

**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): May 7, 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 2.02. Results of Operations and Financial Condition**

On May 7, 2020, Luna Innovations Incorporated (the “Company”) issued a press release announcing its financial results for the three months ended March 31, 2020, as well as information regarding a conference call to discuss these financial results and the Company’s recent corporate highlights and outlook. A copy of the press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated herein by reference.

Also on May 7, 2020, the Company is posting an updated slide presentation on its corporate website and will be using the presentation in connection with the conference call discussed above. A copy of the presentation is furnished herewith as Exhibit 99.2 to this Current Report on Form 8-K.

The information in this Current Report on Form 8-K and Exhibits 99.1 and 99.2 attached hereto are being furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any general incorporation language in such filing.

**Item 9.01. Financial Statements and Exhibits**

(d) Exhibits.

<u>Exhibit</u>	<u>Description</u>
99.1	<a href="#"><u>Press Release, dated May 7, 2020, by Luna Innovations Incorporated.</u></a>
99.2	<a href="#"><u>Company Presentation.</u></a>





## Luna Innovations Reports Strong First-Quarter 2020 Results

*Maintains 2020 Outlook*

### Highlights

- **Total revenues of \$17.1 million for the three months ended March 31, 2020, up 16% compared to the three months ended March 31, 2019**
- **Products and licensing revenues of \$10.3 million for the three months ended March 31, 2020, up 26% compared to the three months ended March 31, 2019**
- **Operating income of \$0.4 million for the three months ended March 31, 2020 versus operating loss of \$(0.9) million for the three months ended March 31, 2019**
- **Net income from continuing operations of \$0.3 million, or \$0.01 per fully diluted share, for the three months ended March 31, 2020, compared to \$1.1 million, or \$0.03 per fully diluted share, for the three months ended March 31, 2019**
- **Adjusted EBITDA improved to \$1.6 million for the three months ended March 31, 2020, compared to \$1.0 million for the three months ended March 31, 2019**
- **Company maintains 2020 outlook, anticipates lower end of range**

(ROANOKE, VA, May 7, 2020) - Luna Innovations Incorporated (NASDAQ: LUNA), a global leader in advanced optical technology, today announced its financial results for the three months ended March 31, 2020.

“Luna’s first-quarter was a strong start to our year,” said Scott Graeff, President and Chief Executive Officer of Luna. “As the effects of the COVID-19 pandemic began spreading more broadly and as a designated essential business, we took swift and decisive action in mid-March. We mobilized the Luna teams to enable us to face the crisis in the most effective way, in order to ensure that we protected our employees, while safeguarding and driving the long-term potential of our businesses.”

Graeff continued, “Our top priority is the health and safety of our employees and the communities in which we operate. In its 30-year lifespan, Luna has encountered many challenges. We believe that we have the financial and operational strength to see us through, recognizing the uncertainty around the duration of COVID-19’s impact on

the economy. Based upon what we know today, from a bottoms-up analysis across our businesses, we are currently maintaining the 2020 outlook range we provided on March 5, although trending towards the lower end of that range. We have experienced management leaders, a resilient team of employees, close and collaborative relationships with our customers and suppliers, and a strong balance sheet. We remain laser-focused on our long-term potential and on our foundational purpose, which is to enhance the safety, security and connectivity of people by leveraging our expertise in fiber optic-based technology and the information it provides. Our core priorities have not changed, and we continue to serve our customers with excellence, and produce outstanding and innovative fiber optic-based products."

#### **First-Quarter Fiscal 2020 Financial Summary**

Financial results for the three months ended March 31, 2020 marked the 10th consecutive quarter of year-on-year revenue and Adjusted EBITDA growth. The first-quarter 2020 results include a full quarter of the business of General Photonics Corporation ("GP"), acquired in March 2019, compared to one month for the three months ended March 31, 2019.

Highlights of the financial results for the first-quarter of 2020 are:

(in thousands, except share and per share data)

	Three Months Ended March 31,		Change
	2020	2019	
Revenues:			
Products and licensing	\$ 10,326	\$ 8,192	26 %
Technology development	6,815	6,641	3 %
Total revenues	17,141	14,833	16 %
Gross profit	8,364	6,768	24 %
Gross margin	48.8%	45.6%	
Operating expense	7,974	7,665	4 %
Operating income/(loss)	390	(897)	143 %
Other (expense)/income and income taxes	(70)	2,023	
Net income from continuing operations	\$ 320	\$ 1,126	(72) %
Loss from discontinued operations, net of income tax of \$464	(1,436)	—	
Net (loss)/income	(1,116)	1,126	(199) %
Diluted weighted average shares outstanding	32,549,487	33,479,935	
Net income per share from continuing operations (diluted)	\$ 0.01	\$ 0.03	(67) %
Adjusted EBITDA	\$ 1,580	\$ 959	65 %

A reconciliation of Adjusted EBITDA to net income can be found in the schedules included in this release.

Products and licensing revenue for the three months ended March 31, 2020 increased compared to the prior year period, due to the inclusion of the incremental revenues associated with the acquired operations of GP, as well as increased revenues associated with Luna's communications test products and other legacy products. Technology development revenues increased in Q1 2020, compared to the prior-year period, due to growth in various government research programs.

Operating income improved to \$0.4 million in Q1 2020 from an operating loss of \$(0.9) million in Q1 2019. The increase in operating income was due to increased revenue and gross profit as well as improved operating expense leverage. Operating expenses increased by \$0.3 million in Q1 2020 from Q1 2019 due primarily to additional expenses associated with the acquired operations of GP. Income/(loss) from continuing operations before income taxes increased to \$0.5 million for the three months ended March 31, 2020, compared to \$(0.7) million for the three months ended March 31, 2019, driven primarily by revenue performance and operating expense leverage.

Net income from continuing operations was \$0.3 million, or \$0.01 per fully diluted share, for the three months ended March 31, 2020, compared to \$1.1 million, or \$0.03 per fully diluted share, for the three months ended March 31, 2019 which included a \$1.9 million income tax benefit related to a reduction in deferred tax asset valuation allowances due to the GP acquisition. Net (loss)/income attributable to common stockholders for the three months ended March 31, 2020, was \$(1.1) million, or \$(0.03) per fully diluted share, compared to \$1.0 million, or \$0.03 per fully diluted share, for the three months ended March 31, 2019. The decrease in net income attributable to common stockholders is primarily due to a \$1.9 million income tax benefit related to a reduction in deferred tax asset valuation allowances due to the GP acquisition that was recorded in Q1 2019, a \$1.4 million loss from discontinued operations (resulting from the resolution of a \$2.5 million indemnification claim related to the August 2017 sale of Luna's high-speed optical receivers (HSOR) business) that was recorded in Q1 2020 and the increase in our operating income/(loss) in Q1 2020 versus Q1 2019. The resolution of the HSOR claim resulted in Luna receiving \$0.6 million from escrow and the buyer receiving \$1.9 million. The resulting loss of \$1.4 million has been reflected in loss from discontinued operations, net of tax benefit of \$0.5 million.

Adjusted EBITDA was \$1.6 million for the three months ended March 31, 2020, compared to \$1.0 million for the three months ended March 31, 2019. The increase was driven by revenue growth from both Luna's legacy business, the GP acquisition, and operating expense leverage.

#### **2020 Full-Year Outlook**

Luna recognizes that the COVID-19 pandemic has created evolving and significant macroeconomic uncertainty. Discussions with business leaders and a bottoms-up analysis have determined that our original guidance from March 5, 2020 is still valid. Therefore, it is maintaining the fiscal 2020 outlook originally provided on March 5, although believes financial performance will trend towards the lower end of the ranges:

- Total revenues of \$81M to \$84M
- Adjusted EBITDA of \$10M to \$12M

In terms of seasonality, Luna anticipates that revenues will continue to be weighted to the second half, with the percentage split in the first half of 2020 being slightly below historical trends. In recent years, Luna has recorded approximately 44% to 46% of its revenue in the first half of the year.

#### **COVID-19 Update**

On April 14, 2020, Luna provided a COVID-19 related business update, including outlining the initiatives the Company has implemented to ensure the safety and well-being of its workforce. The elements contained in that release remain current as of today.

Luna has a strong cash position and adequate access to capital. Cash and cash equivalents were \$26.3 million as of the first-quarter 2020, and Luna continues to have access to its \$10 million revolving credit facility. To date, Luna has not implemented furloughs nor reduced employee hours or compensation and does not currently anticipate doing so.

From an operational perspective, the Company provided the following update as of May 7, 2020:

- Lightweighting and 5G trends continue to be strong, and Luna does not anticipate those to change. The company continues to believe it is in a strong position to take advantage of those trends.
- Luna's operations are essential and continue to operate at normal capacity with necessary COVID-19 precautions.
- Luna has experienced minor effects on its supply chain across its businesses and has been able to manage through these issues. All major component manufacturers are operating and fulfilling Luna's purchase orders. In cases where there were delays, Luna has been able to rely on its inventory of components to continue production of its products. Luna continues to monitor its supply chain and remediate any issues as they arise. At this time, Luna believes it will be able to procure components necessary to meet its sales needs.
- An important part of Luna's sales effort has been done historically through a series of tradeshows and conferences, none of which are currently taking place. Luna has shifted to a robust online presence, hosting and planning to host a total of six webinars to educate existing and potential customers about its key products. While tradeshows have always been successful in filling the sales pipeline, these webinars have improved engagement between Luna's salesforce and its customers allowing Luna to curate a specific message over a longer and more dedicated period of customer "face time."
- Realizing the complexity of the pandemic and potential long-term implications on its businesses, Luna is committed to being as transparent as possible, to keep its various stakeholders apprised, publicly, of significant operational and financial shifts as necessary.

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

### **Conference Call Information**

As previously announced, Luna will conduct an investor conference call at 5:00 pm (ET) today to discuss its financial results for the three months ended March 31, 2020. The investor conference call will be available via live webcast on the Luna website at [www.lunainc.com](http://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 5876266. 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](http://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 Products and Licensing segment and a Technology Development segment. Luna's business model is designed to accelerate the process of bringing new and innovative technologies to market.

### **Forward-Looking Statements**

The statements in this release that are not historical facts constitute "forward-looking statements" made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. These statements include Luna's expectations regarding its projected 2020 financial results and outlook, the strength and improvement in capital structure and the solidity of its balance sheet and cash flows, 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, 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 months ended March 31, 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](http://www.sec.gov) and on Luna's website at [www.lunainc.com](http://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.

**Investor Contacts:**

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**Luna Innovations Incorporated**  
**Consolidated Statements of Operations (Unaudited)**  
*(in thousands, except share and per share data)*

	Three Months Ended March 31,	
	2020	2019
Revenues:		
Products and licensing	\$ 10,326	\$ 8,192
Technology development	6,815	6,641
Total revenues	<u>17,141</u>	<u>14,833</u>
Cost of revenues:		
Products and licensing	3,862	3,249
Technology development	4,915	4,816
Total cost of revenues	<u>8,777</u>	<u>8,065</u>
Gross profit	<u>8,364</u>	<u>6,768</u>
Operating expense:		
Selling, general and administrative	6,377	6,207
Research, development and engineering	1,597	1,458
Total operating expense	<u>7,974</u>	<u>7,665</u>
Operating income/(loss)	<u>390</u>	<u>(897)</u>
Other income/(expense):		
Investment income	59	171
Other income/(expense)	9	(2)
Interest expense	—	(11)
Total other income	<u>68</u>	<u>158</u>
Income/(loss) from continuing operations before income taxes	<u>458</u>	<u>(739)</u>
Income tax expense/(benefit)	<u>138</u>	<u>(1,865)</u>
Net income from continuing operations	<u>320</u>	<u>1,126</u>
Loss from discontinued operations, net of income tax of \$464	<u>(1,436)</u>	<u>—</u>
Net (loss)/income	<u>(1,116)</u>	<u>1,126</u>
Preferred stock dividend	—	83
Net (loss)/income attributable to common stockholders	<u>\$ (1,116)</u>	<u>\$ 1,043</u>
Net income per share from continuing operations:		
Basic	<u>\$ 0.01</u>	<u>\$ 0.04</u>
Diluted	<u>\$ 0.01</u>	<u>\$ 0.03</u>
Net income per share from discontinued operations:		
Basic	<u>\$ (0.05)</u>	<u>\$ 0.00</u>
Diluted	<u>\$ (0.04)</u>	<u>\$ 0.00</u>
Net (loss)/income per share attributable to common stockholders:		
Basic	<u>\$ (0.04)</u>	<u>\$ 0.04</u>
Diluted	<u>\$ (0.03)</u>	<u>\$ 0.03</u>
Weighted average shares:		
Basic	<u>30,380,345</u>	<u>28,039,080</u>
Diluted	<u>32,549,487</u>	<u>33,479,935</u>

**Luna Innovations Incorporated**  
**Consolidated Balance Sheets**  
*(in thousands, except share data)*

	March 31, 2020	December 31, 2019
	(unaudited)	
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 26,324	\$ 25,006
Accounts receivable, net	15,519	16,269
Receivable from sale of HSOR business	—	2,501
Contract assets	2,612	2,759
Inventory	11,191	10,294
Prepaid expenses and other current assets	1,575	1,287
Total current assets	57,221	58,116
Long-term contract assets	486	449
Property and equipment, net	3,306	3,466
Intangible assets, net	9,853	10,194
Goodwill	10,542	10,542
Other assets	2,009	2,341
Deferred tax asset	1,542	1,416
<b>Total assets</b>	\$ 84,959	\$ 86,524
<b>Liabilities and stockholders' equity</b>		
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Accounts payable	2,490	2,787
Accrued liabilities	9,243	10,369
Contract liabilities	3,569	3,888
Total current liabilities	15,302	17,044
Other long-term liabilities	1,880	2,011
<b>Total liabilities</b>	17,182	19,055
<b>Commitments and contingencies (Note 13)</b>		
<b>Stockholders' equity:</b>		
Common stock, par value \$0.001, 100,000,000 shares authorized, 32,126,368 and 31,788,896 shares issued, 30,486,577 and 30,149,105 shares outstanding at March 31, 2020 and December 31, 2019, respectively	32	32
Treasury stock at cost, 1,639,791 shares at March 31, 2020 and December 31, 2019	(4,337)	(4,337)
Additional paid-in capital	89,446	88,022
Accumulated deficit	(17,364)	(16,248)
<b>Total stockholders' equity</b>	67,777	67,469
<b>Total liabilities and stockholders' equity</b>	\$ 84,959	\$ 86,524

**Luna Innovations Incorporated**  
**Consolidated Statements of Cash Flows (Unaudited)**  
*(in thousands)*

	<b>Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash flows (used in)/provided by operating activities</b>		
Net (loss)/income	\$ (1,116)	\$ 1,126
Adjustments to reconcile net (loss)/income to net cash (used in)/provided by operating activities		
Depreciation and amortization	679	617
Share-based compensation	226	343
Bad debt expense	14	—
Loss from discontinued operations, net of tax	1,436	—
Tax benefit from release of valuation allowance	—	(1,889)
Deferred taxes	(127)	—
Change in assets and liabilities		
Accounts receivable	737	1,053
Contract assets	111	(429)
Inventory	(897)	(528)
Other current assets	(287)	(41)
Accounts payable and accrued expenses	(760)	1,196
Contract liabilities	(318)	149
Net cash (used in)/provided by operating activities	(302)	1,597
<b>Cash flows provided by/(used in) investing activities</b>		
Acquisition of property and equipment	(74)	(215)
Intangible property costs	(91)	(61)
Acquisition of General Photonics Corporation	—	(19,004)
Proceeds from sale of discontinued operations	600	—
Net cash provided by/(used in) investing activities	435	(19,280)
<b>Cash flows provided by/(used in) financing activities</b>		
Payments on finance lease obligations	(13)	(7)
Payments of debt obligations	—	(375)
Proceeds from the exercise of options and warrants	1,198	185
Net cash provided by/(used in) financing activities	1,185	(197)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,318</b>	<b>(17,880)</b>
Cash and cash equivalents-beginning of period	25,006	42,460
Cash and cash equivalents-end of period	\$ 26,324	\$ 24,580

**Luna Innovations Incorporated**  
**Reconciliation of Net Income to EBITDA and Adjusted EBITDA (Unaudited)**  
*(in thousands)*

	Three Months Ended March 31,	
	2020	2019
Net income	\$ (1,116)	\$ 1,126
Loss from discontinued operations, net of tax	1,436	—
Net income from continuing operations	320	1,126
Interest expense	—	11
Investment income	(59)	(171)
Tax expense/(benefit)	138	(1,865)
Depreciation and amortization	679	513
EBITDA	1,078	(386)
Share-based compensation	502	343
Non-recurring charges (1)	—	898
Amortization of inventory step-up	—	104
Adjusted EBITDA	\$ 1,580	\$ 959

(1) Non-recurring charges consist of transaction-related expenses incurred during the three months ended March 31, 2019, related to the acquisition of General Photonics.

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**First-quarter Fiscal 2020 Earnings  
Investor Supplemental Materials**

May 7, 2020

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# Safe Harbor

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

This presentation includes information that constitutes “forward-looking statements” made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. These statements include the company's expectations regarding the company's future financial performance, including 2020 guidance, and the potential demand for its products, the company's growth potential, its balance sheet and capitalization, its technological advantages, the potential impacts of the COVID-19 pandemic on its business, operations and financial results, and market trends. Management cautions the reader that these forward-looking statements are only predictions and are subject to a number of both known and unknown risks and uncertainties, and actual results, performance, and/or achievements of the company may differ materially from the future results, performance, and/or achievements expressed or implied by these forward-looking statements as a result of a number of factors. These factors include, without limitation, failure of demand for the company's products and services to meet expectations, failure of target markets 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 the company's periodic reports and other filings with the Securities and Exchange Commission (“SEC”). Such filings are available on the SEC's website at [www.sec.gov](http://www.sec.gov) and on the company's website at [www.lunainc.com](http://www.lunainc.com). The statements made in this presentation are based on information available to Luna as of the date of this presentation, May 7, 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. A reconciliation of Adjusted EBITDA to Net Income is included in the appendix to this presentation.

# 1Q FY20 Results



## First-quarter 2020: Key Financial Results

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- Strong financial performance:
  - Strong first quarter start to the year
  - \$0.6M improvement in Adjusted EBITDA<sup>1</sup> year-over-year
- Total revenues of \$17.1M; up 16% year-over-year:
  - Products and licensing revenue of \$10.3M; up 26% year-over-year
  - Technology development revenue of \$6.8M; up 3% year-over-year
- Operating income improved to \$0.4 million in Q1 2020 from a loss of (\$0.9) in Q1 2019 due to increased revenue and gross profit as well as improved operating expense leverage
- Net income from continuing operations of \$0.3M, or \$0.01 per fully diluted share, for the three months ended March 31, 2020, compared to \$1.1M, or \$0.03 per fully diluted share, for the three months ended March 31, 2019 that included a \$1.9 million income tax benefit related to a reduction in deferred tax asset valuation allowances due to the General Photonics acquisition
- Adjusted EBITDA<sup>1</sup> increased to \$1.6M for the three months ended March 31, 2020, compared to \$1.0M for the three months ended March 31, 2019
- Reaffirmed 2020 outlook, at lower end of the ranges

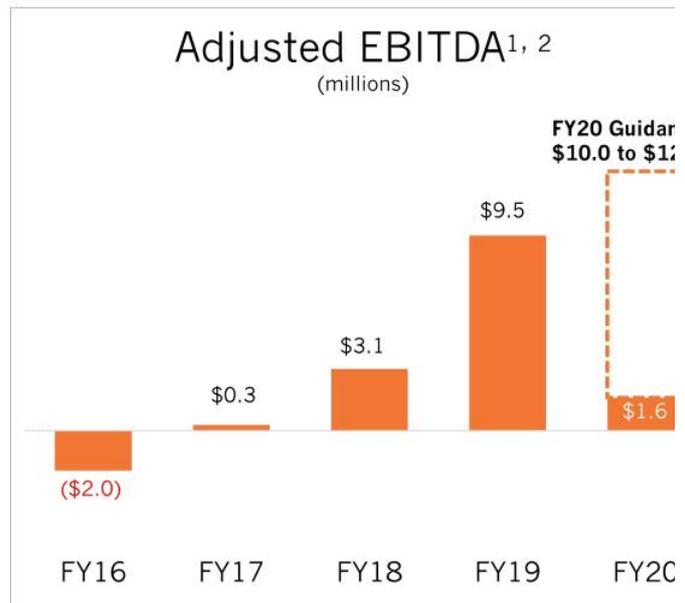
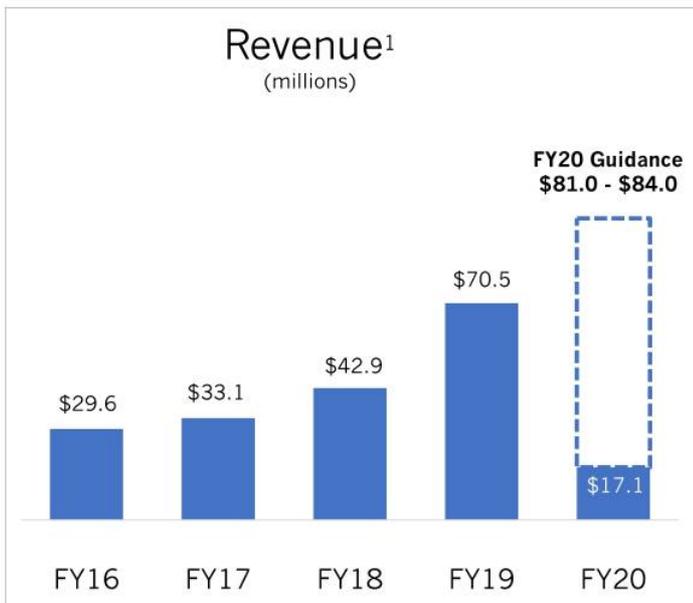
<sup>1</sup>Adj EBITDA is a non-GAAP measure. Reconciliation of comparable GAAP measures to non-GAAP measures are included in the appendix to this presentation.

## First-quarter 2020 and Other Recent Accomplishments

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- Reported strong first-quarter 2020 financial results
- Featured in *Engineering360*, for Luna's HYPERION and ODiSI systems designed into the DEFIANT racing yacht, competing in the 36th America's Cup as American Magic
- Participated in important Photonics West and OFC trade shows in person
- Released industry's highest resolution portable reflectometer: OBR 6225
- Collaborated with Museo del Cenacolo Vinciano (Milan, IT) to leverage TeraMetrix THz equipment to examine Leonardo Da Vinci's famous *Last Supper* painting
- Collaborated with OESH to design / produce flexible 3D printed respirator masks for use during N95 respirator mask shortage

# Strong Financial Results



<sup>1</sup> Based on management's estimates of the impact from the divestiture of Optoelectronics. Includes the acquisitions of Micron Optics and General Photonics.

<sup>2</sup> Adj EBITDA is a non-GAAP measure. Reconciliation of comparable GAAP measures to non-GAAP measures are included in the appendix to this presentation.

## A Flexible Balance Sheet and Strong Cash Position

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- Strong balance sheet on March 31, 2020:
  - \$85.0M in total assets
    - \$26.3M in cash and cash equivalents
    - \$41.9M in working capital
- Access to \$10 million revolving credit facility, if needed
- Continued focus on working capital and reinvestment in business in order to generate long-term sustainable growth

## COVID-19 Business Update: Employee Well-being and Safety

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- In mid-March, Luna implemented several initiatives:
  - Creating alternate work arrangements (staggered schedules / shifts, distancing within office remote work)
  - Encouraging all employees to adopt a routine that works best for them to maintain a positive mindset
  - Implementing travel restrictions: freeze on international, CEO approval for emergency-only domestic travel
  - Encouraging employees to make full use of health / well-being benefits
  - Communicating openly and frequently with employees re: CARES Act, FFCRA, healthcare benefits / coverage, and related COVID-19 government information
  - Broad use of videoconferencing for meetings and non business-related team get-togethers
  - Ensuring the CEO communicates with each location once/week, addressing questions, sharing information, being available to employees
  - No reduction in staff to date and none currently anticipated

## COVID-19 Business Update: Employee Well-being and Safety

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- Luna continues to have a strong cash position and adequate access to capital
- Lightweighting and 5G trends continue to be strong, and Luna continues to be well-positioned to take advantage of these trends
- Minor impact on supply chain thus far; have been able to manage through any issues
  - Continuing to monitor supply chain and remediate any issues
  - Supply chain sufficient to support forecasted sales
- In Luna Labs, the closure of R&D labs in universities has slowed a small portion of projects. We currently are forecasting partners opening in Q3/Q4. Overall, we expect any impact to be immaterial to overall result:
- Luna builds sales pipeline in part through tradeshow, which are not currently taking place. Luna has shifted to a robust online presence, hosting webinars to educate customers about its key products
  - Webinars have created some new opportunities, facilitating better engagement between sales and customers in many cases
- Luna will be as transparent as possible through the continuation of the COVID-19 pandemic and to keep its various stakeholders apprised, publicly, of significant operational and financial shifts

## 2020 Financial Outlook

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- Maintaining FY2020 outlook, although guiding towards the low end of the ranges:
  - Total revenues of \$81M to \$84M
  - Adjusted EBITDA<sup>1</sup> of \$10M to \$12M
- Anticipating results will be weighted to the second half, with the percentage split in H1 2020 expected to be slightly below historical trends

<sup>1</sup> Adj EBITDA is a non-GAAP measure. Reconciliation of comparable GAAP measures to non-GAAP measures are included in the appendix to this presentation. The outlook above does not include any future acquisitions, divestitures, or unanticipated events.

## Luna – Enabling the Future with Fiber

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



# Appendix



# Pro-forma Luna Financials, Adjusted for the Acquisition of General Photonics

	(in thousands)				
	March 31, 2019 <sup>2</sup>	June 20, 2019	Three Months Ended <sup>1</sup>		
	September 30, 2019	December 31, 2019	March 31, 2020		
<b>Revenues:</b>					
Products and licensing	\$ 10,221	\$ 11,373	\$ 11,926	\$ 13,032	10,326
Technology development	6,641	6,441	6,495	6,448	6,815
Total revenues	<u>16,862</u>	<u>17,814</u>	<u>18,421</u>	<u>19,480</u>	<u>17,141</u>
<b>Cost of revenues:</b>					
Products and licensing	3,836	4,578	4,562	4,317	3,862
Technology development	4,816	4,484	4,574	4,775	4,915
Total cost of revenues	<u>8,652</u>	<u>9,062</u>	<u>9,136</u>	<u>9,092</u>	<u>8,777</u>
Gross Profit	<u>8,210</u>	<u>8,752</u>	<u>9,285</u>	<u>10,388</u>	<u>8,364</u>
<b>Operating expense:</b>					
Selling, general and administrative	7,165	6,003	5,754	6,415	6,377
Research, development and engineering	1,708	1,735	2,047	2,255	1,597
Total operating expense	<u>8,873</u>	<u>7,738</u>	<u>7,801</u>	<u>8,670</u>	<u>7,974</u>
Operating income/(loss)	<u>\$ (663)</u>	<u>\$ 1,014</u>	<u>\$ 1,484</u>	<u>\$ 1,718</u>	<u>\$ 390</u>

<sup>1</sup> Unaudited pro forma financials assumes the General Photonics businesses was acquired on January 1, 2019.

<sup>2</sup> Includes \$898 of costs associated with the acquisition of General Photonics.

## Reconciliation of Net Income to Adjusted EBITDA

	Three Months Ended	
	March 31,	
	2020	2019
	(Unaudited)	
<b>Reconciliation of EBITDA and Adjusted EBITDA</b>		
Net (loss)/income	\$ (1,116)	\$ 1,126
Loss from discontinued operations, net of income tax benefit of \$464	1,436	-
<b>Net income from continuing operations</b>	<b>320</b>	<b>1,126</b>
Interest expense	-	11
Investment income	(59)	(171)
Income tax expense/(benefit)	138	(1,865)
Depreciation and amortization	679	513
<b>EBITDA</b>	<b>1,078</b>	<b>(386)</b>
Share-based compensation	502	343
Non-Recurring Charges (1)	-	898
Amortization of Inventory Step-up	-	104
<b>Adjusted EBITDA</b>	<b>\$ 1,580</b>	<b>\$ 959</b>

(1) Non-recurring charges consist of transaction-related expenses related to the acquisition of General Photonics.

# Reconciliation of Net Income to Adjusted EBITDA: Full Year

	Year Ended December 31,			
	(unaudited)			
	2016	2017	2018	2019
<b>Reconciliation of EBITDA and Adjusted EBITDA</b>				
Net (loss)/income	\$ (2,370)	\$ 14,615	\$ 11,004	\$ 5,3
Less: income from discontinued operations, net of income taxes	300	15,866	9,766	-
<b>Net income from continuing operations</b>	<b>(2,670)</b>	<b>(1,251)</b>	<b>1,238</b>	<b>5,3</b>
Interest expense	319	217	124	:
Investment income	-	-	(549)	(3)
Income tax (benefit)/expense	(135)	(1,148)	48	(1,6)
Depreciation and amortization	1,466	1,137	908	2,5
<b>EBITDA</b>	<b>(1,020)</b>	<b>(1,045)</b>	<b>1,769</b>	<b>5,8</b>
Share-based compensation	860	715	628	1,5
Non-Recurring Charges (1)	-	596	751	1,3
Amortization of Inventory Step-up	-	-	-	7
<b>Adjusted EBITDA</b>	<b>\$ (160)</b>	<b>\$ 266</b>	<b>\$ 3,148</b>	<b>\$ 9,4</b>

(1) Non-recurring charges include the following: 2017) CEO separation costs and other share-based compensation; 2018) Transaction-related expenses associated with the acquisition of Micron Optics, Inc.; 2019) Transaction related expenses and inventory step-up amortization relate to General Photonics acquisition and CFO transition expenses

