
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

FORM 8-K

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

Date of Report (Date of earliest event reported): August 1, 2018

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.)

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

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

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

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

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

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02. Results of Operations and Financial Condition

On August 1, 2018, Luna Innovations Incorporated (the “Company”) issued a press release announcing its financial results for the quarter and six months ended June 30, 2018, as well as information regarding a conference call to discuss these financial results, business updates and the Transaction (as defined below). A copy of the press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K.

The information in Item 2.02 of this Current Report on Form 8-K and Exhibit 99.1 attached hereto is being furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any general incorporation language in such filing.

Item 7.01 Regulation FD Disclosure

On August 1, 2018, the Company issued an additional press release announcing the entry into an asset purchase agreement with OSI Optoelectronics, Inc., pursuant to which the Company sold substantially all of its assets related to its custom optoelectronic component and subassembly business in the United States and Canada (the “Transaction”). A copy of the press release related to the Transaction is furnished herewith as Exhibit 99.2 to this Current Report on Form 8-K. In addition, a copy of the slide presentation that the Company will be using in connection with the conference call discussed above is furnished herewith as Exhibit 99.3 to this Current Report on Form 8-K.

In accordance with general instruction B.2 to Form 8-K, the information in this Item 7.01, including the press release related to the Transaction and slide presentation furnished as Exhibits 99.2 and 99.3 hereto, respectively, shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act or Exchange Act.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits.

Exhibit	Description
99.1	Press Release, dated August 1, 2018, titled “Luna Innovations Reports Record Second Quarter 2018.”
99.2	Press Release, dated August 1, 2018, titled “Luna Announces Sale of Optoelectronic Solutions.”
99.3	Company Presentation.



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

Luna Innovations Reports Record Second Quarter 2018

(ROANOKE, VA, August 1, 2018) - Luna Innovations Incorporated (NASDAQ: LUNA), a global leader in advanced optical technology, today reported record financial results for the three and six months ended June 30, 2018.

- *Fifth consecutive quarter of year-over-year revenue growth and positive net income from continuing operations*
- *Total revenues of \$13.8 million for the three months ended June 30, 2018, up 22% compared to the three months ended June 30, 2017*
- *Net income improved significantly to \$1.1 million for the three months ended June 30, 2018, compared to \$(0.2) million for the prior-year fiscal quarter*
- *Adjusted EBITDA improved to \$1.3 million for the three months ended June 30, 2018 compared to \$0.6 million for the prior-year fiscal quarter*

Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") is a non-GAAP financial metric used by management to measure operating performance. This term is defined elsewhere in this release. Please see schedules appearing later in this release for reconciliation of non-GAAP financial measures to the most directly comparable GAAP measures.

"I'm very proud of the Luna team for driving the businesses to another strong quarter of growth," said Scott Graeff, President and Chief Executive Officer of Luna. "The double-digit revenue percentage increases we saw across our business segments led to strong revenue growth year-over-year, and we achieved positive net income from continuing operations for a record fifth consecutive quarter."

In a separate release issued today, Luna also announced it has sold its Optoelectronic Solutions business to OSI Optoelectronics, Inc. a subsidiary of OSI Systems, Inc., a leader in the development and manufacture of optoelectronic OEM and custom solutions for leading technologies and industries.

"As we've mentioned previously, we are well positioned to drive growth in Luna's core fiber optic-based test and measurement business to better serve this rapidly expanding market, which is projected to grow to more than \$9 billion by 2025," Graeff continued. "Divesting our Optoelectronics Solutions business to an industry leader such as OSI allows us to focus on our core strengths and competitive advantages, as well as underscores our overall reputation for technological excellence. Culturally, the divestiture is a great fit with OSI, and we thank all of the Optoelectronic Solutions employees for their many contributions while they were part of the Luna team."

Second-Quarter and Six-Month Financial Summary

Total revenues for the three months ended June 30, 2018 were \$13.8 million compared to \$11.3 million for the three months ended June 30, 2017. Technology development revenues increased 19% to \$5.5 million for the three months ended June 30, 2018, compared to \$4.6 million for the three months ended June 30, 2017. Total products and licensing revenues increased 24% to \$8.3 million for the three months ended June 30, 2018, compared to \$6.7 million for the three months ended June 30, 2017. The increase in the products and licensing revenues for the three months ended June 30, 2018 compared to the three months ended June 30, 2017 was partially due to a 146% increase in sensing equipment, which includes Luna's ODiSI products. The increase in technology development revenues for the three months ended June 30, 2018 compared to the prior-year period was due to continued growth in government research in advancing optical and bio-medical technologies and Luna's success in winning these research contracts.

Gross profit was \$5.7 million, or 41% of revenues, for the three months ended June 30, 2018, compared to gross profit of \$4.4 million, or 39% of revenues, for the three months ended June 30, 2017.

Selling, general and administrative ("SG&A") expenses were \$3.8 million for the three months ended June 30, 2018, compared to \$3.4 million for the three months ended June 30, 2017. Research, development and engineering ("R&D") expenses were \$1.0 million for the three months ended June 30, 2018, compared to \$0.8 million for the three months ended June 30, 2017. The increase in SG&A and in R&D expenses were due partially to the hiring of additional sales and marketing professionals as well as engineers in the Lightwave division, Luna's fiber optic test and measurement business.

Net income from continuing operations improved to \$1.1 million for the three months ended June 30, 2018, compared to \$0.1 million for the three months ended June 30, 2017.

Net income attributable to common stockholders for the three months ended June 30, 2018 was \$1.0 million, compared to a net loss attributable to common stockholders of \$(0.3) million for the three months ended June 30, 2017. Adjusted EBITDA was \$1.3 million for the three months ended June 30, 2018, compared to \$0.6 million for the three months ended June 30, 2017.

For the first six months of fiscal 2018, Luna reported net income of \$1.2 million compared to a net loss of \$(1.6) million. Net income from continuing operations improved by \$2.0 million, to \$1.2 million, or \$0.04 per share, for the six months ended June 30, 2018, compared to a net loss from continuing operations of \$(0.8) million, or \$(0.03) per share, for the six months ended June 30, 2017. Adjusted EBITDA was \$1.9 million for the six months ended June 30, 2018 compared \$0.4 million for the six months ended June 30, 2017. A reconciliation of net income/(loss) to adjusted EBITDA can be found in the schedules included in this release.

Non-GAAP Measures

In evaluating the operating performance of its business, Luna's management considers Adjusted EBITDA, which excludes certain charges and credits that are required by generally accepted accounting principles ("GAAP"). Adjusted EBITDA provides useful information to both management and investors by excluding the effect of certain non-cash expenses and items that Luna believes may not be indicative of its operating performance, because either they are unusual and Luna does not expect them to recur in the ordinary course of its business, or they are unrelated to the ongoing operation of the business in the ordinary course. Adjusted EBITDA should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for, or superior to, GAAP results. Adjusted EBITDA has been reconciled to the nearest GAAP measure in the table following the financial statements attached to this press release.

Conference Call Information

As previously announced, Luna will conduct an investor conference call at 8:30 am (EDT) today to discuss its financial results for the three and six months ended June 30, 2018, the sale of the Optoelectronic Solutions business and other recent business developments. The call can be accessed by dialing 844.578.9643 domestically or 270.823.1522 internationally prior to the start of the call. The participant access code is 9985726. Investors are advised to dial in at least five minutes prior to the call to register. The conference call will also be webcast live over the Internet. The webcast can be accessed by logging on to the "Investor Relations" section of the Luna website, www.lunainc.com, prior to the event. The webcast will be archived under the "Webcasts and Presentations" section of the Luna website for at least 30 days following the conference call.

About Luna

Luna Innovations Incorporated (www.lunainc.com) is a leader in optical technology, providing unique capabilities in high-performance fiber optic test products for the telecommunications industry and distributed fiber optic sensing for the aerospace and automotive industries. Luna is organized into two business segments, which work closely together to turn ideas into products: a Technology Development segment and a Products and Licensing segment. Luna's business model is designed to accelerate the process of bringing new and innovative technologies to market.

Forward-Looking Statements

The statements in this release that are not historical facts constitute "forward-looking statements" made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. These statements include Luna's expectations regarding its growth potential, the growth of the fiber optic-based test and measurement market, and its business focus. Management cautions the reader that these forward-looking statements are only predictions and are subject to a number of both known and unknown risks and uncertainties, and actual results, performance, and/or achievements of Luna may differ materially from the future results, performance, and/or achievements expressed or implied by these forward-looking statements as a result of a number of factors. These factors include, without limitation, failure of demand for Luna's products and services to meet expectations, failure of target market to grow and expand, technological and strategic challenges and those risks and uncertainties set forth in Luna's periodic reports and other filings with the Securities and Exchange Commission ("SEC"). Such filings are available on the SEC's website at www.sec.gov and on Luna's website at www.lunainc.com. The statements made in this release are based on information available to Luna as of the date of this release and Luna undertakes no obligation to update any of the forward-looking statements after the date of this release.

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(unaudited)		(unaudited)	
Revenues:				
Technology development	\$ 5,466,281	\$ 4,602,272	\$ 10,103,056	\$ 8,838,375
Products and licensing	8,306,367	6,690,759	15,862,763	12,541,554
Total revenues	13,772,648	11,293,031	25,965,819	21,379,929
Cost of revenues:				
Technology development	3,945,126	3,443,954	7,298,628	6,553,423
Products and licensing	4,155,054	3,482,867	7,968,605	6,583,913
Total cost of revenues	8,100,180	6,926,821	15,267,233	13,137,336
Gross profit	5,672,468	4,366,210	10,698,586	8,242,593
Operating expense:				
Selling, general and administrative	3,767,456	3,367,716	7,577,072	7,089,889
Research, development and engineering	1,003,863	818,891	2,105,352	1,747,662
Total operating expense	4,771,319	4,186,607	9,682,424	8,837,551
Operating income/(loss)	901,149	179,603	1,016,162	(594,958)
Other income/(expense):				
Investment income	100,846	—	175,756	—
Other income/(expense)	1,187	(1,225)	2,583	(869)
Interest expense	(33,988)	(60,386)	(75,234)	(124,760)
Total other income/(expense)	68,045	(61,611)	103,105	(125,629)
Income/(loss) from continuing operations before income taxes	969,194	117,992	1,119,267	(720,587)
Income tax (benefit)/expense	(98,133)	40,937	(96,736)	67,627
Net income/(loss) from continuing operations	1,067,327	77,055	1,216,003	(788,214)
Loss from discontinued operations, net of income tax of \$0	—	(298,817)	—	(789,534)
Net loss from discontinued operations	—	(298,817)	—	(789,534)
Net income/(loss)	1,067,327	(221,762)	1,216,003	(1,577,748)
Preferred stock dividend	63,235	29,536	127,660	63,632
Net income/(loss) attributable to common stockholders	\$ 1,004,092	\$ (251,298)	\$ 1,088,343	\$ (1,641,380)
Net income/(loss) per share from continuing operations:				
Basic	\$ 0.04	\$ —	\$ 0.04	\$ (0.03)
Diluted	\$ 0.03	\$ —	\$ 0.04	\$ (0.03)
Net loss per share from discontinued operations:				
Basic	\$ —	\$ (0.01)	\$ —	\$ (0.03)
Diluted	\$ —	\$ (0.01)	\$ —	\$ (0.03)
Net income/(loss) per share attributable to common stockholders:				
Basic	\$ 0.04	\$ (0.01)	\$ 0.04	\$ (0.06)
Diluted	\$ 0.03	\$ (0.01)	\$ 0.03	\$ (0.06)
Weighted average common shares and common equivalent shares outstanding:				
Basic	27,531,361	27,600,147	27,368,185	27,570,919
Diluted	31,506,745	32,579,379	31,257,277	27,570,919

Luna Innovations Incorporated
Consolidated Balance Sheets

	June 30, 2018	December 31, 2017
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 33,292,800	\$ 36,981,533
Accounts receivable, net	9,385,772	7,869,168
Receivable from sale of HSOR business	4,001,833	4,000,976
Contract assets	3,231,770	1,778,142
Inventory	6,906,998	6,951,110
Prepaid expenses and other current assets	1,054,984	1,220,650
Total current assets	57,874,157	58,801,579
Long-term contract assets	308,093	209,699
Property and equipment, net	3,323,749	3,453,741
Intangible assets, net	3,137,083	3,237,593
Goodwill	502,000	502,000
Other assets	18,024	18,024
Total assets	\$ 65,163,106	\$ 66,222,636
Liabilities and stockholders' equity		
Liabilities:		
Current liabilities:		

Current portion of long-term debt obligations	\$ 1,527,828	\$ 1,833,333
Current portion of capital lease obligations	34,661	43,665
Accounts payable	3,787,701	2,962,863
Accrued liabilities	5,554,481	6,557,649
Contract liabilities	1,400,922	3,428,625
Total current liabilities	12,305,593	14,826,135
Long-term deferred rent	1,109,397	1,184,438
Long-term debt obligations	—	603,007
Long-term capital lease obligations	54,970	71,275
Total liabilities	13,469,960	16,684,855
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$0.001, 1,321,514 shares authorized, issued and outstanding at June 30, 2018 and December 31, 2017	1,322	1,322
Common stock, par value \$0.001, 100,000,000 shares authorized, 29,025,529 and 28,354,822 shares issued, 27,772,424 and 27,283,918 shares outstanding at June 30, 2018 and December 31, 2017	29,897	29,186
Treasury stock at cost, 1,253,105 and 1,070,904 shares at June 30, 2018 and December 31, 2017	(2,116,640)	(1,649,746)
Additional paid-in capital	84,742,385	83,563,208
Accumulated deficit	(30,963,818)	(32,406,189)
Total stockholders' equity	51,693,146	49,537,781
Total liabilities and stockholders' equity	\$ 65,163,106	\$ 66,222,636

Luna Innovations Incorporated
Consolidated Statements of Cash Flows

	Six Months Ended June 30,	
	2018	2017
	(unaudited)	
Cash flows used in operating activities		
Net income/(loss)	\$ 1,216,003	\$ (1,577,748)
Adjustments to reconcile net income/(loss) to net cash (used in)/provided by operating activities		
Depreciation and amortization	622,577	1,753,748
Share-based compensation	212,149	321,756
Bad debt expense	6,000	40,753
Gain on disposal of fixed assets	(1,000)	(670)
Change in assets and liabilities		
Accounts receivable	(1,522,604)	1,433,014
Contract assets	(645,824)	(326,333)
Inventory	(482,194)	(1,170,519)
Other current assets	164,809	325,005
Accounts payable and accrued expenses	(253,372)	(894,315)
Contract liabilities	(2,053,566)	(215,555)
Net cash used in operating activities	<u>(2,737,022)</u>	<u>(314,321)</u>
Cash flows used in investing activities		
Acquisition of property and equipment	(198,012)	(796,217)
Intangible property costs	(185,909)	(318,942)
Proceeds from sale of property and equipment	1,000	3,000
Net cash used in investing activities	<u>(382,921)</u>	<u>(1,112,159)</u>
Cash flows used in financing activities		
Payments on capital lease obligations	(25,309)	(25,611)
Payments of debt obligations	(916,665)	(916,666)
Repurchase of common stock	(466,894)	(143,266)
Proceeds from the exercise of options and warrants	840,078	820
Net cash used in financing activities	<u>(568,790)</u>	<u>(1,084,723)</u>
Net decrease in cash or cash equivalents	<u>(3,688,733)</u>	<u>(2,511,203)</u>
Cash and cash equivalents-beginning of period	36,981,533	12,802,458
Cash and cash equivalents-end of period	<u>\$ 33,292,800</u>	<u>\$ 10,291,255</u>

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(unaudited)		(unaudited)	
Net income/(loss)	\$ 1,067,327	\$ (221,762)	\$ 1,216,003	\$ (1,577,748)
Less loss from discontinued operations, net of income taxes	—	(298,817)	—	(789,534)
Net income/(loss) from continuing operations	<u>1,067,327</u>	<u>77,055</u>	<u>1,216,003</u>	<u>(788,214)</u>

Interest expense	33,988	60,386	75,234	124,760
Investment income	(100,846)	—	(175,756)	—
Tax expense	(98,133)	40,937	(96,736)	67,627
Depreciation and amortization	314,725	285,253	622,577	646,145
EBITDA	1,217,061	463,631	1,641,322	50,318
Share-based compensation	117,823	151,672	212,149	321,756
Adjusted EBITDA	\$ 1,334,884	\$ 615,303	\$ 1,853,471	\$ 372,074

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Investor Contact:

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Luna Innovations Incorporated
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Luna Announces Sale of Optoelectronic Solutions

Divestiture supports strategic focus on fiber optic based test and measurement

(ROANOKE, VA, August 01, 2018) – Luna Innovations Incorporated (NASDAQ: LUNA), a global leader in advanced optical technology, today announced it has closed on the divestiture of its Optoelectronic Solutions (OPTO) business to OSI Optoelectronics, Inc. a subsidiary of OSI Systems, Inc. for up to \$18.5 million. OSI Systems, Inc. is a vertically integrated designer and manufacturer of specialized electronic systems and components for critical applications in the homeland security, healthcare, defense, and aerospace industries.

“The transaction demonstrates strong execution of our strategy to focus our business on our core, fiber optic based test and measurement technology platform,” said Scott Graeff, President and Chief Executive Officer of Luna. “Leveraging our industry-leading, proprietary fiber optics platform will allow us to better serve our customers and to generate long-term growth for our investors and employees. This divestiture is another important step in ensuring we have a robust and flexible balance sheet and a portfolio of complementary, scalable businesses.”

“The addition of Luna’s Optoelectronic Solutions business is well aligned with our focus on expanding and enhancing our product portfolios,” said Manoocher Mansouri, OSI Optoelectronics’ President. “As a leader in this area, this acquisition is expected to be a complementary addition with its highly regarded, customized solutions.”

Transaction details and financial reporting

Originally acquired in 2015 as part of its merger with Advanced Photonix, Inc. (API), Luna’s OPTO division designs and manufactures fully integrated photonic solutions employed across a wide range of industries. The division reported revenue of \$13.1 million for the year ended December 31, 2017.

As part of the transaction, employees associated with the OPTO division located in Camarillo, CA and Montreal, Quebec, are expected to transfer to OSI. Luna plans to use transaction proceeds to invest in its core fiber optic based test and measurement platform, consistent with the key focus of its long term strategy.

Luna was advised by B. Riley FBR and Woods Rogers PLC.

Conference Call Information

Luna will discuss this announcement on its second-quarter 2018 earnings call, taking place today at 8:30 am (ET). Please refer to Luna's second-quarter fiscal 2018 earnings news, which also was released this morning. The call can be accessed by dialing 844.578.9643 domestically or 270.823.1522 internationally prior to the start of the call. The participant access code is 9985726. Investors are advised to dial in at least five minutes prior to the call to register. The conference call will also be webcast live over the Internet. The webcast can be accessed by logging on to the "Investor Relations" section of the Luna website, www.lunainc.com, prior to the event. The webcast will be archived under the "Webcasts and Presentations" section of the Luna website for at least 30 days following the conference call.

About Luna

Luna Innovations Incorporated (www.lunainc.com) is a leader in optical technology, providing unique capabilities in high-performance fiber optic test products for the telecommunications industry and distributed fiber optic sensing for the aerospace and automotive industries. Luna is organized into two business segments, which work closely together to turn ideas into products: a Technology Development segment and a Products and Licensing segment. Luna's business model is designed to accelerate the process of bringing new and innovative technologies to market.

Forward-Looking Statements

The statements in this release that are not historical facts constitute "forward-looking statements" made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. These statements include Luna's expectations regarding the execution of its strategy, its ability to leverage its technology to serve customers, its long-term growth, the strength of its balance sheet, the nature of its complementary and scalable businesses and how they work together, the design of its business model and its technical capabilities. Management cautions the reader that these forward-looking statements are only predictions and are subject to a number of both known and unknown risks and uncertainties, and actual results, performance, and/or achievements of Luna may differ materially from the future results, performance, and/or achievements expressed or implied by these forward-looking statements as a result of a number of factors. These factors include, without limitation, failure of demand for Luna's products and services to meet expectations, technological and strategic challenges and those risks and uncertainties set forth in Luna's periodic reports and other filings with the Securities and Exchange Commission ("SEC"). Such filings are available on the SEC's website at www.sec.gov and on Luna's website at www.lunainc.com. The statements made in this release are based on information available to Luna as of the date of this release and Luna undertakes no obligation to update any of the forward-looking statements after the date of this release.

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Investor Contact:

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Email: IR@lunainc.com



Investor Supplemental materials

August 1, 2018

Safe Harbor

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

This presentation includes information that constitutes “forward-looking statements” made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. These statements include the company's expectations regarding the company's future financial performance and the potential demand for its products, the company's growth potential, market growth and trends, its business focus and competitive advantages, its reputation for technological excellence, the execution of its strategy, its ability to leverage its technology to serve customers, its long-term growth, the strength of its balance sheet, approach to capital deployment and acquisitions, the culture and organization of its businesses, the design of its business model and its technical capabilities, valuation of the company and the company continuing to leverage the trends of growth in optical connectivity in high speed networks and data centers, as well as the expanding use of composite materials and the need for improved means of testing their structural integrity. Management cautions the reader that these forward-looking statements are only predictions and are subject to a number of both known and unknown risks and uncertainties, and actual results, performance, and/or achievements of the company may differ materially from the future results, performance, and/or achievements expressed or implied by these forward-looking statements as a result of a number of factors. These factors include, without limitation, failure of demand for the company's products and services to meet expectations, failure of target market to grow and expand, technological and strategic challenges, market valuation of the company and those risks and uncertainties set forth in the company's periodic reports and other filings with the Securities and Exchange Commission (“SEC”). Such filings are available on the SEC's website at www.sec.gov and on the company's website at www.lunainc.com. The statements made in this presentation are based on information available to Luna as of the date of this presentation and Luna undertakes no obligation to update any of the forward-looking statements after the date of this presentation, except as required by law.

Non-GAAP Financial Measures

In addition to U.S. GAAP financial information, this presentation includes Adjusted EBITDA, a non-GAAP financial measures. This non-GAAP financial measures is in addition to, and not a substitute for or superior to, measures of financial performance prepared in accordance with U.S. GAAP. A reconciliation of Adjusted EBITDA to Loss from Continuing Operations is included in the appendix to this presentation.

Divestiture of OptoElectronics Solutions business

Divestiture of Opto business allows greater focus on core business capabilities in fiber optic-based test and measurement

- Luna has closed on the divestiture of its Optoelectronic Solutions business to OSI Systems, Inc.
- OSI Systems, Inc. is an integrated designer and manufacturer of specialized electronic systems and components for critical applications, including a division dedicated to optoelectronic manufacturing.
- Sale price is up to \$18.5 million
 - \$17.5 million cash
 - Up to \$1.0 million earn-out based on 18-month post-close revenue target

Proceeds add to strong cash position and flexible balance sheet; we will maintain our disciplined capital deployment strategy

- A disciplined approach to capital deployment, with a focus on working capital and reinvestment in the business to generate long-term sustainable growth
- Continue to invest in the organic growth of the company
 - Strategic investments will be made to enhance and expand our core products and access to market
 - Investments in Lightwave sales and marketing team
 - Invest in engineering resources to accelerate the product road map
- Disciplined acquisition strategy
 - Taking a targeted and deliberate approach
 - Interesting potential opportunities that allow us to grow test and measurement capabilities through acquisition
 - Intend to target acquisitions that we can expect to be quickly accretive
- Additional capital allocation may include share repurchase; dependent on corporate earnings growth and other available opportunities

Pro-forma Luna financials:¹

(\$ in 000s)	Three Months Ended					
	3/31/2017	6/30/2017	9/30/2017	12/31/2017	3/31/2018	6/30/2018
Revenues:						
Technology development	\$ 4,236	\$ 4,602	\$ 4,590	\$ 5,148	\$ 4,637	\$ 5,466
Products and licensing	2,398	3,680	3,713	4,714	4,132	4,457
Total revenues	6,634	8,282	8,303	9,862	8,769	9,923
Cost of revenues:						
Technology development	3,109	3,444	3,492	3,943	3,354	3,945
Products and licensing	995	1,529	1,470	1,732	1,575	1,748
Total cost of revenues	4,104	4,973	4,962	5,675	4,929	5,693
Gross profit	2,530	3,309	3,341	4,187	3,840	4,230
Operating expense:						
Selling, general and administrative	3,204	2,947	2,832	3,943	3,334	3,265
Research, development and engineering	700	600	662	692	880	760
Total operating expense	3,904	3,547	3,494	4,635	4,214	4,025
Operating Income (Loss)	\$ (1,374)	\$ (238)	\$ (153)	\$ (448)	\$ (374)	\$ 205

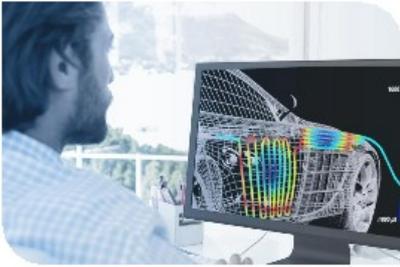
¹ Unaudited pro forma financials assumes Optoelectronics business had been sold on January 1, 2017

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Business Strategy



Our business model accelerates the process of bringing new and innovative products to market



Structural & Material Test

Deliver high-definition distributed strain & temperature sensing data not available using conventional measurement technologies



Communications Test & Measurement

Design and manufacture, high performance fiber optic test instruments for communications market



Technology development and Terahertz

Cutting edge measurement technologies & highly leverageable, third party funded research

What problem does Luna solve?

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Strong growth opportunity through Luna's fiber optic-based technologies (Lightwave)

Luna's fiber optic technologies are used two ways:

SENSING



Aerospace and Automotive

Measuring strain and temperature in composites and other advanced materials: far superior to conventional technologies

OPTICAL TEST & MEASUREMENT



Communications

Testing optical components and networks deployed by the Tele- and Data-communications market

Business opportunities – Lightwave

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There are strong drivers of growth for our technology in Automotive and Aerospace



Challenges we address

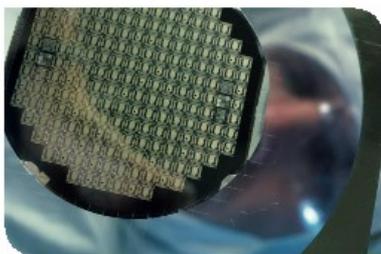
- Instrumenting complex parts
- Performing fatigue testing in composites
- New materials have very large changes in strain over short distances
- Identifying small defects, eliminate false positives
- Mapping complex strain profiles



Drivers for our products

- Testing requirements changing drastically with introduction of new materials and lighter-weight designs
- Strain and temperature measurements fundamental to performance and safety in aerospace and automotive markets
- Incumbent technologies (strain gages, RTDs, etc.) do not scale well to meet challenges of modern design

There are two distinct growth opportunities for our technology in the Communications market



Optical component development and manufacturing

Silicon photonics is creating demand for advanced test solutions

- We are at the beginning of the era of optical connectivity in silicon
- Luna products offer 30x faster device characterization vs competition
- Accelerate time to market through reduced iteration of design, fab, test



Fiber and short network test

Bandwidth demands continue to drive double-digit connectivity growth

- Luna products deliver unprecedented visibility into short-haul networks
- Increase quality and reduce time to market for new designs

2Q 2018 Results

Second Quarter 2018 earnings

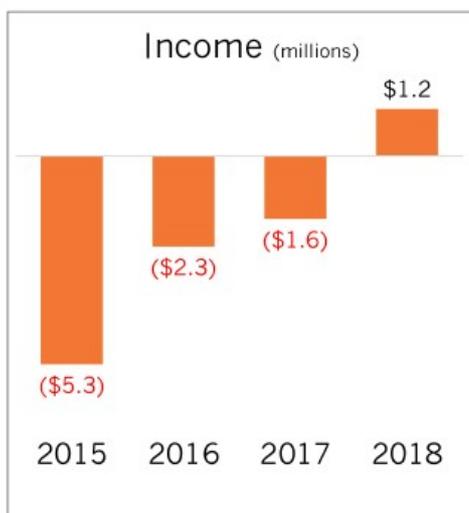
- We delivered another strong quarter:
 - Strong revenue growth across nearly all businesses
 - More than double the Adjusted EBITDA and positive net income versus a loss in the same year ago period
- Fifth consecutive quarter of year-over-year top line growth and positive net income from continuing operations
- Total revenues of \$13.8 million for the three months ended June 30, 2018, up 22% compared to the three months ended June 30, 2017
- Net income improved to \$1.1 million for the three months ended June 30, 2018 compared to a net loss of \$(0.2) million for the three months ended June 30, 2017
- Adjusted EBITDA¹ improved to \$1.3 million for the three months ended June 30, 2018 compared to \$0.6 million for the three months ended June 30, 2017

¹Adj EBITDA is a non-GAAP measure. Reconciliation of comparable GAAP measures to non-GAAP measures is provided in the appendix to this presentation

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First half 2018 results continue the strong trajectory established in the first quarter....

Six months ended June 30:

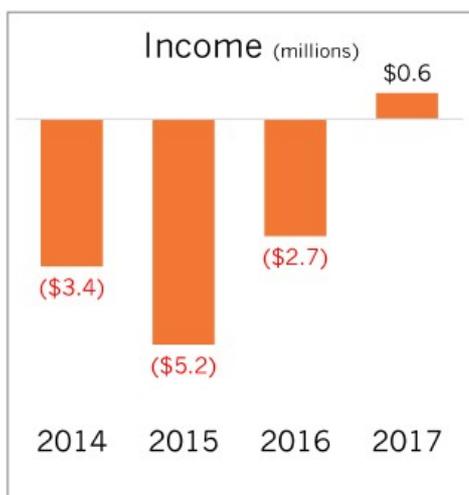


- 22% organic revenue growth year-over-year for 2018
- Continued prudent expense management allowed robust drop-through to the bottom line

* Results include the Optoelectronic solutions business that was Divested on July 31, 2018

....And continues the record performance of 2017 and trajectory of the last several years

Twelve months ended December 31:



- Double-digit organic revenue growth year-over-year
- Positive income from continuing operations in 2017¹

¹ 2017 income from continuing ops normalized for a one-time pre-tax charge of \$0.7 million related to former CEO departure

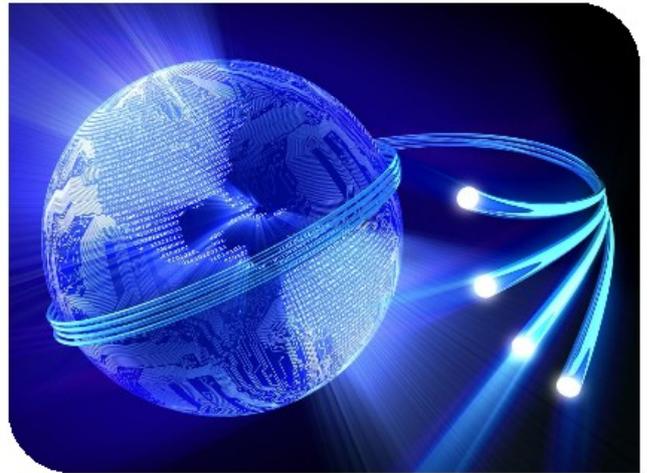
* Results include the Optoelectronic solutions business that was Divested on July 31, 2018

We have a disciplined capital deployment strategy to leverage our flexible balance sheet and strong cash position

- Pro-forma for the OPTO divestiture, our balance sheet reflects:
 - \$72 Million in total assets
 - \$48 Million in cash and cash equivalents
 - \$60 Million in working capital
- A disciplined approach to capital deployment, with a focus on working capital and reinvestment in the business to generate long-term sustainable growth

Why invest in Luna?

- **Proprietary**, measurement technology, offering **unprecedented** combination of resolution, accuracy and speed
- Customers in **attractive markets**: Aerospace, Automotive, Communications, Energy and Defense
- Positioned to **take advantage of trends** such as vehicle light-weighting and increasing demands on data centers and broadband capacity
- **Adequately capitalized** to fund growth
- Long-tenured, **experienced** executive team / board
- Corporate culture of **innovation and integrity**
- **Compelling value**: currently trading at an attractive multiple



Appendix

Reconciliation of Net Income to Adjusted EBITDA

	Three Months Ended June 30,	
	2018	2017
Net income/(loss)	\$1,067,327	\$(221,762)
Less loss from discontinued operations, net of income taxes	-	(298,817)
Net income/(loss) from continuing operations	1,067,327	77,055
Interest expense	33,988	60,386
Investment income	(100,846)	-
Income tax (benefit)/expense	(98,133)	40,937
Depreciation and amortization	314,725	285,253
EBITDA	1,217,061	463,631
Share-based compensation	117,823	151,672
Adjusted EBITDA	\$1,334,884	\$615,303

Additional Financial Info

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