**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): November 5, 2019**



**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:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Title of each class | |  | Trading Symbol | | Name of each exchange on which registered | | |
|  |  |  |  |  |  |  |  |  |
| 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 November 5, 2019, Luna Innovations Incorporated (the “Company”) issued a press release announcing its financial results for the three and nine months ended September 30, 2019, 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 November 5, 2019, 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. |  |  |  |  |  |  |
| **Exhibit** |  |  |  | **Description** | | |
| 99.1 |  |  |  | Press Release, dated November 5, 2019, by Luna Innovations Incorporated. | |  |
| 99.2 |  |  |  | Company Presentation. | | |
|  |  |  |  |  |  |  |

**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: November 5, 2019

**Exhibit 99.1**



**Luna Innovations Reports Strong Third-Quarter 2019 Results**

*Raises 2019 Outlook*

**Highlights**

* **Total revenues of $18.4 million for the three months ended September 30, 2019, up 72% compared to the three months ended September 30, 2018**
* **Products and licensing revenues of $11.9 million for the three months ended September 30, 2019, up 122% compared to the three months ended September 30, 2018**
* **Net income from continuing operations of $1.2 million, or $0.04 per fully diluted share, for the three months ended September 30, 2019, compared to $1.3 million, or $0.04 per fully diluted share, for the prior-year period**
* **Adjusted EBITDA improved to $2.9 million for the three months ended September 30, 2019, compared to $0.9 million for the three months ended September 30, 2018**
* **Raising 2019 outlook**

*(ROANOKE, VA, November 5, 2019)* - Luna Innovations Incorporated (NASDAQ: LUNA), a global leader in advanced optical technology, today announced its financial results for the three and nine months endedSeptember 30, 2019.

“This was truly a quarter of noteworthy accomplishments, including continued margin expansion and reporting our eighth consecutive quarter of double-digit, year-over-year growth in revenues,” said Scott Graeff, President and Chief Executive Officer of Luna. “Given the strength of our year-to-date financial results and the visibility we have into the end of this fiscal year, we are again raising our 2019 outlook. We expect total revenues to be between $69 million to $70 million, and adjusted EBITDA to be between $8.2 million to $8.6 million.”

Graeff continued, “In addition, with Carilion’s conversion of their preferred shares to common, and the associated termination of preferred dividends, we significantly improved and simplified our capital structure. We also initiated and completed a $2 million stock buyback program. As a company, we will continue to focus on the execution of our strategic plan and initiatives that we believe will lead to substantial profitable growth.”

**Third-Quarter Fiscal 2019 Financial Summary**

Financial results for the three months ended September 30, 2019 continue the strong momentum from the beginning of the fiscal year. These results include a full quarter of the businesses of both Micron Optics, Inc. ("MOI"), acquired in October 2018, and General Photonics Corporation ("GP"), acquired in March 2019. Revenue and expenses related to Luna's optoelectronics business, as well as the gain recognized on the sale of that business in July 2018, are classified as discontinued operations in Luna's results of operations for the three months ended September 30, 2018. Accordingly, net income for the third quarter of 2018 was significantly higher due to the inclusion of $7.6 million of income from discontinued operations. The third-quarter fiscal 2019 will be the last quarter in which discontinued operations comparisons related to Luna’s optoelectronic business and the gain related to the sale of that business will be relevant.

Highlights of the financial results for the three months ended September 30, 2019 are:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | Three Months Ended September 30, | | |  |  |  |  |
|  | 2019 |  |  | 2018 |  |  | Change |  |
| Revenues: |  |  |  |  |  |  |  |  |
| Products and licensing | $ | 11,926,178 |  | $ | 5,371,165 | 122 | | % |
| Technology development |  | 6,494,832 |  |  | 5,315,861 | 22 | | % |
| Total revenues |  | 18,421,010 |  |  | 10,687,026 | 72 | | % |
| Gross profit |  | 9,285,174 |  |  | 4,688,611 | 98 | | % |
| Gross margin |  | 50.4% |  |  | 43.9% |  |  |  |
| Operating expense |  | 7,801,173 |  |  | 4,107,114 | 90 | | % |
| Operating income |  | 1,484,001 |  |  | 581,497 | 155 | | % |
| Other income and income taxes |  | (253,749) |  |  | 711,279 |  |  |  |
| Net income from continuing operations | $ | 1,230,252 |  | $ | 1,292,776 | (5) | | % |
| Diluted weighted average shares outstanding |  | 32,115,847 |  |  | 33,055,881 |  |  |  |
| Net income per share from continuing operations (diluted) | $ | 0.04 |  | $ | 0.04 | -- | | % |
| Adjusted EBITDA | $ | 2,883,429 |  | $ | 935,302 | 204 | | % |

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 September 30, 2019 increased compared to the prior year period, due to the inclusion of the incremental revenues associated with the acquired operations of MOI and GP, as well as increased revenues associated with Luna’s communications test products and Luna’s other legacy products. Technology development revenues increased for the three months ended September 30, 2019, compared to the prior-year period due to growth in various government research programs.

The increase in operating expenses was due primarily to an increase in expenses associated with the acquired operations of MOI and GP. Pre-tax income from continuing operations increased to $1.6 million for the three months ended September 30, 2019, compared to $0.7 million for the prior year fiscal quarter, driven primarily by revenue performance and prudent expense management.

Net income from continuing operations was $1.2 million, or $0.04 per fully diluted share, for the three months ended September 30, 2019, compared to $1.3 million, or $0.04, for the prior-year period. Net income attributable to common stockholders for the three months ended September 30, 2019, was $1.1 million, or $0.03 per fully diluted share, compared to net income attributable to common stockholders of $8.8 million, or $0.27 per fully diluted share, for the three months ended September 30, 2018. The decrease in net income attributable to common stockholders was driven by $7.6 million, or $0.23 per share, in income from discontinued operations recognized in the third quarter of 2018. Net income attributable to common stockholders for the three months ended September 30, 2019, also included $0.7 million of non-cash expenses for share-based compensation and amortization of intangible assets associated with the acquisitions of MOI and GP.

Adjusted EBITDA was $2.9 million for the three months ended September 30, 2019, compared to $0.9 million for the three months ended September 30, 2018. The growth was driven by revenue growth from both Luna’s legacy business and the MOI and GP acquisitions, and prudent expense management.

**Nine Months Year-to-Date Fiscal 2019 Financial Summary**

Highlights of the financial results for the nine months ended September 30, 2019 are:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | Nine Months Ended September 30, | | |  |  |  |  |
|  | 2019 |  |  | 2018 |  |  | Change |  |
| Revenues: |  |  |  |  |  |  |  |  |
| Products and licensing | $ | 31,459,323 |  | $ | 13,960,003 | 125 | | % |
| Technology development |  | 19,576,574 |  |  | 15,418,919 | 27 | | % |
| Total revenues |  | 51,035,897 |  |  | 29,378,922 | 74 | | % |
| Gross profit |  | 24,803,780 |  |  | 12,865,624 | 93 | | % |
| Gross margin |  | 48.6% |  |  | 43.8% |  |  |  |
| Operating expense |  | 23,205,283 |  |  | 12,411,561 | 87 | | % |
| Operating income |  | 1,598,497 |  |  | 454,063 |  |  |  |
| Other income and income taxes |  | 1,597,925 |  |  | 906,096 |  |  |  |
| Net income from continuing operations | $ | 3,196,422 |  | $ | 1,360,159 | 135 | | % |
| Diluted weighted average shares outstanding |  | 31,768,575 |  |  | 32,721,860 |  |  |  |
| Net income per share from continuing operations (diluted) | $ | 0.10 |  | $ | 0.04 | 150 | | % |
| Adjusted EBITDA | $ | 6,235,310 |  | $ | 1,507,294 | 314 | | % |

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

**2019 Full-Year Outlook:**

Luna also is raising its 2019 outlook:

* Total revenues in the range of $69 million to $70 million for full fiscal 2019, up from $66 million to $69 million; and
* Adjusted EBITDA in the range of $8.2 million to $8.6 million for full fiscal 2019, up from $7.2 million to $7.6 million.

Luna is not providing an outlook for net income, which is the most directly comparable generally accepted accounting principles ("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, tax 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.

The outlook above does not include any future acquisitions, divestitures, or unanticipated events.

**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 and nine months ended September 30, 2019. 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 8784037. 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 Technology Development segment and a Products and Licensing segment. Luna’s business model is designed to accelerate the process of bringing new and innovative technologies to market.

**Forward-Looking Statements**

The statements in this release that are not historical facts constitute “forward-looking statements” made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. These statements include Luna's expectations regarding its projected 2019 financial results and outlook, the strength and improvement in capital structure and the solidity of its balance sheet and cash flows, 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 and those risks and uncertainties set forth in Luna’s Form 10-Q for the quarter ended September 30, 2019, 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.

|  |  |  |  |
| --- | --- | --- | --- |
| **Investor Contacts:** | |  |  |
| Jane Bomba |  | Sally J. Curley | |
| Luna Innovations Incorporated | | | Luna Innovations Incorporated |
| Phone: 303-829-1211 | |  | 614-530-3002 |
| Email: IR@lunainc.com | |  | IR@lunainc.com |

**Luna Innovations Incorporated**

**Consolidated Statements of Operations**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended September 30,** | | | | |  | **Nine Months Ended September 30,** | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **2019** |  |  | **2018** |  |  | **2019** |  |  | **2018** |
|  |  |  | | |  |  |  |  | | |  |
|  |  | **(unaudited)** | | |  |  |  | **(unaudited)** | | |  |
| Revenues: |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Products and licensing | $ | 11,926,178 |  | $ | 5,371,165 |  | $ | 31,459,323 | $ | | 13,960,003 |
| Technology development |  | 6,494,832 |  |  | 5,315,861 |  |  | 19,576,574 |  |  | 15,418,919 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Total revenues |  | 18,421,010 |  |  | 10,687,026 |  |  | 51,035,897 |  |  | 29,378,922 |
| Cost of revenues: |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Products and licensing |  | 4,561,801 |  |  | 2,079,749 |  |  | 12,357,961 |  |  | 5,381,333 |
| Technology development |  | 4,574,035 |  |  | 3,918,666 |  |  | 13,874,156 |  |  | 11,131,965 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Total cost of revenues |  | 9,135,836 |  |  | 5,998,415 |  |  | 26,232,117 |  |  | 16,513,298 |
| Gross profit |  | 9,285,174 |  |  | 4,688,611 |  |  | 24,803,780 |  |  | 12,865,624 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Operating expense: |  |  |  |  |  |  |  |  |  |  |  |
| Selling, general and administrative |  | 5,753,649 |  |  | 3,233,485 |  |  | 17,964,524 |  |  | 9,898,064 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Research, development and engineering |  | 2,047,524 |  |  | 873,629 |  |  | 5,240,759 |  |  | 2,513,497 |
| Total operating expense |  | 7,801,173 |  |  | 4,107,114 |  |  | 23,205,283 |  |  | 12,411,561 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Operating income |  | 1,484,001 |  |  | 581,497 |  |  | 1,598,497 |  |  | 454,063 |
| Other income/(expense): |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Investment income |  | 72,728 |  |  | 171,896 |  |  | 324,139 |  |  | 350,976 |
| Other income/(expense) |  | 278 |  |  | 8,319 |  |  | (4,459) |  |  | (16,001) |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Interest expense |  | (2,032) |  |  | (28,029) |  |  | (14,806) |  |  | (103,208) |
| Total other income |  | 70,974 |  |  | 152,186 |  |  | 304,874 |  |  | 231,767 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Income from continuing operations before income taxes |  | 1,554,975 |  |  | 733,683 |  |  | 1,903,371 |  |  | 685,830 |
| Income tax expense/(benefit) |  | 324,723 |  |  | (559,093) |  |  | (1,293,051) |  |  | (674,329) |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Net income from continuing operations |  | 1,230,252 |  |  | 1,292,776 |  |  | 3,196,422 |  |  | 1,360,159 |
| (Loss)/income from discontinued operations, net of income tax of $216,813 and $235,312 for the three and nine months ended |  |  |  |  |  |  |  |  |  |  |  |
| September 30, 2018, respectively |  | — | |  | (56,418) |  |  | — |  |  | 1,132,436 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Gain on sale, net of income taxes of $1,866,232 and $1,508,373 for the three and nine months ended September 30, 2018, respectively |  | — | |  | 7,612,044 |  |  | — |  |  | 7,571,810 |
| Net income from discontinued operations |  | — |  |  | 7,555,626 |  |  | — |  |  | 8,704,246 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Net income |  | 1,230,252 |  |  | 8,848,402 |  |  | 3,196,422 |  |  | 10,064,405 |
| Preferred stock dividend |  | 112,846 |  |  | 63,235 |  |  | 285,450 |  |  | 190,895 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Net income attributable to common stockholders | $ | 1,117,406 |  | $ | 8,785,167 |  | $ | 2,910,972 | $ | | 9,873,510 |
| Net income per share from continuing operations: |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  | |  |
| Basic | $ | 0.04 |  | $ | 0.05 |  | $ | 0.11 | $ | | 0.05 |
| Diluted | $ | 0.04 |  | $ | 0.04 |  | $ | 0.10 |  | $ | 0.04 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Net income per share from discontinued operations: |  |  |  |  |  |  |  |  |  |  |  |
| Basic | $ | — | | $ | 0.27 |  | $ | — | $ | | 0.32 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Diluted | $ | — | | $ | 0.23 |  | $ | — | $ | | 0.27 |
| Net income per share attributable to common stockholders: |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  | |  |
| Basic | $ | 0.04 |  | $ | 0.31 |  | $ | 0.10 | $ | | 0.36 |
| Diluted | $ | 0.03 |  | $ | 0.27 |  | $ | 0.09 |  | $ | 0.30 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Weighted average common shares and common equivalent shares outstanding: |  |  |  |  |  |  |  |  |  |  |  |
| Basic |  | 28,291,297 |  |  | 27,901,631 |  |  | 28,193,330 |  |  | 27,547,955 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Diluted |  | 32,115,847 |  |  | 33,055,881 |  |  | 31,768,575 |  |  | 32,721,860 |
|  |  |  |  |  |  |  |  |  |  |  |  |

**Luna Innovations Incorporated**

**Consolidated Balance Sheets**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **September 30, 2019** | |  | **December 31, 2018** | |
|  |  |  |  |  |  |  |
|  |  | **(unaudited)** | |  |  |  |
| **Assets** |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Current assets: |  |  |  |  |  |  |
| Cash and cash equivalents | $ | 21,414,272 |  | $ | 42,460,267 |  |
|  |  |  |  |  |  |  |
| Accounts receivable, net |  | 16,796,252 |  |  | 13,037,068 |  |
| Receivable from sale of HSOR business |  | 2,500,941 |  |  | 2,500,000 |  |
|  |  |  |  |  |  |  |
| Contract assets |  | 3,441,771 |  |  | 2,422,495 |  |
| Inventory |  | 9,644,864 |  |  | 6,873,742 |  |
|  |  |  |  |  |  |  |
| Prepaid expenses and other current assets |  | 1,119,622 |  |  | 935,185 |  |
| Total current assets |  | 54,917,722 |  |  | 68,228,757 |  |
|  |  |  |  |  |  |  |
| Long-term contract assets |  | 423,830 |  |  | 336,820 |  |
| Property and equipment, net |  | 3,626,833 |  |  | 3,627,886 |  |
|  |  |  |  |  |  |  |
| Intangible assets, net |  | 10,570,347 |  |  | 3,302,270 |  |
| Goodwill |  | 10,345,250 |  |  | 101,008 |  |
|  |  |  |  |  |  |  |
| Other assets |  | 3,003,813 |  |  | 1,995 |  |
| **Total assets** | $ | 82,887,795 |  | $ | 75,598,736 |  |
|  |  |  |  |  |  |  |
| **Liabilities and stockholders’ equity** |  |  |  |  |  |  |
| Liabilities: |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Current liabilities: |  |  |  |  |  |  |
| Current portion of long-term debt obligations | $ | — | | $ | 619,315 |  |
|  |  |  |  |  |  |  |
| Current portion of capital lease obligations |  | — | |  | 40,586 |  |
| Accounts payable |  | 2,636,783 |  |  | 2,395,984 |  |
|  |  |  |  |  |  |  |
| Accrued liabilities |  | 9,694,722 |  |  | 6,597,458 |  |
| Contract liabilities |  | 3,389,417 |  |  | 2,486,111 |  |
|  |  |  |  |  |  |  |
| Total current liabilities |  | 15,720,922 |  |  | 12,139,454 |  |
| Long-term deferred rent |  | — | |  | 1,035,974 |  |
|  |  |  |  |  |  |  |
| Other long-term liabilities |  | 2,257,958 |  |  | — | |
| Long-term capital lease obligations |  | — | |  | 68,978 |  |
|  |  |  |  |  |  |  |
| **Total liabilities** |  | 17,978,880 |  |  | 13,244,406 |  |
| Commitments and contingencies |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Stockholders’ equity: |  |  |  |  |  |  |
| Preferred stock, par value $0.001, 1,321,514 shares authorized, 0 and 1,321,514 issued and outstanding at September 30, 2019 and December 31, 2018, |  |  |  |  |  |  |
| respectively |  | — | |  | 1,322 |  |
|  |  |  |  |  |  |  |
| Common stock, par value $0.001, 100,000,000 shares authorized, 31,798,062 and 29,209,506 shares issued, 30,158,271 and 27,956,401 shares outstanding at |  |  |  |  |  |  |
| September 30, 2019 and December 31, 2018, respectively |  | 31,998 |  |  | 30,120 |  |
| Treasury stock at cost, 1,639,791 and 1,253,105 shares at September 30, 2019 and December 31, 2018, respectively |  | (4,337,107) |  |  | (2,116,640) |  |
|  |  |  |  |  |  |  |
| Additional paid-in capital |  | 87,608,274 |  |  | 85,744,750 |  |
| Accumulated deficit |  | (18,394,250) |  |  | (21,305,222) |  |
|  |  |  |  |  |  |  |
| **Total stockholders’ equity** |  | 64,908,915 |  |  | 62,354,330 |  |
| **Total liabilities and stockholders’ equity** | $ | 82,887,795 |  | $ | 75,598,736 |  |
|  |  |  |  |  |  |  |

**Luna Innovations Incorporated**

**Consolidated Statements of Cash Flows**

**Nine Months Ended September 30,**



**Cash flows provided by/(used in) operating activities**



Net income

Adjustments to reconcile net income to net cash provided by/(used in) operating activities



Depreciation and amortization

Share-based compensation



Bad debt expense

Gain on disposal of fixed assets



Gain on sale of discontinued operations, net of tax

Tax benefit from release of valuation allowance



Change in assets and liabilities

Accounts receivable



Contract assets

Inventory



Other current assets

Other long term assets



Accounts payable and accrued expenses

Contract liabilities



Net cash provided by/(used in) operating activities

**Cash flows (used in)/provided by investing activities**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2019** |  |  | **2018** |
|  |  | | |  |
|  | **(unaudited)** | | |  |
| $ | 3,196,422 |  | $ | 10,064,405 |
|  | 1,834,594 |  |  | 898,215 |
|  | 1,140,202 |  |  | 345,582 |
|  | — | |  | 6,000 |
|  | — | |  | (1,000) |
|  | — | |  | (7,571,810) |
|  | (1,889,266) |  |  | — |
|  | (2,238,234) |  |  | (4,056,716) |
|  | (1,106,286) |  |  | (957,012) |
|  | (73,122) |  |  | (992,075) |
|  | (74,321) |  |  | 482,155 |
|  | (338,347) |  |  | — |
|  | (113,414) |  |  | 243,965 |
|  | 746,732 |  |  | (1,906,117) |
|  |  |  |  |  |
|  | 1,084,960 |  |  | (3,444,408) |
|  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Acquisition of property and equipment |  | (500,562) |  |  | (272,039) |
| Intangible property costs |  | (192,203) |  |  | (277,068) |
|  |  |  |  |  |  |
| Acquisition of General Photonics Corporation |  | (19,004,250) |  |  | — |
| Proceeds from sale of property and equipment |  | — | |  | 1,000 |
|  |  |  |  |  |  |
| Proceeds from sales of discontinued operations |  | — | |  | 14,775,541 |
| Net cash (used in)/provided by investing activities |  | (19,697,015) |  |  | 14,227,434 |
|  |  |  |  |  |  |
| **Cash flows used in financing activities** |  |  |  |  |  |
| Payments on finance lease obligations |  | (26,901) |  |  | (33,064) |
|  |  |  |  |  |  |
| Payments of debt obligations |  | (625,000) |  |  | (1,375,000) |
| Repurchase of common stock |  | (2,220,467) |  |  | (466,894) |
|  |  |  |  |  |  |
| Proceeds from the exercise of options and warrants |  | 438,428 |  |  | 1,255,118 |
| Net cash used in financing activities |  | (2,433,940) |  |  | (619,840) |
|  |  |  |  |  |  |
| **Net (decrease)/increase in cash and cash equivalents** |  | (21,045,995) |  |  | 10,163,186 |
| Cash and cash equivalents-beginning of period |  | 42,460,267 |  |  | 36,981,533 |
|  |  |  |  |  |  |
| Cash and cash equivalents-end of period | $ | 21,414,272 |  | $ | 47,144,719 |
|  |  |  |  |  |  |

**Luna Innovations Incorporated**

**Reconciliation of Net Income to EBITDA and Adjusted EBITDA**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended September 30,** | | | |  |  |  | **Nine Months Ended September 30,** | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | **2019** |  |  | **2018** |  |  |  | **2019** |  |  | **2018** |
|  |  |  | | |  |  |  |  | | |  |
|  |  | **(unaudited)** | | |  |  |  | **(unaudited)** | | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Net income | $ | 1,230,252 |  | $ | 8,848,402 |  | $ | 3,196,422 |  | $ | 10,064,405 |
| Less income from discontinued operations, net of income tax |  | — | |  | 7,555,626 |  |  | — | |  | 8,704,246 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Net income from continuing operations |  | 1,230,252 |  |  | 1,292,776 |  |  | 3,196,422 |  |  | 1,360,159 |
| Interest expense |  | 2,032 |  |  | 28,029 |  |  | 14,806 |  |  | 103,208 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Investment income |  | (72,728) |  |  | (171,896) |  |  | (324,139) |  |  | (350,976) |
| Tax expense/(benefit) |  | 324,723 |  |  | (559,093) |  |  | (1,293,051) |  |  | (674,329) |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Depreciation and amortization |  | 668,985 |  |  | 212,054 |  |  | 1,834,594 |  |  | 723,650 |
| EBITDA |  | 2,153,264 |  |  | 801,870 |  |  | 3,428,632 |  |  | 1,161,712 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Share-based compensation |  | 419,553 |  |  | 133,432 |  |  | 1,140,202 |  |  | 345,582 |
| Non-recurring charges (1) |  | — | |  | — | |  | 941,716 |  |  | — |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Amortization of inventory step-up |  | 310,612 |  |  | — | |  | 724,760 |  |  | — |
| Adjusted EBITDA | $ | 2,883,429 |  | $ | 935,302 |  | $ | 6,235,310 |  | $ | 1,507,294 |
|  |  |  |  |  |  |  |  |  |  |  |  |

1. Non-recurring charges consist of transaction-related expenses incurred during the nine months ended September 30, 2019, related to the acquisition of General Photonics.

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