
**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): February 27, 2008

Luna Innovations Incorporated

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

000-52008
(Commission File Number)

54-1560050
(IRS Employer
Identification No.)

1 Riverside Circle, Suite 400
Roanoke, Virginia 24016
(Address of principal executive offices, including zip code)

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

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

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

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

Item 1.01. Entry into a Material Definitive Agreement.

On February 27, 2008, Luna Innovations Incorporated (the "Company") and certain of its officers, including certain of the Company's officers, as defined in Rule 3b-2 promulgated under the Securities Exchange Act of 1934, as amended, and certain named executive officers, as defined under Item 402(a)(3) of Regulation S-K, entered into amended and restated stock sale restriction agreements (the "Sale Restriction Agreements") whereby such officers agree not to sell more than a fixed number of shares of common stock and convertible securities of the Company beneficially held by such officers as of the effective date of the Sale Restriction Agreements (the "Subject Securities") in each calendar year and in the aggregate during a three year period ending December 31, 2010. As of the date of the Sale Restriction Agreements, such officers held 3,436,316 shares of the Subject Securities, including options to purchase common stock. The Sale Restriction Agreements provide that the parties to such agreements limit sales of Subject Securities to the following amounts in each of the following calendar years: no sales in 2008 and 10% of the Subject Securities in each of calendar years 2009 and 2010. In the aggregate, the officers may not sell any shares of Common Stock in calendar year 2008, and they may sell no more than 343,631 shares of Common Stock in each of calendar years 2009 and 2010. The Sale Restriction Agreements may be terminated or the limits waived by the Company according to the terms of the Sale Restriction Agreements.

Conformed copies of the Sale Restriction Agreements entered into by the Company's named executive officers are attached hereto as Exhibits 10.1 through 10.4.

Item 9.01(d). Exhibits

<u>Exhibit No.</u>	<u>Description</u>
10.1	Second Amended and Restated Stock Sale Restriction Agreement by and between Luna Innovations Incorporated and Kent A. Murphy, dated as of February 27, 2008.
10.2	Second Amended and Restated Stock Sale Restriction Agreement by and between Luna Innovations Incorporated and Dale E. Messick, dated as of February 27, 2008.
10.3	Second Amended and Restated Stock Sale Restriction Agreement by and between Luna Innovations Incorporated and Scott A. Graeff, dated as of February 27, 2008.
10.4	Amended and Restated Stock Sale Restriction Agreement by and between Luna Innovations Incorporated and Robert P. Lenk, dated as of February 27, 2008.

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/ Kevin W. Holt
Kevin W. Holt
Vice President and General Counsel

Date: March 3, 2008

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
10.1	Second Amended and Restated Stock Sale Restriction Agreement by and between Luna Innovations Incorporated and Kent A. Murphy, dated as of February 27, 2008.
10.2	Second Amended and Restated Stock Sale Restriction Agreement by and between Luna Innovations Incorporated and Dale E. Messick, dated as of February 27, 2008.
10.3	Second Amended and Restated Stock Sale Restriction Agreement by and between Luna Innovations Incorporated and Scott A. Graeff, dated as of February 27, 2008.
10.4	Amended and Restated Stock Sale Restriction Agreement by and between Luna Innovations Incorporated and Robert P. Lenk, dated as of February 27, 2008.

SECOND AMENDED AND RESTATED STOCK SALE RESTRICTION AGREEMENT

This Second Amended and Restated Stock Sale Restriction Agreement (this "**Agreement**") is entered into as of February 27, 2008 (the "**Effective Date**") by and between Luna Innovations Incorporated, a Delaware corporation (the "**Company**") and Kent A. Murphy ("**Employee**"). The Company and Employee are referred to herein as the "**Parties**" and each as a "**Party**."

RECITALS

WHEREAS, the Parties entered into a certain letter agreement dated on or about February 1, 2006 (the "**Stock Sale Restriction Agreement**") and the Parties entered into an Amended and Restated Stock Sale Restriction Agreement dated on or about January 23, 2007, whereby Employee agreed to certain restrictions on the sale and transfer of (i) any outstanding shares of the Company's Common Stock, par value \$0.001 per share ("**Common Stock**") (excluding shares that were received upon exercise of options prior to December 31, 2005) and (ii) any shares of Common Stock to be received upon exercise of options to purchase Common Stock, whether vested or unvested, that Employee held and acquired from the Company prior to the Company's initial public offering;

WHEREAS, as of the Effective Date, Employee beneficially held an aggregate of 2,761,108 shares of Common Stock, which consisted of 2,648,061 outstanding shares of Common Stock and 113,047 shares of Common Stock issuable upon exercise of outstanding options (collectively, the "**Subject Securities**"), excluding any shares that were received upon exercise of options or warrants prior to December 31, 2005;

WHEREAS, the Parties agree and acknowledge that it is in the interests of the Company and its stockholders to amend and restate the Amended and Restated Stock Sale Restriction Agreement to provide for additional restrictions on the number of Subject Securities which Employee can sell, with the expectation that such additional restrictions may help to prolong the Company's eligibility for Small Business Innovation Research ("**SBIR**") grants; and

WHEREAS, the Parties desire to amend and restate the Amended and Restated Stock Sale Restriction Agreement pursuant to the terms and conditions provided herein.

NOW, THEREFORE, in consideration of the premises and covenants set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereto agree as follows:

AGREEMENT

1. Employee hereby irrevocably agrees that he or she will not, directly or indirectly, (i) sell, offer for sale, pledge or otherwise dispose of (except as otherwise provided herein) greater than zero percent (0%) of Employee's Subject Securities in calendar year 2008, ten percent (10%) of Employee's Subject Securities in calendar year 2009 and ten percent (10%) of Employee's Subject Securities in calendar year 2010, (each such amount the "**Annual Limit**") or (ii) enter into any swap or other derivatives transaction that transfers to another, in whole or in part, any of

the economic benefits or risks of ownership of greater than the Annual Limit in any given year of the Employee's Subject Securities, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or other securities, in cash or otherwise. For purposes of this Agreement, gifts or transfers of Subject Securities to immediate family members or trusts for which Employee or his or her immediate family members are the sole primary beneficiaries shall be exempt from the restrictions of this Paragraph 1; *provided*, that the recipient of such Subject Securities shall become subject to the terms and conditions of this Agreement, shall assume Employee's obligations hereunder and shall sign an agreement of joinder to that effect.

2. Notwithstanding anything in this Agreement to the contrary, if Employee does not sell or transfer the full Annual Limit of the undersigned's Subject Securities in calendar year 2008, the unsold portion of the Annual Limit (the "**Carryover Amount**") shall be carried over to calendar year 2009 and if Employee does not sell or transfer the full Annual Limit of the undersigned's Subject Securities in calendar year 2009, the Carryover Amount shall be carried over to calendar year 2010, such that the Annual Limit for such calendar year shall be increased by the Carryover Amount.

3. This Agreement and the restrictions contained herein will terminate on the earliest to occur of the following: (i) the date on which the Company is no longer eligible for Small Business Innovation Research (SBIR) grants, as evidenced by an opinion of counsel mutually acceptable to the Company and Employee; (ii) the effective date of a termination of Employee's employment with the Company, including by death, provided that the Company may elect, in its sole discretion, as to some or all of Employee's vested stock options, to pay Employee in cash an amount equal to the average closing price of the Company's common stock for the five (5) trading days immediately preceding the date of termination of Employee's employment, less the strike price for such options, in exchange for the forfeiture of such options; (iii) a date determined by the Company in its sole discretion at any time upon written notice to the Employee; (iv) December 31, 2010.

4. Employee acknowledges that by signing this Agreement he or she may suffer adverse consequences, including without limitation, an inability to sell Subject Securities during a time in which the Company's Common Stock is trading at a historically high price and (notwithstanding paragraph 2 above) an inability to sell Subject Securities to cover a tax liability that the undersigned may incur as a result of an exercise of vested options. The Company encourages Employee to speak with his or her personal financial, legal and/or tax advisors before signing this Agreement and also prior to any sale of shares of Common Stock or the exercise of stock options for Subject Securities.

5. This Agreement constitutes the entire understanding of the Parties with regard to the subject matter stated herein and revokes and supersedes all prior agreements between the Parties, including the Stock Sale Restriction Agreement, as previously amended.

6. This Agreement may be modified or amended only in writing signed by the Company and Employee; *provided, however*, that the Company may, in its sole discretion, amend or waive the provisions of Paragraph 1 above to increase the Annual Limit from time to time. No waiver of any provision of this Agreement shall be deemed a waiver of other provisions of this Agreement.

7. Employee's obligations hereunder shall be binding upon Employee's heirs, personal representatives, successors and assigns.

8. This Agreement shall be governed in accordance with the laws of the Commonwealth of Virginia, without application of conflicts of laws provisions.

9. This Second Amended and Restated Agreement may be executed in one or more counterparts, each of which shall constitute an original, but taken together shall constitute one and the same document. A facsimile signature shall have the same force and effect as an original signature.

[Signature page follows]

IN WITNESS WHEREOF, the Parties hereto have each caused a duly authorized officer to execute this Agreement with the intent to be legally bound as of the Effective Date.

COMPANY

EMPLOYEE

By: /s/ Kent A. Murphy
Name: Kent A. Murphy
Title: President and CEO
Date: February 27, 2008

By: /s/ Kent A. Murphy
Name: Kent A. Murphy
Title: President and CEO
Date: February 27, 2008

[Signature Page to Amended and Restated Stock Sale Restriction Agreement]

SECOND AMENDED AND RESTATED STOCK SALE RESTRICTION AGREEMENT

This Second Amended and Restated Stock Sale Restriction Agreement (this "**Agreement**") is entered into as of February 27, 2008 (the "**Effective Date**") by and between Luna Innovations Incorporated, a Delaware corporation (the "**Company**") and Dale E. Messick ("**Employee**"). The Company and Employee are referred to herein as the "**Parties**" and each as a "**Party**."

RECITALS

WHEREAS, the Parties entered into a certain letter agreement dated on or about February 1, 2006 (the "**Stock Sale Restriction Agreement**") and the Parties entered into an Amended and Restated Stock Sale Restriction Agreement dated on or about January 23, 2007, whereby Employee agreed to certain restrictions on the sale and transfer of (i) any outstanding shares of the Company's Common Stock, par value \$0.001 per share ("**Common Stock**") (excluding shares that were received upon exercise of options prior to December 31, 2005) and (ii) any shares of Common Stock to be received upon exercise of options to purchase Common Stock, whether vested or unvested, that Employee held and acquired from the Company prior to the Company's initial public offering;

WHEREAS, as of the Effective Date, Employee beneficially held an aggregate of 235,627 shares of Common Stock, which consisted of 10,627 outstanding shares of Common Stock and 225,000 shares of Common Stock issuable upon exercise of outstanding options (collectively, the "**Subject Securities**"), excluding any shares that were received upon exercise of options or warrants prior to December 31, 2005;

WHEREAS, the Parties agree and acknowledge that it is in the interests of the Company and its stockholders to amend and restate the Amended and Restated Stock Sale Restriction Agreement to provide for additional restrictions on the number of Subject Securities which Employee can sell, with the expectation that such additional restrictions may help to prolong the Company's eligibility for Small Business Innovation Research ("**SBIR**") grants; and

WHEREAS, the Parties desire to amend and restate the Amended and Restated Stock Sale Restriction Agreement pursuant to the terms and conditions provided herein.

NOW, THEREFORE, in consideration of the premises and covenants set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereto agree as follows:

AGREEMENT

1. Employee hereby irrevocably agrees that he or she will not, directly or indirectly, (i) sell, offer for sale, pledge or otherwise dispose of (except as otherwise provided herein) greater than zero percent (0%) of Employee's Subject Securities in calendar year 2008, ten percent (10%) of Employee's Subject Securities in calendar year 2009 and ten percent (10%) of Employee's Subject Securities in calendar year 2010 (each such amount the "**Annual Limit**") or (ii) enter into any swap or other derivatives transaction that transfers to another, in whole or in part, any of

the economic benefits or risks of ownership of greater than the Annual Limit in any given year of the Employee's Subject Securities, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or other securities, in cash or otherwise. For purposes of this Agreement, gifts or transfers of Subject Securities to immediate family members or trusts for which Employee or his or her immediate family members are the sole primary beneficiaries shall be exempt from the restrictions of this Paragraph 1; *provided*, that the recipient of such Subject Securities shall become subject to the terms and conditions of this Agreement, shall assume Employee's obligations hereunder and shall sign an agreement of joinder to that effect.

2. Notwithstanding anything in this Agreement to the contrary, if Employee does not sell or transfer the full Annual Limit of the undersigned's Subject Securities in calendar year 2008, the unsold portion of the Annual Limit (the "**Carryover Amount**") shall be carried over to calendar year 2009 and if Employee does not sell or transfer the full Annual Limit of the undersigned's Subject Securities in calendar year 2009, the Carryover Amount shall be carried over to calendar year 2010, such that the Annual Limit for such calendar year shall be increased by the Carryover Amount.

3. This Agreement and the restrictions contained herein will terminate on the earliest to occur of the following: (i) the date on which the Company is no longer eligible for Small Business Innovation Research (SBIR) grants, as evidenced by an opinion of counsel mutually acceptable to the Company and Employee; (ii) the effective date of a termination of Employee's employment with the Company, including by death, provided that the Company may elect, in its sole discretion, as to some or all of Employee's vested stock options, to pay Employee in cash an amount equal to the average closing price of the Company's common stock for the five (5) trading days immediately preceding the date of termination of Employee's employment, less the strike price for such options, in exchange for the forfeiture of such options; (iii) a date determined by the Company in its sole discretion at any time upon written notice to the Employee; (iv) December 31, 2010.

4. Employee acknowledges that by signing this Agreement he or she may suffer adverse consequences, including without limitation, an inability to sell Subject Securities during a time in which the Company's Common Stock is trading at a historically high price and (notwithstanding paragraph 2 above) an inability to sell Subject Securities to cover a tax liability that the undersigned may incur as a result of an exercise of vested options. The Company encourages Employee to speak with his or her personal financial, legal and/or tax advisors before signing this Agreement and also prior to any sale of shares of Common Stock or the exercise of stock options for Subject Securities.

5. This Agreement constitutes the entire understanding of the Parties with regard to the subject matter stated herein and revokes and supersedes all prior agreements between the Parties, including the Stock Sale Restriction Agreement, as previously amended.

6. This Agreement may be modified or amended only in writing signed by the Company and Employee; *provided, however*, that the Company may, in its sole discretion, amend or waive the provisions of Paragraph 1 above to increase the Annual Limit from time to time. No waiver of any provision of this Agreement shall be deemed a waiver of other provisions of this Agreement.

7. Employee's obligations hereunder shall be binding upon Employee's heirs, personal representatives, successors and assigns.

8. This Agreement shall be governed in accordance with the laws of the Commonwealth of Virginia, without application of conflicts of laws provisions.

9. This Second Amended and Restated Agreement may be executed in one or more counterparts, each of which shall constitute an original, but taken together shall constitute one and the same document. A facsimile signature shall have the same force and effect as an original signature.

[Signature page follows]

IN WITNESS WHEREOF, the Parties hereto have each caused a duly authorized officer to execute this Agreement with the intent to be legally bound as of the Effective Date.

COMPANY

EMPLOYEE

By: /s/ Kent A. Murphy
Name: Kent A. Murphy
Title: President and CEO
Date: February 27, 2008

By: /s/ Dale E. Messick
Name: Dale E. Messick
Title: Chief Financial Officer
Date: February 27, 2008

[Signature Page to Amended and Restated Stock Sale Restriction Agreement]

SECOND AMENDED AND RESTATED STOCK SALE RESTRICTION AGREEMENT

This Second Amended and Restated Stock Sale Restriction Agreement (this “**Agreement**”) is entered into as of February 27, 2008 (the “**Effective Date**”) by and between Luna Innovations Incorporated, a Delaware corporation (the “**Company**”) and Scott A. Graeff (“**Employee**”). The Company and Employee are referred to herein as the “**Parties**” and each as a “**Party**.”

RECITALS

WHEREAS, the Parties entered into a certain letter agreement dated on or about February 1, 2006 (the “**Stock Sale Restriction Agreement**”) and the Parties entered into an Amended and Restated Stock Sale Restriction Agreement dated on or about January 23, 2007, whereby Employee agreed to certain restrictions on the sale and transfer of (i) any outstanding shares of the Company’s Common Stock, par value \$0.001 per share (“**Common Stock**”) (excluding shares that were received upon exercise of options prior to December 31, 2005) and (ii) any shares of Common Stock to be received upon exercise of options to purchase Common Stock, whether vested or unvested, that Employee held and acquired from the Company prior to the Company’s initial public offering;

WHEREAS, as of the Effective Date, Employee beneficially held an aggregate of 320,880 shares of Common Stock, which consisted of no outstanding shares of Common Stock and 320,880 shares of Common Stock issuable upon exercise of outstanding options (collectively, the “**Subject Securities**”), excluding any shares that were received upon exercise of options or warrants prior to December 31, 2005;

WHEREAS, the Parties agree and acknowledge that it is in the interests of the Company and its stockholders to amend and restate the Amended and Restated Stock Sale Restriction Agreement to provide for additional restrictions on the number of Subject Securities which Employee can sell, with the expectation that such additional restrictions may help to prolong the Company’s eligibility for Small Business Innovation Research (“**SBIR**”) grants; and

WHEREAS, the Parties desire to amend and restate the Amended and Restated Stock Sale Restriction Agreement pursuant to the terms and conditions provided herein.

NOW, THEREFORE, in consideration of the premises and covenants set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereto agree as follows:

AGREEMENT

1. Employee hereby irrevocably agrees that he or she will not, directly or indirectly, (i) sell, offer for sale, pledge or otherwise dispose of (except as otherwise provided herein) greater than zero percent (0%) of Employee’s Subject Securities in calendar year 2008, ten percent (10%) of Employee’s Subject Securities in calendar year 2009 and ten percent (10%) of Employee’s Subject Securities in calendar year 2010, (each such amount the “**Annual Limit**”) or (ii) enter into any swap or other derivatives transaction that transfers to another, in whole or in part, any of

the economic benefits or risks of ownership of greater than the Annual Limit in any given year of the Employee's Subject Securities, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or other securities, in cash or otherwise. For purposes of this Agreement, gifts or transfers of Subject Securities to immediate family members or trusts for which Employee or his or her immediate family members are the sole primary beneficiaries shall be exempt from the restrictions of this Paragraph 1; *provided*, that the recipient of such Subject Securities shall become subject to the terms and conditions of this Agreement, shall assume Employee's obligations hereunder and shall sign an agreement of joinder to that effect.

2. Notwithstanding anything in this Agreement to the contrary, if Employee does not sell or transfer the full Annual Limit of the undersigned's Subject Securities in calendar year 2008, the unsold portion of the Annual Limit (the "**Carryover Amount**") shall be carried over to calendar year 2009 and if Employee does not sell or transfer the full Annual Limit of the undersigned's Subject Securities in calendar year 2009, the Carryover Amount shall be carried over to calendar year 2010, such that the Annual Limit for such calendar year shall be increased by the Carryover Amount.

3. This Agreement and the restrictions contained herein will terminate on the earliest to occur of the following: (i) the date on which the Company is no longer eligible for Small Business Innovation Research (SBIR) grants, as evidenced by an opinion of counsel mutually acceptable to the Company and Employee; (ii) the effective date of a termination of Employee's employment with the Company, including by death, provided that the Company may elect, in its sole discretion, as to some or all of Employee's vested stock options, to pay Employee in cash an amount equal to the average closing price of the Company's common stock for the five (5) trading days immediately preceding the date of termination of Employee's employment, less the strike price for such options, in exchange for the forfeiture of such options; (iii) a date determined by the Company in its sole discretion at any time upon written notice to the Employee; (iv) December 31, 2010.

4. Employee acknowledges that by signing this Agreement he or she may suffer adverse consequences, including without limitation, an inability to sell Subject Securities during a time in which the Company's Common Stock is trading at a historically high price and (notwithstanding paragraph 2 above) an inability to sell Subject Securities to cover a tax liability that the undersigned may incur as a result of an exercise of vested options. The Company encourages Employee to speak with his or her personal financial, legal and/or tax advisors before signing this Agreement and also prior to any sale of shares of Common Stock or the exercise of stock options for Subject Securities.

5. This Agreement constitutes the entire understanding of the Parties with regard to the subject matter stated herein and revokes and supersedes all prior agreements between the Parties, including the Stock Sale Restriction Agreement, as previously amended.

6. This Agreement may be modified or amended only in writing signed by the Company and Employee; *provided, however*, that the Company may, in its sole discretion, amend or waive the provisions of Paragraph 1 above to increase the Annual Limit from time to time. No waiver of any provision of this Agreement shall be deemed a waiver of other provisions of this Agreement.

7. Employee's obligations hereunder shall be binding upon Employee's heirs, personal representatives, successors and assigns.

8. This Agreement shall be governed in accordance with the laws of the Commonwealth of Virginia, without application of conflicts of laws provisions.

9. This Second Amended and Restated Agreement may be executed in one or more counterparts, each of which shall constitute an original, but taken together shall constitute one and the same document. A facsimile signature shall have the same force and effect as an original signature.

[Signature page follows]

IN WITNESS WHEREOF, the Parties hereto have each caused a duly authorized officer to execute this Agreement with the intent to be legally bound as of the Effective Date.

COMPANY

By: /s/ Kent A. Murphy
Name: Kent A. Murphy
Title: President and CEO
Date: February 27, 2008

EMPLOYEE

By: /s/ Scott A. Graeff
Name: Scott A. Graeff
Title: Chief Commercialization Officer
Date: February 27, 2007

[Signature Page to Amended and Restated Stock Sale Restriction Agreement]

SECOND AMENDED AND RESTATED STOCK SALE RESTRICTION AGREEMENT

This Second Amended and Restated Stock Sale Restriction Agreement (this “**Agreement**”) is entered into as of February 27, 2008 (the “**Effective Date**”) by and between Luna Innovations Incorporated, a Delaware corporation (the “**Company**”) and Robert P. Lenk (“**Employee**”). The Company and Employee are referred to herein as the “**Parties**” and each as a “**Party**.”

RECITALS

WHEREAS, the Parties entered into a certain letter agreement dated on or about February 1, 2006 (the “**Stock Sale Restriction Agreement**”) and the Parties entered into an Amended and Restated Stock Sale Restriction Agreement dated on or about January 23, 2007, whereby Employee agreed to certain restrictions on the sale and transfer of (i) any outstanding shares of the Company’s Common Stock, par value \$0.001 per share (“**Common Stock**”) (excluding shares that were received upon exercise of options prior to December 31, 2005) and (ii) any shares of Common Stock to be received upon exercise of options to purchase Common Stock, whether vested or unvested, that Employee held and acquired from the Company prior to the Company’s initial public offering;

WHEREAS, as of the Effective Date, Employee beneficially held an aggregate of 118,701 shares of Common Stock, which consisted of no outstanding shares of Common Stock and 118,701 shares of Common Stock issuable upon exercise of outstanding options (collectively, the “**Subject Securities**”), excluding any shares that were received upon exercise of options or warrants prior to December 31, 2005;

WHEREAS, the Parties agree and acknowledge that it is in the interests of the Company and its stockholders to amend and restate the Amended and Restated Stock Sale Restriction Agreement to provide for additional restrictions on the number of Subject Securities which Employee can sell, with the expectation that such additional restrictions may help to prolong the Company’s eligibility for Small Business Innovation Research (“**SBIR**”) grants; and

WHEREAS, the Parties desire to amend and restate the Amended and Restated Stock Sale Restriction Agreement pursuant to the terms and conditions provided herein.

NOW, THEREFORE, in consideration of the premises and covenants set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereto agree as follows:

AGREEMENT

1. Employee hereby irrevocably agrees that he or she will not, directly or indirectly, (i) sell, offer for sale, pledge or otherwise dispose of (except as otherwise provided herein) greater than zero percent (0%) of Employee’s Subject Securities in calendar year 2008, ten percent (10%) of Employee’s Subject Securities in calendar year 2009 and ten percent (10%) of Employee’s Subject Securities in calendar year 2010 (each such amount the “**Annual Limit**”) or (ii) enter into any swap or other derivatives transaction that transfers to another, in whole or in part, any of

the economic benefits or risks of ownership of greater than the Annual Limit in any given year of the Employee's Subject Securities, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or other securities, in cash or otherwise. For purposes of this Agreement, gifts or transfers of Subject Securities to immediate family members or trusts for which Employee or his or her immediate family members are the sole primary beneficiaries shall be exempt from the restrictions of this Paragraph 1; *provided*, that the recipient of such Subject Securities shall become subject to the terms and conditions of this Agreement, shall assume Employee's obligations hereunder and shall sign an agreement of joinder to that effect.

2. Notwithstanding anything in this Agreement to the contrary, if Employee does not sell or transfer the full Annual Limit of the undersigned's Subject Securities in calendar year 2008, the unsold portion of the Annual Limit (the "**Carryover Amount**") shall be carried over to calendar year 2009 and if Employee does not sell or transfer the full Annual Limit of the undersigned's Subject Securities in calendar year 2009, the Carryover Amount shall be carried over to calendar year 2010, such that the Annual Limit for such calendar year shall be increased by the Carryover Amount.

3. This Agreement and the restrictions contained herein will terminate on the earliest to occur of the following: (i) the date on which the Company is no longer eligible for Small Business Innovation Research (SBIR) grants, as evidenced by an opinion of counsel mutually acceptable to the Company and Employee; (ii) the effective date of a termination of Employee's employment with the Company, including by death, provided that the Company may elect, in its sole discretion, as to some or all of Employee's vested stock options, to pay Employee in cash an amount equal to the average closing price of the Company's common stock for the five (5) trading days immediately preceding the date of termination of Employee's employment, less the strike price for such options, in exchange for the forfeiture of such options; (iii) a date determined by the Company in its sole discretion at any time upon written notice to the Employee; (iv) December 31, 2010.

4. Employee acknowledges that by signing this Agreement he or she may suffer adverse consequences, including without limitation, an inability to sell Subject Securities during a time in which the Company's Common Stock is trading at a historically high price and (notwithstanding paragraph 2 above) an inability to sell Subject Securities to cover a tax liability that the undersigned may incur as a result of an exercise of vested options. The Company encourages Employee to speak with his or her personal financial, legal and/or tax advisors before signing this Agreement and also prior to any sale of shares of Common Stock or the exercise of stock options for Subject Securities.

5. This Agreement constitutes the entire understanding of the Parties with regard to the subject matter stated herein and revokes and supersedes all prior agreements between the Parties, including the Stock Sale Restriction Agreement, as previously amended.

6. This Agreement may be modified or amended only in writing signed by the Company and Employee; *provided, however*, that the Company may, in its sole discretion, amend or waive the provisions of Paragraph 1 above to increase the Annual Limit from time to time. No waiver of any provision of this Agreement shall be deemed a waiver of other provisions of this Agreement.

7. Employee's obligations hereunder shall be binding upon Employee's heirs, personal representatives, successors and assigns.

8. This Agreement shall be governed in accordance with the laws of the Commonwealth of Virginia, without application of conflicts of laws provisions.

9. This Second Amended and Restated Agreement may be executed in one or more counterparts, each of which shall constitute an original, but taken together shall constitute one and the same document. A facsimile signature shall have the same force and effect as an original signature.

[Signature page follows]

IN WITNESS WHEREOF, the Parties hereto have each caused a duly authorized officer to execute this Agreement with the intent to be legally bound as of the Effective Date.

COMPANY

EMPLOYEE

By: /s/ Kent A. Murphy
Name: Kent A. Murphy
Title: President and CEO
Date: February 27, 2008

By: /s/ Robert P. Lenk
Name: Robert P. Lenk
Title: President Nanoworks
Date: February 27, 2008

[Signature Page to Amended and Restated Stock Sale Restriction Agreement]