

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

FORM 8-K

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

Date of Report (Date of earliest event reported): December 1, 2020

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

301 1st Street SW, Suite 200
Roanoke, VA 24011
(Address of principal executive offices, including zip code)
540-769-8400
(Registrant's telephone number, including area code)
(Former name or former address, if changed since last report)

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.001 par value per share	LUNA	The Nasdaq Stock Market LLC

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 1.01. Entry into a Definitive Material Agreement.

Share Purchase Agreement

On December 2, 2020, Luna Innovations Incorporated (the “Company”) entered into and closed a Share Purchase Agreement (the “Share Purchase Agreement”) with QinetiQ Holdings Limited (“QinetiQ”) for the purchase of all of the shares of OptaSense Holdings Limited (“OptaSense”). Pursuant to the Share Purchase Agreement, the Company acquired all outstanding shares of OptaSense for aggregate consideration of £29.0 million subject to adjustment as described in the Share Purchase Agreement (the “Transaction”). The Share Purchase Agreement and a Tax Deed entered into between QinetiQ and the Company (the “Tax Deed”) in connection with the Share Purchase Agreement contain customary representations and warranties and indemnities. In addition, at closing of the transaction, the Company obtained a warranty and indemnity insurance policy from Liberty Mutual Insurance Europe SE (LMIE) in connection with the Share Purchase Agreement and the Tax Deed.

In addition, for a period of two years after closing, QinetiQ has agreed not, directly or indirectly, alone or jointly with any other person, to compete or engage in any competing business with the Company in countries in which OptaSense operates and not to solicit customers, employees or suppliers of the Company, subject to specified exceptions. QinetiQ has also agreed to provide specified transitional services for a period of six months after closing.

The foregoing summary is not complete and is qualified in its entirety by reference to the Share Purchase Agreement and the Tax Deed, copies of which are filed as Exhibits 2.1 and 10.1 to this Current Report on Form 8-K and incorporated herein by reference. The representations, warranties and covenants contained in the Share Purchase Agreement and the Tax Deed were made only for the purposes of the Share Purchase Agreement and Tax Deed, were made as of specific dates, and were made solely for the benefit of the parties to the Share Purchase Agreement and the Tax Deed and may not have been intended to be statements of fact but, rather, as a method of allocating risk and governing the contractual rights and relationships among the parties to Share Purchase Agreement and the Tax Deed. The assertions embodied in those representations and warranties may be subject to important qualifications and limitations agreed to by the parties in connection with negotiating their respective terms. Moreover, the representations and warranties may be subject to a contractual standard of materiality that may be different from what may be viewed as material to stockholders of the Company. For the foregoing reasons, none of the Company’s stockholders or any other person should rely on such representations and warranties, or any characterizations thereof, as statements of factual information at the time they were made or otherwise.

PNC Secured Debt Facility

On December 1, 2020 (the “Effective Date”), the Company entered into a Loan Agreement (the “Loan Agreement”) with PNC Bank, National Association, as lender (the “Lender”) and the Company’s domestic subsidiaries as guarantors. The Loan Agreement provides a \$12.5 million term loan facility (the “Term Loan”) and a \$15.0 million revolving credit facility (the “Revolving Line”), which include a \$3.0 letter of credit sublimit. On the Effective Date, the Company borrowed a full amount of the Term Loan from the Lender pursuant to a term note (the “Term Note”) and a \$7.6 million revolving loan (the “Revolving Loan”) pursuant to a revolving line of credit note (the “Revolving Line of Credit Note”). The Company may repay and reborrow advances under the Revolving Line from time to time pursuant to the Revolving Line of Credit Note.

The Company used the proceeds from the Term Loan and the Revolving Loan to pay, in part, the consideration for the Transaction described above. The Company’s obligations under the Loan Agreement are secured by a first priority perfected security interest in substantially all of the Company’s and the guarantors’ assets.

The Term Loan matures on December 1, 2023. The Term Loan is due and payable in 12 equal quarterly payments of principal and interest. The Term Loan bears interest at a floating per annum rate equal to the sum of (a) LIBOR plus (b) a margin ranging from 1.75% to 2.25% depending on the Net Leverage Ratio (as defined in the Loan Agreement). The Company may prepay the Term Loan without penalty or premium.

The Revolving Line expires on December 1, 2023. Borrowings under the Revolving Line will bear interest at a floating per annum rate equal to the sum of (a) LIBOR plus (b) a margin ranging from 1.75% to 2.25% depending on the Net Leverage Ratio. Accrued interest will be due and payable on the first day of each month and the outstanding principal balance and any accrued but unpaid interest will be due and payable on December 1, 2023. The unused portion of the Revolving Line will accrue a fee equal to 0.20% per annum multiplied by the quarterly average unused amount.

Provided that the Company’s obligations under the Loan Agreement have been satisfied, the Company may terminate the Loan Agreement at any time upon three business days’ advance written notice to the Lender.

The Loan Agreement includes a number of affirmative and restrictive covenants applicable to the Company and its subsidiaries, including, among others, financial covenants regarding minimum net leverage and fixed charge coverage, affirmative covenants regarding delivery of financial statements, payment of taxes, and maintenance of government compliance, and restrictive covenants regarding dispositions of property, acquisitions, incurrence of additional indebtedness or liens, investments and transactions with affiliates. The Company is also restricted from paying dividends or making other distributions or payments on its capital stock, subject to limited exceptions.

Upon the occurrence of certain events, including the Company's failure to satisfy its payment obligations under the Loan Agreement, failure to adhere to the financial covenants, the breach of certain of its other covenants under the Loan Agreement, cross defaults to other indebtedness or material agreements, judgment defaults and defaults related to failure to maintain governmental approvals, the Lender will have the right, among other remedies, to declare all principal and interest immediately due and payable, and to exercise secured party remedies.

The foregoing is only a summary of the material terms of the Loan Agreement, the Term Note and the Revolving Line of Credit Note, and does not purport to be complete and is qualified in its entirety by reference to the full text of the Loan Agreement, the Term Note and the Revolving Line of Credit Note, which will be filed as exhibits to the Company's Annual Report on Form 10-K for the year ending December 31, 2020.

Item 1.02. Termination of a Material Definitive Agreement.

In connection with its entry into the Loan Agreement, on December 1, 2020, the Company terminated the Amended and Restated Loan and Security Agreement, dated October 10, 2019, by and between Luna Innovations Incorporated, Luna Technologies, Inc., Former Luna Subsidiary, Inc., Terametrix, LLC, and General Photomics Corp. and Silicon Valley Bank (the "Prior Revolving Credit Facility"). As of the time of termination, there were no amounts outstanding under the Prior Revolving Credit Facility. The Prior Revolving Credit Facility is described in the Company's Form 10-Q for the quarter ended September 30, 2020, filed with the Securities and Exchange Commission on November 9, 2020.

Item 2.01. Completion of Acquisition or Disposition of Assets.

The information included in Item 1.01 is incorporated herein by reference.

Item 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

The information set forth under Item 1.01 above is hereby incorporated by reference into Item 2.03.

Item 7.01. Regulation FD Disclosure.

On December 3, 2020, the Company issued press releases announcing the Transaction and the entry into the Loan Agreement. Copies of these press releases are furnished herewith as Exhibits 99.1 and 99.2 to this Current Report on Form 8-K. The Company is also hosting a conference call to discuss the Transaction. The Company will be using a slide presentation in connection with the conference call. A copy of the presentation 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 releases and presentation furnished as exhibits hereto, 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 the Exchange Act.

Item 9.01. Financial Statements and Exhibits

(a) Financial Statements of Businesses Acquired.

The financial statements required by this Item, with respect to the acquisition described in Item 2.01 herein, will be filed as soon as practicable, and in any event not later than 71 days after the date on which this Current Report on Form 8-K was required to be filed pursuant to Item 2.01.

(b) Pro Forma Financial Information.

The pro forma financial information required by this Item, with respect to the acquisition described in Item 2.01 herein, will be filed as soon as practicable, and in any event not later than 71 days after the date on which this Current Report on Form 8-K was required to be filed pursuant to Item 2.01.

(d) Exhibits.

<u>Exhibit</u>	<u>Description</u>
2.1 [^]	<u>Share Purchase Agreement, by and between the Company and QinetiQ Holdings Limited, dated as of December 2, 2020.</u>
10.1	<u>Tax Deed, by and between the Company and QinetiQ Holdings Limited, dated as of December 2, 2020.</u>
99.1	<u>Press Release, dated December 3, 2020 titled "Luna Innovations acquires OptaSense".</u>
99.2	<u>Press Release, dated December 3, 2020 titled "Luna Announces \$27.5 Million Debt Financing From PNC".</u>
99.3	<u>Presentation.</u>

[^] Pursuant to Item 601(b)(2) of Regulation S-K, the schedules and exhibits to this agreement are omitted, but will be furnished to the Securities and Exchange Commission upon request.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Luna Innovations Incorporated

By: /s/ Scott A. Graeff
Scott A. Graeff
President and Chief Executive Officer

Date: December 3, 2020



Share Purchase Agreement

QinetiQ Holdings Limited

and

Luna Innovations Incorporated.

for the sale and purchase of all of the issued
shares of OptaSense Holdings Limited

3 December 2020

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THIS AGREEMENT is made on 3 December 2020

BETWEEN:

- (1) **QinetiQ Holdings Limited** (No. 04154556) whose registered office is at Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX (the "**Seller**"); and
- (2) **Luna Innovations, Incorporated.** (No. 36-36813) with an office located at 301 1st Street SW, Suite 200, Roanoke, Virginia 24011 (the "**Buyer**").

THE PARTIES AGREE AS FOLLOWS:

1. **DEFINITIONS AND INTERPRETATION**

- 1.1 In this agreement the following words and expressions and abbreviations have the following meanings, unless the context otherwise requires:

"**Accounts**" means the audited financial statements of each member of the Group for the financial period ended on the Accounts Date included in the Data Room Information (document 3.1.1.2.8);

"**Accounts Date**" means 31 March 2020;

"**After-Tax Basis**" means when referenced in any indemnity, payment obligation or covenant to pay that, if and to the extent that the amount payable pursuant to such indemnity, obligation or covenant is subject to a deduction or withholding required by law in respect of Tax or is chargeable to any Tax in the hands of the recipient, such amount shall be increased so as to ensure that, after taking into account the amount of Tax required to be deducted or withheld from, and the Tax chargeable on, such amount (including on the increased amount), the recipient of the sum is in the same position as it would have been in had no such deduction, withholding or Tax been payable;

"**Approved Announcement**" means an announcement in the approved terms;

"**Branch Establishment**" means the branch establishments of the Company and/or Subsidiaries as specified in Part C of schedule 1;

"**Business**" means the business carried on by the Group as at the date of this agreement;

"**Business Day**" means a day (excluding Saturdays) on which banks generally are open in London for the transaction of normal banking business;

"**Buyer's Group**" means the Buyer and its group undertakings from time to time (including, from Completion, the Group), and all of them and each of them as the context admits;

"**Claim**" means, in relation to a person, any claim, allegation, cause of action, proceeding, liability, suit or demand made under any Transaction Document against the person concerned, however it arises and whether it is present or future, fixed or unascertained, actual or contingent (excluding a claim relating to Leakage pursuant to clause 4);

"**Code**" means the Internal Revenue Code of 1986, as amended.

"**Company**" means OptaSense Holdings Limited (No. 07450122);

"**Completion**" means the completion of the sale and purchase of the Shares in accordance with clause 3;

"Completion Bonus" means the completion bonus of £261,200 in aggregate to be paid by the Company to each of the persons set out in the Completion Bonus Statement;

"Completion Bonus Statement" means the statement in the agreed form setting out the names of the recipients of, and the respective amounts of, the Completion Bonus;

"Completion Date" means the date on which Completion occurs;

"Confidential Information" means all information relating to the Group's business, financial or other affairs (including future plans and targets of the Group);

"Consideration" means £28,950,000;

"Data Protection Authority" means any applicable governmental authority that supervises compliance with Data Protection Law (including the UK Information Commissioner's Office);

"Data Protection Law" means all applicable law relating to data privacy and data protection including: (i) the General Data Protection Regulation (EU) 2016/679; (ii) the Privacy and Electronic Communications (EC Directive) Regulations 2003 (SI 2003/2426); and (iii) the UK Data Protection Act 2018, in each case as amended, consolidated, replaced or updated from time to time and together with any subordinate or related legislation made under any of the foregoing which are applicable to each Group Company;

"Data Room" means the online data room relating to the Group which is operated by Merrill DatasiteOne and made available to the Buyer at <https://global.datasiteone.merrillcorp.com/global/projects> from 20 August 2020 to 2 December 2020;

"Data Room Information" means the materials and information made available for inspection in the Data Room;

"Disclosed" means fairly disclosed in folder 1 (Legal Folder) of the Data Room or pursuant to the terms of the Disclosure Letter in such manner that a professionally advised purchaser would reasonably be aware of the facts, nature and scope of the matter disclosed;

"Disclosed Schemes" means the employee pension benefit plans listed in the Data Room Information;

"Disclosure Letter" means the letter dated the same date as this agreement together with the attachments thereto addressed by the Seller to the Buyer disclosing exceptions to the Warranties;

"Domain Names" means Optasense.com; Optasense.co.uk; Optasense.eu.com; Optasense.net; and Optasense.uk;

"Employee Share Plan" means Element A and Element B of the 2017 QinetiQ Group plc Incentive Plan;

"Employee Taxation" means the amount of income tax for which a Group Company becomes liable to account to HMRC under PAYE or equivalent overseas tax authorities under overseas payroll in respect of any Employment Income together with any Primary Class 1 Employee's National Insurance Contributions (or overseas equivalents, if applicable) for which any Group Company is liable to account to HMRC or equivalent overseas tax authorities in respect of that Employment Income;

"Employer Taxation" means Secondary Class 1 Employer's National Insurance Contributions, apprenticeship levy or overseas equivalent employer social security contributions;

"Employment Income" means an amount which is or is deemed to be employment income in respect of any Relevant Award;

"Encumbrance" means all security interests, options, equities, claims, or other third party rights including rights of pre-emption of any nature whatsoever;

"Exchange Rate" means, with respect to a particular currency for a particular day, the spot rate of exchange (the closing mid-point) for that currency into pounds sterling (or, if applicable, the spot rate of exchange (the closing mid-point) for pounds sterling into that currency) for such date as first published thereafter in the London edition of the Financial Times or, where no such rate is published in respect of that currency for such date, at the rate quoted by Barclays Bank PLC as at the close of business in London as at such date;

"EV-Equity Bridge" means the document titled "Project Owen: EV-Equity Bridge" in the agreed terms;

"Financial and Tax VDD Report" means the financial and tax vendor due diligence report prepared by Duff & Phelps including all 4 volumes as listed below and provided in the Data Room Information (folder 3.1.2):

- (a) Volume 1: 'Project Owen_VDD report_17 Aug 20' dated 17th August 2020;
- (b) Volume 2: 'Project Owen_Tax VDD report_20 Aug 20' dated 20th August 2020;
- (c) Volume 3: 'Project Owen_Locked Box BS Jul20_16 Sep 20' dated 16th September 2020;
- (d) Volume 4: 'Project Owen_Trading Update Report_30 Oct 20' dated 30th October 2020;

"Fundamental Warranties" means the warranties set out in paragraphs 1.1 and 1.3 of schedule 2;

"Fundamental Warranty Claim" means a Claim in respect of a breach of the Fundamental Warranties;

"Government Contract" means any contract entered into by and between a Group Company and any governmental authority, in addition to any subcontract (to which a Group Company is party) with another entity under (i) a Group Company's prime contract with a governmental authority or (ii) another entity's prime contract with a governmental authority. Unless otherwise indicated, a task, purchase, or delivery order under a Government Contract will not constitute a separate Government Contract, for the purposes of this definition, but will be part of the Government Contract under which it was issued;

"Government Contract Bid" means any bid, offer, proposal, written response to a request for a proposal or quote for goods or services to be delivered (at least in part) by a Group Company that, if accepted or awarded, would result in or lead to a Government Contract;

"Group" means the Company and its Subsidiaries and **"Group Company"** means any one of them;

"Group Intellectual Property" means Intellectual Property owned by or licensed to any member of the Group together with the goodwill relating thereto and including Group Company Intellectual Property Registrations;

"Group Company Intellectual Property Registrations" means all Intellectual Property that is owned by, filed for registration by, or under obligation of ownership or assignment to a Group Company, and which is the subject of a registration (or application for registration) with any governmental authority or domain name registry.

"HMRC" means Her Majesty's Revenue and Customs and, where relevant, any predecessor body which carried out any of its functions;

"IAS Regulation" means EC Regulation No. 1606/2002 of the European Parliament and the Council of 19 July 2002 on the application of international accounting standards;

"Indemnity Claim" means a claim by the Buyer against the Seller under clause 5.9 (including under the US Benefits Indemnity);

"Indemnity Claim Statement" means the statement in the agreed form setting out the names of the persons the subject of the Indemnity Claims;

"Insurance Policy" means the warranty and indemnity insurance policy taken out by the Buyer in connection with the transaction contemplated by this agreement;

"Intellectual Property" means any and all intellectual property and proprietary rights (and the right to apply for registration of any such rights), including patents; trade marks; service marks; rights (registered or unregistered) in any designs; trade or business names; inventions (whether patentable or not and whether or not reduced to practice); copyright (including rights in software) and topography rights; know-how; secret formulae and processes; internet domain names; rights protecting goodwill and reputation; database rights; and all rights and forms of protection of a similar nature to any of the foregoing or having equivalent effect anywhere in the world. Without limiting the foregoing, this includes claims and causes of action arising out of or related to infringement, misuse, misappropriation or violation of any of the foregoing;

"ITEPA" has the meaning given in the Tax Deed;

"ITA" means the Income Tax Act (Canada);

"IT Systems" means software, hardware, network and telecommunications equipment and internet-related information technology in possession of the Group;

"IP Warranty Claim" means a Claim in respect of a breach of the warranties set out in paragraphs 14.1 to 14.7 (inclusive) of schedule 2;

"Know-How" means confidential or proprietary industrial, technical or commercial information and techniques in any form (including paper, electronically stored data, magnetic media, files and micro-film) including, drawings, data relating to inventions, formulae, test results, reports, research reports, project reports and testing procedures, shop practices, instruction and training manuals, market forecasts, specifications,

quotations, lists and particulars of customers and suppliers, marketing methods and procedures, show-how and advertising copy;

"Leakage" means in each case (subject to as provided in paragraph (h) below) and as applicable, to, on behalf of, or for the benefit of the Seller and any Related Person of the Seller:

- (a) any dividend, bonus or other distribution of capital or income declared, paid or made (whether in cash or in specie) or any purchase, repurchase, redemption, repayment or return of share or loan capital (or any other relevant securities) by any Group Company;
- (b) any payments made (including management, monitoring, service or directors' fees) by any Group Company (or assets transferred to or liabilities assumed, indemnified, or guaranteed by any Group Company) (including with respect to any share capital or other securities of any Group Company);
- (c) the waiver, deferral, discount or release by any Group Company of any economic benefit or amount owed to that Group Company;
- (d) the payment by any Group Company of any professional fees for the sale of the Shares;
- (e) any payment of interest or principal in respect of any indebtedness owed by any Group Company;
- (f) any payment of any costs, bonuses or other sums by any member of the Group;
- (g) the agreement or commitment (whether conditional or not) by any Group Company to do or procure the doing of any of the things set out in paragraphs (a) to (e) above; and
- (h) any Tax incurred or payable by any Group Company as a result of the occurrence of any of those matters set out in paragraphs (a) to (g) above (which shall for the purposes of this limb (h) and clause 4 be deemed to have been received by the person receiving the benefit of the matter in question);

other than any Permitted Leakage Payment;

"Locked Box Accounts" means the unaudited management accounts of the Group for the period ended on the Locked Box Date included in the Data Room Information (document 3.5.2.1 and 3.5.2.2);

"Locked Box Date" means 31 July 2020;

"Losses" means in relation to any matter, all liabilities, losses, claims, Tax, properly incurred costs, fees and expenses relating to that matter including properly incurred legal costs and fees (whether or not recoverable in litigation) and any amounts paid pursuant to a judgment or order of the Court or the subject of any settlement or other agreement between the relevant parties to the matter;

"Permitted Leakage Payment" means any of the payments or other matters set out in schedule 4;

"Related Persons" means in the case of a person which is an undertaking, any group undertaking thereof, in each case from time to time, and any employee, officer or director of any such undertaking;

"Remaining Information" has the meaning set out in clause 12.1;

"Relevant Award" means an award over ordinary shares in QinetiQ Group plc granted under the Employee Share Plan to any director, officer, employee or worker of any Group Company and as set out in the Relevant Award Schedule in the agreed terms;

"Relevant Award Schedules" means the Schedule of Relevant Awards as set out in the agreed terms, save that the number of ordinary shares in QinetiQ Group plc subject to Shares Awards may vary at the discretion of the remuneration committee of the Seller's Group and the relevant vesting dates set out under the Relevant Award Schedules may vary if a takeover event or any other relevant event occurs and results in an earlier vesting of the Relevant Awards in accordance with the terms of the Employee Share Plan;

"Seller's Group" means the QinetiQ Group plc (No. 4586941) and its group undertakings from time to time (excluding, from Completion, the Group), and all of them and each of them as the context admits;

"Seller's Group Guarantees" means any guarantee, security, indemnity, counter-indemnity, letter of comfort or other commitment or obligation given by or binding on the Seller or any member of the Seller's Group to any third party in respect of any liability or obligation of the Group, including the guarantees provided by QinetiQ Limited:

- (a) pursuant to the deed of guarantee dated 23 July 2018 between QinetiQ Limited and MOL Pakistan Oil & Gas Co. B.V.; and
- (b) pursuant to the parent company guarantee in respect of the framework agreement between OptaSense Limited and Equinor Energy ASA signed by OptaSense Limited on 25 February 2020;

"Seller's Solicitors" means Ashurst LLP of London Fruit & Wool Exchange, 1 Duval Square, London E1 6PW;

"Seller's Solicitors' Account" means the account in the name of the Seller's Solicitors (Ashurst LLP Client Account), account number 00404241 at NatWest Bank plc, of 216 Bishopsgate, London EC2M 4QB, sort code 50-00-00;

"Shares" means the 100 ordinary shares of £0.01 in the issued share capital of the Company;

"Specified US Tax Indemnities" has the meaning given in the Tax Deed;

"Subsidiaries" means the subsidiary undertakings of the Company specified in Part B of schedule 1 as well as the Branch Establishments (as the context admits and unless the context otherwise requires) and **"Subsidiary"** shall mean each or any of them as the context admits;

"Tax" or **"tax"** means:

- (a) any tax, and any duty, contribution, impost, levy, royalty or charge in the nature of tax (whether imposed in the United Kingdom or elsewhere) including, without limitation, capital gains tax, corporation tax, customs and excise duties, income tax (including PAYE), national insurance contributions, stamp duty, stamp duty land tax, stamp duty reserve tax, repayment of State Aid, VAT, excise duty, landfill tax, real estate transfer tax and diverted profits tax; and
- (b) all interest, penalties, surcharges, costs and fines relating to anything referred to in (a) above; and

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(c) any liability for the payment of amounts determined by reference to amounts described in clause (a) or clause (b) as a result of being or having been a member of any group of corporations that files, will file, or has filed Tax Returns on a combined, consolidated or unitary basis, as a result of any obligation under any agreement or arrangement (including any Tax allocation, Tax indemnity or Tax sharing agreement), as a result of being a transferee or successor, or otherwise;

"Tax Deed" means a deed of covenant entered into between the Buyer and the Seller on or around the date hereof;

"Tax Deed Claim" means a Claim under clause 2 of the Tax Deed;

"Tax Warranties" means the warranties set out in paragraph 11 and 12.11 of schedule 2;

"Tax Warranty Claim" means a Claim for breach of a Tax Warranty;

"Taxation Authority" means any local, municipal, governmental, state, federal or fiscal, revenue, customs or excise authority, body, agency or official anywhere in the world competent to impose a liability to Tax, including HMRC;

"TCGA" means the Taxation of Chargeable Gains Act 1992;

"Third Party Claim" has the meaning given in paragraph 8.1 and schedule 3;

"Transaction Documents" has the meaning given to it in clause 17.1(a);

"Transitional Services Agreement" means the agreement between the Seller and the Buyer documenting the post-completion services to be provided by the Seller's Group to the Group following Completion in the agreed terms;

"TULR(C)A" means the Trade Union and Labour Relations (Consolidation) Act 1992;

"UAE Agency Agreements" means the:

- (c) Representative Agreement dated 21 April entered into by OptaSense Limited and Al Mansoori Specialized Engineering L.L.C, and
- (d) Agency Agreement dated 23 September 2015 entered into by OptaSense Limited, and Gulf Automation Services & Oilfield Services;

"UAE Branch" has the meaning given to it in Part C of schedule 1;

"US Benefits Indemnity" means the indemnity given by the Seller to the Buyer under clause 5.9(c);

"US Benefits Plan" means OptaSense Inc.'s medical and dental health plans;

"US Benefits Policy" means OptaSense Inc.'s stop loss insurance policy in respect of the US Benefits Plan;

"US Insured Employee" means an employee of OptaSense Inc. who, as at the date of this agreement, has medical and dental health insurance under the US Benefits Plan (and his or her covered dependant who, as at the date of this agreement, is an insured under the US Benefits Plan by virtue of being a dependant of that employee);

"Warranties" means the warranties set out in schedule 2; and

"Warranty Claim" means a Claim in respect of a breach of the Warranties (including, for the avoidance of doubt, the Tax Warranties).

1.2 In this agreement unless otherwise specified:

- (a) reference to a document in the **"agreed terms"** is a reference to that document in the form approved and for the purposes of identification signed or initialled by or on behalf of each party;
- (b) **"includes"** and **"including"** shall mean including without limitation;
- (c) a **"party"** means a party to this agreement and includes its assignees (if any) and, in the case of an individual, to his or her estate and personal representatives;
- (d) a **"person"** includes any person, individual, company, firm, corporation, government, state or agency of a state or any undertaking (whether or not having separate legal personality and irrespective of the jurisdiction in or under the law of which it was incorporated or exists);
- (e) **"subsidiary undertaking"**, **"parent company"**, **"group undertaking"** and **"undertaking"** have the meanings as set out in the Companies Act 2006;
- (f) reference to a **"statute"** or **"statutory instrument"** or **"accounting standard"** or any of their provisions is to be construed as a reference to that statute or statutory instrument or accounting standard or such provision as the same may have been amended or re-enacted before the date of this agreement;
- (g) reference to a **"clause"**, **"paragraph"** or **"schedule"** is to a clause of, a paragraph of or schedule to this agreement respectively;
- (h) **"writing"** includes any methods of representing words in a legible form (other than writing on an electronic or visual display screen) or other writing in non-transitory form;
- (i) words denoting the singular shall include the plural and vice versa and words denoting any gender shall include all genders;
- (j) reference to an English or United Kingdom legal or Tax term or concept, or any court, official, governmental authority in England or the United Kingdom or any legislative provision in England or the United Kingdom, includes in respect of any jurisdiction other than England or the United Kingdom a reference to whatever most closely approximates to it in that jurisdiction;
- (k) reference to the time of day is reference to that time in London, England; and
- (l) where it is necessary to determine whether a monetary limit or threshold set out in this agreement has been reached or exceeded (as the case may be) and the value of any of the relevant Claims is expressed in a currency other than pounds sterling, the value of each such claim shall be translated into pounds sterling at the Exchange Rate on the date of receipt of written notification of the existence of such claim.

1.3 The schedules form part of the operative provisions of this agreement and references to this agreement shall, unless the context otherwise requires, include references to the schedules.

1.4 The headings in this agreement are for information only and are to be ignored in construing it.

2. **SALE AND PURCHASE**

- 2.1 Upon the terms of this agreement, the Seller shall sell and the Buyer shall purchase the Shares with effect from Completion with full title guarantee free from any Encumbrance, together with all accrued benefits and rights attached thereto.
- 2.2 The consideration for the sale of the Shares shall be the Consideration which shall be satisfied upon Completion in accordance with clause 3.4(b).
- 2.3 The Seller waives or agrees to procure the waiver of any rights or restrictions conferred upon it in relation to the transfer of the Shares hereunder under the articles of association of the Company or otherwise.
- 2.4 The Buyer shall not be obliged to complete the purchase of any of the Shares unless the sale of all of the Shares is completed simultaneously.
- 2.5 Any payment due in respect of any Claim under this agreement or made under clause 13.3 or 13.4 shall (so far as legally possible) for all purposes be deemed to be and shall take effect as a reduction in Consideration paid to the person making such payment.
- 2.6 The Buyer intends to make an election pursuant to Section 338(g) of the Code with respect to the Company and/or one or more non-US subsidiaries of the Company, and the Seller acknowledges that such an election is not prevented under the terms of this agreement nor the Tax Deed; however, the Seller and any other member of the Seller's Group shall have no greater liability under the Specified US Tax Indemnities or the US Benefits Indemnity than it would have had, had no such election been made and any such election shall be without prejudice to any other rights of the Seller under or in relation to the Transaction Documents or the transactions contemplated thereby.

3. **COMPLETION**

- 3.1 Completion shall take place at the offices of the Seller's Solicitors immediately following execution of this agreement (or at such other venue and/or date as the Buyer and the Seller shall agree in writing).
- 3.2 On Completion the Seller shall:
- (a) deliver to the Buyer:
 - (i) transfers in common form relating to the Shares duly executed in favour of the Buyer (or as it may direct);
 - (ii) share certificates (or an indemnity for lost share certificates in the agreed terms) relating to those Shares;
 - (iii) resignations in the agreed terms duly executed as deeds of all the directors and the secretary of each Group Company (other than James Pollard and Kath Robinson in respect of the Company and OptaSense Limited);
 - (iv) evidence of the transfer of the Domain Names to the Company;
 - (v) email from Barclays Bank PLC in the agreed terms confirming the release of each relevant Group Company from the cross guarantee in favour of Barclays Bank Plc dated 30 June 2017;
 - (vi) the Seller's duly executed counterpart of the Tax Deed;

- (vii) duly executed counterpart of the Transitional Services Agreement; and
 - (viii) the certificates of incorporation, statutory books and share certificate books of each Group Company; and
- (b) procure the passing of board resolutions of each Group Company:
- (i) (in the case of the Company), subject where necessary to due stamping, sanctioning for registration of the transfers in respect of the Shares and authorising the delivery to the Buyer of share certificates in respect of the Shares;
 - (ii) accepting the resignations referred to in clauses 3.2(a)(iii) and 3.2(a)(iv) above; and
 - (iii) appointing such persons as notified to the Seller by the Buyer in writing prior to the date of this agreement to be the directors and secretary of each Group Company.
- 3.3 The Seller shall procure that immediately prior to Completion there are repaid all sums (if any) owing to:
- (a) any Group Company by any member of the Seller's Group (other than another Group Company); and
 - (b) any member of the Seller's Group (other than a Group Company) by any Group Company,
- in each case except those arising in the ordinary course of trade and whether or not such sums are due for repayment.
- 3.4 The Buyer shall:
- (a) deliver to the Seller the Buyer's duly executed counterparts of the Tax Deed and the Transitional Services Agreement; and
 - (b) pay the Consideration to the Seller by electronic transfer to the Seller's Solicitors' Account for same day value (and the receipt by the Seller's Solicitors of such sum shall be a complete discharge to the Buyer of its obligation to pay such sum to the Seller).
- 3.5 The Seller confirms for the benefit of the Buyer that the Seller's Solicitors shall be irrevocably authorised to receive the Consideration pursuant to clause 3.4(b) on the Seller's behalf and that receipt by the Seller's Solicitors shall be an absolute discharge for the Buyer of its obligations to pay such money.
- 3.6 The Buyer undertakes to procure that the Company pays the Completion Bonuses in accordance with the Completion Bonus Statement as soon as reasonably practicable and in any event within 10 Business Days of the Completion Date.
- 3.7 The Buyer undertakes to the Seller that the Buyer will (at the Buyer's cost) use all reasonable endeavours to procure the release of the Seller and each relevant member of the Seller's Group from the Seller's Group Guarantees as soon as practicable following Completion, including, without limitation, by providing guarantees or indemnities as reasonably required by the third party beneficiary of the relevant Seller's Group Guarantee. Pending such release, the Buyer undertakes to the Seller (on behalf of itself and as trustee on behalf of each member of the Seller's Group) to keep the Seller and each member of the

Seller's Group fully indemnified on an After-Tax Basis against all amounts required to be paid by the Seller and each relevant member of the Seller's Group to any third party pursuant to terms of any Seller's Group Guarantees (and all reasonable third party costs incurred by the Seller's Group in connection with any such Seller's Group Guarantees). The Seller shall notify the Buyer within 10 Business Days of its (or any Seller's Group's) receipt of a demand under a Seller's Group Guarantee.

- 3.8 The Seller acknowledges that, immediately following Completion until such time as the transfer(s) of the Shares have been registered in the register of members of the Company, the Seller will hold those Shares registered in its name on trust for and as nominee for the Buyer and undertakes to hold all dividends and distributions and exercise all voting rights available in respect of those Shares in accordance with the directions of the Buyer and if the Seller is in breach of the undertakings contained in this clause the Seller irrevocably authorises the Buyer to appoint some person or persons as its agent to execute all instruments or proxies (including consents to short notice) or other documents which the Buyer may reasonably require and which may be necessary to enable the Buyer to attend and vote at general meetings of the Company and to do any thing or things necessary to give effect to the rights contained in this clause.

4. LEAKAGE

- 4.1 The Seller undertakes to the Buyer that since (but excluding) the Locked Box Date, no Leakage has occurred.
- 4.2 In the event of any Leakage between (but excluding) the Locked Box Date until (and including) Completion (and subject to written notification to the Seller of the obligation to make such payment within nine months of the Completion Date) then the Seller shall on demand by the Buyer pay to the Buyer within 20 Business Days of such demand an amount in cash equal, to the aggregate of such Leakage received or waived by the Seller or its Related Persons.
- 4.3 The Seller's obligation to pay such cash amount under clause 4.2 shall be the sole remedy available to the Buyer for any Claim arising (directly or indirectly) from a breach of clause 4.1.
- 4.4 The aggregate maximum liability of the Seller for all breaches by it of the undertaking given by it in clause 4.1 shall not in any circumstances exceed the amount actually received by the Seller at Completion pursuant to this agreement.
- 4.5 Schedule 3 (other than paragraph 13 of schedule 3) shall not apply to any Claim under this clause 4.

5. WARRANTIES, INDEMNITIES AND SELLER LIABILITY

- 5.1 The Buyer warrants to the Seller that:
- (a) the execution and delivery of this agreement and the completion of the transactions contemplated hereby have, where required, been duly and validly authorised by the Buyer and no other proceedings or action on the part of the Buyer is necessary to authorise the agreement or to complete the transactions contemplated;
 - (b) the Buyer's obligations in this agreement and the completion of the transactions contemplated hereby are enforceable in accordance with their terms; and
 - (c) the execution and delivery of, and the performance by the Buyer of its obligations under, this agreement and as contemplated herein will not require the Buyer to

obtain any consent or approval of, or give any notice to or make any registration with, any governmental, regulatory or other authority which has not been obtained or made at the date hereof both on an unconditional basis and on a basis which cannot be revoked (save pursuant to any legal or regulatory entitlement to revoke the same other than by reason of any misrepresentation or misstatement).

- 5.2 The Buyer undertakes to the Seller (for the Seller and its Related Persons) that (in the absence of fraud or fraudulent concealment) the Buyer:
- (a) has no rights against; and
 - (b) may not make any claim against,
- any employee, director, agent, officer or adviser (except to the extent such adviser has entered into a reliance letter with the Buyer) of that Seller or any of its Related Persons on whom it may have relied before agreeing to any term of, or entering into, this agreement or any other agreement or document referred to herein.
- 5.3 The Seller warrants to the Buyer in the terms of the Warranties as at the date of this agreement.
- 5.4 Each of the Warranties shall be construed as a separate warranty, and (unless expressly provided to the contrary) shall not be limited by the terms of any of the other Warranties or by any other term of this agreement.
- 5.5 Any Warranty expressed to be given "so far as the Seller is aware" or otherwise qualified by reference to the knowledge of the Seller shall be a reference to the actual knowledge (and expressly excluding from that expression any constructive or imputed knowledge) at the date of this agreement of:
- (a) James Pollard, Kath Robinson, Chris Minto, Jeff Williamson and Tony Meszaros in respect of all Warranties other than those Warranties set out in paragraph 11 of schedule 2; and
 - (b) Peter Hayman in respect only of the Warranties set out in paragraph 11 of schedule 2.
- 5.6 The Seller shall not be liable in respect of a Claim under the Warranties to the extent that the same or circumstances giving rise thereto are Disclosed in the Disclosure Letter, the Data Room Information, the Financial and Tax VDD Report or are expressly provided for or noted in the Accounts and the Locked Box Accounts.
- 5.7 Save as expressly provided for in clauses 4.4, 4.5 and 15, the liability of the Seller under this agreement and each other Transaction Document shall be limited if and to the extent that the limitations referred to in schedule 3 apply.
- 5.8 The Buyer must otherwise comply with the conduct of claim requirements set out in schedule 3.
- 5.9 The Seller shall pay to the Buyer on demand the amount of all Losses incurred by the relevant Group Companies arising directly or indirectly from or in connection with:
- (a) any dispute with (including but not limited to any claim made by) the individual named in the Indemnity Claim Statement against Optasense Limited in connection with the dismissal of that individual's employment with the Optasense Limited (DMCC Branch) in the United Arab Emirates, brief details of which are set out against Warranty 12.8 in the Disclosure Letter under the heading "UAE employee";

- (b) any fine or other financial penalty imposed by HMRC in relation to any breach by OptaSense Limited of applicable export control law or regulations arising from the transfer by Optasense Limited of laptops embedded with strategically controlled software to the United States and Dubai, brief details of which are set out against Warranty 19 in the Disclosure Letter; and
- (c) any claim(s) arising in the period between Completion and 11.59 p.m. on 31 December 2020 by a US Insured Employee against OptaSense Inc. which on a per employee basis exceeds US\$1,000 in aggregate for any claim(s) made by such US Insured Employee for medical or dental costs or expenses in respect of which such US Insured Employee is entitled to make a claim under the US Benefits Plan. For the avoidance of doubt, the Buyer or OptaSense Inc. shall be responsible and liable for the first US\$1,000 in respect of any claim(s) by each individual US Insured Employee, and the Buyer may claim against the Seller under this clause 5.9(c) only in respect of amounts in excess of US\$1,000 in respect of claim(s) from each individual US Insured Employee,

including the amount of all Losses arising from or in connection with the settlement of any claim or the enforcement of any settlement or judgment given in any of the matters referred to in paragraphs (a) to (c) above or in relation to the enforcement of this clause 5.9. Any Indemnity Claim shall be subject to the provisions of schedule 3 including, without limitation, the provisions of paragraphs 3, 8, 9, 11, 12 and 13 of schedule 3 and, in the case of a claim in respect of the US Benefits Indemnity, clauses 5.10, 5.11 and 5.12.

- 5.10 Without prejudice to the provisions of schedule 3 (including, without limitation, paragraph 8), in the event of a claim under the US Benefits Indemnity:
 - (a) if OptaSense Inc. is insured under the US Benefits Policy against any loss, damage or liability of the Group which is the basis of any claim under the US Benefits Indemnity, the Buyer shall procure that OptaSense Inc shall use its reasonable endeavours to (i) make a claim against the insurer under the US Benefits Policy, and (ii) pursue the settlement of that claim by the insurance company (without requiring such insured company to take any legal action against the insurer); and
 - (b) if, after complying with the provisions of paragraph (a) above, amounts in respect of the claim are not recovered under the US Benefits Policy, then the Buyer may make a claim under the US Benefits Indemnity.
- 5.11 The Buyer agrees that, during the period from Completion until 11.59 p.m. on 31 December 2020, the Buyer shall (and shall procure that the Buyer's Group shall):
 - (a) not amend, vary or terminate the US Benefits Policy; or
 - (b) take any action which it knows would vitiate the US Benefits Policy.
- 5.12 The Seller shall have no liability in respect of the US Benefits Indemnity in the event that the Buyer or the Buyer's Group does not comply with their obligations under clauses 5.10 or 5.11 in all material respects.

6. INSURANCE

- 6.1 The Buyer shall procure that the Insurance Policy is incepted on the date of this agreement. The cost of the Insurance Policy shall be for the sole account of the Buyer.
- 6.2 In the event of a claim for breach of the Warranties:

- (a) the Buyer's first recourse shall be against the amounts available for such claims under the Insurance Policy; and
 - (b) any excess in respect of the amount of all such claims which is not recoverable by the Buyer under the Insurance Policy shall be borne by the Seller up to the maximum liability referred to in paragraph 3 of schedule 3, subject to the limitations set out in schedule 3 or, in case of a breach by the Seller of the undertaking in clause 4.1, the limitation set out in clause 4.4.
- 6.3 The Buyer acknowledges and agrees that the monetary cap referred to in paragraph 3 of schedule 3 shall apply notwithstanding any subsequent non-payment under the Insurance Policy, any vitiating or expiry or termination of the Insurance Policy, any insolvency of the underwriters of the Insurance Policy or any failure of the Buyer to purchase (or otherwise incept) the Insurance Policy.
- 6.4 The Buyer confirms that the Insurance Policy contains a waiver (in terms which have been approved by the Seller) by the underwriters of that policy of all rights of subrogation against the Seller, save in respect of any claim attributable to the fraud or fraudulent misrepresentation on the part of the Seller. The Buyer undertakes not to make any amendments or variations to the subrogation provisions of the Insurance Policy.
- 6.5 The Buyer shall deliver to the Seller a certified copy of the Insurance Policy within five Business Days of the Completion Date.
- 7. CONFIDENTIAL INFORMATION**
- 7.1 The Seller undertakes to the Buyer, with effect from Completion, in all respects to keep confidential and not at any time disclose or make known in any other way to anyone whomsoever any Confidential Information.
- 7.2 The Seller (on behalf of, and with the approval of, Duff & Phelps Securities Ltd.) and the Buyer agree that the confidentiality agreement entered into between Duff & Phelps Securities Ltd. and Luna Innovations Incorporated on 2 July 2020 shall be terminated with effect from the date of this agreement.
- 7.3 Subject to clause 7.4, each party undertakes to the other to keep confidential in all respects and not disclose in any way to anyone whomsoever or use for its own or any other person's benefit or to the detriment of the other party all information received or obtained as a result of entering into or performing this agreement which relates to:
- (a) the existence, provisions, or subject matter, of this agreement or any other Transaction Document;
 - (b) the negotiations relating to this agreement and the other Transaction Documents;
 - (c) in the case of the Buyer:
 - (i) the Seller's Group (other than, from Completion, in relation to the Group), and the businesses carried on by, and the affairs of, the Seller's Group; and
 - (ii) the Remaining Information; and
 - (d) in the case of the Seller, the Buyer's Group and the businesses carried on by, and the affairs of, the Buyer's Group.
- 7.4 Either party (and any of their Related Persons or actual or prospective investors in any of their Related Persons who receive Confidential Information pursuant to clause 7.4(d)) may

disclose Confidential Information or other information which is otherwise to be treated as confidential under this clause 7 if and to the extent:

- (a) that the information becomes public knowledge (other than as a result of a breach by the disclosing party of this agreement) including, for the avoidance of doubt, any information contained in any Approved Announcement made pursuant to clause 8;
- (b) required to be disclosed by law or the rules, requirements or regulations of, or at the request of, any competent judicial, regulatory or governmental authority or stock exchange to which either party (or any of their Related Persons) is subject (including (without limitation) the London Stock Exchange, the Financial Conduct Authority and the Panel on Takeovers and Mergers);
- (c) the disclosure is made to a Taxation Authority and is reasonably required for the efficient management of its Tax affairs;
- (d) the disclosure is made by the Seller or the Buyer to any of their respective Related Persons or any actual or prospective investors in any of their Related Persons;
- (e) the disclosure is made to the officers, employees, agents, insurers, auditors and/or professional advisers of any party or any of its Related Persons on a need to know basis to enable such persons to carry out their duties and on terms that such the officers, employees, agents, insurers and/or professional advisers undertake to keep such information confidential; or
- (f) that the other party has given its prior written consent to the disclosure, such consent not to be unreasonably withheld or delayed.

7.5 The restrictions contained in clauses 7.1 and 7.3 shall continue to apply for a period of two years after Completion.

8. ANNOUNCEMENTS

No party shall (without the consent of the Buyer, in the case where the announcing party is the Seller, or the Seller, in the case where the announcing party is the Buyer (such consent not to be unreasonably withheld)) issue any press release or any other document or make any public statement or otherwise make any disclosure to any person who is not a party to this agreement relating to any of the matters provided for or referred to in this agreement or any ancillary matter, unless disclosure is:

- (a) solely in respect of the information contained in an Approved Announcement;
- (b) made in accordance with clauses 7.4(c) to 7.4(f);
- (c) required by a party to enforce its rights under this agreement or the other relevant Transaction Document;
- (d) solely containing information which is already in the public domain (other than as a result of a breach by the disclosing party in breach of this agreement); or
- (e) required to be disclosed by law or the rules, requirements or regulations of, or at the request of, any competent judicial, regulatory or governmental authority or stock exchange to which either party (or any of their Related Persons) is subject (including (without limitation) the London Stock Exchange, the Financial Conduct Authority and the Panel on Takeovers and Mergers), and disclosure shall then only be made:

- (i) to the extent lawful and reasonably practicable, after it has taken all such steps as may be reasonable in the circumstances to agree the contents of such announcement with the other party before making such announcement and provided that any such announcement shall be made only after notice to such other party; and
- (ii) to the person or persons and in the manner required by law or such authority or stock exchange or as otherwise agreed between the parties.

9. ASSIGNMENT

No party shall be entitled to assign, transfer or create any trust in respect of the benefit or burden of any provision of this agreement without the prior written consent of, in the case of assignment by the Seller, the Buyer or, in the case of assignment by the Buyer, the Seller save that:

- (a) this agreement and the benefits arising under it may be assigned in whole or in part by the Seller to a member of the Seller's Group (provided that if such assignee ceases to be a member of the Seller's Group, this agreement and the benefits arising under it shall be deemed automatically by that fact to have been retransferred to the Seller immediately before the assignee ceases to be a member of the Seller's Group);
- (b) this agreement and the benefits arising under it may be assigned in whole or in part by the Buyer to any member of the Buyer's Group to whom the Buyer transfers any of the Shares (provided that if such assignee ceases to be a member of the Buyer's Group, this agreement and the benefits arising under it shall be deemed automatically by that fact to have been retransferred to the Buyer immediately before the assignee ceases to be a member of the Buyer's Group); and
- (c) this agreement and the benefits arising under it may be assigned or charged in whole or in part by the Buyer to its financial lenders or banks as security for any financing or refinancing or other banking or related facilities in respect of or in connection with any transactions contemplated by this agreement and such benefits may further be assigned to any other financial institution by way of security for the borrowings made under such agreement or to any person entitled to enforce any such security,

provided that, in the case of an assignment pursuant to either sub-clause (a) or (b) above, the liability of any party to such an assignee shall not be greater than it would have been had such an assignment not taken place, and all the rights, benefits and protections afforded to a party shall continue to apply to the benefit of that party as against the assignee as they would have applied as against the person who is a party to this agreement.

10. COSTS

- 10.1 Unless expressly otherwise provided in this agreement each of the parties shall bear its own legal, accountancy and other costs, charges and expenses connected with the sale and purchase of the Shares and the negotiation, execution and implementation of this agreement.
- 10.2 The Buyer is solely responsible for any stamp duty that is payable on or in relation to this agreement and any instrument transferring the Shares to the Buyer pursuant to this agreement.

11. **EFFECT OF COMPLETION**

The terms of this agreement (insofar as not performed at Completion and subject as specifically otherwise provided in this agreement) shall continue in force after and notwithstanding Completion.

12. **POST-COMPLETION UNDERTAKINGS**

12.1 To the extent that any information relating to the Seller's Group or the customers, suppliers or business operations of the Seller's Group is retained in any of the IT Systems following Completion (the "**Remaining Information**"):

- (a) without prejudice to the remaining provisions of this clause, the provisions of clause 7.3 shall apply to the Remaining Information; and
- (b) the Buyer shall not (and shall procure that its officers, agents, representatives and sub-contractors shall not) use the Remaining Information for any purpose whatsoever.

12.2 If the Buyer proposes to dispose of or destroy any element of the IT Systems at any time following Completion and any Remaining Information is stored on or accessible via that element of the IT Systems, the Buyer shall use reasonable endeavours to procure that that all such Remaining Information is irretrievably erased or expunged (to the fullest extent technologically possible) in a manner which protects the safety and security of the Remaining Information and complies with all applicable laws.

12.3 The Buyer acknowledges that the Seller may need access from time to time after Completion for tax, legal, regulatory or accounting purposes to certain accounting, tax and other records and information held by the members of the Group to the extent such records and information pertain to events occurring prior to Completion and, accordingly, the Buyer agrees that it shall, to the extent reasonably practicable, upon being given reasonable notice by the Seller and subject to the Seller giving such undertaking as to confidentiality as the Buyer shall reasonably require, and shall cause the Group to:

- (a) properly retain and maintain such records until the date that is seven years after Completion; and
- (b) upon being given reasonable notice by the Seller and during normal working hours and subject to the Seller giving such undertaking as to confidentiality as the Buyer shall reasonably require, allow the Seller and its respective officers, employees, agents, auditors and representatives (at the expense of the Seller) to:
 - (i) inspect, review and make copies of such records and information for and only to the extent necessary for that purpose; and
 - (ii) be given reasonable access to any employee, officer, adviser or premises of the Group Companies (and within five Business Days of a request for such reasonable access) during normal working hours.

13. **EMPLOYEE SHARE PLAN**

13.1 The provisions of this clause 13 relate to the Relevant Award Schedule, as set out in the agreed terms.

13.2 Two weeks before each of the vesting dates for the Relevant Awards, being 8 June 2021, 28 June 2022 and 30 June 2023 (as applicable), or two weeks before the occurrence of such earlier vesting dates for the Relevant Awards as may occur under the terms of the Employee

Share Plan, the Buyer (or relevant Group Company) will provide the relevant member of the Seller's Group with all such information, including any employee Tax withholding rates, as it shall reasonably require for the purpose of ascertaining the amount of the Employee Taxation due to be accounted for in respect of the Employment Income.

13.3 On or around each of the vesting dates for the Relevant Awards, being 8 June 2021, 28 June 2022 and 30 June 2023 (as applicable) and subject to the Seller or the relevant member of the Seller's Group having received all the information set out in clause 13.2, the Seller or group undertaking will procure that the relevant member of the Seller's Group will sell sufficient ordinary shares in QinetiQ Group plc under the Relevant Awards to recover an amount equal to all Employee Taxation in respect of the Employment Income and will procure that such amount so recovered will be paid to the Buyer (or relevant Group Company) within at least 2 Business Days of the date on which the Buyer or relevant Group Company is obliged to account for such amount to HMRC or to the relevant overseas tax authorities.

13.4 Provided that:

- (a) any Employer Taxation arising is, in aggregate, greater than £123,839, being the amount of estimated Employer Taxation arising in connection with awards granted under the Employee Share Plan (as set out in document 1.14.4.1 of the Data Room and as specifically included within the sum total under the row entitled "FY20 Bonuses" of the EV to Equity Bridge); and
- (b) any amounts as are dealt with in clause 13.3 above are excluded,

the Seller shall procure that the relevant member of the Seller's Group shall pay to the Buyer or relevant member of the Group Companies an amount equal to any Employer Taxation, which arises over and above the estimated amount of £123,839, for which the Buyer or any relevant Group Company becomes liable as a result of the participation by an employee of the Group Companies in the Employee Share Plan no later than 2 Business Days before the date on which the Buyer or the relevant Group Company is obliged to account for such amount to HMRC or to the relevant overseas tax authorities.

13.5 The Buyer or relevant member of the Group Companies will provide to the relevant member of the Seller's Group all information that the Seller's Group is required to notify to HMRC (or any overseas equivalent tax authority) in respect of the vesting or forfeit of Relevant Awards.

14. PROTECTION OF GOODWILL

14.1 For the purposes of this clause 13, the following words and expressions shall have the following meanings:

"**Customer**" means any person who was at any time during the period of 12 months ending on the Completion Date a customer of any Group Company;

"**Key Employee**" means any person employed or engaged by any Group Company on the Completion Date with a basic salary or fee in excess of £70,000 per annum; and

"**Supplier**" means any supplier of goods or services to any Group Company at any time during the period of 12 months ending on the Completion Date.

14.2 The Seller acknowledges that the Buyer is buying the Shares in accordance with the terms of this Agreement and that the Buyer is therefore entitled to protect the goodwill of each Group Company. Accordingly, the Seller agrees with the Buyer that it shall not, directly or

indirectly, alone or jointly with any other person, and whether as a shareholder, partner, director, principal, consultant or agent or in any other capacity:

- (a) for a period of 24 months starting on the Completion Date, directly or indirectly within the United States, United Kingdom, Canada, each country within the Scandinavian and Nordic regions (in which a Group Company does business) and each country within the Middle East region (in which a Group Company does business) engage in any business which is carried on in competition with the business of any Group Company (as it is carried on at the Completion Date);
- (b) for a period of 24 months starting on the Completion Date, and to the detriment of any business of any Group Company carried on at Completion, solicit business from any Customer so as to cease or reduce trade of any Group Company with that business;
- (c) for a period of 24 months starting on the Completion Date, and to the detriment of any business of any Group Company carried on at Completion, induce or endeavour to induce any Supplier to cease to supply, or to restrict or adversely vary the terms of supply to, that business; or
- (d) for a period of 24 months starting on the Completion Date, and to the detriment of any business of any Group Company carried on at Completion, induce, or endeavour to induce, any Key Employee to leave his or her position, whether or not that person would commit a breach of his or her contract by so leaving.

14.3 Nothing contained in clause 13.2 shall prevent the Seller or any other member of the Seller's Group from:

- (a) being the holder or beneficial owner of any class of securities in any company if such class of securities is listed, or dealt in, on a recognised investment exchange, a recognised overseas investment exchange, a designated investment exchange or a designated overseas investment exchange as recorded on the Financial Services Register by the Financial Conduct Authority from time to time, provided that it neither holds nor is beneficially interested in more than a total of 3% of any single class of the securities in that company;
- (b) carrying on or being engaged in or economically interested in any business which, at the date of this agreement, it currently carries on or is engaged in or economically interested in or any reasonable extension or development thereof;
- (c) carrying on or being engaged in or economically interested in any business referred to in clause 14.2(a) after such time as the Buyer's Group ceases to carry on or be engaged in or economically interested in such business to any material extent;
- (d) acquiring any interest in a business or company or group of companies which carries on any business in competition with a Group Company but which business is ancillary to the principal business of that undertaking when taken together with any group of companies of which such undertaking forms part; or
- (e) the placing of a public advertisement for any employment position if the advertisement is not specifically targeted at any Key Employee, nor shall it prohibit the employment of any Key Employee who applies for an employment position so advertised.

14.4 The Seller and the Buyer each acknowledge that it has entered into this Agreement on an arm's length basis and that it has taken independent legal advice in so doing.

15. **TRANSITIONAL SERVICES AGREEMENT**

With effect from the time of entry into the Transitional Services Agreement, each party undertakes to procure that their respective Related Persons (insofar as is applicable thereunder) perform their obligations under, and comply with the terms of such agreement. The parties acknowledge and agree that the Buyer's and the Seller's liability in respect of this clause 15 shall be subject to the limitations on liability provisions as set out in the Transitional Services Agreement.

16. **FURTHER ASSURANCES**

Each of the parties shall from time to time upon request from any other party do or procure the doing of all acts and/or execute or procure insofar as each is reasonably able the execution of all such documents and in a form reasonably satisfactory to the party concerned for the purpose of transferring to the Buyer the Shares and otherwise giving the other parties the full benefit of this agreement.

17. **ENTIRE AGREEMENT**

17.1 Each party on behalf of itself and as agent for each of its Related Persons acknowledges and agrees with the other party (each such party acting on behalf of itself and as agent for each of its Related Persons) that:

- (a) this agreement together with any other documents referred to in this agreement (together the "**Transaction Documents**") constitute the entire and only agreement between the parties and their respective Related Persons relating to the subject matter of the Transaction Documents;
- (b) neither it nor any of its Related Persons has been induced to enter into any Transaction Document in reliance upon, nor have they been given, any warranty, representation, statement, assurance, covenant, agreement, undertaking, indemnity or commitment of any nature whatsoever other than as are expressly set out in the Transaction Documents and, to the extent that any of them has been, it (acting on behalf of itself and as agent on behalf of each of its Related Persons) unconditionally and irrevocably waives any claims, rights or remedies which any of them might otherwise have had in relation thereto; and
- (c) the only remedies available to it in respect of the Transaction Documents (and, where appropriate, to its Related Persons) are damages for breach of contract and, for the avoidance of doubt, neither it (nor its Related Persons, where appropriate) has any right to rescind or terminate any Transaction Documents either for breach of contract or for negligent or innocent misrepresentation or otherwise,

provided that the provisions of this clause 17 shall not exclude any liability which any of the parties or, where appropriate, their Related Persons would otherwise have to any other party or, where appropriate, to any other party's Related Persons or any right which any of them may have to rescind this agreement in respect of any statements made fraudulently by any of them prior to the execution of this agreement or any rights which any of them may have in respect of fraudulent concealment by any of them.

17.2 Each of the parties acknowledges to the others, after due and careful consideration, that:

- (a) it is not entering into this agreement in consequence of or in reliance on any unlawful communication (as defined in section 30(1) of the Financial Services and Markets Act 2000) made by the other party or the other party's professional advisers;

- (b) except as expressly provided in this agreement, it is entering into this agreement solely in reliance on its own commercial assessment and investigation and advice from its own professional advisers; and
- (c) the other parties are entering into this agreement in reliance on the acknowledgements given in this clause 17.2.

18. VARIATIONS

This agreement may be varied only by a document signed by or on behalf of the Seller and the Buyer.

19. WAIVER

- 19.1 A waiver of any term, provision or condition of, or consent granted under, this agreement shall be effective only if given in writing and signed by the waiving or consenting party and then only in the instance and for the purpose for which it is given.
- 19.2 No failure or delay on the part of any party in exercising any right, power or privilege under this agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or privilege preclude any other or further exercise thereof or the exercise of any other right, power or privilege.
- 19.3 No breach of any provision of this agreement shall be waived or discharged except with the express written consent of the Seller and the Buyer.

20. INVALIDITY

If any provision of this agreement is or becomes invalid, illegal or unenforceable in any respect under the law of any jurisdiction:

- (a) the validity, legality and enforceability under the law of that jurisdiction of any other provision; and
- (b) the validity, legality and enforceability under the law of any other jurisdiction of that or any other provision,

shall not be affected or impaired in any way.

21. NOTICES

- 21.1 Any notice, demand or other communication given or made under or in connection with the matters contemplated by this agreement shall be in writing and shall be sent in electronic form (such as email) or delivered by hand or by courier or sent by prepaid first class post (air mail if posted to or from a place outside the United Kingdom):

In the case of the **Seller**:

Address: QinetiQ Holdings Limited
Cody Technology Park,
Ively Road, Farnborough,
Hampshire, GU14 0LX
United Kingdom

Attention: Nigel Major and Jon Messent
Email: NPMAJOR@qinetiq.com
jmessent@qinetiq.com

With a copy to:
Address:

Ashurst LLP
London Fruit & Wool Exchange
1 Duval Square,
London, E1 6PW
United Kingdom

Attention:
Email:

Aaron Shute
Aaron.Shute@ashurst.com

In the case of the **Buyer**:

Address:

301 1st Street, SW, Suite 200
Roanoke, VA 24011

Attention:

Scott Graeff

Email:

graeffs@lunainc.com

With a copy to:

Address:

Cooley (UK) LLP
69 Old Broad Street
London, EC2M 1QS
United Kingdom

Attention:

Michal Berkner

Email:

mberkner@cooley.com

Aaron Binstock

abinstock@cooley.com

and shall be deemed to have been duly given or made as follows:

- (a) if sent in electronic form, when the sender receives confirmation on its server that the message has been transmitted;
- (b) if delivered by hand or by courier, upon delivery at the address of the relevant party;
- (c) if sent by first class post, two Business Days after the date of posting; and
- (d) if sent by air mail, five Business Days after the date of posting;

provided that if, in accordance with the above provisions, any such notice, demand or other communication would otherwise be deemed to be given or made after 5.00 p.m. such notice, demand or other communication shall be deemed to be given or made at 9.00 a.m. on the next Business Day.

21.2 A party may notify the other party to this agreement of a change to its name, relevant addressee or address for the purposes of clause 21.1 provided that such notification shall only be effective:

- (a) on the date specified in the notification as the date on which the change is to take place; or
- (b) if no date is specified or the date specified is less than five Business Days after the date on which notice is given, the date falling five Business Days after notice of any such change has been given.

22. **COUNTERPARTS**

- 22.1 This agreement may be executed in any number of counterparts which together shall constitute one agreement. Any party may enter into this agreement by executing a counterpart and this agreement shall not take effect until it has been executed by all parties.
- 22.2 Delivery of an executed signature page of a counterpart in Adobe™ Portable Document Format (PDF) sent by email shall take effect as delivery of an executed counterpart of this agreement. If this method is adopted, without prejudice to the validity of such agreement, each party shall provide the others with the original of such page as soon as reasonably practicable thereafter.

23. **GOVERNING LAW, JURISDICTION AND AGENT FOR SERVICE**

- 23.1 This agreement and any dispute, controversy, proceedings or claim of whatever nature arising out of or in any way relating to this agreement or its formation (including any non-contractual disputes or claims) shall be governed by and construed in accordance with English law.
- 23.2 Each of the parties irrevocably agrees that the courts of England shall have exclusive jurisdiction to hear and decide any suit, action or proceedings ("**Proceedings**"), and/or to settle any disputes ("**Disputes**"), which may arise out of or in connection with this agreement or its formation and, for these purposes, each party irrevocably submits to the jurisdiction of the courts of England.
- 23.3 Each party irrevocably waives any objection which it might at any time have to the courts of England being nominated as the forum to hear and decide any Proceedings and to settle any Disputes and agrees not to claim that the courts of England are not a convenient or appropriate forum for any such Proceedings or Disputes and further irrevocably agrees that a judgment in any Proceedings or Disputes brought in any court referred to in this clause 23 shall be conclusive and binding upon the parties and may be enforced in the courts of any other jurisdiction.
- 23.4 Without prejudice to any other permitted mode of service the parties agree that service of any claim form, notice or other document for the purpose of any Proceedings begun in England shall be duly served upon the Buyer if delivered by hand or by courier or sent by recorded or special delivery post (or any substantially similar form of mail) to OptaSense Holdings Limited, Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX (marked for the attention of Scott Graeff) or such other person and address in England or Wales as the Buyer shall notify the Seller in writing or vice versa from time to time.

24. **THIRD PARTY RIGHTS**

- 24.1 Except as expressly provided in this agreement, no person (other than the parties to this agreement) who is given any rights or benefits under this agreement or the Tax Deed (a "**Third Party**") shall be entitled to enforce those rights or benefits against the parties in accordance with the Contracts (Rights of Third Parties) Act 1999.
- 24.2 The third parties referred to in clauses 3.7, 5.2, 7.2, 7.4, 12 and 13 of this agreement and clauses 6.5 and 10 of the Tax Deed may enforce only those clauses in which they are referred to.
- 24.3 The parties may amend, vary or terminate this agreement and the Tax Deed in such a way as may affect any rights or benefits of any Third Party which are directly enforceable against the parties under the Contracts (Rights of Third Parties) Act 1999 without the consent of such Third Party.

- 24.4 Any Third Party entitled pursuant to the Contracts (Rights of Third Parties) Act 1999 to enforce any rights or benefits conferred on it by this agreement may not veto any amendment, variation or termination of this agreement which is proposed by the parties and which may affect the rights or benefits of the Third Party.

IN WITNESS whereof this agreement has been executed on the date first above written.

Signed by **NIGEL PAUL MAJOR**)
for and on behalf of **QINETIQ**)
HOLDINGS LIMITED under a power of)
attorney dated 2 December 2020)



Signed by Scott Graeff)
for and on behalf of)
LUNA INNOVATIONS,)
INCORPORATED.

DocuSigned by:
Scott Graeff
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[Signature Page to SPA]



Execution Version

Tax Deed

QinetiQ Holdings Limited

and

Luna Innovations, Incorporated

for the sale and purchase of all of the issued
shares of OptaSense Holdings Limited

3 December 2020

THIS DEED is made on 3 December 2020

BETWEEN:

- (1) **QinetiQ Holdings Limited** (No. 04154556) whose registered office is at Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX (the "**Covenantor**"); and
- (2) **Luna Innovations, Incorporated.** (No. 36-36813) with an office located at 301 1st Street SW, Suite 200, Roanoke, Virginia 24011 (the "**Buyer**").

RECITAL

This deed is entered into pursuant to the provisions of an agreement (the "**Sale Agreement**") made on 3 December 2020 pursuant to which the Buyer agreed to purchase all of the issued shares in the capital of OptaSense Holdings Limited.

NOW THIS DEED WITNESSES AS FOLLOWS:

1. **INTERPRETATION**

1.1 Subject to clause 1.2 and unless the context otherwise indicates, words, expressions and abbreviations defined in the Sale Agreement shall have the same meanings in this deed and any provisions of the Sale Agreement concerning matters of construction or interpretation shall mutatis mutandis apply to this deed.

1.2 The following words, expressions and abbreviations used in this deed shall, unless the context otherwise requires, have the following meanings:

"Actual Tax Liability" means any liability of the Company to make an actual payment of Tax, in which case the amount of the Actual Tax Liability shall be the amount of the actual payment;

"Buyer's Group" has the meaning ascribed to it in the Sale Agreement;

"Buyer's Relief" means:

- (a) any Accounts Relief;
- (b) any Relief to the extent that the same arises in respect of or attributable to a period after Completion or a Relevant Event occurring or entered into after Completion;
- (c) any Relief to the extent that the same arises in the ordinary course of business between the Locked Box Date and Completion or in respect of any Relevant Event occurring or entered into during that period in the ordinary course of business;
- (d) any Relief of any member of the Buyer's Tax Group (other than the Company); and/or
- (e) any Identified Repayment;

"Buyer's Tax Group" means the Buyer and any company which at the relevant time is in the same group of companies or consolidation as the Buyer for the purposes of any Tax or Relief, and 'member of the Buyer's Tax Group' shall have a corresponding meaning;

"Claim for Tax" means:

- (a) any claim, assessment, demand, notice, determination or other document issued or action taken by or on behalf of any Tax Authority or any other person by virtue of which the Company is or may have a Tax Liability; and/or

- (b) any self-assessment made by the Company in respect of any Tax Liability which it considers that it is or may become liable to pay;

"Code" means the US Internal Revenue Code of 1986, as amended;

"Company" means OptaSense Holdings Limited and each and all of its subsidiaries;

"Accounts Relief" means any Relief to the extent that the same has either been shown as an asset of the Company in the Locked Box Accounts or been taken into account in computing, and so reducing or extinguishing any provision for deferred Tax which appears, or would otherwise have appeared, in the Locked Box Accounts;

"Covenantor's Group" has the meaning ascribed to "Seller's Group" in the Sale Agreement;

"Deemed Tax Liability" means:

- (a) the loss, non-availability or reduction of any Accounts Relief, in which case the amount of the Deemed Tax Liability shall be the amount of Tax paid by the Company which would not have been paid but for such loss, non-availability or reduction on the assumption that the Company has sufficient profits fully to utilise the relevant Accounts Relief and, where the Accounts Relief in question would not have operated as a deduction from gross income, profits or gains, the amount of the Relief which would otherwise have been obtained or the amount by which such Relief is reduced, as the case may be;
- (b) the utilisation or set-off of a Buyer's Relief available to the Company against any Actual Tax Liability or against any income, profits or gains where, but for such setting off, the Buyer would have been entitled to make a claim under this deed (disregarding any financial limitations), in which case the amount of the Deemed Tax Liability shall be equal to the amount which would have been payable in the absence of that Buyer's Relief;
- (c) any (i) liability of the Company to make a payment for or (ii) refund of a payment for, Group Relief in any case pursuant to any arrangement or agreement entered into on or before Completion in which case the amount of the Tax Liability shall be the amount of the payment or refund; and
- (d) any liability to make a payment or repayment in respect of corporation tax to a member of a group of companies (other than to another Group Company) in connection with any arrangements with a Tax Authority pursuant to section 59F TMA (whereby one member of that group may discharge the liability of other members of that group to pay corporation tax) in which case the amount of the Tax Liability shall be the amount of the payment or repayment;

"Deferred Payroll Taxes" means the "applicable employment taxes" (as defined in Section 2302(d) of the US CARES Act) payable by any Group Company that (i) relate to the portion of the "payroll tax deferral period" (as defined in Section 2302(d) of the US CARES Act) that occurs prior to Completion and (ii) are payable following Completion as permitted by Section 2302(a) of the US CARES Act calculated without giving effect to any Tax credits afforded under the US CARES Act, the US Families First Coronavirus Response Act or any similar applicable federal, state or local law to reduce the amount of any such Taxes payable or owed;

"Group Relief" means any Relief capable (without a change of accounting date by a Company) of being surrendered, transferred or otherwise made available by or to a company pursuant to Part 5 of the Corporation Tax Act 2010 or Chapter 4 of part 22 of the Corporation Tax Act 2010;

"Identified Repayment" means:

- (a) the UK research and development expenditure credit of £181,070 due to be paid to the Company in February 2021;
- (b) the repayment of Canadian Federal Tax of CAD\$230,720; and
- (c) the repayment of Alberta Provincial tax of CAD\$136,211 received on 14 October 2020;

plus any interest or repayment supplement associated therewith;

"income, profits or gains" includes any other measure by reference to which Tax is computed;

"Instalment Payments Regulations" means the Corporation Tax (Instalment Payments) Regulations 1998 (No. 3175);

"ITEPA" means the Income Tax (Earnings and Pensions) Act 2003;

"R&D Claim" means any claim for relief for expenditure on research and development under any of the provisions of Part 13 CTA 2009 or an R&D expenditure credit (as defined for the purposes of section 1040A CTA 2009) under any of the provisions of Chapter 6A of Part 3 CTA 2009;

"Relevant Event" means every event, act, omission, circumstance or transaction whatsoever;

"Relief" means any allowance, credit, exemption, deduction, set-off, or relief from or in computing Tax or any right to the repayment of Tax or to a payment in respect of Tax, including any amount payable by a Tax Authority as a result of any R&D Claim;

"Retained Group" means the Covenantor and any other company which is after Completion a member of the same group as the Covenantor for any Tax purpose;

"Specified Losses" means the unutilised carry forward trading losses of £10,576,877 in OptaSense Limited which were transferred to it by QinetiQ Limited pursuant to section 948 CTA 2010 in April 2012 and were agreed by HMRC on 16 October 2012;

"Specified US Tax Indemnities" means any of the provisions of clause 2.1(d) and (to the extent relating to any costs and expenses in connection with a matter within clause 2.1(d)) 2.1(e);

"Tax Authority" means any taxing or other authority (whether within or outside the United Kingdom) competent or authorised to impose, administer or collect any Tax;

"Tax Expert" means a qualified tax practitioner who has specialised in relevant Tax matters for at least 15 years;

"Tax Liability" means an Actual Tax Liability or a Deemed Tax Liability;

"Tax Returns" means all computations and returns relating to corporation Tax matters (and correspondence and documentation relating thereto);

"taxation statutes" means all statutes, statutory instruments, decrees, orders, enactments, laws, directives and regulations, whether domestic or foreign, providing for or imposing any Tax;

"Tax" or **"tax"** means:

- (a) any tax, and any duty, contribution, impost, levy, royalty or charge in the nature of tax (whether imposed in the United Kingdom or elsewhere) including, without limitation, capital gains tax, corporation tax, customs and excise duties, income tax (including PAYE), national insurance contributions, stamp duty, stamp duty land tax, stamp duty reserve tax, repayment of State Aid, VAT, excise duty, landfill tax, real estate transfer tax and diverted profits tax; and
- (b) all interest, penalties, surcharges, costs and fines relating to anything referred to in (a) above; and
- (c) any liability for the payment of amounts determined by reference to amounts described in clause (a) or clause (b) as a result of being or having been a member of any group of corporations that files, will file, or has filed Tax Returns on a combined, consolidated or unitary basis, as a result of any obligation under any agreement or arrangement (including any Tax allocation, Tax indemnity or Tax sharing agreement), as a result of being a transferee or successor, or otherwise;

"Tax Warranties" means the warranties relating to Tax contained in paragraph 11 of Schedule 2 of the Sale Agreement;

"Transaction Payroll Taxes" shall mean the employer portion of payroll or employment Taxes incurred in connection with any bonuses, cashouts or exercises of options, or cash converted awards or severance or other compensatory payments, including any change-of-control bonuses or payments, determined or awarded on or prior to Completion, whether payable by the Buyer Group or any Group Company and regardless of when paid or accrued, in addition to any Deferred Payroll Taxes; and

"TIOPA" means the Taxation (International and Other Provisions) Act 2010.

1.3 For the purposes of this deed, and in particular for determining to what extent any liability for Tax arises in respect of or by reference to any income, profits or gains earned, accrued or received on or before Completion or otherwise relates to the period ending on the date of Completion, the date of Completion shall be deemed to be the end of an accounting period of the Company for the purposes of Part 2 Chapter 2 of the CTA 2009 (or its equivalent in any other jurisdiction) and without prejudice to the generality of the foregoing:

- (a) any Relief which would on that basis arise, or would arise on the making of an appropriate claim, after the date of Completion shall be deemed for the purposes of this deed to be a Relief which arises in respect of a period after Completion or in respect of any Relevant Event occurring after Completion;
- (b) any income, profits or gains which would on that basis accrue after the date of Completion shall be deemed for the purposes of this deed to be income, profits or gains earned, accrued or received after Completion;
- (c) any Relief which would on that basis arise, or would arise on the making of an appropriate claim, on or before the date of Completion shall be deemed for the purposes of this deed to be a Relief which arises in respect of a period on or before Completion or in respect of any Relevant Event occurring on or before Completion; and
- (d) any income, profits or gains which would on that basis accrue on or before the date of Completion shall be deemed for the purposes of this deed to be income, profits or gains earned, accrued or received on or before Completion.

1.4 This deed shall apply as if the provisions of this deed were set out in full in respect of each Group Company;

- 1.5 In this deed references to a "repayment of Tax" shall be deemed to include any interest or repayment supplement payable by a Tax Authority in connection with any such repayment of Tax.
- 1.6 In this deed:
- (a) reference to income, profits or gains being earned, accrued or received on or before a particular date shall include income, profits or gains deemed or treated for the purposes of any Tax as earned, accrued or received on or prior thereto;
 - (b) reference to a Relevant Event occurring on or before a particular date shall include a Relevant Event deemed to occur on or prior thereto;
 - (c) any reference to any form of Tax, Relief, legislation, law or legal concept which exists in the United Kingdom includes a reference to any equivalent or substantially equivalent Tax, Relief, legislation, law or legal concept in any other relevant country or jurisdiction;
 - (d) any reference to something occurring (including a Tax Liability arising) in "the ordinary course of business" shall, without prejudice to the generality thereof, be deemed not to include:
 - (i) anything which involves, or leads directly or indirectly to, the receipt by the Company of a Tax Claim in respect of any liability to Tax of, or properly attributable to, another person;
 - (ii) anything which relates to or involves the acquisition or disposal of an asset or the supply of services (including the lending of money, or the hiring or licensing of tangible or intangible property) in a transaction which is not entered into on arm's length terms;
 - (iii) anything which relates to or involves the making of a distribution for Tax purposes, the creation, cancellation or re-organisation of share or loan capital, the creation, cancellation or repayment of any intra-group debt or any company becoming or ceasing or being treated as ceasing to be a member of a group of companies or as becoming or ceasing to be associated with any other company for any Tax purposes;
 - (iv) anything which relates to a transaction or arrangement which includes, or a series of transactions or arrangements which includes, any step or steps having no commercial or business purpose apart from the reduction, avoidance or deferral of a Tax Liability;
 - (v) anything which relates to the waiver or release of any debt;
 - (vi) any Relevant Event in connection with any employment-related securities or employment-related securities option (as each term is defined for the purposes of Part 7 ITEPA) including any payment or any benefit made under the QinetiQ Group plc Share Incentive Plan, the 2017 QinetiQ Group plc Incentive Plan, the QinetiQ Group plc All Employee Incentive Scheme or the QinetiQ Group plc Leadership Incentive Scheme;
 - (vii) anything which gives rise to a deemed (as opposed to actual) profit;
 - (viii) any Tax related to, or increased by, the election made under Section 338 of the Code in connection with the Sale Agreement;
 - (ix) any Relevant Event which gives rise to any fine, penalty, charge, interest or other imposition relating to Tax; or

- (x) any payment of a Completion Bonus; and
 - (e) any reference to any "financial limitation" shall include any de minimis, threshold or cap provision limiting liability, and any provision requiring that the Buyer seeks recourse under the Insurance Policy.
- 1.7 In the case of any conflict between the provisions of the Sale Agreement and this deed, this deed shall prevail.
2. **COVENANT**
- 2.1 Subject to clauses 2.2 and 2.3, the Covenantor hereby covenants with the Buyer to pay from time to time to the Buyer an amount equal to:
- (a) any Actual Tax Liability of the Company which arises in respect of or as a consequence of or by reference to:
 - (i) a Relevant Event occurring or entered into on or before Completion;
 - (ii) any income, profits or gains earned, accrued or received on or before Completion;
 - (iii) an option or other right to acquire securities or interest in securities granted or acquired prior to Completion or in respect of the exercise of any such option or right or any other Relevant Event in relation to such option or right; or
 - (iv) any employment-related securities (as defined for the purposes of Part 7 ITEPA) or interest in any employment-related securities acquired on or before Completion or as a result of a right or obligation (whether or not legally binding) created on or before Completion, which shall include for this purpose any Transaction Payroll Taxes;
 - (b) any Deemed Tax Liability;
 - (c) any Tax Liability or other liability which arises as a consequence of or by reference to any R&D Claim made by the Company on or before Completion being wholly or partially disallowed by any Tax Authority;
 - (d) any Tax Liability consisting of US federal, state or local Tax of the Company:
 - (i) which arises in respect of or as a consequence or by reference to any transfer pricing position that any Group Company took in relation to any Tax period (or portion thereof) ending on or before Completion;
 - (ii) which consists of sales, use, or payroll Taxes relating to any Tax period (or portion thereof) ending on or before Completion, or
 - (iii) which consists of California state income Taxes of OptaSense Inc. arising as a result of a failure to exercise a "water's edge" election that is attributable to any Tax period (or portion thereof) ending on or before Completion; and
 - (e) any third party costs and expenses reasonably and properly incurred or payable by the Buyer or the Buyer's Tax Group in connection with any Tax Liability which is the subject of a successful claim under this deed (or could have been, disregarding any financial limitations) and any Claim for Tax which gives rise to a Tax Liability in respect of which the Covenantor is liable under this deed (or would be, disregarding any financial limitations).

- 2.2 The covenants contained in clause 2.1 shall not apply to any Tax Liability and there shall be no liability in respect of a claim under the Tax Warranties (treating such claim as if it were a Tax Liability for the purposes of this clause 2.2) to the extent that:
- (a) it was paid or discharged on or before the Locked Box Date (and such payment and/or any other cost to the Company of such discharge was reflected in the Locked Box Accounts) or that provision or reserve for the liability to which the same relates has been made in the Locked Box Accounts;
 - (b) it has arisen in the ordinary course of business of the Company since the Locked Box Date (provided that, for the avoidance of doubt, that this clause 2.2(b) shall not apply in respect of any claim under the Specified US Tax Indemnities);
 - (c) it arises as a result of or by reference to income, profits or gains actually earned or received by or actually accrued to the Company after the Accounts Date but on or before the Locked Box Date and not reflected in the Locked Box Accounts, to the extent that the Company retains the benefit of such income, profit or gains at Completion;
 - (d) it would not have arisen or is increased as a result of any failure by the Company or the Buyer to comply with its obligations under this deed;
 - (e) any Relief (other than a Buyer's Relief but including the surrender to the Company of any Reliefs or losses by the Covenantor or any member of the Covenantor's Group at no cost to the Company) is available to the Company, or would have been available had it not been used by the Company or the Buyer against a Tax Liability that did not give rise to a claim under this deed (and would not have given rise to a claim under this deed disregarding any financial limitations), to set against or otherwise mitigate the Tax Liability in question and has not otherwise been used or claimed, or would be available on the making of an appropriate claim;
 - (f) it would not have arisen but for the passing of or any change in, after the date of Completion, any law, rule, regulation, published interpretation of the law or published administrative practice of any Tax Authority or an increase in the rate of Tax or any imposition of Tax not actually in force at the date of Completion or any withdrawal of any published extra-statutory concession after such date provided that, in all cases, the relevant change, increase, imposition or withdrawal has not been announced on or before Completion;
 - (g) it comprises interest or penalties:
 - (i) arising by virtue of any underpayment of Tax prior to Completion under the Instalment Payments Regulations insofar as any such underpayment would not have been an underpayment but for a Relevant Event occurring after Completion provided that the underpayment could reasonably be regarded by the Company as sufficient in light of all material facts and circumstances known, or which ought reasonably to have been known, by the Company at the time of making such instalment payment;
 - (ii) arising from a failure to pay Tax to a Tax Authority promptly after the Covenantor has made a payment of an amount to the Buyer in respect of that Tax Liability pursuant to a Claim for Tax;
 - (h) it arises as a result of any change after Completion in any accounting policy (including the length of any accounting period for Tax purposes) or any such accounting basis or practice of the Company other than where such change is necessary to comply with UK GAAP, or the relevant accounting practice applicable to that Company (if different) at Completion;

- (i) it would not have arisen but for an omission or a voluntary transaction or action carried out or effected by the Company and/or the Buyer's Group outside the ordinary course of business of the Company (as carried on at Completion) at any time after Completion which the Buyer knew or ought reasonably to have known would give rise to the Tax Liability in question. For the purposes of this clause 2.2(i) a transaction or action is not voluntary to the extent carried out or effected pursuant to a legally binding obligation entered into by the Company on or before Completion, or which the Company is required to do by the Covenantor pursuant to the exercise by the Covenantor of its rights under clauses 4, 5 and 6 of this deed and provided that, for the avoidance of doubt, any voluntary disclosure to or filing or other communication with any Tax Authority shall not be a voluntary transaction or action to which this clause 2.2(i) applies and provided further that this clause 2.2(i) shall not apply in respect of any claim under the Specified US Tax Indemnities;
 - (j) it would not have arisen but for any failure by the Buyer to comply with its obligations under clause 4 of this deed;
 - (k) it would not have arisen but for:
 - (i) any disclaimer made after the date of Completion (other than one the making, giving or doing of which was taken into account in computing any provision or reserve for Tax in the Locked Box Accounts or which is done at the written request or direction of the Covenantor) under or in connection with the provisions of any taxation statutes by the Buyer, the Company or any member of the Buyer's Group; or
 - (ii) the failure or omission by the Company to make any claim, election, surrender or disclaimer, or give any notice or consent or do any other thing the making, giving or doing of which was taken into account in computing any provision or reserve for Tax in the Locked Box Accounts provided that written notice of the relevant action is given by the Covenantor to the Buyer at least 10 business days prior to the expiry of any applicable time limit;
 - (l) the Company has satisfied such Tax Liability by receiving cash from a person or persons other than the Buyer or any member of the Buyer's Group;
 - (m) it would not have arisen but for a cessation of or any major change in the nature or conduct of any trade carried on by the Company being a cessation or change occurring on or after Completion (provided that this clause 2.2(i) shall not apply in respect of any claim under the Specified US Tax Indemnities); or
 - (n) it constitutes Permitted Leakage; or
 - (o) it has been discharged pursuant to clauses 13.3 and 13.4 of the Sale Agreement or has been fully compensated for pursuant to clause 5.9 of the Sale Agreement.
- 2.3 The limitations in schedule 3 (Seller's Limitations on Liabilities) of the Sale Agreement apply to limit or reduce the liability of the Covenantor under this deed to the extent only that the limitations expressly refer to this deed.
- 2.4 Any payment made under this deed between the parties (including in particular any payments made pursuant to clause 2.1 hereof by the Covenantor to the Buyer) shall so far as permitted by law be treated as an adjustment to the consideration paid by the Buyer under the Sale Agreement for the shares of the Company.

3. TIMING

- 3.1 Where the Covenantor becomes liable to make any payment pursuant to clause 2, the due date for the making of that payment shall be the date that is seven days after the date of demand therefor and (if later):
- (a) insofar as the claim relates to an Actual Tax Liability, three Business Days before the last day (after taking into account any postponement of the due date for payment that is obtained) on which a payment of that Tax may be made by the Company without incurring any liability to interest and/or penalties;
 - (b) insofar as the claim arises in respect of a Deemed Tax Liability:
 - (i) which relates to the loss, non-availability or reduction of a repayment of Tax, three Business Days before the day on which such repayment (or increased repayment) of Tax would have been due;
 - (ii) which relates to the loss, non-availability or reduction of any Accounts Relief other than a repayment of Tax, three Business Days before the last date on which the Company must (to avoid any charge to interest/penalties) pay any Tax which it would not, but for such loss, non-availability or reduction have had to pay;
 - (iii) which relates to the utilisation or set-off of a Buyer's Relief against any Actual Tax Liability, three days before the last date on which the Company would, but for such utilisation or set-off have been liable to pay such Actual Tax Liability to avoid any charge to interest/penalties; and
 - (c) insofar as the claim arises pursuant to clause 2.1(e), the day on which the costs and expenses fall due for payment.

4. TAX RETURNS

- 4.1 Subject to clauses 4.2 to 4.6 and clause 4.10, the Covenantor or its duly authorised agent shall at the cost of the Covenantor be responsible for and have the conduct of preparing all Tax Returns for all accounting periods ending on or before the date of Completion, subject to such Tax Returns being prepared on a basis which is consistent with the manner in which such Tax Returns were prepared for any previous accounting periods, unless otherwise required by law. The Buyer shall afford (or procure to be afforded) to the Covenantor or its duly authorised agent such information and assistance as may reasonably be required to prepare all such Tax Returns, and the Buyer shall procure that the Company shall cause the Tax Returns to be authorised, signed and submitted to the appropriate Tax Authority.
- 4.2 The Covenantor shall procure that:
- (a) the Buyer is kept fully informed of the progress of all matters relating to the tax affairs of the Company for which the Covenantor is responsible under the provisions of this clause 4;
 - (b) the Buyer is promptly sent copies of all written correspondence with or to any Tax Authority; and
 - (c) no Tax Return nor any other document relating to Tax is (to the extent submitted by the Covenantor) submitted to any Tax Authority which is not true and accurate in all respects, and not misleading.
- 4.3 Any such Tax Return as is referred to in clause 4.1, and any such claim, disclaimer, surrender and election as if referred to below in this clause 4.3, shall be submitted in draft form by the Covenantor to the Buyer or its duly authorised agent at least 30 days before

the same is due to be sent to the relevant Tax Authority. The Buyer or its agent shall or shall procure that the Company shall provide any comments or amendments within 21 days of such submission and the Covenantor shall adopt all such reasonable comments or suggestions and the Covenantor shall not file or send such Tax Returns, claims, disclaimers, surrenders and elections without the Buyer's prior written consent, which shall not be unreasonably withheld, conditioned or delayed. Subject to clauses 4.2, 4.4, 4.5, 4.6, 4.10 and 6.1, the Buyer shall procure that the Company shall cause the Tax Returns referred to in clause 4.1 and all such claims, disclaimers, surrenders and elections as may be directed by the Covenantor relating to all accounting periods ending on or before the date of Completion to be authorised, signed and returned to the appropriate Tax Authority without undue or unreasonable delay PROVIDED THAT the Covenantor shall adopt all reasonable comments or amendments made by the Buyer and the Buyer shall not be obliged to procure that the Company takes any such action as is mentioned in this clause in relation to any Tax Return which is not true and accurate in all respects.

- 4.4 Except with the Buyer's written consent or as required by law, the Covenantor shall not make any claim, disclaimer, surrender or election, or withdraw any such item, nor shall the Covenantor include any such items in a Tax Return where that would be inconsistent with the basis on which the Locked Box Accounts have been drawn up and could result in either a Tax Liability for which the Covenantor is liable to make a payment to the Buyer under clause 2.1 (or would be but for any financial limitation thereon) or a reduction in any Buyer's Relief.
- 4.5 The Covenantor, in exercising its rights under this clause 4, shall deal with all such matters promptly and diligently and within applicable time limits and in the event that the Tax Returns have not been submitted within applicable time limits (other than where this is due to the fault of the Buyer), the Covenantor shall lose all its rights under this clause 4. In addition, if the Covenantor is in breach of any of its obligations under this clause 4 which is not rectified within 21 days of written notice of the breach by the Buyer to the Covenantor, the Buyer may take control of dealing with all matters relating to the Tax Returns and any associated claims, disclaimers, surrenders or elections.
- 4.6 The Covenantor confirms that the Tax Return for OptaSense Limited for the year ended 31 March 2019 has, prior to Completion, been resubmitted, amending a claim made in relation to patent box and which causes the tax position of OptaSense Limited to move from a taxable loss of £1,928,481 to a taxable loss of £1,422,421. The Covenantor agrees that, notwithstanding the other provisions of this clause 4, the Tax Return for OptaSense Limited for the year ended 31 March 2020 will be submitted on the same basis.
- 4.7 The Buyer or its duly authorised agents shall (subject to clause 4.8) be responsible for and have the conduct of preparing, submitting within applicable time limits and agreeing in a timely manner the Tax Returns for the accounting period in which Completion takes place (the "**Straddle Period**"), and the Covenantor and the Buyer shall respectively afford (or procure to be afforded) to the other or its duly authorised agents such information and assistance as may reasonably be required to prepare, submit and agree such Tax Return.
- 4.8 The Buyer shall or shall procure that, in respect of Tax Returns of the Company referred to in clause 4.7 relating to the part of the Straddle Period in relation to which the Covenantor may be liable under this deed, and only to the extent relating to matters in respect of which the Covenantor may be liable under the Specified US Tax Indemnities :
- (a) the Covenantor is kept fully informed of the progress of all material matters relating to such Tax Returns;
 - (b) the Covenantor is promptly sent copies of all written correspondence with any Tax Authority in respect of such Tax Returns; and

- (c) no such Tax Return nor any other document relating to Tax is submitted to any Tax Authority which is not true and accurate in all material respects, or is misleading.
- 4.9 Any such Tax Return as is referred to in clause 4.7 which relates to matters in respect of which the Covenantor may be liable under the Specified US Tax Indemnities shall be submitted in draft form by the Buyer to the Covenantor or its duly authorised agent at least 30 days before the same is due to be sent to the relevant Tax Authority. The Covenantor or its agent shall provide any comments (in respect of the part of the Straddle Period in which the Covenantor may be liable under this deed only, and only to the extent relating to matters in respect of which the Covenantor may be liable under the Specified US Tax Indemnities) within 21 days of such submission and, if no comments are received within that period, the Covenantor shall be deemed to have approved such draft Tax Return. If the Covenantor or its agent has any comments, the Buyer shall not unreasonably refuse to adopt such comments or suggestions.
- 4.10 The Buyer shall permit the Covenantor to review and comment upon any Tax Return, disclosure or filing to a Tax Authority prior to the submission of that Tax Return, disclosure or filing, which is reasonably likely to result in a liability under clause 2.1(d). The Buyer shall adopt all reasonable comments or amendments made by the Covenantor, provided that such comments or amendments are made within 10 business days following receipt by the Covenantor of the Tax Return, disclosure or filing, as the case may be. Following submission of the Tax Return, disclosure or filing to the Tax Authority as referred to in this clause 4.10, the Buyer shall ensure that:
- (a) the Covenantor is kept fully informed of the progress of all material matters relating to such Tax Return, filing or disclosure;
 - (b) the Covenantor is promptly sent copies of all written correspondence with any Tax Authority in respect of such Tax Return, filing or disclosure;
 - (c) the Covenantor is afforded the opportunity to comment on any further written correspondence and any reasonable comments made sufficiently promptly by the Covenantor shall be incorporated by the Buyer in any such written communication; and
 - (d) thereafter, the provisions of clause 5 shall apply.
- 4.11 To the extent that the provisions of clause 5 of this deed apply to the circumstances covered by clause 4, the provisions of clause 5 shall take precedence. To the extent that the provisions of clause 4.10 of this deed apply to the circumstances covered by the rest of clause 4, the provisions of clause 4.10 shall take precedence. In no event shall this clause 4 or clauses 5, 6 or 7 require the Buyer or the Company to take any action, or refrain from taking any action, or permit the Covenantor to take any action, which the Buyer reasonably considers would vitiate the Insurance Policy or would cause the Buyer to be in breach of any provision of the Insurance Policy or in any way conflict with any obligations under or terms of the Insurance Policy or give rise to a claim under the Insurance Policy, save in so far as the Seller is liable under the Specified US Tax Indemnities.

5. RESISTANCE OF CLAIMS

- 5.1 If the Buyer or the Company becomes aware of any Claim for Tax which relates to a matter covered by the Specified US Tax Indemnities which may result in the Buyer having a claim against the Covenantor under the Specified US Tax Indemnities (or which would so result in any such case but for the provisions of clauses 2.2 or 2.3), the Buyer shall give written notice to the Covenantor (including reasonably sufficient details of the Claim for Tax to the extent known at the time, and so far as practicable the amounts involved) as soon as reasonably practicable and in any event at least 10 business days prior to the expiry of any time limit in which an appeal against the Claim for Tax has to be made, provided that the

giving of such notice shall not be a condition precedent to the liability of the Covenantor under this deed. If the Covenantor become aware of any Claim for Tax (prior to being so notified by the Buyer), the Covenantor shall promptly give notice in writing of such Claim for Tax to the Buyer specifying the details of which it are aware.

- 5.2 Subject to clause 5.3, if so requested in writing by the Covenantor and if the Covenantor indemnifies the Buyer to the Buyer's reasonable satisfaction against the Tax, any additional Tax Liability and all third party costs and expenses which the Buyer or the Company may reasonably and properly incur as a result of any action taken pursuant to pursuant to this clause 5, the Buyer shall (or where relevant shall procure that the Company shall) take such action as the Covenantor may reasonably request in writing to avoid, dispute, postpone the payment of, defend, resist, appeal or compromise any claim PROVIDED THAT :
- (a) the Buyer shall not be required to delegate or procure that the Company delegate the conduct of such action to the Covenantor or any agent or professional adviser of the Covenantor;
 - (b) the Buyer shall not be required to make or procure that the Company make a formal appeal to any tribunal, court, appellate body or judicial authority unless the Covenantor, at its own expense and after disclosure of all relevant information and documents, obtains and delivers to the Buyer an opinion from a Tax Expert that the appeal will, on the balance of probabilities, be successful;
 - (c) the Covenantor shall be kept informed of all relevant matters pertaining to the Claim for Tax;
 - (d) no material written communication pertaining to the Claim for Tax (and in particular no proposal for or consent to any settlement or compromise thereof) shall be transmitted to any Tax Authority or governmental body or authority without the same having been submitted to the Covenantor and any reasonable comments made sufficiently promptly by the Covenantor shall be incorporated by the Buyer in any such written communication; and
 - (e) the Buyer shall not be required to make or procure that the Company makes any settlement or compromise of the relevant Tax Liability or takes any action which is likely to materially adversely affect any post-Completion Tax Liability.
- 5.3 If the Covenantor: (i) does not request the Buyer to take any appropriate action or provide the indemnity referred to in clause 5.2 within the earlier of 15 Business Days of notice to the Covenantor or the date being five Business Days prior to the last date on which an appeal may be made against the Tax Liability to which the Claim for Tax relates provided that the Covenantor had notice of the Claim for Tax; (ii) serves written notice on the Company or the Buyer to the effect that they consider that the Claim for Tax should no longer be resisted; (iii) had acted or failed to act in connection with the Tax Liability in a manner which a Tax Authority alleges in writing constitutes fraud or (iv) if no action is required to be taken by virtue of any of the provisions of clause 5.2, then, provided that the Buyer has given the Covenantor a written reminder of this Claim for Tax with specific reference to this clause 5.3 not less than seven days before the expiry of this 21 day notice period, the Buyer shall be free to satisfy or settle (or to allow the Company to satisfy or settle) the relevant liability to Tax on such terms as it may in its absolute discretion think fit.
6. **GROUP RELIEF**
- 6.1 The Buyer shall procure that the Company shall (to the extent permitted by law) surrender to the Covenantor or to such other member of the Covenantor's Group as the Covenantor may specify (a "**Claimant Company**") all such Group Relief as the Covenantor may at its sole discretion (acting reasonably) direct in writing in respect of any accounting period of

the Company beginning prior to Completion, provided that nothing in this clause 6, nor in clauses 4 or 5, shall oblige the Buyer to procure the surrender of the whole or part of any Buyer's Relief or any Specified Losses, or do anything that could give rise to a Tax Liability which is not specifically provided for in the Locked Box Accounts.

- 6.2 The Buyer hereby undertakes that it shall, and shall procure that the Company shall, at the cost of the Covenantor, use all reasonable endeavours to procure that full effect is given to the surrenders to be made under clause 6.1 and that such surrenders are allowed in full by HMRC and (without prejudice to the generality of the foregoing) the Buyer shall procure that the Company shall sign and submit to HMRC all such notices of consent to surrender (including provisional or protective notices of consent in cases where any relevant Tax computation has not yet been agreed) and all such other documents and returns as may be necessary to secure that full effect is given to this clause.
- 6.3 No payment shall be made to the Company for any surrender of Group Relief by the Company pursuant to clause 6.1.
- 6.4 If the Covenantor so requests, the Buyer shall procure that the Company (to the extent permitted by law) surrenders to a Claimant Company, the whole or part of any Buyer's Relief as the Covenantor may request in writing, provided that the Buyer has sole discretion as to whether to approve such surrender. In such a case, the Covenantor shall promptly pay the amount of the Tax saved by the Claimant Company to the relevant Group Company in accordance with section 183 CTA 2010.
- 6.5 The Covenantor shall not, and shall procure that no member of the Covenantor's Group shall, bring any claim against the Buyer or the Company in connection with any reduction, elimination or invalidation, in whole or in part, of any Group Relief surrendered by the Company to a member of the Covenantor's Group in respect of and as a result of (i) the resubmission or submission of Tax Returns of OptaSense Limited referred to in clause 4.6 or (ii) in connection with any matter in respect of which the Covenantor has liability under Clause 2 (or would have had liability, disregarding any financial limitations) and as a result of that liability the amount of Group Relief has been reduced, eliminated, invalidated or otherwise disallowed.

7. **SECONDARY LIABILITIES**

- 7.1 The Buyer hereby covenants with the Covenantor to pay to the Covenantor an amount equal to any liability to Tax or any amount on account of Tax for which the Covenantor or any member of the Covenantor's Group becomes liable as a result of the failure by the Company or any member of the Buyer's Group to discharge the same.
- 7.2 The Covenantor hereby covenants with the Buyer to pay to the Buyer an amount equal to any liability to Tax or any amount on account of Tax for which the Buyer or any member of the Buyer's Group becomes liable as a result of the failure by the Covenantor or any member of the Retained Group to discharge the same.
- 7.3 The covenants contained in clauses 7.1 and 7.2 shall:
- (a) extend to all third-party costs reasonably and properly incurred or payable in connection with any liability to Tax which is the subject of a successful claim under clause 7.1 or 7.2;
 - (b) in respect of clause 7.1 only, not apply to any liability to Tax to the extent that the Buyer could claim payment in respect of it under clause 2 or the Tax Warranties, or could have claimed but for any financial limitation; and
 - (c) in respect of clause 7.1 only, not apply to the extent that the Buyer has validly claimed against the Covenantor under clause 2 or the Tax Warranties in respect of

the amount of Tax which the Company or a member of the Buyer's Group has failed to pay under clause 7.1 and for which no payment has yet been made by the Seller;

- (d) not apply to Tax to the extent it has been recovered under any relevant statutory provision (and the Buyer or the Covenantor as the case may be shall procure that no recovery is sought to the extent that payment is made hereunder); and
- (e) not apply unless written notice of such claim has been served upon the Buyer or the Covenantor (as appropriate) by no later than 5.00 p.m. on the date that is five years after the date of Completion.

7.4 Clause 3 of this deed (due date for payment) shall apply to the covenants contained in this clause 7 as it applies to the covenants contained in clause 2, replacing where appropriate references to the Covenantor by the Buyer (and vice versa) and, where clause 7.1 applies, making any other necessary modifications.

8. **INTEREST DEDUCTIBILITY**

8.1 The Covenantor shall procure that the amount of the total disallowed amount of interest (as defined in section 373 TIOPA) for the Covenantor's Group that has been allocated to the Company in respect of any accounting period of the Company ending prior to Completion is not altered following Completion, or pursuant to an arrangement entered into prior to Completion, in either case which results in a Tax Liability (or would result in a Tax Liability ignoring for these purposes any limitation on the Covenantor's liability hereunder) other than with the prior written consent of the Buyer.

8.2 The Covenantor confirms that no interest deduction has been or will be taken into account in determining the provision for Tax in the Locked Box Accounts.

9. **GROUP PAYMENT ARRANGEMENT**

9.1 The Covenantor shall ensure that the Company is removed from the group payment arrangement made under section 59F of the Taxes Management Act 1970, immediately following Completion (to the extent such removal has not taken place before Completion). The Covenantor shall not, and shall procure that no member of the Covenantor's Group shall, bring any claim against the Buyer or the Company in connection with such group payment arrangement, and shall not, and shall procure that no member of the Covenantor's Group shall, make or allow to subsist any allocation which results in the Company being liable to any Tax Authority in connection with such group payment arrangement.

10. **GROSS UP**

All sums payable under clause 2 or clause 7 of this deed, and all sums payable by the Seller or any member of the Seller's Group to the Buyer or any Group Company under the Sale Agreement, shall be paid free and clear of all deductions or withholdings (including Tax) unless the deduction or withholding is required by law, in which event, or in the event that the payee shall incur any liability for Tax chargeable or assessable, the payer shall pay such additional amounts as shall be required to ensure that the net amount received and retained by the payee (after Tax) will equal the full amount which would have been received and retained by it had no such deduction or withholding been made and/or no such liability to Tax been incurred and, in applying this clause 12, no account shall be taken of the extent to which any liability for Tax may be mitigated or offset by any Relief available to the Buyer or the relevant Group Company so that where such Relief is available the additional amount payable hereunder shall be the amount which would have been payable in the absence of such availability.

11. **MISCELLANEOUS**

- 11.1 The provisions of clauses 18 (Variations), 19 (Waiver), 20 (Invalidity), 21 (Notices), 22 (Counterparts), 23 (Governing Law and Jurisdiction), 24 (Third Party Rights) and any assignment of the Sale Agreement shall apply to this deed as if the same were incorporated herein mutatis mutandis provided that in the event that the benefit of this deed is assigned, the liability of any other party to the assignee shall be no greater than it would have been had no such assignment occurred.

IN WITNESS whereof this deed has been executed on the date first above written.

Signed as a deed by)
NIGEL PAUL MAJOR)
for and on behalf of **QINETIQ**)
HOLDINGS LIMITED)
under a power of attorney dated 2
December 2020
in the presence of:



Signature of witness
Name of witness GEORGE FISHER.....
Address of witness APT 77 2 WOODS RD.....
LONDON SE15 2BT.....
Occupation of witness ACCOUNTANT.....

Signed as a deed by **LUNA**)
INNOVATIONS, INCORPORATED)
acting by a director)
in the presence of:)

Signature of director
Name of director
Signature of witness
Name of witness
Address of witness
.....
Occupation of witness

Signed as a deed by _____)
for and on behalf of **QINETIQ**)
HOLDINGS LIMITED)
under a power of attorney dated ____)
December 2020)
in the presence of:

Signature of witness
Name of witness
Address of witness
Occupation of witness

Signed as a deed by **LUNA**)
INNOVATIONS, INCORPORATED)
acting by a director)
in the presence of:

Signature of director
Name of director
Signature of witness
Name of witness
Address of witness
Occupation of witness

DocuSigned by:
Scott Graeff
75AD122E20124D0

Scott Graeff

DocuSigned by:
Robert Iocco
190748F0C7E2434

Robert Iocco

16 E Church
Avenue,
Roanoke VA
24011

President



Luna Innovations acquires OptaSense
Combination transforms Luna into a global fiber optic leader; creates a distributed fiber sensing powerhouse

- Acquisition combines two global leaders in fiber optic sensing solutions
- OptaSense's market-leading position in distributed acoustic sensing (DAS) combined with Luna's suite of sensing products forms the industry's most comprehensive portfolio
- OptaSense's diverse, blue-chip customer base aligns well with Luna's; presents a significant opportunity for expansion of offerings into both customer groups
- Transformative acquisition allows Luna to cost-effectively establish a strong international presence and adds to its U.S. leadership position
- OptaSense allows for expansion into high-growth markets such as security and perimeter detection, smart infrastructure monitoring and oil and gas; expected to accelerate Luna's data services and IOT strategy
- Acquisition expected to be accretive in 2021

(ROANOKE, VA, December 3, 2020) - Luna Innovations Incorporated (NASDAQ: LUNA), a global leader in advanced optical technology, today announced it has acquired OptaSense Holdings, Ltd. ("OptaSense"), a QinetiQ company (LON: QQ), for 29 million British Pounds in cash. OptaSense is a recognized market leader in fiber optic distributed monitoring solutions for pipelines, oilfield services, security, highways and railways, as well as power and utilities monitoring systems. The combination is expected to create the world's largest fiber optic sensing company.

"The acquisition of OptaSense marks an incredibly important milestone in Luna's history and will further support our growth trajectory," said Scott Graeff, President and Chief Executive Officer of Luna. "With the combination of Luna and OptaSense, we are bringing together businesses with strong adjacencies and a large, combined opportunity. This transaction allows Luna to acquire a leader in fiber optic sensing solutions and distributed acoustic sensing systems of a global size and scale that will truly be transformative to our company. In addition, OptaSense's success has been driven by a world class, industry-leading technology base and a very talented team of employees. We are very excited about welcoming them to the Luna team."

The acquisition provides Luna with important distributed acoustic sensing (DAS) intellectual property and products, which strongly complement Luna's existing portfolio, and provides algorithm-development expertise, critical for AI and machine learning. OptaSense's research and development talent and highly skilled salesforce, combined with more than 150 active and pending patents, will also enhance Luna's existing experienced team and broaden its intellectual property portfolio.

Steve Wadey, QinetiQ Chief Executive Officer, said "We are delighted to announce the sale of OptaSense to Luna, who will provide greater synergies and relevant market access to enable and accelerate their future growth."

OptaSense will become a fully owned subsidiary of Luna Innovations Incorporated, while continuing to operate under its existing brand for the foreseeable future, and OptaSense employees will remain within the company, with offices in the United Kingdom, Dubai, the United States and Canada.

B. Riley Securities served as financial advisor and Cooley LLP served as legal advisor to Luna.

Compelling Strategic Benefits

Luna expects that this transformative acquisition will:

- Provide Luna with important Distributed Acoustic Sensing ("DAS") intellectual property, products and expertise. DAS strongly complements Luna's existing offerings, and provides algorithm development expertise, critical for AI and machine learning.
- Bring a diverse, blue-chip customer base with limited crossover with Luna's customer base. This represents a significant opportunity for expansion into both customer groups.
- Enhance Luna's existing sales team and broad intellectual property portfolio through its R&D expertise and highly skilled salesforce, combined with more than 150 patents active and pending.
- Allow Luna to cost-effectively establish a strong operational presence internationally, building upon its already strong international customer base and sales capability.
- Rapidly generate expansion opportunities into high-growth markets such as security and perimeter detection, smart infrastructure monitoring and oil and gas,
- Realize efficiencies and leverage the combination of OptaSense and Luna to grow rapidly Luna's operations, customer base, offerings, and financial profile.

Transaction Terms and Financing

Luna is acquiring OptaSense for £29 million, which required approximately \$40 million in cash. The transaction was funded using roughly \$20 million of Luna's existing cash and \$20 million in debt (the source for which is discussed in a separate press release issued this morning).

2020 Full-Year Outlook

Luna is reaffirming its full-year 2020 guidance:

- Total revenues of \$81M to \$83M
- Adjusted EBITDA of \$10M to \$12M

The company expects to provide an additional outlook as well as additional qualitative detail on its fourth quarter and year-end 2020 earnings call, the date for which will be announced early next year.

Non-GAAP Financial 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 GAAP. Adjusted EBITDA provide[s] 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.

Conference Call Information

Luna will conduct an investor conference call at 9:00 a.m. ET today to discuss the transaction. The investor conference call will be available via live webcast on the Luna website at www.lunainc.com under the tab "Investor Relations." To participate by telephone, the domestic dial-in number is 844.578.9643 and the international dial-in number is 270.823.1522. The participant access code is 4458877. Investors are advised to dial in at least five minutes prior to the call to register. The webcast will be archived on the company's website under "Webcasts and Presentations" for 30 days following the conference call.

About Luna

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

About QinetiQ

QinetiQ is a leading science and engineering company operating primarily in the defense, security and critical infrastructure markets. We work in partnership with our customers to solve real world problems through innovative solutions delivering operational and competitive advantage. Visit our website www.QinetiQ.com. Follow us on LinkedIn and Twitter @QinetiQ. Visit our blog www.QinetiQ-blogs.com.

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 projected 2020 financial results and outlook, the integration of OptaSense's employees, intellectual property and offerings, and the expected benefits of the acquisition, including the acquisition being accretive to Luna's non-GAAP EPS in 2021 and increasingly accretive thereafter, the ability to expand offerings to Luna's and OptaSense's customer groups, the ability to establish a strong international presence, and the ability to expand into additional high-growth markets, the continuation of trends such as 5G, lightweighting and infrastructure monitoring, the potential impacts of the COVID-19 pandemic on its business, operations and financial results, and growth potential. 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, uncertainties regarding integration of the companies' respective employee bases, offerings and business operations, potential adverse reactions or uncertainties regarding the acquisition among the companies' customers, potential unknown

liabilities and unforeseen expenses associated with the acquisition, potential performance shortfalls as a result of the diversion of management's attention caused by completing the acquisition and integrating the companies' operations, failure of demand for Luna's products and services to meet expectations, failure of target market to grow and expand, technological and strategic challenges, uncertainties related to the ultimate impact of the COVID-19 pandemic and those risks and uncertainties set forth in Luna's Form 10-Q for the three and nine months ended September 30, 2020, and Luna's other periodic reports and 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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Luna Announces \$27.5 Million Debt Financing From PNC

Proceeds to be used in part for acquisition

(ROANOKE, VA, December 3, 2020) - Luna Innovations Incorporated (NASDAQ: LUNA), a global leader in advanced optical technology, today announced that it has entered into an agreement for a new secured debt facility for \$27.5 million. The facility is supplied by PNC Bank, National Association (an affiliate of PNC Financial Services Group, Inc. (NYSE: PNC)), one of the leading credit providers to middle market companies across the country. The new agreement includes a three-year \$12.5 million term loan facility and a three-year \$15.0 million revolving credit facility.

The new term loan and a portion of the new revolving credit facility will be used to fund a portion of the purchase price for Luna's acquisition of OptaSense Holdings, Ltd., also being announced today. The agreement provides the Company with a term loan of \$12.5 million, with an interest rate of LIBOR plus a margin ranging from 1.75-2.25% based on a net leverage ratio. The agreement also provides the Company with a revolving line of credit of up to \$15.0 million, also with an interest rate of LIBOR plus a margin ranging from 1.75-2.25% based on a net leverage ratio.

"We are grateful for the strong support we received from PNC, as represented by our new debt facility," said Scott Graeff, President and Chief Executive Officer of Luna. "This financing is allowing Luna to acquire a strong strategic business that provides capabilities we have been seeking that we believe will allow us to continue to drive profitable growth."

About Luna

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

About PNC

The PNC Financial Services Group, Inc. (NYSE: PNC) is one of the largest diversified financial services institutions in the United States, organized around its customers and communities for strong relationships and local delivery of retail and business banking including a full range of lending products; specialized services for corporations and government entities, including corporate banking, real estate finance and asset-based lending; wealth management and asset management. For information about PNC, visit www.pnc.com.

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 continued profitable growth. 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, technological and scientific challenges and those risks and uncertainties set forth in Luna's Form 10-Q for the quarter ended September 30, 2020, and Luna's other periodic reports and 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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**Transformative acquisition creates global fiber optic leader
and distributed fiber sensing powerhouse**

December 3, 2020

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 its projected 2020 financial results and outlook, OptaSense's expected revenue for FYE 2021, the integration of OptaSense's employees, intellectual property and offerings, and the expected benefits of the acquisition, including the acquisition being accretive in 2021 and increasingly accretive thereafter, the ability to expand offerings to Luna's and OptaSense's customer groups, the ability to establish a strong international presence, and the ability to expand into additional high-growth markets. 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, uncertainties regarding integration of the companies' respective employee bases, offerings and business operations, potential adverse reactions or uncertainties regarding the acquisition among the companies' customers, potential unknown liabilities and unforeseen expenses associated with the acquisition, potential performance shortfalls as a result of the diversion of management's attention caused by completing the acquisition and integrating the companies' operations, uncertainties related to the ultimate impact of the COVID-19 pandemic and those risks and uncertainties set forth in the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 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, December 3, 2020, and Luna undertakes no obligation to update any of the forward-looking statements after the date of this presentation, except as required by law.

Adjusted Financial Measures

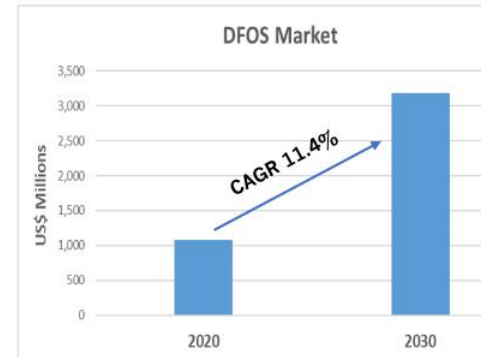
In addition to U.S. GAAP financial information, this presentation includes Adjusted EBITDA, a non-GAAP financial measure. This non-GAAP financial measure is in addition to, and not a substitute for or superior to, measures of financial performance prepared in accordance with U.S. GAAP.

Strong Strategic Fit: Transaction Highlights

The combination of Luna and OptaSense creates a global market leader in distributed fiber sensing (DFOS) technology

- Luna is already a global leader in fiber sensing with market leading products
 - ODISI – short range, high resolution (fully distributed)
 - Hyperion – Long range, high speed (discrete, not distributed)
- OptaSense creates reach into broader distributed fiber sensing market DFOS market by providing fully distributed measurement capabilities over long-range applications
 - Acquisition adds significantly to Luna’s ability to penetrate and grow key target markets such as infrastructure, transportation and perimeter security
 - Adds oil and gas and pipeline monitoring markets, including the world’s largest fiber sensing-based monitoring projects
- OptaSense is the market leader in distributed acoustic sensing (DAS)
- Together, Luna & OptaSense create a new, global market leader in fiber optic sensing with diversified geographies and applications

Long range, distributed capability adds significantly to Luna's addressable market



Visiongain, February 2020

Summary Transaction Highlights

- Transformative, strategic acquisition allows Luna to enhance product / solution portfolio, adding access to larger, high-growth markets
 - Adds to existing U.S. leadership position; cost-effectively establishes strong operational presence in EU & Middle East
 - OptaSense's diverse, blue-chip customer base aligns well with Luna's
 - Allows for expansion into high-growth markets such as security and perimeter detection, smart infrastructure monitoring and oil and gas; will accelerate Luna's data services and IOT strategy
 - Extensive R&D expertise and patent portfolio (over 150 patents granted or pending)
- Sign and close simultaneous; Luna Board of Director approval; no regulatory approvals required
- Acquisition expected to be accretive in 2021
- Realize efficiencies, and leverage the combination of OptaSense and Lightwave to grow rapidly our operations, customer base, offerings, and financial profile

About OptaSense and Market Opportunity



Introduction to OptaSense

OptaSense Ltd. manufactures, installs, maintains, and operates distributed acoustic sensing systems worldwide. Its advanced solutions enable data collection and management to deliver security, tracking, protection and other applications. The Company serves the oil and gas, security, transport and border sectors in the United Kingdom and internationally.

HQ United Kingdom	Formed 2007	Patents 150+ ⁽¹⁾
Global Employees 140+	Systems Installed 1,200+	FY 2021E Revenue ~£27m ⁽²⁾

1) Inclusive of current patents held and pending patents filed.
2) Management projections. OptaSense's fiscal year end is March 31.

About OptaSense

- OptaSense is a global technology leader in distributed fiber optic sensing solutions
 - Founded in 2007 as R&D group within QinetiQ, OptaSense has transformed into a vertically integrated provider of fiber optic systems
 - In 2014, QinetiQ acquired RIO, a market leading laser technology company to support and vertically integrate its manufacturing operations
 - Detects, processes, locates and identifies unique acoustic signals in real time for the monitoring and protection of critical high-value assets
- Solutions optimize customer operations by detecting, locating and classifying threats -- such as intrusions, leaks and breaches -- present in the field
- Management estimates market share within global DAS systems market to be >25%; market leadership
- Works with some of the largest names in the sectors in which it operates
- Customer concentration is relatively low with top customer = 8% / top 10 = 48% of FY20 revenue
- Diverse base of customers across broad geographies; very high customer retention rate
- Limited cross-over with Luna's existing customer base, will generate cross selling synergies

OptaSense is organized in three business units, all of which have strong synergy with Luna's Lightwave Division

Infrastructure and Security Monitoring (ISM) and Transport

Oilfield Services (OFS)

RIO (Laser)

End Markets

Pipeline Monitoring

Perimeter Protection

Border Security

Road Traffic Monitoring

Rail Track and Train Monitoring

Production Monitoring

Reservoir Monitoring

Other Markets (automotive, utilities, space)

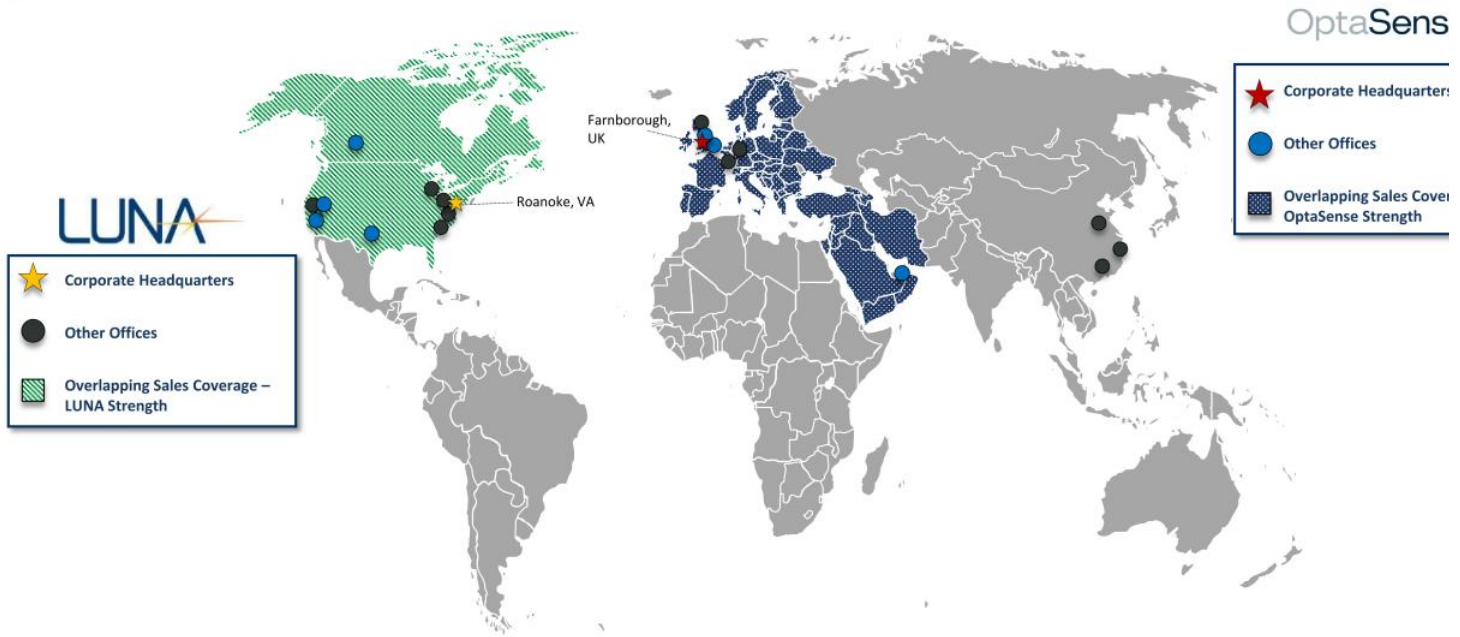
DAS is significant portion of total market for distributed fiber optic sensing; significantly expands Luna's addressable market

- Global DAS market expected to experience double-digit growth from 2020 to 2025¹
- Oil & gas industry is the largest market for DAS systems
 - 2020 capital investments have been reduced due to effects of COVID-19 pandemic
 - DAS deployments similarly expected to be put on hold
 - Growth expected to resume in 2021
- Growth opportunities include perimeter intrusion detection, border security, power plant and airport security, highways and traffic flow monitoring, rail security, earthquake detection, structural health monitoring, etc.



¹ "Distributed Acoustic Sensing Market...Global Forecast to 2025", Markets and Markets, June 2020

Geographic Reach



Strong Cultural Fit with Luna's Values

- ❖ **Ownership** – Dedicated to every customer's success through *personal accountability* to meet business goals, improve systems and ultimately solve problems.
- ❖ **Integrity** – Do the right thing by stressing *honesty, openness, ethics and fairness* as our reputation is everything.
- ❖ **Creativity** – Constantly striving to redefine the standard of excellence in everything we do by *challenging conventional views* to drive change.
- ❖ **Enthusiasm** – Passionately *applying energy and intellect* to help us surpass our previous achievements.
- ❖ **Results-oriented** – Determined to *be the best* at doing *what matters the most*.

Transaction Highlights and Financials



Financial Highlights and Financing Details

Financial Highlights

- Sign and close simultaneous; Luna Board of Director approval; no regulatory approvals required
- Acquisition expected to be accretive in 2021
- Revenue synergies included; no expense synergies assumed in acquisition model, presenting upside potential

Financing Details

- Two separate financing vehicles; a term facility and a revolver facility:
- The term facility:
 - \$12.5 M, 3-year term loan, LIBOR plus 1.75-2.25% based on Net Leverage Ratio
- The revolver:
 - \$15 M, 3-year, LIBOR plus 1.75-2.25% based on Net Leverage Ratio

Reaffirming 2020 Financial Outlook

- Maintaining FY2020 outlook:
 - Total revenues of \$81M to \$83M
 - Adjusted EBITDA¹ of \$10M to \$12M
- Luna expects to provide further guidance as well as additional qualitative detail on its fourth quarter and year-end 2020 earnings call, the date for which will be announced early next year.

¹ Adj EBITDA is a non-GAAP measure. Luna is not providing an outlook for net income, which is the most directly comparable GAAP measure to Adjusted EBITDA, because changes in the items that Luna excludes from net income to calculate Adjusted EBITDA, such as share-based compensation expense, and significant non-recurring charges, among other things, can be dependent on future events that are less capable of being controlled or reliably predicted by management and are not part of Luna's routine operating activities.

Conclusion: Acquisition of OptaSense is highly attractive and transformative for Luna Innovations

Compelling Strategic Opportunity

- Highly complementary businesses; creates global fiber optic sensing leader with broad offerings for short- and long-range
- Establishes strong presence in EU / Middle East

Large Market Opportunity

- Limited cross-over presents a significant opportunity for expansion of offerings into both customer groups
- Immediate expansion for Luna into high-growth markets
- R&D expertise and highly skilled salesforce strongly enhances Luna's existing talented, seasoned sales team and broad intellectual property portfolio

Financially Attractive

- Quickly accretive
- No expense synergies built into acquisition model; opportunity for upside to model
- Revenue synergies anticipated to begin in 2021; minimal initially then increasing thereafter

Luna – Enabling the Future with Fiber

- **Proprietary**, measurement technology, offering **unprecedented** combination of resolution, accuracy and speed
- Customers in **attractive markets**: Military and Defense, Communications, Infrastructure, Energy and Automotive
- 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**



Appendix: More about OptaSense



Filling the strategic product/technology gap

- Luna is strong in two areas: Long range, discrete sensing (Hyperion); and short range, fully distributed (ODiSI)
- Luna is gapped in long range, fully distributed measurements and OptaSense fills this gap

Hyperion: Luna's Long Range, High-Speed Distributed Sensing Solution











- Best when specific, known locations need to be monitored

Long Range, Fully Distributed Sensing Solution














- Best for applications where signals can occur anywhere along the length of the sensor

Products/Technology

	Product	Description	Select End Markets					
			Pipeline	Oilfield	Transport	Perimeter	Borders	Power & Utility
Hardware	 OLA Interrogator Unit	<ul style="list-style-type: none"> Real-time data classification and management Long Range Resolution Third Party Interfacing 	✓		✓	✓	✓	
	 ODH4+ High Performance DAS Interrogator	<ul style="list-style-type: none"> Ideal solution for applications requiring high fidelity DAS measurement performance 		✓				
	 Plexus Interrogator Unit	<ul style="list-style-type: none"> Delivers long-range quantitative data performance with high-fidelity and sensitivity 	✓	✓	✓	✓	✓	✓
Software	 DXS Browser Visualization Software	<ul style="list-style-type: none"> Allows users to easily integrate large distributed data sets into workflows, including 3D depth, time and measurement data 	✓	✓	✓	✓	✓	✓
	 OSS Visualization Software	<ul style="list-style-type: none"> Fifth iteration of the visualization platform is a major step forward in usability, interaction, and reliability 	✓		✓	✓	✓	✓
Lasers	 Single frequency lasers	<ul style="list-style-type: none"> High performance narrow linewidth single frequency laser capable for OEM applications suitable for volume production 	✓	✓	✓			✓
	 Benchtop laser source	<ul style="list-style-type: none"> Compact and turn-key benchtop laser source based on the industry-proven laser module and External Cavity Lasers 	✓	✓	✓			✓
	 Narrow linewidth lasers	<ul style="list-style-type: none"> High output power, low phase noise, narrow linewidth laser module 	✓	✓	✓			✓

Markets and Applications

End Market	Applications	Select Customers
 <p>Pipelines</p>	<ul style="list-style-type: none"> Real-time pipeline monitoring preventing disruption of flow <ul style="list-style-type: none"> Pipeline leakage Theft Accidental damage 	
 <p>Oil & Gas</p>	<ul style="list-style-type: none"> Advanced monitoring and evaluating of reservoir and wellbore to reduce risk and optimize recovery <ul style="list-style-type: none"> Optimizing flow diversion Identifying well integrity issues Monitoring production and reservoir performance 	
 <p>Transportation</p>	<ul style="list-style-type: none"> Road: real time information on current traffic conditions delivering informed traffic management decisions such as efficient route coverage Rail: Ensuring safety through detecting track anomalies, trespassing, vandalism, theft, etc. 	
 <p>Borders</p>	<ul style="list-style-type: none"> Ensuring borders and national assets are protected with a cost-effective surveillance system through delivery of real-time, actionable intelligence 	
 <p>Perimeters</p>	<ul style="list-style-type: none"> Real-time actionable data around critical assets to detect potential threats <ul style="list-style-type: none"> Third party intrusion Identifies vehicles, personnel, digging, and attempts to climb or breach fencing 	
 <p>Power & Utility</p>	<ul style="list-style-type: none"> Preventing third party cable damage, immediately detecting and precisely location power cable faults, and ensuring asset intactness during seismic events and allowing immediate damage control 	