the Effective Date. In addition to the provisions set forth elsewhere in this Disclosure Statement regarding means of execution, the following shall constitute the principal means for the implementation of the Plan:

1. Retention of Property of the Estates.

Upon the Effective Date, (a) Reorganized Luna shall be vested with all right, title and interest in the Luna Assets for the purposes set forth in the Plan, and (b) pursuant to Section 1123(b)(3) of the Bankruptcy Code, Reorganized Luna shall retain and enforce all Retained Claims and Defenses belonging to Luna or its Estate. Likewise, on the Effective Date, (a) Reorganized LTI shall be vested with all right, title and interest in the LTI Assets for the purposes set forth in the Plan, and (b) pursuant to Section 1123(b)(3) of the Bankruptcy Code, Reorganized LTI shall retain and enforce all Retained Claims and Defenses belonging to LTI or its Estate. The term "Retained Claims and Defenses" under the Plan excludes claims and

defenses that have been or are otherwise released or settled (i) pursuant to a Final Order entered before the Effective Date, or (ii) pursuant to the Hansen Settlement. Luna and LTI shall each continue to maintain their respective separate corporate existence for all purposes under the Plan with all the powers of a corporation under applicable law in the jurisdiction in which each of them is incorporated.

2. Postconfirmation Operations of the Debtors

On and after the Effective Date, each of the Reorganized Debtors shall continue to engage in business and may use, acquire and dispose of the Luna Assets and the LTI Assets, respectively, without supervision by the Bankruptcy Court and free of any restrictions under the Bankruptcy Code or the Bankruptcy Rules, except for the retained jurisdiction under the Plan or Confirmation Order, including as to the Settlement Documents. In addition, upon the Effective Date, the Debtors' Charters shall each be deemed amended to prohibit the issuance by the Debtors of nonvoting securities to the extent required under Section 1123(a)(6) of the Bankruptcy Code, subject to further amendment of such charters as permitted by applicable law. Following the Effective Date, all Reorganized Debtor Expenses and Settlement Document debts may be paid by the Reorganized Debtors in the ordinary course of business without further notice to Creditors or approval of the Bankruptcy Court.

3. Management of Luna.

On and after the Effective Date, the management, control and operation of Reorganized Luna shall become the general responsibility of the board of directors of Reorganized Luna. Unless otherwise specified in the Plan Supplement, the initial board of directors of Reorganized Luna shall continue to be composed of the current Luna Directors.

Each of the members of such initial board of directors shall serve in accordance with applicable nonbankruptcy law and Reorganized Luna's Charter, as the same may be amended from time to time. From and after the Effective Date, the members of the board of directors of Reorganized Luna shall be selected and determined in accordance with the provisions of applicable law and Reorganized Luna's Charter. Entry of the Confirmation Order shall ratify and approve all actions taken by the Luna Directors from the Petition Date through and until the Effective Date.

The initial officers of Reorganized Luna shall continue to be composed of the current Luna Officers. Upon and following the Effective Date, the Luna Officers shall be deemed appointed to serve as officers of Reorganized Luna without further action under applicable law, regulation, order or rule including, without limitation, any action by the stockholders of Reorganized Luna or the Luna Directors. Each of the Luna Officers shall serve in accordance with applicable nonbankruptcy law, any employment agreement with Reorganized Luna, and Reorganized Luna's Charter, as the same may be amended from time to time.

4. Management of LTI.

On and after the Effective Date, the management, control and operation of Reorganized LTI shall become the general responsibility of the board of directors of Reorganized LTI. Unless otherwise specified in the Plan Supplement, the initial board of directors of Reorganized LTI shall continue to be composed of the current LTI Director. The member of such initial board of directors shall serve in accordance with applicable nonbankruptcy law and Reorganized LTI's Charter, as the same may be amended from time to time. From and after the Effective Date, the members of the board of directors of Reorganized LTI shall be selected and determined in accordance with the provisions of applicable law and Reorganized LTI's Charter. Entry of the Confirmation Order shall ratify and approve all actions taken by the LTI Director from the Petition Date through and until the Effective Date.

The initial officer of Reorganized LTI shall continue to be composed of the current LTI Officer. Upon and following the Effective Date, the LTI Officer shall be deemed appointed to serve as an officer of Reorganized LTI without further action under applicable law, regulation, order or rule including, without limitation, any action by the stockholders of Reorganized LTI or the LTI Director. The LTI Officer shall serve in accordance with applicable nonbankruptcy law, any employment agreement with Reorganized LTI, and Reorganized LTI's Charter, as the same may be amended from time to time.

5. Determination and Settlement of Hansen Claims.

a. The Hansen Claims and Related Disputes with Luna

Absent settlement of the Hansen Claims pursuant to the Plan and the Hansen Settlement Documents, Hansen and the Debtors can be expected to resume the Stage One Estimation Litigation, and Hansen has asserted that in such event it would take additional steps to prevent the estimation of the Hansen Claims.

If the Hansen Settlement is not approved, the Debtors intend to pursue the estimation of Hansen's claims. In addition, certain Litigation Claims may be subject to estimation. As such:

(i) In the event that the Bankruptcy Court estimates the Hansen Claims, or any other Litigation Claim, the estimated amount may, as determined by the Bankruptcy Court, constitute either (a) the Allowed amount of such Claim, (b) a maximum limitation on such Claim, or (c) in the event such Claim is estimated in connection with the

estimation of other Claims within the same Class, a maximum limitation on the aggregate amount of Allowed Claims within such Class; *provided, however*, that if the estimate constitutes the maximum limitation on a Claim, or a Class of Claims, as applicable, the Debtors or the Reorganized Debtors, as the case may be, may elect to pursue supplemental proceedings to object to the allowance of any particular Claim. All of the aforementioned Claim objection, estimation and resolution procedures are cumulative and not necessarily exclusive of one another.

(ii) Nothing in the Plan shall modify any right of a holder of a Claim under section 502(j) of the Bankruptcy Code. Notwithstanding that the Allowed amount of any particular Disputed Claim is reconsidered under the applicable provisions of the Bankruptcy Code and Bankruptcy Rules or is Allowed in an amount for which, after application of the payment priorities established by the Plan, or after giving effect to an order estimating such Claim, there is insufficient consideration to provide a recovery equal to that received by other holders of Allowed Claims in the respective Class or category, no Claim holder shall have recourse to the Debtors, the Reorganized Debtors, the Disbursing Agent, or any of their respective Agents, successors or assigns, or any of their respective assets or property. ***Accordingly, the Bankruptcy Court's entry of any estimation order may limit the distribution to be made on individual Disputed Claims, regardless of the amount finally Allowed on account of such Disputed Claims.***

(iii) Absent the Hansen Settlement the Debtors would prosecute the Hansen Estimation Motion for all purposes in these Chapter 11 Cases, and would remain entitled to seek any other relief under the Bankruptcy Code or the Bankruptcy Rules with respect to the Hansen Claims.

(iv) The Debtors believe that, absent approval of the Hansen Settlement or estimation, fixing, or liquidation of the Hansen Claims, the Debtors' reorganization would be unduly delayed. In addition, the Debtors believe that, although no judgment has been (or can be) entered by the California trial court until these various issues are resolved, a judgment from the California Court in either party's favor still could leave the Debtors years away from a final adjudication of the Hansen Claims. Hansen disputes these contentions.

(v) If the Hansen Claims were allowed at face value, obtaining confirmation of the Debtors' proposed full-recovery reorganization Plan would be difficult. On the other hand, if Virginia law precludes Hansen from recovering on most of its Claims, the Debtors could pursue their proposed full-pay plan even if the Hansen Claims were so Allowed. The Debtors believe that, by settling the Hansen Claims, the Debtors can save their estates and stakeholders the delays in and costs of reorganizing that could attend to liquidating and fixing the Hansen Claims in the California Court or prosecuting to conclusion the Hansen Estimation Motion and other proceedings regarding the Hansen Claims, can avoid jeopardizing the Debtors' value during that delay, and can prevent the unfairness of accepting what the Debtors contend (and Hansen disputes) are Hansen's substantially overstated Claims at face value. In addition, the Debtors believe that the proposed settlement of the Hansen Claims will promote a fair and equitable distribution to creditors in this case.

(vi) Absent settlement, the Debtors believe that estimation of the Hansen Claims would offer the best avenue for a prompt and fair reorganization. For the reasons set forth above, the Debtors believe that the settlement of the Hansen Claims as set forth herein and in the Plan is necessary and proper.

By contrast, Hansen contends that the Hansen Estimation Motion and the Debtors' Original Plan cannot succeed for many reasons—including that Hansen believes it would prevail in the Hansen Litigation (albeit at potentially significant administrative costs to Hansen and the Debtors), but that further litigation (including litigation potentially involving Intuitive) could overwhelm the Debtors. Hansen has indicated that it desires to resolve the issues in connection with the Hansen Litigation, including with respect to the intellectual property in which it asserts an interest. Therefore, Hansen perceives the Hansen Settlement to be the best course for all parties in interest.

b. Summary of the Proposed Hansen Settlement Documents

(1) The Settlement

The Hansen Settlement resolves the Hansen Litigation. The Debtors and Hansen each reserve their respective rights, if the Hansen Settlement Documents and the Plan do not become effective, to litigate the approval of any revised disclosure statement and the confirmation of any revised plan, even if the Debtors revert to the Original Plan and Original Disclosure Statement.

The Debtors believe that the Hansen Settlement and their reorganization pursuant to the Plan will result in their continuing as a viable business whose stock will be eligible for listing on NASDAQ, and that they will continue to qualify for certain attractive small business

government program opportunities. To effectuate the Hansen Settlement, the Debtors and Hansen, among other things, will enter into a Development and Supply Agreement and a license agreement that includes (among other things) a co-exclusive license with Intuitive within the field of medical robotics for certain intellectual property and technology, and Luna will separately enter into agreements with Intuitive to effectuate such co-exclusive license.

Hansen recognizes that its recovery opportunity may be impaired by ongoing litigation with the Debtors over the Hansen Claims, and what its net recovery would be on the Hansen Claims, if it eventually prevailed.

(2) The Hansen Settlement Documents

The Hansen Settlement Documents to be approved pursuant to the Plan and the Confirmation Order consist of the following, which shall become part of the Plan and the Confirmation Order, and shall implement the Hansen Settlement:

(i) The Development and Supply Agreement (Plan and Disclosure Statement Exhibit C-5), which provides for Luna to conduct certain development work for Hansen and to manufacture and supply certain products for Hansen (all for certain designated fees and prices to be paid to Luna), subject to certain discount purchase opportunities for certain products, and which includes certain liquidated damages provisions.

(ii) The License Agreement Between Hansen and Luna (Plan and Disclosure Statement Exhibit C-4) under which Luna and Hansen confirm and grant to each other certain rights and licenses within the medical robotics field and certain non-robotic fields with respect to certain fiber optic shape sensing and localization technologies and intellectual property rights.

(iii) The License Agreement Between Intuitive and Luna (Plan and Disclosure Statement Exhibit C-3) under which Luna shall license to Intuitive certain technology and intellectual property within the medical robotics field and Luna and Intuitive shall amend their existing development and supply agreement to accommodate such license and an equivalent license to Hansen within the medical robotics field pursuant to the License Agreement Between Hansen and Luna.

(iv) The Cross License Agreement Between Intuitive and Hansen (Plan and Disclosure Statement Exhibit C-2) under which Intuitive and Hansen grant to each other certain rights and licenses within the medical robotics field with respect to certain fiber optic shape sensing and localization technologies and intellectual property rights.

(v) The Confidential Settlement Agreement (Plan and Disclosure Statement Exhibit C-1) that is the overall umbrella agreement among these Settlement Documents. This also requires delivery to Hansen of 9.9% equity ownership of the Luna common stock on a fully diluted basis after the Effective Date and after giving effect to the Plan.

(vi) The Confidential Mutual Release Agreement (Plan and Disclosure Statement Exhibit C-6) under which Hansen and Luna mutually release claims that were or could have been brought in the California Action or the Bankruptcy Case.

(vii) The Warrant to Purchase Common Stock of Luna Innovations Incorporated (Plan and Disclosure Statement Exhibit C-10) provides certain anti-dilution protection and other benefits for up to three years after the Effective Date to assure the right of Hansen to stay at 9.9% for that period.

(viii) The Hansen Secured Promissory Note (Plan and Disclosure Statement Exhibit C-7) for \$5 million payable to Hansen in installments quarterly over approximately four years at 8.5% per annum interest, secured by substantially all of the assets of the Debtors as provided in the Security Agreement (described below).

(ix) The Security Agreement (Plan and Disclosure Statement Exhibit C-9) granting a perfected security interest in all of the Debtors' assets, subject to subordination under defined circumstances to a certain working capital loan.

(x) The Patent and Trademark Security Agreement (Plan and Disclosure Statement Exhibit C-8) granting a perfected security interest in certain intellectual property (as described therein), subject to the terms and conditions contained in the Security Agreement.

(3) Amended Development and Supply Agreement Between Luna and Intuitive

In addition, the Debtors intend at the Confirmation Hearing to seek approval of an Amended Development and Supply Agreement between Luna and Intuitive. This agreement is being amended to, inter alia, allow Luna to modify its exclusive license with Intuitive to allow for the co-exclusive license to be granted by Luna to Hansen in the License Agreement Between Hansen and Luna, eliminate any restrictions or prohibitions on Luna to develop and manufacture products for Hansen under its Development and Supply Agreement

with Hansen, and make any provisions regarding the enforcement of licensed patents consistent with those in the License Agreement Between Hansen and Luna and the License Agreement Between Intuitive and Luna.

6. Relationship of the Confirmation Order to the Hansen Settlement Documents.

Each of the Hansen Settlement Documents shall be approved by and incorporated into and made part of the Confirmation Order, and on the Effective Date of the Plan the Hansen Litigation will be dismissed. The Confirmation Order shall govern and control in the event of any inconsistency or conflict with any Hansen Settlement Document or the Plan, including without limitation as to the interpretation, meaning, characterization, or effect thereof.

7. Section 365(n) Finding.

The Debtors and Hansen shall seek the Section 365(n) Finding at the Confirmation Hearing. In connection with the proposed Section 365(n) Finding, Hansen shall be entitled, in its discretion, to designate any of the Hansen Settlement Documents as “agreements supplementary” to any “Section 365(n) Contract” as defined in the License Agreement Between Hansen and Luna and the Development and Supply Agreement, each attached to the Plan as Exhibits C-1 through C-10, respectively, at any time prior to the Confirmation Hearing, by specifying such Hansen Settlement Document in the Plan Supplement.

8. Timing and Effectiveness of Liens.

If the Plan is modified to provide for a lien to be granted by the Debtors in connection with any exit financing or otherwise, in any assets that are subject to a lien under the Hansen Security Agreement, then such lien shall be effective following the effectiveness of the Hansen Settlement Documents, provided that the lien granted to Hansen pursuant to the Hansen

Security Agreement shall be subordinated only to the extent permitted under the Hansen Settlement Documents. As among the Hansen Settlement Documents, the Security Agreement (and security interest thereunder) shall be the last in order of each Hansen Settlement Document to become effective and attach on the Effective Date.

9. Other Relevant Plan Provisions Regarding Hansen Claims

Each party to the Hansen Settlement Documents shall be entitled to enforce each provision contained in any Hansen Settlement Document, including all of its rights and remedies thereunder, at any time after the Effective Date. Except for the rights and licenses expressly granted to the Debtors under the Hansen Settlement Documents, and subject to the Reorganized Debtors' rights under the Hansen Settlement Documents, Hansen owns all Hansen Licensed IP, and Hansen retains all right, title and interest in and to the Hansen Licensed IP, and all of Hansen's other intellectual and industrial property rights as described in the Hansen Settlement Documents. The lien to be granted to Hansen in the Collateral (as defined in the Patent and Trademark Security Agreement and the Security Agreement) shall have the priority permitted to such lien from time to time under the Security Agreement. The Hansen Common Stock and the Hansen Warrants shall be transferred to Hansen on the Effective Date pursuant to the Hansen Settlement Documents, free and clear of any lien pursuant to Bankruptcy Code Sections 1123(a)(5)(D), and, to the extent applicable, Sections 363(f) and 1141(c). Pursuant to Bankruptcy Code Section 524(e), and except as otherwise provided in Article 8 or any other provision of the Plan, the discharge of the Hansen Claims pursuant to the Plan does not affect the liability of any other entity, or the property of any other entity, for the Hansen Claims.

Notwithstanding the retention of jurisdiction provisions of Article 9 of the Plan, the choice of forum provisions, if any, contained in the Hansen Settlement Documents shall apply to disputes between the Debtors and Hansen that are governed by such choice of forum provisions. Notwithstanding the provisions of section 8.6.3 of the Plan granting releases to a creditor that votes to accept the Plan, the Debtors and Hansen acknowledge and agree that the only releases that shall be effective by, and binding upon, the Debtors, the Reorganized Debtors, and Hansen shall be as set forth in the Hansen Settlement Documents.

10. Retained Claims and Defenses.

None of the Retained Claims or Defenses shall be precluded, barred or subject to estoppel because the Plan or the accompanying Disclosure Statement does not specifically identify a Retained Claim or Defense or the person against whom a Retained Claim or Defense may be asserted. **Parties in interest, including Creditors, may not rely on the absence of a reference in the Disclosure Statement or the Plan as any indication that the Debtors will not pursue any available Retained Claims and Defenses against such parties.** The Bankruptcy Court shall retain jurisdiction to determine any Retained Claims or Defenses. Following the Effective Date, the Reorganized Debtors may compromise or dispose of the Retained Claims and Defenses without further notice to Creditors or authorization of the Bankruptcy Court. Notwithstanding the foregoing, upon the Effective Date, all Preference Actions of the Debtors shall be deemed waived and released, and there shall be no Retained Claims and Defenses with respect to Hansen or its affiliates or insiders with respect to the matters subject to the Hansen Settlement.

Pursuant to Section 1123(b)(3) of the Bankruptcy Code, but subject to the Hansen Settlement Documents, the Reorganized Debtors shall have and may enforce all powers and authority of a debtor in possession or trustee under the Bankruptcy Code to the extent of and consistent with their authority under the Plan. The Reorganized Debtors may investigate Retained Claims and Defenses and may assert, settle or enforce any such claims or defenses in a manner consistent with the Plan. Any proceeds received from or on account of the Retained Claims and Defenses shall be either Luna Assets or LTI Assets, as the case may be, and they shall also constitute security for the \$5 million Hansen Note issued pursuant to the Plan.

11. Reserves for Disputed Claims.

On the Effective Date, and from time to time thereafter as and when Disputed Claims against the Debtors may be Allowed, amended, settled or withdrawn, the Reorganized Debtors will establish adequate and prudent reserves from the Plan Assets in an amount that is sufficient to make the payments required under the Plan to the holders of Disputed Claims against the Debtors, as and when such claims may be Allowed. The funds reserved on account of Disputed Claims will not be distributed but will be retained by the Disbursing Agent in accordance with the Plan pending resolution of such Disputed Claims. No holder of a Disputed Claim shall have any Claim against the Cash reserved with respect to such Claim until such Disputed Claim shall become an Allowed Claim.

12. Full and Final Satisfaction.

Upon the Effective Date, the Disbursing Agent shall be authorized and directed to distribute the amounts required under the Plan to the holders of Administrative Claims and Allowed Claims according to the provisions of the Plan. Upon the Effective Date, all Debts of

the Debtors shall be deemed fixed and adjusted pursuant to the Plan and the Debtors shall have no further liability on account of any Claims except as set forth in the Plan. All Distributions made by the Disbursing Agent under the Plan shall be in full and final satisfaction, settlement and release of all Claims, other than the Hansen Claims. The Hansen Settlement Documents, and related provisions of the Plan and Confirmation Order, shall be in full and final satisfaction, settlement, and release of the Hansen Claims.

13. Source of Funds for Distributions.

The Plan Assets shall be used to make Distributions, according to the provisions of the Plan, to the holders of (i) Reorganized Debtor Expenses, (ii) Administrative Claims, (iii) Allowed Priority Tax Claims, (iv) Allowed Secured Claims, if any, (v) Allowed Priority Employee Claims, (vi) Allowed Unsecured Claims, and (viii) Allowed Litigation Claims.

14. Distribution Procedures.

Except as otherwise agreed by the holder of a particular Claim, or as provided in the Plan, or under the Hansen Settlement Documents, all amounts to be paid by the Disbursing Agent under the Plan shall be distributed in such amounts and at such times as is reasonably prudent. The Reorganized Debtors shall file all objections to Disputed Claims on or before the 90th day following the Effective Date, unless the Bankruptcy Court, for cause shown, extends such deadline. On the Effective Date, or as soon thereafter as practicable, the Disbursing Agent shall make a Distribution in full, plus applicable interest, to all holders of Class [] Claims that, as of such date, have been Allowed. Thereafter, on or prior to the 10th Business Day of each month following the first Distribution date, the Disbursing Agent shall make a Distribution in full, plus applicable interest, to the holders of Class [] Claims that have been Allowed as of the

last day of the preceding month. The Disbursing Agent shall make the Cash payments to the holders of Allowed Claims and Administrative Claims: (X) in U.S. dollars by check, draft or warrant, drawn on a domestic bank selected by the Disbursing Agent in its sole discretion, or by wire transfer from a domestic bank, at the Disbursing Agent's option, and (Y) by first-class mail (or by other equivalent or superior means as determined by the Disbursing Agent).

15. Disbursing Agent.

The Disbursing Agent may employ or contract with other persons or entities to perform the payment, tax withholding and remittance obligations created under the Plan. The Disbursing Agent may delegate any of its rights and responsibilities under the Plan to other persons or entities as necessary or appropriate to carry out speedy and inexpensive Distributions to Creditors under the Plan. Such persons or entities shall receive reasonable compensation for services rendered and reimbursement for expenses incurred in connection with the Plan or any functions or responsibilities adopted under the Plan, which amounts may be paid as Reorganized Debtor Expenses.

16. Disputed Claims.

The Reorganized Debtors shall be authorized to settle, or withdraw any objections to, any Disputed Claims following the Confirmation Date without further notice to Creditors or authorization of the Bankruptcy Court, in which event such Claim shall be deemed to be an Allowed Claim in the amount compromised for purposes of the Plan. No Distributions shall be made by the Disbursing Agent on account of Disputed Claims unless and to the extent such Claims become Allowed Claims.

17. Unclaimed Distributions.

Any entity which fails to claim any Cash within ninety (90) days from the date upon which a Distribution is first made to such entity shall forfeit all rights to any Distribution under the Plan and the Disbursing Agent shall be authorized to cancel any Distribution that is not timely claimed, provided that, prior to and as a condition to such forfeiture, the Disbursing Agent shall file with the Bankruptcy Court and serve (by first-class mail, using addresses or forwarding instructions that are reasonably available to the Disbursing Agent), a notice of forfeiture specifying the amount and payee of each Distribution that is subject to forfeiture if it is not claimed within thirty (30) days of the date of service of the notice. Pursuant to Section 347(b) of the Bankruptcy Code, upon forfeiture, such Cash (including interest thereon, if any) shall (a) in the case of Distributions to Creditors of Luna, revert to Reorganized Luna and be treated for all purposes as Luna Assets, free of any restrictions under the Plan, the Bankruptcy Code or the Bankruptcy Rules, or (b) in the case of Distributions to Creditors of LTI, revert to Reorganized LTI and be treated for all purposes as LTI Assets, free of any restrictions under the Plan, the Bankruptcy Code or the Bankruptcy Rules. Upon forfeiture, the claim of any Creditor with respect to such funds shall be discharged and forever barred notwithstanding any federal or state escheat laws to the contrary, and such Creditors shall have no claim whatsoever against the Reorganized Debtors or any holder of an Allowed Claim to whom distributions are made by the Disbursing Agent.

18. Setoff.

Nothing contained in the Plan shall constitute a waiver or release by the Debtors of any right of setoff or recoupment the Debtors may have against any Creditor, except with

respect to the extent provided in the Hansen Settlement Documents. The Reorganized Debtors may, but are not required to, set off or recoup against any Claim or Interest and the payments or other distributions to be made under the Plan in respect of such Claim, claims of any nature whatsoever that arose before the Petition Date that the Debtors may have against the holder of such Claim or Interest.

19. Taxes.

Pursuant to Section 346(f) of the Bankruptcy Code, the Disbursing Agent shall be entitled to deduct any federal, state or local withholding taxes from any Cash payments made with respect to Allowed Claims, as appropriate. The Reorganized Debtors shall be authorized to take all actions necessary to comply with applicable withholding and recording requirements. Notwithstanding any other provision of the Plan, each holder of an Allowed Claim that has received a distribution of Cash shall have sole and exclusive responsibility for the satisfaction or payment of any tax obligation imposed by any governmental unit, including income, withholding and other tax obligation on account of such distribution. For tax purposes, distributions received in respect of Allowed Claims will be allocated first to the principal amount of such Claims, with any excess allocated to unpaid accrued interest.

20. De Minimis Distributions.

If any interim distribution under the Plan to the holder of an Allowed Claim would be less than \$100.00, the Disbursing Agent may withhold such distribution until a final distribution is made to such holder. If any final distribution under the Plan to the holder of an Allowed Claim would be less than \$10.00, the Disbursing Agent may cancel such distribution, unless a request therefore is made in writing to the Reorganized Debtors. Any unclaimed distributions pursuant to this Section 5.5.10 shall be treated as unclaimed property under Section 5.5.7 of the Plan.

E. Executory Contracts

1. Assumption.

On the Effective Date, pursuant to Section 1123(b)(2) of the Bankruptcy Code, Luna will assume the Amended Development and Supply Agreement Between Intuitive and Luna substantially in the form to be filed prior to the Confirmation Hearing, and the Debtors, respectively, will assume all other executory contracts and unexpired leases of Luna and LTI *except* for those contracts and leases that (i) have been expressly identified for rejection on **Exhibit A** to the Plan (together with any additions, deletions, modifications or other revisions to such Exhibit as may be made by the Proponents prior to the Confirmation Date), (ii) have otherwise been rejected by order of the Bankruptcy Court, or (iii) are the subject of a pending motion to reject as of the Confirmation Date. In the case of pre-petition contracts between the Debtors and Hansen, those contracts are merged into or otherwise resolved or superseded by the Hansen Settlement Documents in accordance with the terms of the Hansen Settlement Documents.

2. Rejection.

On the Effective Date, pursuant to Section 1123(b)(2) of the Bankruptcy Code, the Debtors, respectively, will reject the executory contracts and unexpired leases of Luna and LTI that have been expressly identified for rejection on **Exhibit A** to the Plan (together with any additions, deletions, modifications or other revisions to such Exhibit as may be made by the Proponents prior to the Confirmation Date). Each executory contract and unexpired lease listed

in **Exhibit A** to the Plan shall include any modifications, amendments and supplements to such agreement, whether or not listed in **Exhibit A** to the Plan. Any Person asserting any Claim for damages arising from the rejection of an executory contract or unexpired lease of Luna or LTI under the Plan shall file such Claim on or before the Rejection Claim Bar Date, or be forever barred from (i) asserting such Claim against the Reorganized Debtors, Luna, LTI or any property of Luna or LTI, and (ii) sharing in any distribution under the Plan.

3. Assumption Obligations.

The Reorganized Debtors shall satisfy all Assumption Obligations, if any, by making a Cash payment in the manner provided in Section 2.2 of the Plan.

4. Effect of Confirmation Order.

The Confirmation Order shall constitute an order of the Bankruptcy Court approving, as of the Effective Date, the assumption or rejection by Luna and LTI, as the case may be, pursuant to Sections 365(a) and 1123(b)(2) of the Bankruptcy Code of all executory contracts and unexpired leases identified under this Article of the Plan. The Hansen Settlement Documents shall be incorporated into the Confirmation Order. The contracts and leases identified in the Plan will be assumed or rejected, respectively, only to the extent that such contracts or leases constitute pre-petition executory contracts or unexpired leases of the Debtors, and the identification of such agreements under the Plan does not constitute an admission with respect to the characterization of such agreements or the existence of any unperformed obligations, defaults, or damages thereunder. Except for settlements set forth in and approved by the Plan, including the Hansen Settlement, the Plan does not affect any executory contracts or unexpired leases that (a) have been previously assumed, rejected or terminated prior to the Confirmation Date, (b) are the subject of a pending motion to assume, reject or terminate as of the Confirmation Date, or (c) are not identified for assumption or rejection in the Plan.

5. Post-Petition Agreements.

Unless inconsistent with the provisions of the Plan, all contracts, leases and other agreements entered into or restated by the Debtors on or after the Petition Date, or previously assumed by the Debtors prior to the Confirmation Date (or the subject of a pending motion to assume by the Debtors as of the Confirmation Date), which have not expired or been terminated in accordance with their terms, shall be performed by the Reorganized Debtors in the ordinary course of business and shall survive and remain in full force and effect following the Effective Date.

6. Insurance of Debtors.

Any insurance policy acquired for the benefit of the Debtors (or any officers and directors of any of the Debtors) before or after the Petition Date shall remain in full force and effect after the Effective Date according to its terms.

7. Employee Benefit Programs.

All Employee Benefit Programs shall be treated as “executory contracts” and shall be assumed by the Reorganized Debtors pursuant to Sections 365 and 1123(b)(2) of the Bankruptcy Code by operation of the Plan. The Debtors do not provide “retiree benefits” as that term is defined in Section 1114(a) of the Bankruptcy Code. Therefore, on and after the Effective Date the Debtors will not pay retiree benefits.

8. Luna Incentive Plans.

The Luna Incentive Plans shall remain in full force and effect after the Effective Date according to their respective terms.

9. Survival of Indemnification Obligations.

Any and all obligations of Luna or LTI to indemnify, reimburse or limit the liability of its past and present directors, officers, agents, employees and representatives pursuant to their respective Charters, applicable law or specific agreements, or any combination of the foregoing, against any actions, suits and proceedings based upon any act or omission related to service with or for the Debtors shall not be discharged or impaired by Confirmation.

F. Conditions to Confirmation of the Plan

The following are conditions precedent to confirmation of the Plan: (a) the execution and effectiveness of the Hansen Settlement Documents; (b) the Bankruptcy Court shall have entered an order approving a disclosure statement with respect to the Plan in form and substance satisfactory to the Proponents; and (c) the Confirmation Order shall have been entered.

G. Conditions to the Effectiveness

The following are conditions precedent to the occurrence of the Effective Date: (a) the Confirmation Date shall have occurred; and (b) the Confirmation Order shall be a Final Order, except that (i) the Proponents collectively reserve the right, in their sole discretion, to cause the Effective Date to occur notwithstanding the pendency of an appeal of the Confirmation Order.

H. Waiver of Conditions

Conditions to Confirmation and the Effective Date may be waived in whole or in part by the Proponents (with Hansen's consent with respect to the conditions set forth in Sections V.F(a) and (c) above), at any time without notice, an order of the Bankruptcy Court, or any further action other than proceeding to Confirmation and consummation of the Plan.

I. Effects Of Confirmation

1. Binding Effect

The rights afforded under the Plan and the treatment of all Claims and Interests under the Plan shall be the sole and exclusive remedy on account of such Claims and Interests against the Debtors, the Reorganized Debtors, the Luna Assets and the LTI Assets, including any interest accrued on such Claims from and after the Petition Date or interest which would have accrued but for the commencement of the Chapter 11 Cases. Confirmation of the Plan shall bind and govern the acts of the Reorganized Debtors and all holders of all Claims and Interests against the Debtors, whether or not: (i) a proof of Claim or proof of Interest is filed or deemed filed pursuant to Section 501 of the Bankruptcy Code; (ii) a Claim or Interest is allowed pursuant to Section 502 of the Bankruptcy Code, or (iii) the holder of a Claim or Interest has accepted the Plan. To the extent that the Bankruptcy Court makes the Section 365(n) Finding and, in connection with any Section 365(n) Finding that the Bankruptcy Court makes, to the maximum extent possible under applicable law, including by the incorporation by reference of the Development and Supply Agreement, Settlement Agreement, Confidential Mutual Release, and the License Agreement Between Hansen and Luna into the Confirmation Order as a litigation settlement, the Development and Supply Agreement, Settlement Agreement, Confidential

Mutual Release, and the License Agreement Between Hansen and Luna are not executory contracts for the purposes of 11 U.S.C. § 365, but rather constitute a settlement allocation and partition of intellectual property and other rights disputed in the Hansen Litigation and in the Hansen Proofs of Claim to be resolved by the Plan and entry of the Confirmation Order.

2. Property Reverts Free and Clear.

Upon the Effective Date, title to all Luna Assets and LTI Assets shall vest in the Reorganized Debtors, respectively, for the purposes contemplated under the Plan and shall no longer constitute property of the Estates created for Luna and LTI in the Chapter 11 Cases pursuant to Section 541 of the Bankruptcy Code. Except as otherwise provided in the Plan, upon Confirmation all Luna Assets and LTI Assets shall be free and clear of all Claims and Interests, including Liens, charges or other encumbrances of Creditors of the Debtors. Following the Effective Date, the Reorganized Debtors may use, transfer and dispose of any such property free of any restrictions imposed by the Bankruptcy Code or the Bankruptcy Rules and without further approval of the Bankruptcy Court or notice to Creditors, except as may otherwise be required under the Plan or the Confirmation Order, including as provided in the Hansen Settlement Documents.

3. Discharge.

Except as provided in the Plan or the Confirmation Order, the rights afforded under the Plan (including, with respect to Hansen, under the Hansen Settlement Documents) and the treatment of Claims and Interests under the Plan are in exchange for and in complete satisfaction, discharge, and release of, all Claims against the Debtors. Confirmation of the Plan shall discharge the Debtors from all Claims or other debts that arose at any time before the

Confirmation Date, and all debts of the kind specified in Sections 502(g), 502(h) or 502(i) of the Bankruptcy Code, whether or not: (i) a proof of claim based on such debt is filed or deemed filed under Section 501 of the Bankruptcy Code; (ii) a Claim based on such debt is Allowed under Section 502 of the Bankruptcy Code; or (iii) the holder of a Claim has accepted the Plan. As of the Confirmation Date, all entities that have held, currently hold or may hold a Claim or other debt or liability that is discharged or any other right that is terminated under the Bankruptcy Code or the Plan are permanently enjoined from commencing or continuing any action, the employment of process, or other action, to collect, recover or offset any such Claim as a personal liability of Luna, LTI or the Reorganized Debtors to the full extent permitted by Bankruptcy Code § 524. Notwithstanding anything in Section 1141(d)(1)(B) of the Bankruptcy Code, all Interests shall be retained as set forth in the Plan, although diluted by the issuance of additional shares pursuant to the Plan.

4. Limitation of Liability

The Debtors, the Reorganized Debtors, the Committee and each of their respective Agents shall have all of the benefits and protections afforded under 11 U.S.C. § 1125(e) and applicable law.

5. Exoneration.

The Debtors, the Reorganized Debtors, the Committee, and Hansen (in connection with the Hansen Settlement and Hansen Settlement Documents), and each of their respective Agents shall not be liable, other than for gross negligence or willful misconduct, to any holder of a Claim or Interest or any other entity with respect to any action, omission, forbearance from action, decision, or exercise of discretion taken at any time after the Petition

Date and prior to the Effective Date in connection with: (a) the management or operation of the Debtors or the discharge of their duties under the Bankruptcy Code, (b) the implementation of any of the transactions provided for, or contemplated in, the Plan, (c) any action or inaction taken in connection with either the enforcement of the Debtors' rights against any entities or the defense of Claims asserted against the Debtors with regard to the Chapter 11 Cases, (d) any action taken in the negotiation, formulation, development, proposal, disclosure, Confirmation or implementation of the Plan, or (e) the administration of the Plan or the assets and property to be distributed pursuant to the Plan. Hansen (in connection with the Hansen Settlement and Hansen Settlement Documents) shall not be liable, other than for gross negligence or willful misconduct, to any holder of a Claim or Interest or any other entity with respect to any action, omission, forbearance from action, decision, or exercise of discretion taken at any time after the Petition Date and prior to the Effective Date in connection with the negotiation of the provisions of the Plan regarding the Hansen Settlement Documents. The Debtors, the Reorganized Debtors, the Committee, Hansen (in connection with the Hansen Settlement and Hansen Settlement Documents), and each of their respective Agents may reasonably rely upon the opinions of their respective counsel, accountants, and other experts and professionals and such reliance, if reasonable, shall conclusively establish good faith and the absence of gross negligence or willful misconduct; provided however, that a determination that such reliance is unreasonable shall not, by itself, constitute a determination or finding of bad faith, gross negligence or willful misconduct. Any action, suit or proceeding by any holder of a Claim or Interest or any other entity contesting any action, omission, forbearance from action, decision or exercise of discretion in connection with the matters in subsections (a) through (e) above, by the Debtors, the

Reorganized Debtors, the Committee, Hansen and each of their respective Agents, or any of them, whether commenced before or after the Effective Date, shall be commenced only in the Bankruptcy Court.

6. Releases.

a. Debtors' Release of Agents. On the Effective Date, the Debtors (for and on behalf of their respective Estates), the Reorganized Debtors, and the Committee shall be deemed to waive and release any and all debts, claims, rights, damages and causes of action which any of them has or may have against any of their Agents as of the Confirmation Date; *provided, however*, that the foregoing shall not operate as a waiver of or release from any debts, claims, rights, damages and causes of action arising out of (i) any express contractual obligation owing by any such Agents, or (ii) the willful misconduct or gross negligence of any such Agents in connection with, related to, or arising out of the Chapter 11 Cases, the pursuit of Confirmation of the Plan, the Consummation of the Plan, the administration of the Plan, or the property to be distributed under the Plan.

b. Mutual, General Release. On the Effective Date, the Debtors (for and on behalf of their respective Estates), the Reorganized Debtors, and each of their respective affiliates and Agents, shall be deemed to waive and release each other and each of their respective affiliates and Agents ("Released Parties"), from any and all debts, claims, rights, damages and causes of action, whether known or unknown, which each of them now has or may have against each other by reason of any transaction, occurrence, act or omission giving rise to any Claim or Interest that is treated in the Plan or any transaction, occurrence, act or omission related to the Chapter 11 Cases, except for the rights and Claims confirmed, continued,

or established by the Plan. It is the intention of the Released Parties that this release shall be effective as a full and final release of all claims and obligations against each other arising out of the matters described, except for the rights and Claims confirmed, continued, established by the Plan. In furtherance of this intention, the Released Parties waive the benefit of the provisions of California Civil Code § 1542 (or, if inapplicable, any other similar applicable statute), which provides as follows: ***“A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.”*** However, notwithstanding the foregoing, nothing herein shall be deemed to transfer any right, title or interest of any Debtor in any intellectual property or other property of the estate of any Debtor.

c. Creditor’s Release. Except as otherwise provided in the Plan, each Person participating in a distribution under the Plan or pursuant to the Plan, for itself and its respective successors, assigns, transferees and current and former affiliates and Agents, who affirmatively votes to accept the Plan, shall, by virtue of Sections 1126(c) and 1141(a) of the Bankruptcy Code, be deemed to have released any and all Claims and causes of action against the Debtors, the Reorganized Debtors and each of their respective Agents.

OTHER CRITICAL INFORMATION REGARDING THE PLAN

J. Tax Implications

The United States federal income tax consequences of the distributions contemplated by the Plan to the holders of Claims that are United States Persons will depend upon a number of factors. For purposes of the following discussion, a “United States Person” is

any person or entity (1) who is a citizen or resident of the United States, (2) that is a corporation or partnership created or organized in or under the laws of the United States or any state thereof, (3) that is an estate, the income of which is subject to United States federal income taxation regardless of its source or (4) that is a trust (a) the administration over which a United States Person can exercise primary supervision and all of the substantial decisions of which one or more United States Persons have the authority to control; or (b) that has elected to continue to be treated as a United States Person for United States federal income tax purposes. In the case of a partnership, the tax treatment of its partners will depend on the status of the partner and the activities of the partnership. United States Persons who are partners in a partnership should consult their tax advisors. A "Non-United States Person" is any person or entity that is not a United States Person. For purposes of the following discussion and unless otherwise noted below, the term "Holder" shall mean a Holder of a Claim that is a United States Person.

The United States federal income tax consequences to Holders and the character and amount of income, gain or loss recognized as a consequence of the Plan and the distributions provided for thereby will depend upon, among other things, (1) the manner in which a Holder acquired a Claim; (2) the length of time the Claim has been held; (3) whether the Claim was acquired at a discount; (4) whether the Holder has taken a bad debt deduction with respect to the Claim (or any portion thereof) in the current or prior years; (5) whether the Holder has previously included in income accrued but unpaid interest with respect to the Claim; (6) the method of tax accounting of the Holder; and (7) whether the Claim is an installment obligation for United States federal income tax purposes. Certain Holders of Claims (such as foreign persons, S corporations, regulated investment companies, insurance companies, financial

institutions, small business investment companies, broker-dealers and tax-exempt organizations) may be subject to special rules not addressed in this summary of United States federal income tax consequences. There also may be state, local, and/or foreign income or other tax considerations or United States federal estate and gift tax considerations applicable to Holders of Claims, which are not addressed herein. EACH HOLDER OF A CLAIM OR INTEREST AFFECTED BY THE PLAN IS STRONGLY URGED TO CONSULT ITS TAX ADVISOR WITH RESPECT TO DISTRIBUTIONS RECEIVED UNDER THE PLAN.

1. Holders of Claims.

A Holder who received Cash (or potentially other consideration with respect to any Holders of Class 3 Claims) in satisfaction of its Claims may recognize ordinary income or loss to the extent that any portion of such consideration is characterized as accrued interest. A Holder who did not previously include in income accrued but unpaid interest attributable to its Claim, and who receives a distribution on account of its Claim pursuant to the Plan, will be treated as having received interest income to the extent that any consideration received is characterized for United States federal income tax purposes as interest, regardless of whether such Holder realizes an overall gain or loss as a result of surrendering its Claim. A Holder who previously included in its income accrued but unpaid interest attributable to its Claim should recognize an ordinary loss to the extent that such accrued but unpaid interest is not satisfied, regardless of whether such Holder realizes an overall gain or loss as a result of the distribution it may receive under the Plan on account of its Claim.

2. Non-United States Persons.

A Holder of a Claim that is a Non-United States Person generally will not be subject to United States federal income tax with respect to property (including money) received in exchange for such Claim pursuant to the Plan, unless (i) such Holder is engaged in a trade or business in the United States to which income, gain or loss from the exchange is "effective connected" for United States federal income tax purposes, or (ii) if such Holder is an individual, such Holder is present in the United States for 183 days or more during the taxable year of the exchange and certain other requirements are met.

3. Importance of Obtaining Professional Tax Assistance.

THE FOREGOING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF CERTAIN INCOME TAX CONSEQUENCES OF THE PLAN AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH A TAX PROFESSIONAL. THE ABOVE DISCUSSION IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT TAX ADVICE. THE TAX CONSEQUENCES ARE IN MANY CASES UNCERTAIN AND MAY VARY DEPENDING ON A CLAIM HOLDER'S PARTICULAR CIRCUMSTANCES. ACCORDINGLY, CLAIM HOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS ABOUT THE UNITED STATES FEDERAL, STATE AND LOCAL, AND APPLICABLE FOREIGN INCOME AND OTHER TAX CONSEQUENCES OF THE PLAN.

K. Risks Under the Plan

As noted above, the effectiveness of the Plan is conditioned on the satisfaction of the conditions set forth in Article 7 of the Plan and summarized herein. If the Plan is not

confirmed, or does not become effective as a result of the failure of one or more of these conditions, the Debtors believe that the likely alternative would be the conversion of the Chapter 11 Cases to chapter 7 cases under the Bankruptcy Code, and that Holders of Unsecured Claims would not receive any distributions on account of their Claims, or an amended plan may provide recoveries that are materially different than those contemplated by the current Plan.

L. “Cram Down,” Absolute Priority Rule and Liquidation Analysis

Pursuant to section 1129(a)(8) of the Bankruptcy Code, all classes of claims must either accept the Plan or be unimpaired under the Plan. Pursuant to sections 1129(a)(10) and 1129(b), however, the Bankruptcy Court may confirm the Plan if at least one class of Claims that is impaired under the Plan has accepted the Plan (determined without including any acceptance of the Plan by any insider), if the Plan does not discriminate unfairly, and is fair and equitable, with respect to each class of Claims or Interests that is impaired under, and has not accepted, the Plan. Classes 1, 3 and 5a are impaired under the Plan, and Class 5a is deemed to have accepted the Plan. Accordingly, if either Class 1 or Class 3 votes against the Plan, the Plan must satisfy the “cram down” requirements of section 1129(b)(1) with respect to such Classes. The Plan may not satisfy the “cram down” requirements, and thus may not be confirmable if all impaired Classes (Classes 1, 3 and 5a) were to vote against the Plan, because the holders of Claims in those Classes, which Classes are senior in priority to Interests, will not receive the full value of their Claims while the holders of the Interests in the Debtors will retain such interests under the Plan. This rule is known as the “Absolute Priority Rule.” Thus, if all of Classes 1, 2 and 5a were to vote to reject the Plan, the Plan could not be confirmed over the objection of such

Classes because the Debtors could not cram down the Plan on these Classes pursuant to section 1129(b) of the Bankruptcy Code under the Absolute Priority Rule. As previously stated, however, Class 5a (Hansen Claims) is impaired and is deemed to have accepted the Plan, and the Debtors do not believe that there are any holders of Claims in Class 1 (Employee Priority Claims) or Class 2 (Miscellaneous Secured Claims).

In addition to requiring the acceptance of each of the voting Classes which cannot be crammed down under the Plan, the Plan must also satisfy section 1129(a)(7) of the Bankruptcy Code. Pursuant to section 1129(a)(7) of the Bankruptcy Code, unless there is unanimous acceptance of the Plan by an impaired Class, the Debtors must demonstrate, and the Bankruptcy Court must determine, that with respect to such Class, each holder of a Claim will receive property of a value, as of the Effective Date of the Plan, that is not less than the amount that such holder would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code on the Effective Date of the Plan. This requirement is commonly referred to as the "Best Interests of Creditors Test." The Debtors are paying all Claims in full. Thus each holder of a Claim will receive at least the amount that it would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code on the Effective Date of the Plan.

Moreover, if the Chapter 11 Cases were converted, the going concern value of the Debtors' business would be lost, and the Debtors believe that the holders of Claims would receive less than they will receive under the Plan.

Moreover, in a chapter 7 case, the net proceeds from the collection, sale and or liquidation of any of the Debtors' assets would be reduced by the commission payable to the chapter 7 trustee and the trustee's attorney's and accounting fees, as well as the administrative costs incurred during the Chapter 11 Cases (such as the compensation for chapter 11 Professionals).¹⁶

¹⁶ It is also anticipated that a chapter 7 liquidation would result in delay in the distributions to Creditors. Among other things, a chapter 7 case would trigger a new bar date for filing Claims that would be more than 90 days following conversion of the Chapter 11 Cases to chapter 7. Fed. R. Bankr. P. 3002(c). Hence, a chapter 7 liquidation would not only cost more in the way of administrative fees and delay distributions, but also raise the prospect of the allowance of additional Claims that were not timely asserted in the Chapter 11 Cases. Based on the foregoing, the Debtors submit that the Plan provide the opportunity of a higher recovery to Creditors.

Finally, the Debtors and their Professionals have acquired knowledge of the Estates and the Claims against them that cannot be easily duplicated by a chapter 7 trustee in a cost-effective manner. The Debtors believe that, if the Plan is not confirmed, the most likely alternative will be conversion of the Chapter 11 Cases to a chapter 7 liquidation, which, as noted above, would not provide a higher, and likely would result in a lower, distribution to Creditors. Therefore, the Debtors believe that the Plan satisfies the Best Interests of Creditors Test. At the Confirmation Hearing, the Bankruptcy Court will determine whether the holders of Claims and Interests in any impaired Class that has not voted to accept the Plan would receive a distribution under the Plan that is at least as great as the distribution that such holders would receive upon a liquidation of the Debtors pursuant to chapter 7 of the Bankruptcy Code.

VI.

CONFIRMATION OF THE PLAN

The Debtors will seek confirmation of the Plan at the Confirmation Hearing, pursuant to applicable provisions of the Bankruptcy Code.

A. Confirmation Hearing.

The Bankruptcy Court will hold the Confirmation Hearing on **January 12, 2010, at 2:00 p.m.** to determine whether the Plan has been accepted by the requisite number of Creditors and whether the other requirements for Confirmation of the Plan have been satisfied.

B. Requirements for Confirmation

At the Confirmation Hearing, the Bankruptcy Court will determine whether the provisions of section 1129 of the Bankruptcy Code have been satisfied. If all of the provisions of section 1129 of the Bankruptcy Code are met, the Bankruptcy Court may enter an order confirming the Plan. The Debtors believe that all of the requirements of section 1129 of the Bankruptcy Code will be satisfied. Among other things, the Debtors believe that the Plan will be accepted by the requisite number of votes and satisfies all of the statutory requirements of chapter 11 of the Bankruptcy Code. The Debtors submit that they have complied or will have complied with all of the requirements of chapter 11, and that the Plan has been proposed and is made in good faith. In addition, the Debtors submit that the Plan satisfies the Best Interests of Creditors Test and will not be followed by the need for further bankruptcy relief.

As noted above, section 1129(b) of a Bankruptcy Code allows for Confirmation of the Plan if it does not unfairly discriminate and is fair and equitable with respect to each Class of Claims or Interests that is impaired under and has not accepted the Plan. To the extent required, the Debtors will seek Confirmation of the Plan pursuant to 1129(b) of the Bankruptcy Code on the basis that the Plan is fair and equitable and does not discriminate unfairly as to the holders Claims in Classes 1 and 3.

C. Classification of Claims and Interests

The Debtors believe that the Plan's classification of Claims and Interests fully complies with the requirements of the Bankruptcy Code.

D. Acceptance

As a condition to confirmation of a plan, the Bankruptcy Code requires that each class of holders of claims or interests accept the plan, with the exceptions described below. The Bankruptcy Code defines acceptance by a class of holders of claims as acceptance by holders of two-thirds in dollar amount and a majority in number of claims of that class, but for this purpose counts only those who actually vote to accept or reject the plan. holders of claims who fail to vote are not counted as either accepting or rejecting the plan.

Classes of claims and interests that are not impaired under a plan are deemed to have accepted the plan. A class is impaired if the legal, equitable, or contractual rights attaching to the claims or interests of that class are modified, other than by curing defaults and reinstating maturities or by payment in full in cash. A class that receives nothing under a plan is deemed to reject such plan.

IN THESE CHAPTER 11 CASES, CLASSES 1 AND 2 ARE IMPAIRED UNDER THE PLAN AND ARE ENTITLED TO VOTE THEREON. Class 5a is impaired and is deemed to have accepted the Plan. Classes 3, 4, 5b and 6 are unimpaired and are therefore not entitled to vote on the Plan and are deemed to have accepted the Plan.

E. Feasibility

Section 1129(a)(11) of the Bankruptcy Code requires a finding that Confirmation of the Plan is not likely to be followed by the liquidation, or the need for further reorganization, of the Debtors or any successor to the Debtors under the Plan, unless such liquidation or reorganization is proposed in the Plan.

The Plan proposed by the Debtors satisfies these requirements and is “feasible.” The Debtors have previously described how Allowed Claims will be satisfied through distributions to the holders of Allowed Claims. Following the Effective Date, the Reorganized Debtors shall operate their business and generally administer the Plan.

As a condition to confirmation of a plan, the Bankruptcy Code requires, among other things, that the Bankruptcy Court determine that confirmation is not likely to be followed by the liquidation or the need for further financial reorganization of the debtors. In connection with the development of the Plan, and for purposes of determining whether the Plan satisfies this feasibility standard, the Debtors’ management has, through the development of financial projections attached as **Exhibit A** to this Disclosure Statement as (the “Projections”), analyzed the ability of Reorganized Debtors to meet their obligations under the Plan while maintaining sufficient liquidity and capital resources to conduct their business.

The Projections should be read in conjunction with the assumptions, qualifications and footnotes to the tables containing the Projections set forth herein, the historical consolidated financial information (including the notes and schedules thereto) and the other information set forth in the Annual Report on Form 10-K for the fiscal year ended December 31, 2008. The Projections were prepared in good faith based upon assumptions believed to be reasonable and applied in a manner consistent with past practice. Most of the assumptions about the operations of the business after the assumed Effective Date that are utilized in the Projections were based, in part, on economic, competitive, and general business conditions prevailing at the time, as well as the assumption of a modest recovery as the Debtors emerge from Chapter 11 and continued gradual economic growth. While as of the date of this Disclosure Statement such conditions have not materially changed, any future changes in these conditions may materially impact the ability of the Reorganized Debtors to achieve the Projections.

The Projections were prepared to show the estimated consolidated financial position, results of operations, and cash flows at, and following, December 2009. THE DEBTORS' INDEPENDENT ACCOUNTANT HAS NEITHER COMPILED NOR EXAMINED THE ACCOMPANYING PROSPECTIVE FINANCIAL INFORMATION TO DETERMINE THE REASONABLENESS THEREOF AND, ACCORDINGLY, HAS NOT EXPRESSED AN OPINION OR ANY OTHER FORM OF ASSURANCE WITH RESPECT THERETO.

THE DEBTORS DO NOT, AS A MATTER OF COURSE, PUBLISH PROJECTIONS OF THEIR ANTICIPATED FINANCIAL POSITION, RESULTS OF OPERATIONS OR CASH FLOWS. ACCORDINGLY, THE REORGANIZED DEBTORS DO NOT INTEND TO, AND DISCLAIM ANY OBLIGATION TO, (A) FURNISH UPDATED PROJECTIONS TO HOLDERS OF CLAIMS OR INTERESTS PRIOR TO THE EFFECTIVE DATE OR TO HOLDERS OF REORGANIZED DEBTORS' COMMON STOCK OR ANY OTHER PARTY AFTER THE EFFECTIVE DATE, (B) INCLUDE SUCH UPDATED INFORMATION IN ANY DOCUMENTS THAT MAY BE REQUIRED TO BE FILED WITH THE SEC, OR (C) OTHERWISE MAKE SUCH UPDATED INFORMATION PUBLICLY AVAILABLE.

THE PROJECTIONS PROVIDED IN THIS DISCLOSURE STATEMENT HAVE BEEN PREPARED EXCLUSIVELY BY THE DEBTORS' MANAGEMENT. THESE PROJECTIONS, WHILE PRESENTED WITH NUMERICAL SPECIFICITY, ARE

NECESSARILY BASED ON A VARIETY OF ESTIMATES AND ASSUMPTIONS (INCLUDING THE ASSUMPTION THAT THERE WILL BE NO NEGATIVE IMPACT FROM THE CHAPTER 11 CASES ON THE REORGANIZED DEBTORS' RELATIONSHIPS WITH THEIR CUSTOMERS), WHICH, THOUGH CONSIDERED REASONABLE BY MANAGEMENT, MAY NOT BE REALIZED, AND ARE INHERENTLY SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC AND COMPETITIVE UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH ARE BEYOND THE REORGANIZED DEBTORS' CONTROL. THE DEBTORS CAUTION THAT NO REPRESENTATIONS CAN BE MADE AS TO THE ACCURACY OF THESE FINANCIAL PROJECTIONS OR TO THE REORGANIZED DEBTORS' ABILITY TO ACHIEVE THE PROJECTED RESULTS. SOME ASSUMPTIONS INEVITABLY WILL NOT MATERIALIZE. FURTHER, EVENTS AND CIRCUMSTANCES OCCURRING SUBSEQUENT TO THE DATE ON WHICH THESE PROJECTIONS WERE PREPARED MAY BE DIFFERENT FROM THOSE ASSUMED OR, ALTERNATIVELY, MAY HAVE BEEN UNANTICIPATED, AND THUS THE OCCURRENCE OF THESE EVENTS MAY AFFECT FINANCIAL RESULTS IN A MATERIAL AND POSSIBLY ADVERSE MANNER. THE PROJECTIONS, THEREFORE, MAY NOT BE RELIED UPON AS A GUARANTY OR OTHER ASSURANCE OF THE ACTUAL RESULT THAT WILL OCCUR.

FINALLY, THE FOLLOWING PROJECTIONS INCLUDE ASSUMPTIONS INCLUDING WITH RESPECT TO THE ENTERPRISE VALUE OF THE REORGANIZED DEBTORS, THE FAIR VALUE OF THEIR ASSETS AND THEIR ACTUAL LIABILITIES AS OF THE EFFECTIVE DATE. THE REORGANIZED DEBTORS WILL BE REQUIRED

TO MAKE SUCH ESTIMATIONS AS OF THE EFFECTIVE DATE. SUCH DETERMINATION WILL BE BASED UPON THE FAIR VALUES AS OF THAT DATE, WHICH COULD BE MATERIALLY GREATER OR LOWER THAN THE VALUES ASSUMED IN THE FOREGOING ESTIMATES.

a. *Summary of Significant Assumptions.* The Debtors have developed the Projections (summarized below) to assist both creditors and shareholders in their evaluation of the Plan and to analyze its feasibility. THE PROJECTIONS ARE BASED UPON A NUMBER OF SIGNIFICANT ASSUMPTIONS DESCRIBED BELOW. ACTUAL OPERATING RESULTS AND VALUES MAY AND LIKELY WILL VARY FROM THOSE PROJECTED. The Projections assume an Effective Date of March 1, 2010 with Allowed Claims and Interests treated in accordance with the treatment provided in the Plan with respect to such Allowed Claims and Interests. There is no assurance that, among other things, the trade creditors or customers will support the Reorganized Debtors as projected. A material reduction in trade credit and terms would materially affect the Reorganized Debtors' ability to achieve the projected results. Further, if the Effective Date does not occur by March 1, 2010, additional bankruptcy expenses will be incurred until such time as a plan of reorganization is confirmed and consummated. These expenses could significantly impact Reorganized Debtors' results of operations and cash flows. As a basis for the Projections, management has estimated the operating results for the period of time leading up to the Effective Date. Specifically, it has been assumed that prior to and during the Chapter 11 Cases, trade vendors will continue to provide the Debtors with goods on customary terms and credit and there has been no meaningful change in the Debtors' customer base. ADDITIONAL ASSUMPTIONS ON WHICH THE

PROJECTIONS ARE BASED ARE SET FORTH IN THE PROJECTIONS, AND HOLDERS OF CLAIMS OR INTERESTS ARE REFERRED TO THE ASSUMPTIONS SET FORTH IN THE PROJECTIONS ATTACHED TO THIS DISCLOSURE STATEMENT AS **EXHIBIT A**.

b. Special Note Regarding Forward-Looking Statements. Except for historical information, statements contained in this Disclosure Statement and incorporated by reference therein, including the Projections, may be considered “forward-looking statements” within the meaning of federal securities law. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Potential risks and uncertainties include, but are not limited to, general economic and business conditions, the competitive environment in which Reorganized Debtors operates and will operate, the success or failure of Reorganized Debtors in implementing its current business and operational strategies, the level of vendor trade support, labor relations and labor costs, the ability of Reorganized Debtors to maintain and improve its revenues and margins, and the liquidity of Reorganized Debtors on a cash flow basis (including the ability to comply with the financial covenants of its credit arrangements and to fund Reorganized Debtors’ capital expenditures).

c. Financial Projections. The financial projections prepared by management are summarized in the following tables. Specifically, the attached tables include:

Pro-forma Reorganized Debtors balance sheet at March 31, 2010.

Quarterly Forecast Balance Sheets for fiscal quarters ending December 31, 2009 through December 31, 2011.

Quarterly Projected Income Statements for fiscal quarters years ending December 31, 2009 through December 31, 2011.

The Debtors believe, as set forth in the Projections, that Confirmation of the Plan is not likely to be followed by the need for a further bankruptcy relief by the Reorganized Debtors.

F. Alternatives to Confirmation of Plan

If the Plan is not Confirmed by the Bankruptcy Court and consummated, the alternatives include (i) liquidation of the Debtors under chapter 7 of the Bankruptcy Code; or (ii) confirmation of an alternative plan under chapter 11 of the Bankruptcy Code.

The Plan provides for a 100% pay-out to creditors holding Claims, apart from Hansen Claims resolved by the Hansen Settlement Documents, certain Litigation Claims and Disputed Claims, and for the settlement of the Hansen Litigation. For the reasons discussed above, the Debtors believe that if the Plan is not confirmed, creditors holding Claims will receive a lesser recovery, either under a different plan, or following a conversion to chapter 7 of the Bankruptcy Code. Therefore, the Debtors believe that the Plan, as proposed, provides the greatest possible return available for the holders of Claims in these Chapter 11 Cases.

VII.

CONCLUSION

The Debtors believe that the Plan is in the best interest of Creditors and urge Creditors to vote to accept the Plan.

Respectfully submitted,
Luna Innovations Incorporated

By: /s/ Kent A. Murphy
Kent A. Murphy, Ph.D.
President and Chief Executive Officer

Luna Technologies, Inc.

By: /s/ Kent A. Murphy
Kent A. Murphy, Ph.D.
Chief Executive Officer

EXHIBIT A
Projections

Luna Innovations, Inc.
Quarterly Forecast Balance Sheet

	Actual				Forecast							
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010	March 31, 2011	June 30, 2011	September 30, 2011	December 31, 2011
Assets												
Current Assets												
Cash and cash equivalents	\$ 13,179,040	\$ 12,110,258	\$ 5,653,856	\$ 5,528,130	\$ 3,876,489	\$ 3,474,521	\$ 4,230,060	\$ 5,725,300	\$ 5,626,086	\$ 5,334,196	\$ 5,735,021	\$ 7,121,362
Accounts receivable, net	7,921,282	6,879,920	7,595,653	8,305,080	7,406,962	7,706,301	8,203,714	8,102,494	8,918,722	9,457,479	10,056,891	10,312,402
Refundable income taxes	98,092	98,092	98,092	98,092	98,092	98,092	98,092	98,092	98,092	98,092	98,092	98,092
Inventory	2,850,327	2,851,581	2,844,485	2,665,237	2,877,398	2,896,060	2,844,359	2,609,177	2,668,925	2,697,443	2,753,767	2,577,019
Other current assets	347,915	418,980	1,231,160	1,181,161	1,314,161	1,537,161	1,384,161	1,231,161	1,264,161	1,487,161	1,334,161	1,181,161
Total current assets	24,396,656	22,358,831	17,423,246	17,777,699	15,573,102	15,712,135	16,760,386	17,766,224	18,575,985	19,074,371	19,977,932	21,290,036
Property and equipment, net	5,037,947	4,710,871	4,408,594	4,118,030	3,813,593	3,548,250	3,282,907	3,017,564	2,777,221	2,515,066	2,302,911	2,040,756
Intangible assets, net	274,051	175,862	155,503	134,845	148,000	191,155	294,310	367,465	470,620	543,775	616,930	690,085
Other assets	100,564	101,981	430,718	427,343	420,011	412,679	405,347	398,015	390,683	383,351	376,019	368,687
Total Assets	\$ 29,809,218	\$ 27,347,545	\$ 22,418,061	\$ 22,457,917	\$ 19,954,706	\$ 19,864,219	\$ 20,742,950	\$ 21,549,268	\$ 22,214,509	\$ 22,516,563	\$ 23,273,792	\$ 24,389,564
Liabilities and Stockholders equity												
Current Liabilities												
Current Portion of long term debt obligation	\$ 4,642,857	\$ 4,285,715	\$ —	\$ —	\$ 1,776,762	\$ 1,838,032	\$ 1,768,576	\$ 1,775,727	\$ 1,817,610	\$ 1,719,475	\$ 1,619,255	\$ 1,516,905
Current portion of capital lease obligation	14,597	11,782	9,469	6,071	—	—	—	—	—	—	—	—
Accounts payable	3,215,412	1,778,275	2,234,440	2,017,446	992,056	977,998	1,581,056	1,812,780	2,715,706	2,694,831	2,683,251	2,933,906
Accrued liabilities	4,349,627	5,491,100	5,726,274	6,196,693	4,881,946	5,031,946	5,231,946	5,456,946	5,306,946	5,456,946	5,656,946	5,881,946
Litigation reserve	36,303,643	36,303,643	36,303,643	36,303,643	—	—	—	—	—	—	—	—
Deferred credits	2,054,542	1,866,249	1,751,891	1,650,472	1,650,472	1,650,472	1,418,722	1,418,722	1,418,722	1,418,722	1,418,722	1,418,722
Total current liabilities	50,580,678	49,736,764	46,025,717	46,174,325	9,301,236	9,498,449	10,000,300	10,464,174	11,258,984	11,289,974	11,378,174	11,751,479
Long-term debt obligation	5,000,000	5,000,000	5,000,000	5,000,000	8,223,238	7,789,818	7,340,292	6,881,214	6,412,380	6,070,343	5,721,037	5,364,309
Total Liabilities	55,580,678	54,736,764	51,025,717	51,174,325	17,524,474	17,288,267	17,340,592	17,345,388	17,671,364	17,360,317	17,099,211	17,115,788
Stockholders equity												
Common Stock	11,181	11,209	11,266	11,206	12,456	12,456	12,456	12,456	12,456	12,456	12,456	12,456
APIC	38,761,220	39,550,593	40,375,326	41,209,704	45,747,454	46,536,454	47,325,454	48,114,454	48,903,454	49,692,454	50,481,454	51,270,454
Accumulated deficit	(64,543,861)	(66,951,021)	(68,994,248)	(69,937,318)	(43,329,678)	(43,972,957)	(43,935,552)	(43,923,030)	(44,372,765)	(44,548,664)	(44,319,329)	(44,009,133)
Total Stockholders (deficit)/equity	(25,771,460)	(27,389,219)	(28,607,656)	(28,716,408)	2,430,232	2,575,953	3,402,358	4,203,880	4,543,145	5,156,246	6,174,581	7,273,777
Total Liabilities and Stockholders (deficit)/equity	\$ 29,809,218	\$ 27,347,545	\$ 22,418,061	\$ 22,457,917	\$ 19,954,706	\$ 19,864,219	\$ 20,742,950	\$ 21,549,268	\$ 22,214,509	\$ 22,516,563	\$ 23,273,792	\$ 24,389,564

Luna Innovations, Inc.
Consolidated Quarterly Forecast Income Statement

	Actual				Forecast				
	For the quarter ending,			December 31, 2009	For the year ending, December 31, 2009	For the quarter ending,			
	March 31, 2009	June 30, 2009	September 30, 2009			March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
Revenues									
Technology Development	\$ 6,882,372	\$ 6,446,971	\$ 6,538,042	\$ 6,230,931	\$ 26,098,316	\$ 7,084,124	\$ 6,446,971	\$ 6,538,042	\$ 6,230,931
Product & License	1,611,184	2,214,808	2,336,884	2,966,834	9,129,710	2,381,643	3,158,389	3,422,237	3,467,654
Total Revenues	8,493,556	8,661,779	8,874,926	9,197,765	35,228,026	9,465,767	9,605,360	9,960,279	9,698,585
Cost of Revenues									
Technology Development	4,897,756	4,271,252	4,179,519	3,978,370	17,326,897	4,897,756	4,440,778	4,179,519	3,978,370
Product & License	878,601	1,048,249	1,188,706	1,313,980	4,429,536	1,357,715	1,699,529	1,663,418	1,610,271
Total Cost of Revenues	5,776,357	5,319,501	5,368,225	5,292,350	21,756,433	6,255,471	6,140,307	5,842,937	5,588,641
Gross Margin	2,717,199	3,342,278	3,506,701	3,905,415	13,471,593	3,210,297	3,465,053	4,117,342	4,109,943
%	32%	39%	40%	42%	38%	34%	36%	41%	42%
Operating Expense									
Selling, General & Administrative	3,398,241	3,146,855	2,936,839	2,984,541	12,466,476	3,411,651	3,306,374	3,249,814	3,263,773
Research Development & Engineering	995,643	684,755	660,836	736,233	3,077,467	557,399	622,759	661,954	675,081
Litigation Reserve	36,303,643	—	—	—	36,303,643	(27,553,643)	—	—	—
Bankruptcy & Litigation Professional Fees	837,347	1,760,709	1,828,043	1,065,352	5,491,451	—	—	—	—
Impairment of Intangible Assets	1,310,598	—	—	—	1,310,598	—	—	—	—
Total Operating Expense	42,845,472	5,592,319	5,425,718	4,786,126	58,649,635	(23,584,593)	3,929,133	3,911,767	3,938,855
Operating Loss	(40,128,273)	(2,250,041)	(1,919,017)	(880,711)	(45,178,042)	26,794,890	(464,081)	205,575	171,088
Other (income)/expense									
Other expense	923	17,244	—	(18,718)	(551)	—	—	—	—
Interest (income)/expense	158,988	139,875	124,208	81,079	504,150	187,250	179,198	168,170	158,567
Total Other (income)/expense	159,911	157,119	124,208	62,361	503,599	187,250	179,198	168,170	158,567
Loss before income taxes	(40,288,184)	(2,407,160)	(2,043,225)	(943,072)	(45,681,641)	26,607,640	(643,279)	37,405	12,522
Income tax expense	600,000	—	—	—	600,000	—	—	—	—
Net Loss	\$(40,888,184)	\$(2,407,160)	\$(2,043,225)	\$(943,072)	\$(46,281,641)	\$ 26,607,640	\$ (643,279)	\$ 37,405	\$ 12,522
Reconciliation to Adjusted EBITDA:									
Net (Loss)/Income	\$(40,888,184)	\$(2,407,160)	\$(2,043,225)	\$(943,072)	\$(46,281,641)	\$ 26,607,640	\$ (643,279)	\$ 37,405	\$ 12,522
Interest	158,988	46,340	45,961	139,875	391,164	187,250	179,198	168,170	158,567
Depreciation & Amortization	542,565	600,281	361,366	372,928	1,877,140	399,000	399,000	399,000	399,000
Taxes	600,000	—	—	—	600,000	—	—	—	—
Stock Compensation	801,148	740,596	799,462	794,258	3,135,464	789,000	789,000	789,000	789,000
Adjusted EBITDA	\$(38,785,483)	\$(1,019,943)	\$(836,436)	\$ 363,989	\$(40,277,873)	\$ 27,982,890	\$ 723,919	\$ 1,393,575	\$ 1,359,088

	Forecast					
	For the year ending, December 31, 2010	For the quarter ending,			For the year ending, December 31, 2011	
		March 31, 2011	June 30, 2011	September 30, 2011		December 31, 2011
Revenues						
Technology Development	\$ 26,300,068	\$ 8,146,743	\$ 7,414,017	\$ 7,518,748	\$ 7,165,571	\$ 30,245,078
Product & License	12,429,923	3,236,981	3,916,981	4,327,268	4,697,694	16,178,925
Total Revenues	38,729,991	11,383,724	11,330,998	11,846,017	11,863,265	46,424,004
Cost of Revenues						
Technology Development	17,496,423	5,702,720	5,189,812	5,263,124	5,015,899	21,171,555
Product & License	6,330,933	1,813,743	2,051,355	2,115,614	2,280,540	8,261,252
Total Cost of Revenues	23,827,356	7,516,463	7,241,167	7,378,738	7,296,439	29,432,807
Gross Margin	14,902,635	3,867,262	4,089,831	4,467,279	4,566,825	16,991,197
%	38%	34%	36%	38%	38%	37%
Operating Expense						
Selling, General & Administrative	13,231,612	3,582,234	3,471,693	3,412,304	3,426,962	13,893,192
Research Development & Engineering	2,517,193	585,269	653,897	695,051	708,835	2,643,053
Litigation Reserve	(27,553,643)	—	—	—	—	—
Bankruptcy & Litigation Professional Fees	—	—	—	—	—	—
Impairment of Intangible Assets	—	—	—	—	—	—
Total Operating Expense	(11,804,838)	4,167,503	4,125,590	4,107,356	4,135,798	16,536,246
Operating Loss	26,707,472	(300,241)	(35,759)	359,923	431,028	454,951
Other (income)/expense						
Other expense	—	—	—	—	—	—
Interest (income)/expense	693,185	149,494	140,140	130,588	120,832	541,054
Total Other (income)/expense	693,185	149,494	140,140	130,588	120,832	541,054
Loss before income taxes	26,014,288	(449,735)	(175,899)	229,335	310,196	(86,103)
Income tax expense	—	—	—	—	—	—
Net Loss	\$ 26,014,288	\$(449,735)	\$(175,899)	\$ 229,335	\$ 310,196	\$(86,103)
Reconciliation to Adjusted EBITDA:						
Net (Loss)/Income	\$ 26,014,288	\$(449,735)	\$(175,899)	\$ 229,335	\$ 310,196	\$(86,103)
Interest	693,185	149,494	140,140	130,588	120,832	541,054
Depreciation & Amortization	1,596,000	399,000	399,000	399,000	399,000	1,596,000
Taxes	—	—	—	—	—	—
Stock Compensation	3,156,000	789,000	789,000	789,000	789,000	3,156,000
Adjusted EBITDA	\$ 31,459,472	\$ 887,759	\$ 1,152,241	\$ 1,547,923	\$ 1,619,028	\$ 5,206,951

Luna Innovations Incorporated
Forecasted Income Statement

	<u>Actual Q1 2009</u>	<u>Actual Q2 2009</u>	<u>Actual Q3 2009</u>	<u>Forecast Q4 2009</u>	<u>Forecast Total Year 2009</u>
Revenues					
Technology Development	6,882,372	6,446,971	6,538,042	6,230,931	26,098,316
Product & License	<u>1,611,184</u>	<u>2,214,808</u>	<u>2,336,884</u>	<u>2,966,834</u>	<u>9,129,710</u>
Total Revenues	<u>8,493,556</u>	<u>8,661,779</u>	<u>8,874,926</u>	<u>9,197,765</u>	<u>35,228,026</u>
Cost of Revenues					
Technology Development	4,897,756	4,271,252	4,179,519	3,978,370	17,326,897
Product & License	<u>878,601</u>	<u>1,048,249</u>	<u>1,188,706</u>	<u>1,313,980</u>	<u>4,429,536</u>
Total Cost of Revenues	<u>5,776,357</u>	<u>5,319,501</u>	<u>5,368,225</u>	<u>5,292,350</u>	<u>21,756,433</u>
Gross Margin	2,717,199	3,342,278	3,506,701	3,905,415	13,471,593
%	32%	39%	40%	42%	38%
Operating Expense					
Selling, General & Administrative	3,398,241	3,146,855	2,936,839	2,984,541	12,466,476
Research Development & Engineering	995,643	684,755	660,836	736,233	3,077,467
Litigation Reserve	36,303,643	—	—	—	36,303,643
Bankruptcy & Litigation Professional Fees	837,347	1,760,709	1,828,043	1,065,352	5,491,451
Impairment of Intangible Assets	<u>1,310,598</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,310,598</u>
Total Operating Expense	<u>42,845,472</u>	<u>5,592,319</u>	<u>5,425,718</u>	<u>4,786,126</u>	<u>58,649,635</u>
Operating Income/ (Loss)	<u>(40,128,273)</u>	<u>(2,250,041)</u>	<u>(1,919,017)</u>	<u>(880,711)</u>	<u>(45,178,042)</u>
Other (income)/expense					
Other expense	923	17,244	—	(18,718)	(551)
Interest (income)/expense	<u>158,988</u>	<u>139,875</u>	<u>124,208</u>	<u>81,079</u>	<u>504,150</u>
Total Other (income)/expense	<u>159,911</u>	<u>157,119</u>	<u>124,208</u>	<u>62,361</u>	<u>503,599</u>
Loss before income taxes	(40,288,184)	(2,407,160)	(2,043,225)	(943,072)	(45,681,641)
Income tax expense	<u>600,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>600,000</u>
Net Income / (Loss)	<u>(40,888,184)</u>	<u>(2,407,160)</u>	<u>(2,043,225)</u>	<u>(943,072)</u>	<u>(46,281,641)</u>
Interest	158,988	139,875	124,208	81,079	504,150
Depreciation & Amortization	542,565	600,281	361,366	372,928	1,877,140
Taxes	600,000	—	—	—	600,000
Stock Compensation	<u>801,148</u>	<u>740,596</u>	<u>799,462</u>	<u>794,258</u>	<u>3,135,464</u>
Adjusted EBITDA	<u>(38,785,483)</u>	<u>(926,408)</u>	<u>(758,189)</u>	<u>305,193</u>	<u>(40,164,887)</u>

Luna Innovations Incorporated
Forecasted Income Statement

	<u>Forecast Q1 2010</u>	<u>Forecast Q2 2010</u>	<u>Forecast Q3 2010</u>	<u>Forecast Q4 2010</u>	<u>Forecast Total Year 2010</u>
Revenues					
Technology Development	7,084,124	6,446,971	6,538,042	6,230,931	26,300,068
Product & License	<u>2,381,643</u>	<u>3,158,389</u>	<u>3,422,237</u>	<u>3,467,654</u>	<u>12,429,923</u>
Total Revenues	<u>9,465,767</u>	<u>9,605,360</u>	<u>9,960,279</u>	<u>9,698,585</u>	<u>38,729,991</u>
Cost of Revenues					
Technology Development	4,897,756	4,440,778	4,179,519	3,978,370	17,496,423
Product & License	<u>1,357,715</u>	<u>1,699,529</u>	<u>1,663,418</u>	<u>1,610,271</u>	<u>6,330,933</u>
Total Cost of Revenues	<u>6,255,471</u>	<u>6,140,307</u>	<u>5,842,937</u>	<u>5,588,641</u>	<u>23,827,356</u>
Gross Margin	3,210,297	3,465,053	4,117,342	4,109,943	14,902,635
%	34%	36%	41%	42%	38%
Operating Expense					
Selling, General & Administrative	3,411,651	3,306,374	3,249,814	3,263,773	13,231,612
Research Development & Engineering	557,399	622,759	661,954	675,081	2,517,193
Litigation Reserve	(27,553,643)	—	—	—	(27,553,643)
Bankruptcy & Litigation Professional Fees	—	—	—	—	—
Impairment of Intangible Assets	—	—	—	—	—
Total Operating Expense	<u>(23,584,593)</u>	<u>3,929,133</u>	<u>3,911,767</u>	<u>3,938,855</u>	<u>(11,804,838)</u>
Operating Income/(Loss)	<u>26,794,890</u>	<u>(464,081)</u>	<u>205,575</u>	<u>171,088</u>	<u>26,707,472</u>
Other (income)/expense					
Other expense	—	—	—	—	—
Interest (income)/expense	<u>187,250</u>	<u>179,198</u>	<u>168,170</u>	<u>158,567</u>	<u>693,185</u>
Total Other (income)/expense	<u>187,250</u>	<u>179,198</u>	<u>168,170</u>	<u>158,567</u>	<u>693,185</u>
Loss before income taxes	26,607,640	(643,279)	37,405	12,522	26,014,288
Income tax expense	—	—	—	—	—
Net Income /(Loss)	<u>26,607,640</u>	<u>(643,279)</u>	<u>37,405</u>	<u>12,522</u>	<u>26,014,288</u>
Interest	187,250	179,198	168,170	158,567	693,185
Depreciation & Amortization	399,000	399,000	399,000	399,000	1,596,000
Taxes	—	—	—	—	—
Stock Compensation	<u>789,000</u>	<u>789,000</u>	<u>789,000</u>	<u>789,000</u>	<u>3,156,000</u>
Adjusted EBITDA	<u>27,982,890</u>	<u>723,919</u>	<u>1,393,575</u>	<u>1,359,088</u>	<u>31,459,472</u>

Luna Innovations Incorporated
Forecasted Income Statement

	<u>Forecast Q1 2011</u>	<u>Forecast Q2 2011</u>	<u>Forecast Q3 2011</u>	<u>Forecast Q4 2011</u>	<u>Forecast Total Year 2011</u>
Revenues					
Technology Development	8,146,743	7,414,017	7,518,748	7,165,571	30,245,078
Product & License	<u>3,236,981</u>	<u>3,916,981</u>	<u>4,327,268</u>	<u>4,697,694</u>	<u>16,178,925</u>
Total Revenues	<u>11,383,724</u>	<u>11,330,998</u>	<u>11,846,017</u>	<u>11,863,265</u>	<u>46,424,004</u>
Cost of Revenues					
Technology Development	5,702,720	5,189,812	5,263,124	5,015,899	21,171,555
Product & License	<u>1,813,743</u>	<u>2,051,355</u>	<u>2,115,614</u>	<u>2,280,540</u>	<u>8,261,252</u>
Total Cost of Revenues	<u>7,516,463</u>	<u>7,241,167</u>	<u>7,378,738</u>	<u>7,296,439</u>	<u>29,432,807</u>
Gross Margin	3,867,262	4,089,831	4,467,279	4,566,825	16,991,197
%	34%	36%	38%	38%	37%
Operating Expense					
Selling, General & Administrative	3,582,234	3,471,693	3,412,304	3,426,962	13,893,192
Research Development & Engineering	585,269	653,897	695,051	708,835	2,643,053
Litigation Reserve	—	—	—	—	—
Bankruptcy & Litigation Professional Fees	—	—	—	—	—
Impairment of Intangible Assets	—	—	—	—	—
Total Operating Expense	<u>4,167,503</u>	<u>4,125,590</u>	<u>4,107,356</u>	<u>4,135,798</u>	<u>16,536,246</u>
Operating Income/(Loss)	<u>(300,241)</u>	<u>(35,759)</u>	<u>359,923</u>	<u>431,028</u>	<u>454,951</u>
Other (income)/expense					
Other expense	—	—	—	—	—
Interest (income)/expense	<u>149,494</u>	<u>140,140</u>	<u>130,588</u>	<u>120,832</u>	<u>541,054</u>
Total Other (income)/expense	<u>149,494</u>	<u>140,140</u>	<u>130,588</u>	<u>120,832</u>	<u>541,054</u>
Loss before income taxes	(449,735)	(175,899)	229,335	310,196	(86,103)
Income tax expense	—	—	—	—	—
Net Income /(Loss)	<u>(449,735)</u>	<u>(175,899)</u>	<u>229,335</u>	<u>310,196</u>	<u>(86,103)</u>
Interest	149,494	140,140	130,588	120,832	541,054
Depreciation & Amortization	399,000	399,000	399,000	399,000	1,596,000
Taxes	—	—	—	—	—
Stock Compensation	<u>789,000</u>	<u>789,000</u>	<u>789,000</u>	<u>789,000</u>	<u>3,156,000</u>
Adjusted EBITDA	<u>887,759</u>	<u>1,152,241</u>	<u>1,547,923</u>	<u>1,619,028</u>	<u>5,206,951</u>

Luna Innovations Incorporated
Forecasted Balance Sheet

	Actual Q1 2009	Actual Q2 2009	Actual Q3 2009	Forecast Q4 2009
Assets				
Current Assets				
Cash and cash equivalents	13,179,040	12,110,258	5,653,856	5,528,130
Accounts receivable, net	7,921,282	6,879,920	7,595,653	8,305,080
Refundable income taxes	98,092	98,092	98,092	98,092
Inventory	2,850,327	2,851,581	2,844,485	2,665,237
Other current assets	347,915	418,980	1,231,160	1,181,161
Total current assets	24,396,656	22,358,831	17,423,246	17,777,699
Property and equipment, net	5,037,947	4,710,871	4,408,594	4,118,030
Intangible assets, net	274,051	175,862	155,503	134,845
Deferred tax asset	—	—	—	—
Other assets	100,564	101,981	430,718	427,343
Total Assets	\$ 29,809,218	\$ 27,347,545	\$ 22,418,061	\$ 22,457,917
Liabilities and Stockholders equity				
Current Liabilities				
Current Portion of long term debt obligation	4,642,857	4,285,715	—	—
Current portion of capital lease obligation	14,597	11,782	9,469	6,071
Accounts payable	3,215,412	1,778,275	2,234,440	2,017,446
Accrued liabilities	4,349,627	5,491,100	5,726,274	6,196,693
DIP Financing	—	—	—	—
Litigation reserve	36,303,643	36,303,643	36,303,643	36,303,643
Deferred credits	2,054,542	1,866,249	1,751,891	1,650,472
Total current liabilities	50,580,678	49,736,764	46,025,717	46,174,325
Long-term debt obligation	5,000,000	5,000,000	5,000,000	5,000,000
Total Liabilities	55,580,678	54,736,764	51,025,717	51,174,325
Stockholders equity				
Common Stock	11,181	11,209	11,266	11,206
APIC	38,761,220	39,550,593	40,375,326	41,209,704
Accumulated deficit	(64,543,861)	(66,951,021)	(68,994,248)	(69,937,318)
Total Stockholders (deficit)/equity	(25,771,460)	(27,389,219)	(28,607,656)	(28,716,408)
Total Liabilities and Stockholders (deficit)/equity	\$ 29,809,218	\$ 27,347,545	\$ 22,418,061	\$ 22,457,917

Luna Innovation Incorporated
Forecasted Balance Sheet

	Forecast Q1 2010	Forecast Q2 2010	Forecast Q3 2010	Forecast Q4 2010
Assets				
Current Assets				
Cash and cash equivalents	3,876,489	3,474,521	4,230,060	5,725,300
Accounts receivable, net	7,406,962	7,706,301	8,203,714	8,102,494
Refundable income taxes	98,092	98,092	98,092	98,092
Inventory	2,877,398	2,896,060	2,844,359	2,609,177
Other current assets	1,314,161	1,537,161	1,384,161	1,231,161
Total current assets	15,573,102	15,712,135	16,760,386	17,766,224
Property and equipment, net	3,813,593	3,548,250	3,282,907	3,017,564
Intangible assets, net	148,000	191,155	294,310	367,465
Deferred tax asset	—	—	—	—
Other assets	420,011	412,679	405,347	398,015
Total Assets	\$ 19,954,706	\$ 19,864,219	\$ 20,742,950	\$ 21,549,268
Liabilities and Stockholders equity				
Current Liabilities				
Current Portion of long term debt obligation	1,776,762	1,838,032	1,768,576	1,775,727
Current portion of capital lease obligation	—	—	—	—
Accounts payable	992,056	977,998	1,581,056	1,812,780
Accrued liabilities	4,881,946	5,031,946	5,231,946	5,456,946
DIP Financing	—	—	—	—
Litigation reserve	—	—	—	—
Deferred credits	1,650,472	1,650,472	1,418,722	1,418,722
Total current liabilities	9,301,236	9,498,449	10,000,300	10,464,174
Long-term debt obligation	8,223,238	7,789,818	7,340,292	6,881,214
Total Liabilities	17,524,474	17,288,267	17,340,592	17,345,388
Stockholders equity				
Common Stock	12,456	12,456	12,456	12,456
APIC	45,747,454	46,536,454	47,325,454	48,114,454
Accumulated deficit	(43,329,678)	(43,972,957)	(43,935,552)	(43,923,030)
Total Stockholders (deficit)/equity	2,430,232	2,575,953	3,402,358	4,203,880
Total Liabilities and Stockholders (deficit)/equity	\$ 19,954,706	\$ 19,864,219	\$ 20,742,950	\$ 21,549,268

Luna Innovation Incorporated
Forecasted Balance Sheet

	Forecast Q1 2011	Forecast Q2 2011	Forecast Q3 2011	Forecast Q4 2011
Assets				
Current Assets				
Cash and cash equivalents	5,626,086	5,334,196	5,735,021	7,121,362
Accounts receivable, net	8,918,722	9,457,479	10,056,891	10,312,402
Refundable income taxes	98,092	98,092	98,092	98,092
Inventory	2,668,925	2,697,443	2,753,767	2,577,019
Other current assets	1,264,161	1,487,161	1,334,161	1,181,161
Total current assets	18,575,985	19,074,371	19,977,932	21,290,036
Property and equipment, net	2,777,221	2,515,066	2,302,911	2,040,756
Intangible assets, net	470,620	543,775	616,930	690,085
Deferred tax asset	—	—	—	—
Other assets	390,683	383,351	376,019	368,687
Total Assets	\$ 22,214,509	\$ 22,516,563	\$ 23,273,792	\$ 24,389,564
Liabilities and Stockholders equity				
Current Liabilities				
Current Portion of long term debt obligation	1,817,610	1,719,475	1,619,255	1,516,905
Current portion of capital lease obligation	—	—	—	—
Accounts payable	2,715,706	2,694,831	2,683,251	2,933,906
Accrued liabilities	5,306,946	5,456,946	5,656,946	5,881,946
DIP Financing	—	—	—	—
Litigation reserve	—	—	—	—
Deferred credits	1,418,722	1,418,722	1,418,722	1,418,722
Total current liabilities	11,258,984	11,289,974	11,378,174	11,751,479
Long-term debt obligation	6,412,380	6,070,343	5,721,037	5,364,309
Total Liabilities	17,671,364	17,360,317	17,099,211	17,115,788
Stockholders equity				
Common Stock	12,456	12,456	12,456	12,456
APIC	48,903,454	49,692,454	50,481,454	51,270,454
Accumulated deficit	(44,372,765)	(44,548,664)	(44,319,329)	(44,009,133)
Total Stockholders (deficit)/equity	4,543,145	5,156,246	6,174,581	7,273,777
Total Liabilities and Stockholders (deficit)/equity	\$ 22,214,509	\$ 22,516,563	\$ 23,273,792	\$ 24,389,564

Luna Innovations Incorporated
Forecasted Cash Flow

	Actual Q1 2009	Actual Q2 2009	Actual Q3 2009	Forecast Q4 2009
Cash flows used in operating activities				
Net loss	\$(40,888,184)	\$ (2,407,160)	\$ (2,043,227)	\$ (943,072)
Adj to reconcile net loss to net cash used in operating activities:				
Depreciation & Amortization	619,788	523,058	361,366	372,928
Impairment of Intangible Assets	1,310,598	—	—	—
Share-based compensation	789,511	779,532	799,462	816,748
Deferred tax expense	600,000	—	—	—
Change in assets and liabilities:				
Accounts receivable	(589,249)	1,041,363	(715,734)	(709,426)
Inventory	(21,336)	(1,292)	7,096	179,248
Other current assets	(5,317)	—	(812,180)	49,999
Other assets	17,728	(72,482)	(328,737)	3,375
Accounts payable and accrued expenses	(263,459)	(295,666)	701,840	253,425
Litigation reserve	36,303,643	—	—	—
Deferred credits	200,260	(188,293)	(114,358)	(101,419)
Net cash used in operating activities	\$ (1,926,017)	\$ (620,940)	\$ (2,144,472)	\$ (78,193)
Cash flows used in investing activities				
Acquisition of property and equipment	(34,037)	(7,409)	(7,850)	(21,812)
Capitalized intellectual property costs	(30,749)	(90,382)	(30,879)	(39,893)
Net cash used in investing activities	\$ (64,786)	\$ (97,791)	\$ (38,729)	\$ (61,705)
Cash flows provided by financing activities				
Payments on capital lease obligations	(2,799)	(2,814)	(2,313)	(3,398)
Proceeds from (payment of) debt obligation, net	(357,143)	(357,144)	(4,285,715)	—
Proceeds from DIP financing	—	—	—	—
Proceeds from the exercise of options and warrants	10,824	9,869	14,827	17,570
Net cash (used in)/provided by financing activities	\$ (349,118)	\$ (350,051)	\$ (4,273,201)	\$ 14,172
Net change in cash	\$ (2,339,921)	\$ (1,068,782)	\$ (6,456,402)	\$ (125,726)
Cash - beginning of period	\$ 15,518,960	\$ 13,179,040	\$ 12,110,258	\$ 5,653,856
Cash - end of period	\$ 13,179,039	\$ 12,110,258	\$ 5,653,856	\$ 5,528,130

Luna Innovations Incorporated
Forecasted Cash Flow

	Forecast Q1 2010	Forecast Q2 2010	Forecast Q3 2010	Forecast Q4 2010
Cash flows used in operating activities				
Net loss	\$ 26,607,640	\$ (643,279)	\$ 37,405	\$ 12,522
Adj to reconcile net loss to net cash used in operating activities:				
Depreciation & Amortization	399,000	399,000	399,000	399,000
Impairment of Intangible Assets	—	—	—	—
Share-based compensation	789,000	789,000	789,000	789,000
Deferred tax expense	—	—	—	—
Change in assets and liabilities:				
Accounts receivable	898,117	(299,339)	(497,413)	101,221
Inventory	(212,161)	(18,662)	51,701	235,182
Other current assets	(133,000)	(223,000)	153,000	153,000
Other assets	7,332	7,332	7,332	7,332
Accounts payable and accrued expenses	(2,340,137)	135,942	803,058	456,723
Litigation reserve	(27,553,643)	—	—	—
Deferred credits	—	—	(231,750)	—
Net cash used in operating activities	\$ (1,537,852)	\$ 146,994	\$ 1,511,333	\$ 2,153,980
Cash flows used in investing activities				
Acquisition of property and equipment	(32,718)	(71,812)	(71,812)	(71,812)
Capitalized intellectual property costs	(75,000)	(105,000)	(165,000)	(135,000)
Net cash used in investing activities	\$ (107,718)	\$ (176,812)	\$ (236,812)	\$ (206,812)
Cash flows provided by financing activities				
Payments on capital lease obligations	(6,071)	—	—	—
Proceeds from (payment of) debt obligation, net	—	(372,149)	(518,983)	(451,927)
Proceeds from DIP financing	—	—	—	—
Proceeds from the exercise of options and warrants	—	—	—	—
Net cash (used in)/provided by financing activities	\$ (6,071)	\$ (372,149)	\$ (518,983)	\$ (451,927)
Net change in cash	\$ (1,651,641)	\$ (401,968)	\$ 755,538	\$ 1,495,241
Cash - beginning of period	\$ 5,528,130	\$ 3,876,489	\$ 3,474,521	\$ 4,230,060
Cash - end of period	\$ 3,876,489	\$ 3,474,521	\$ 4,230,060	\$ 5,725,300

Luna Innovations Incorporated
Forecasted Cash Flow

	Forecast Q1 2011	Forecast Q2 2011	Forecast Q3 2011	Forecast Q4 2011
Cash flows used in operating activities				
Net loss	\$ (449,735)	\$ (175,899)	\$ 229,335	\$ 310,196
Adj to reconcile net loss to net cash used in operating activities:				
Depreciation & Amortization	399,000	399,000	399,000	399,000
Impairment of Intangible Assets	—	—	—	—
Share-based compensation	789,000	789,000	789,000	789,000
Deferred tax expense	—	—	—	—
Change in assets and liabilities:				
Accounts receivable	(816,228)	(538,757)	(599,413)	(255,511)
Inventory	(59,748)	(28,518)	(56,324)	176,748
Other current assets	(33,000)	(223,000)	153,000	153,000
Other assets	7,332	7,332	7,332	7,332
Accounts payable and accrued expenses	752,927	129,125	188,420	475,655
Litigation reserve	—	—	—	—
Deferred credits	—	—	—	—
Net cash used in operating activities	\$ 589,548	\$ 358,282	\$ 1,110,351	\$ 2,055,420
Cash flows used in investing activities				
Acquisition of property and equipment	(96,812)	(75,000)	(125,000)	(75,000)
Capitalized intellectual property costs	(165,000)	(135,000)	(135,000)	(135,000)
Net cash used in investing activities	\$ (261,812)	\$ (210,000)	\$ (260,000)	\$ (210,000)
Cash flows provided by financing activities				
Payments on capital lease obligations	—	—	—	—
Proceeds from (payment of) debt obligation, net	(426,950)	(440,172)	(449,526)	(459,078)
Proceeds from DIP financing	—	—	—	—
Proceeds from the exercise of options and warrants	—	—	—	—
Net cash (used in)/provided by financing activities	\$ (426,950)	\$ (440,172)	\$ (449,526)	\$ (459,078)
Net change in cash	\$ (99,215)	\$ (291,890)	\$ 400,825	\$ 1,386,342
Cash - beginning of period	\$5,725,300	\$5,626,086	\$5,334,196	\$5,735,021
Cash - end of period	\$5,626,086	\$5,334,196	\$5,735,021	\$7,121,362

	January	February	March	April	May	June	July	August	September	October	November	December
Corporate	344,652	464,630	386,628	432,862	373,882	400,601	899,542	397,183	400,601	400,601	400,601	400,601
adj to tie to Q			203									
Finance	127,009	148,452	93,086	75,520	71,002	61,011	125,000	70,000	66,665	61,297	65,580	88,580
Contracts	25,056	23,402	19,478	20,874	15,857	28,022	23,758	24,023	26,500	31,792	31,807	28,152
Sales & Marketing	92,045	87,906	83,229	103,416	60,554	91,133	64,647	64,094	61,747	57,639	55,743	53,455
Human Resources	20,355	21,142	16,384	17,904	9,311	26,475	16,882	16,882	23,475	18,075	18,075	30,075
Facilities	201,991	217,067	123,322	197,400	185,310	200,511	199,431	199,431	200,532	200,678	200,531	200,531
alloc to OH	(180,382)	(175,195)	(50,789)	(206,526)	(229,044)	(180,000)	(180,000)	(180,000)	(160,000)	(160,000)	(160,000)	(160,000)
IT	46,201	27,964	28,188	35,127	33,993	43,728	42,427	42,427	41,513	41,659	41,514	41,514
Legal	99,237	28,609	139,023	144,842	170,302	170,000	170,000	85,000	59,434	51,368	62,009	59,977
Nano SGA	17,513	27,183	7,616	18,413	15,978	15,000	22,946	25,709	16,968	11,148	11,148	11,148
B&P/IR&D	137,237	65,785	108,860	116,715	139,115	136,338	142,883	151,145	245,942	140,176	139,107	169,654
Prod Ops	29,390	46,070	57,086	68,915	42,401	52,556	44,635	44,635	55,997	53,997	52,497	52,497
LT SGA	84,685	184,967	172,956	193,421	186,053	162,645	140,790	149,460	212,127	145,000	195,000	205,000
Total SGA	1,044,989	1,167,982	1,185,270	1,218,883	1,074,714	1,208,021	1,712,941	1,089,990	1,251,501	1,053,429	1,113,612	1,181,184
LT Eng	226,442	266,889	265,935	186,759	141,387	182,444	172,975	187,665	178,252	182,621	224,125	260,000
Nano Eng	32,018	82,639	121,720	44,593	28,738	41,482	53,541	59,987	39,593	26,013	26,013	26,013
Total Eng	258,460	349,528	387,655	231,352	170,125	223,926	226,516	247,652	217,845	208,634	250,138	286,013
Legal - litigation			36,303,643									
Legal - litigation prof fees	412,563	483,191	(58,407)	195,945	700,000	1,000,000	1,000,000	500,000	462,120	300,000	300,000	300,000
Total Litigation	412,563	483,191	36,245,236	195,945	700,000	1,000,000	1,000,000	500,000	462,120	300,000	300,000	300,000
Total Opex	1,716,012	2,000,701	37,818,161	1,646,180	1,944,839	2,431,947	2,939,457	1,837,642	1,931,466	1,562,063	1,663,750	1,767,197

	January	February	March	April	May	June	July	August	September	October	November	December
Corporate	426,335	428,512	454,815	423,572	429,746	428,089	421,915	425,636	424,575	424,575	424,575	424,575
Finance	119,823	143,100	90,442	50,462	82,962	52,676	83,245	52,245	50,245	147,962	52,245	75,245
Contracts	26,887	27,684	23,891	27,328	32,586	27,078	31,045	31,316	29,526	30,510	33,238	27,078
Sales & Marketing	59,046	63,676	64,835	73,835	66,265	63,227	71,008	70,444	68,050	63,859	61,909	59,575
Human Resources	17,249	18,174	10,659	17,715	17,715	17,715	17,715	17,715	19,755	17,715	17,715	29,955
Facilities	208,602	219,765	183,406	203,741	203,741	203,741	203,741	203,741	203,741	203,741	203,741	200,273
alloc to OH	(180,000)	(180,000)	(180,000)	(180,000)	(180,000)	(180,000)	(180,000)	(180,000)	(180,000)	(180,000)	(180,000)	(180,000)
IT	51,316	34,504	31,772	44,099	44,699	44,099	44,099	44,099	44,360	43,171	43,171	43,171
Legal	43,151	49,983	102,189	57,329	66,933	60,809	54,244	62,123	59,633	53,150	61,894	59,822
Nano SGA	25,796	25,796	25,796	25,796	25,796	25,796	25,796	25,442	30,950	25,442	25,442	25,442
B&P/IR&D	152,126	152,126	152,126	152,126	194,620	142,013	150,114	157,566	131,434	85,755	154,394	141,577
Prod Ops	46,701	47,664	61,230	47,664	47,664	47,664	47,664	47,664	47,664	47,664	47,664	47,664
LT SGA	103,476	138,916	120,086	134,563	129,731	132,783	110,825	119,569	160,913	112,154	132,447	155,266
Total SGA	1,100,507	1,169,898	1,141,246	1,078,229	1,162,456	1,065,689	1,081,410	1,077,559	1,090,845	1,075,697	1,078,434	1,109,642
LT Eng	142,766	127,421	106,640	165,604	154,393	122,191	158,216	154,579	157,387	138,405	153,549	205,034
Nano Eng	60,190	60,190	60,190	60,190	60,190	60,190	60,190	59,365	72,217	59,365	59,365	59,365
Total Eng	202,957	187,612	166,831	225,795	214,583	182,382	218,406	213,944	229,604	197,769	212,913	264,399
Legal - litigation												
Legal - litigation prof fees	—	—	—	—	—	—	—	—	—	—	—	—
Total Litigation	—	—	—	—	—	—	—	—	—	—	—	—
Total Opex	1,303,464	1,357,509	1,308,077	1,304,024	1,377,039	1,248,070	1,299,815	1,291,503	1,320,449	1,273,466	1,291,348	1,374,041

Luna Innovations
Amortization Schedule
HNSN Note

	<u>Assumptions</u>
Loan Amount	\$5,000,000
Annual Interest Rate	8.500%
Total Number of Payments	16
Total Additional Principal	1,205,355
Date of 1st Payment	6/1/2010
Total Interest Paid	661,486

Payment Date	Payment Number	Calculated Principal & Interest	Required Payment	Actual Payment	Days in Quarter	Payment Breakdown			Additional Principal	Annual Interest	Annual Equity	Current	Long Term
						Principal	Interest	Ending Balance					
												1,776,762.22	3,223,237.78
6/1/2010	1	\$371,906.95	371,906.95	485,152	90	265,656.95	106,250.00	4,621,098.00	113,245.05			1,838,032.41	2,789,818.12
9/1/2010	2	\$371,906.95	371,906.95	617,181	90	273,708.62	98,198.33	4,102,115.33	245,274.05			1,768,575.60	2,340,292.26
12/1/2010	3	\$371,906.95	371,906.95	539,097	90	284,737.00	87,169.95	3,650,188.28	167,190.05	291,618.28	525,709.15	1,775,726.83	1,881,213.98
3/1/2011	4	\$371,906.95	371,906.95	504,517	90	294,340.45	77,566.50	3,223,237.78	132,610.05			1,817,610.03	1,412,380.29
6/1/2011	5	\$371,906.95	371,906.95	508,666	90	303,413.15	68,493.80	2,783,065.59	136,759.05			1,719,475.19	1,070,342.93
9/1/2011	6	\$371,906.95	371,906.95	508,666	90	312,766.81	59,140.14	2,333,539.73	136,759.05			1,619,254.99	721,037.27
12/1/2011	7	\$371,906.95	371,906.95	508,666	90	322,319.23	49,587.72	1,874,461.45	136,759.05	546,406.45	1,068,596.36	1,516,905.10	364,308.88
3/1/2012	8	\$371,906.95	371,906.95	508,666	90	332,074.64	39,832.31	1,405,627.76	136,759.05			1,412,380.29	—
6/1/2012	9	\$371,906.95	371,906.95	371,907	90	342,037.36	29,869.59	1,063,590.40	—			1,070,342.93	—
9/1/2012	10	\$371,906.95	371,906.95	371,907	90	349,305.65	22,601.30	714,284.74	—			721,037.27	—
12/1/2012	11	\$371,906.95	371,906.95	371,907	90	356,728.40	15,178.55	357,556.35	—	362,269.91	679,646.26	364,308.88	—
3/1/2013	12	\$371,906.95	365,154.42	365,154	90	364,308.88	7,598.07					—	—
6/1/2013	13	\$371,906.95	—	—	90		—					—	—
9/1/2013	14	\$371,906.95	—	—	90		—					—	—
12/1/2013	15	\$371,906.95	—	—	90		—			115,079.81	136,759.05	—	—
3/1/2014	16	\$371,906.95	—	—	90		—					—	—

as of 9/29/09

Pre petition

LT AP	457,047	1,052,000
LI AP	1,011,105	
LT Uninvoiced Rec	10,671	
LI Uninvoiced Rec	73,117	
LT Acc Liab	114,691	
LI Acc Liab	<u>950,000</u>	1,014,747
Total	2,616,631	2,066,747

	Jan 2010	Feb 2010	Mar 2010	Apr 2010	May 2010	June 2010	Jul 2010	Aug 2010	Sept 2010	Oct 2010	Nov 2010	Dec 2010	Jan 2011	Feb 2011	Mar 2011	Apr 2011	May 2011	Jun 2011	Jul 2011	Aug 2011	Sept 2011	Oct 2011	Nov 2011	Dec 2011
Monthly Rev	—	161,531	168,131	200,813	200,813	206,025	180,016	180,016	185,229	168,463	168,463	173,676	171,599	171,599	176,812	171,599	171,599	176,812	171,599	171,599	171,599	176,812	171,599	176,812
Quarterly Rev			329,662			607,651			545,262			510,603			520,010			520,010			514,797			525,223
Amount in excess			—			237,651			175,262			140,603			150,010			150,010			144,797			155,223
Actual billings	—	113,072	117,692	140,569	140,569	88862	126,011	126,011	117,977	117,924	117,924	134,151	120,119	120,119	129,762	120,119	120,119	129,761	120,119	120,119	129,761	123,768	120,119	126,112