

**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): March 5, 2020

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

301 1st Street SW, Suite 200
Roanoke, Virginia 24011
(Address of principal executive offices, including zip code)
540-769-8400
(Registrant's telephone number, including area code)

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

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
- 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 March 5, 2020, Luna Innovations Incorporated (the “Company”) issued a press release announcing its financial results for the three and twelve months ended December 31, 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 March 5, 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	Press Release dated March 5, 2020 by Luna Innovations Incorporated.
99.2	Company Presentation



**Luna Innovations Reports Record Fourth-Quarter
and Full-Year 2019 Results**
Company provides 2020 outlook

Highlights

- **Total revenues of \$19.5 million for the three months ended December 31, 2019, up 44% compared to the three months ended December 31, 2018**
- **Products and licensing revenues of \$13.0 million for the three months ended December 31, 2019, up 63% compared to the three months ended December 31, 2018**
- **Net income from continuing operations of \$2.1 million, or \$0.07 per fully diluted share, for the three months ended December 31, 2019, compared to \$(0.1) million, or \$0.00 per fully diluted share, for the prior-year period**
- **Adjusted EBITDA improved to \$3.2 million for the three months ended December 31, 2019, compared to \$1.6 million for the three months ended December 31, 2018**
- **Fiscal 2019 total revenues of \$70.5 million; Adjusted EBITDA more than triples vs. prior year**

(ROANOKE, VA, March 5, 2020) - Luna Innovations Incorporated (NASDAQ: LUNA), a global leader in advanced optical technology, today announced its financial results for the three months and full fiscal year ended December 31, 2019.

"2019 marked an exceptional year for Luna, from both a financial and an operational perspective, and was our ninth consecutive quarter, and our second full fiscal year, of significant top- and bottom-line growth," said Scott Graeff, President and Chief Executive Officer of Luna. "During the year, we achieved record revenue and income from continuing operations while streamlining our balance sheet through a conversion of preferred shares. We completed a \$2 million stock repurchase program and realigned the organization for future growth, including the appointment of Gene Nestro as CFO."

"As I reflect on these significant operational and financial achievements, I am particularly struck by the efficient and rapid integration of our two recent acquisitions, Micron Optics ("MOI") and General Photonics ("GP"), and the immediate accretion they had. I continue to be inspired by the focus and hard work of the Luna team, all of whom

provided our customers the products and services to fit their unique needs. Our customers recognize and appreciate our performance, as reflected by our strong 2019 results. We look forward to an even stronger 2020.”

Fourth-Quarter Fiscal 2019 Financial Summary

Financial results for the three months ended December 31, 2019 continue the strong momentum from throughout the fiscal year. These results include a full quarter of the business of GP, acquired in March 2019; fourth quarter 2018 did not include GP.

Highlights of the financial results for the three months ended December 31, 2019 are:

	Three Months Ended December 31,		Change	
	2019	2018		
<i>(in thousands of U.S. Dollars, except per share data)</i>				
Revenues:				
Products and licensing	\$ 13,032	\$ 7,990	63	%
Technology development	6,448	5,549	16	%
Total revenues	19,480	13,539	44	%
Gross profit	10,388	6,572	58	%
Gross margin	53.3%	48.5%		
Operating expense	8,671	6,149	41	%
Operating income	1,717	423	306	%
Other income/(expense) and income taxes	429	(546)		
Net income/(loss) from continuing operations	\$ 2,146	\$ (123)	1,845	%
Diluted weighted average shares outstanding (in thousands)	32,212	28,067		
Net income per share from continuing operations (diluted)	\$ 0.07	N/A		
Adjusted EBITDA	\$ 3,237	\$ 1,552	109	%

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 December 31, 2019 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 and fiber optic sensing products. Technology development revenues increased for the three months ended December 31, 2019, compared to the prior-year period due to growth in various government research programs. The increase in operating expenses was due to the addition of GP’s operating expenses, as well as continued incremental investment in sales and engineering to support Luna’s growth. Pre-tax income from continuing operations increased to \$1.8 million for the three months ended December 31, 2019, compared to \$0.6 million for the prior year fiscal quarter.

Net income from continuing operations was \$2.1 million, or \$0.07 per fully diluted share, for the three months ended December 31, 2019, compared to a loss of \$0.1 million, or \$0.00 per fully diluted share, for the prior-year period. The income tax benefit for the quarter and year ended December 31, 2019 includes income tax benefits of \$1.1 million and \$3.3 million, respectively, due to the release of valuation allowances on net operating loss carryforwards. The increase in net income from continuing operations was driven by Luna's increased revenue and strong operating results.

Adjusted EBITDA was \$3.2 million for the three months ended December 31, 2019, compared to \$1.6 million for the three months ended December 31, 2018. The growth was driven by revenue growth from both Luna's legacy business and the MOI and GP acquisitions, as well as prudent expense management.

Full-Year Fiscal 2019 Financial Summary

Highlights of the financial results for the twelve months ended December 31, 2019 are:

	Full Year Ended December 31,		Change
	2019	2018	
<i>(in thousands of U.S. Dollars, except per share data)</i>			
Revenues:			
Products and licensing	\$ 44,491	\$ 21,950	103 %
Technology development	26,025	20,968	24 %
Total revenues	70,516	42,918	64 %
Gross profit	35,182	19,438	81 %
Gross margin	49.9%	45.3%	
Operating expense	31,867	18,560	72 %
Operating income	3,315	878	
Other income and income taxes	2,028	360	
Net income from continuing operations	\$ 5,343	\$ 1,238	332 %
Diluted weighted average shares outstanding (in thousands)	31,841	32,452	
Net income per share from continuing operations (diluted)	\$ 0.17	\$ 0.04	325 %
Adjusted EBITDA	\$ 9,473	\$ 3,148	201 %

A reconciliation of Adjusted EBITDA to net income can be found in the schedules included in this release. Note that revenue and expenses related to Luna's Optoelectronics business, as well as the gain recognized on the sale of that business in July 2018, were classified as discontinued operations in Luna's results of operations beginning in its quarter ended September 30, 2018. Accordingly, net income for fiscal 2018 includes income from discontinued

operations. Income from discontinued operations totaled \$1.1 million in the fourth-quarter fiscal 2018 and \$9.8 million for fiscal 2018. As a reminder, the fourth-quarter fiscal 2019 was the last quarter in which discontinued operations comparisons related to Luna's optoelectronic business and the gain related to the sale of that business were relevant.

2020 Full-Year Outlook:

For fiscal year 2020, Luna expects:

- Total revenues in the range of \$81 million to \$84 million for full fiscal 2020; and
- Adjusted EBITDA in the range of \$10 million to \$12 million for full fiscal 2020.

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 months and full year ended December 31, 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 6020329. 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 2020 financial results and outlook 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:

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Luna Innovations Incorporated
Consolidated Statements of Operations
(in thousands of U.S. Dollars, except per share data)

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Revenues:				
Products and licensing revenues	\$ 13,032	\$ 7,990	\$ 44,491	\$ 21,950
Technology development revenues	6,448	5,548	26,025	20,967
Total revenues	<u>19,480</u>	<u>13,538</u>	<u>70,516</u>	<u>42,917</u>
Cost of revenues:				
Products and licensing costs	4,317	2,698	16,684	8,079
Technology development costs	4,775	4,268	18,650	15,400
Total cost of revenues	<u>9,092</u>	<u>6,966</u>	<u>35,334</u>	<u>23,479</u>
Gross profit	<u>10,388</u>	<u>6,572</u>	<u>35,182</u>	<u>19,438</u>
Operating expense:				
Selling, general and administrative	6,415	4,896	24,371	14,794
Research, development and engineering	2,255	1,253	7,496	3,766
Total operating expense	<u>8,670</u>	<u>6,149</u>	<u>31,867</u>	<u>18,560</u>
Operating income	<u>1,718</u>	<u>423</u>	<u>3,315</u>	<u>878</u>
Other expense:				
Other expense, net	(1)	(1)	(5)	(17)
Investment income	69	199	394	549
Interest expense, net	(1)	(21)	(16)	(124)
Total other income	<u>67</u>	<u>177</u>	<u>373</u>	<u>408</u>
Income from continuing operations before income taxes	<u>1,785</u>	<u>600</u>	<u>3,688</u>	<u>1,286</u>
Income tax benefit/(expense)	361	(722)	1,655	(48)
Income/(loss) from continuing operations	<u>2,146</u>	<u>(122)</u>	<u>5,343</u>	<u>1,238</u>
Income from discontinued operations, net of income taxes	—	1,062	—	9,766
Net income	<u>2,146</u>	<u>940</u>	<u>5,343</u>	<u>11,004</u>
Preferred stock dividend	—	67	286	257
Net income attributable to common stockholders	<u>\$ 2,146</u>	<u>\$ 873</u>	<u>\$ 5,057</u>	<u>\$ 10,747</u>
Net income per share from continuing operations:				
Basic	\$ 0.07	\$ —	\$ 0.19	\$ 0.04
Diluted	\$ 0.07	\$ —	\$ 0.17	\$ 0.04
Net income per share from discontinued operations:				
Basic	\$ —	\$ 0.04	\$ —	\$ 0.35
Diluted	\$ —	\$ 0.04	\$ —	\$ 0.30
Net income per share attributable to common stockholders:				
Basic	\$ 0.07	\$ 0.03	\$ 0.18	\$ 0.39
Diluted	\$ 0.07	\$ 0.03	\$ 0.16	\$ 0.33
Weighted average shares (in thousands):				
Basic	30,159	28,067	28,689	27,596
Diluted	32,212	28,067	31,841	32,452

Luna Innovations Incorporated
Consolidated Balance Sheets
(in thousands of U.S. Dollars)

	December 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 25,006	\$ 42,460
Accounts receivable, net	16,269	13,037
Receivable from sale of HSOR business	2,501	2,500
Contract assets	2,759	2,422
Inventory, net	10,294	6,874
Prepaid expenses	1,287	935
Total current assets	58,116	68,228
Property and equipment, net	3,466	3,628
Intangible assets, net	10,194	3,302
Goodwill	10,542	101
Long term contract assets	449	337
Other assets	3,757	2
Total assets	86,524	75,598
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long term debt obligation	\$ —	\$ 619
Current portion of capital lease obligation	—	41
Accounts payable	2,787	2,396
Accrued liabilities	10,369	6,597
Contract liabilities	3,888	2,486
Total current liabilities	17,044	12,139
Long-term deferred rent	—	1,036
Other long-term liabilities	2,011	—
Long-term capital lease obligation	—	69
Total liabilities	19,055	13,244
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$0.001, 1,321,514 shares authorized, 0 and 1,321,514 shares issued and outstanding at December 31, 2019 and 2018, respectively	—	1
Common stock, par value \$0.001, 100,000,000 shares authorized, 31,788,896 and 29,209,506 shares issued, 30,149,105 and 27,956,401 shares outstanding at December 31, 2019 and 2018, respectively	32	30
Treasury stock at cost, 1,639,791 and 1,253,105 shares at December 31, 2019 and 2018, respectively	(4,337)	(2,117)
Additional paid-in capital	88,022	85,745
Accumulated deficit	(16,248)	(21,305)
Total stockholders' equity	67,469	62,354
Total liabilities and stockholders' equity	\$ 86,524	\$ 75,598

Luna Innovations Incorporated
Consolidated Statements of Cash Flows
(in thousands of U.S. Dollars)

	Year ended December 31,	
	2019	2018
Cash flows provided by/(used in) operating activities:		
Net income	\$ 5,343	\$ 11,004
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	2,503	1,219
Stock-based compensation	1,544	628
Gain on disposal of fixed assets	—	(1)
Gain on sale of discontinued operations, net of income taxes	—	(8,596)
Tax benefit from release of valuation allowance	(3,349)	—
Bad debt	538	6
Changes in operating assets and liabilities:		
Accounts receivable	(2,249)	(6,240)
Contract assets	(449)	(762)
Inventory	(723)	(968)
Other assets	(242)	1,850
Other long-term assets	45	—
Accounts payable and accrued expenses	592	(462)
Contract liabilities	1,245	(986)
Net cash provided by/(used in) operating activities	<u>4,798</u>	<u>(3,308)</u>
Cash flows (used in)/provided by investing activities:		
Acquisition of property and equipment	(541)	(387)
Proceeds from sale of property and equipment	—	1
Intangible property costs	(270)	(375)
Acquisition of General Photonics Corporation	(19,004)	—
Acquisition of Micron Optics	—	(5,002)
Proceeds from sale of discontinued operations, net	—	15,800
Net cash (used in)/provided by investing activities	<u>(19,815)</u>	<u>10,037</u>
Cash flows used in financing activities:		
Payments on debt obligations	(625)	(1,833)
Payments on finance lease obligation	(40)	(47)
Purchase of treasury stock	(2,220)	(467)
Proceeds from the exercise of options	448	1,097
Net cash used in financing activities	<u>(2,437)</u>	<u>(1,250)</u>
Net change in cash and cash equivalents	<u>(17,454)</u>	<u>5,478</u>
Cash and cash equivalents—beginning of period	42,460	36,982
Cash and cash equivalents—end of period	<u>\$ 25,006</u>	<u>\$ 42,460</u>

Luna Innovations Incorporated
Reconciliation of Net Income to EBITDA and Adjusted EBITDA
(in thousands of U.S. Dollars)

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Net income	\$ 2,146	\$ 940	\$ 5,343	\$ 11,004
Less income from discontinued operations, net of income taxes	—	1,062	—	9,766
Net income/(loss) from continuing operations	2,146	(122)	5,343	1,238
Income tax (benefit)/expense	(361)	722	(1,654)	48
Income from continuing operations before income taxes	1,785	600	3,689	1,286
Investment income	(69)	(199)	(394)	(550)
Interest expense	1	21	16	124
Depreciation and amortization	668	197	2,503	909
EBITDA	2,385	619	5,814	1,769
Share-based compensation	404	182	1,544	628
Non-recurring charges	448	751	2,115	751
Adjusted EBITDA	\$ 3,237	\$ 1,552	\$ 9,473	\$ 3,148

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**Fourth-Quarter and Year-End Fiscal 2019 Earnings
Investor Supplemental Materials**

March 5, 2020

Safe Harbor

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

This presentation includes information that constitutes “forward-looking statements” made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. These statements include the company's expectations regarding the company's future financial performance and the potential demand for its products, the company's growth potential, its balance sheet and capitalization, its valuation, its leadership team, its technological advantages, 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, market valuation of the company and those risks and uncertainties set forth in the company's periodic reports and other filings with the Securities and Exchange Commission (“SEC”). Such filings are available on the SEC's website at www.sec.gov and on the company's website at www.lunainc.com. The statements made in this presentation are based on information available to Luna as of the date of this presentation and Luna undertakes no obligation to update any of the forward-looking statements after the date of this presentation, except as required by law.

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.

4Q & Full-Year FY19 Results



Fourth-Quarter 2019: Financial Results

- Strong financial performance:
 - Ninth consecutive quarter of year-over-year, double-digit revenue growth from continuing operations
 - \$1.7M improvement in Adjusted EBITDA year-over-year
- Total revenues of \$19.5M; up 44% year-over-year:
 - Products and licensing revenue of \$13.0M; up 63% year-over-year
 - Technology development revenue of \$6.4M; up 16% year-over-year
- Net income from continuing operations of \$2.1M, or \$0.07 per fully diluted share, for the three months ended December 31, 2019, compared to (\$0.1M), or \$0.00 per fully diluted share, for the three months ended December 31, 2018
- Adjusted EBITDA¹ doubled to \$3.2M for the three months ended December 31, 2019, compared to \$1.6M for the three months ended December 31, 2018

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

Full-Year 2019: Financial Results

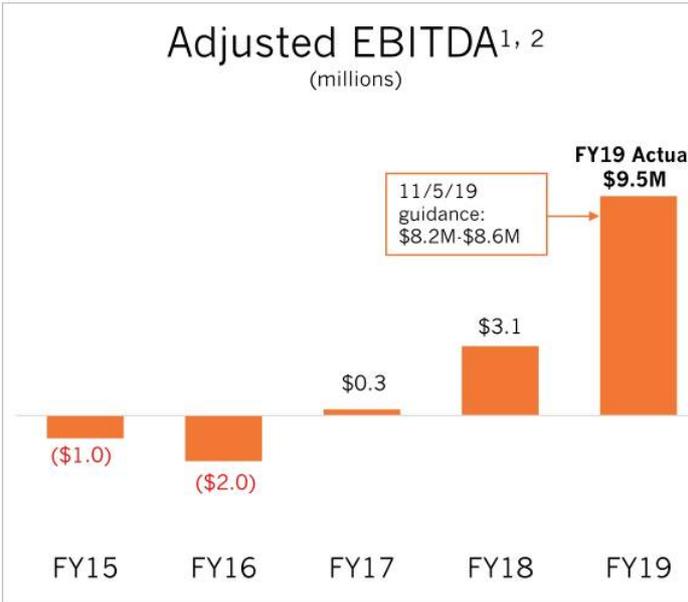
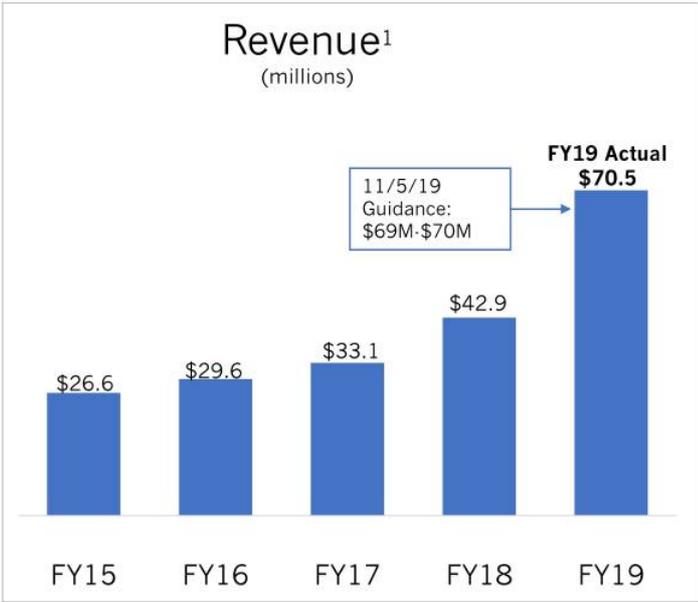
- Strong financial performance:
 - Second full fiscal year of year-over-year, double-digit revenue growth from continuing operations
 - Nearly \$6.4M improvement in Adjusted EBITDA year-over-year, representing 201% growth
- Total revenues of \$70.5M; up 64% year-over-year:
 - Products and licensing revenue of \$44.5M; up 103% year-over-year
 - Technology development revenue of \$26.0M; up 24% year-over-year
- Net income from continuing operations of \$5.3M, or \$0.17 per fully diluted share, for the year ended December 31, 2019, compared to \$1.2M, or \$0.04 per fully diluted share, for the year ended December 31, 2018
 - FY19 includes a tax benefit of \$3.3M due to the release of valuation allowances against NOLs
- Adjusted EBITDA¹ improved to \$9.5M for the year ended December 31, 2019, compared to \$3.1M for the year ended December 31, 2018

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

Fiscal 2019 Accomplishments

- Acquired General Photonics, leader in characterization and control of light for photonics applications
- Received large purchase order for tunable lasers from industry-leading robotics company
- Named 2019 Innovator of the Year by the Roanoke-Blacksburg Technology Council
- Launched Luna 6415, providing breakthrough measurement capability for fiber optics
- Signed exclusive license agreement for the supply of fiber optic technology with Meggitt PLC
- Initiated and fully executed \$2 million stock buyback program
- Added diversity and cybersecurity expertise to our Board, with addition of Mary Beth Vitale
- Simplified capital structure by converting Series A convertible preferred stock into common stock; ceased accrual of preferred dividends; all resulting in a single class of common stock and no preferred dividends
- Put in place a new \$10 million revolving credit facility
- Selected as NASA Partner for Moon and Mars Technologies (exploration studies)
- Named Gene Nestro as Chief Financial Officer

Strong 2019 Fiscal Year Financial Results



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

² 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

- Balance sheet on December 31, 2019:
 - \$86.5M in total assets
 - \$25.0M in cash and cash equivalents
 - \$41.1M in working capital

- Continued focus on working capital and reinvestment in business in order to generate long-term sustainable growth

2020 Financial Outlook



2020 Financial Outlook

- Issuing FY2020 outlook:
 - Total revenues of \$81M to \$84M
 - Adjusted EBITDA of \$10M to \$12M¹

¹Adj 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.

Why Invest in Luna?

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



Appendix



Pro-forma Luna Financials, Adjusted for the sale of Optoelectronics and the Acquisitions of Micron Optics and General Photonics

	(in thousands)				
	Three Months Ended ¹				
	December 31, 2018 ²	March 31, 2019 ³	June 30, 2019	September 30, 2019	December 31, 2019
Revenues:					
Products and licensing	\$ 11,345	\$ 10,221	\$ 11,373	\$ 11,926	\$ 13,032
Technology development	5,548	6,641	6,441	6,495	6,448
Total revenues	<u>16,893</u>	<u>16,862</u>	<u>17,814</u>	<u>18,421</u>	<u>19,480</u>
Cost of revenues:					
Products and licensing	4,002	3,836	4,578	4,562	4,317
Technology development	4,268	4,816	4,484	4,574	4,775
Total cost of revenues	<u>8,270</u>	<u>8,652</u>	<u>9,062</u>	<u>9,136</u>	<u>9,092</u>
Gross Profit	<u>8,623</u>	<u>8,210</u>	<u>8,752</u>	<u>9,285</u>	<u>10,388</u>
Operating expense:					
Selling, general and administrative	6,394	7,165	6,003	5,754	6,415
Research, development and engineering	1,894	1,708	1,735	2,047	2,255
Total operating expense	<u>8,288</u>	<u>8,873</u>	<u>7,738</u>	<u>7,801</u>	<u>8,670</u>
Operating income/(loss)	<u>\$ 335</u>	<u>\$ (663)</u>	<u>\$ 1,014</u>	<u>\$ 1,484</u>	<u>\$ 1,718</u>

¹ Unaudited pro forma financials assumes the Optoelectronics business was sold and the Micron Optics and General Photonics businesses were acquired on January 1, 2018.

² Includes \$751,000 of costs associated with the acquisition of Micron Optics.

³ Includes \$898,000 of costs associated with the acquisition of General Photonics.

Reconciliation of Net Income to Adjusted EBITDA

	Three Months Ended		Twelve Months Ended	
	December 31,		December 31,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
Reconciliation of EBIT, EBITDA and Adjusted EBITDA				
Net income	\$ 2,146	\$ 940	\$ 5,343	\$ 11,004
Less: income from discontinued operations, net of income taxes	-	1,062	-	9,766
Net income from continuing operations	2,146	(122)	5,343	1,238
Interest expense	-	21	16	124
Investment income	(69)	(199)	(394)	(549)
Income tax expense (benefit)	(361)	722	(1,654)	48
EBIT	1,716	422	3,311	861
Depreciation and amortization	669	197	2,503	908
EBITDA	2,385	619	5,814	1,769
Share-based compensation	404	182	1,544	628
Non-Recurring Charges (1)	448	751	1,390	751
Amortization of Inventory Step-up	-	-	725	-
Adjusted EBITDA	\$ 3,237	\$ 1,552	\$ 9,473	\$ 3,148

(1) Non-recurring charges consist of transaction-related expenses and CFO transition expenses.

Reconciliation of Net Income to Adjusted EBITDA: Full Fiscal Year

	Year Ended December 31,		
	2017	(unaudited) 2018	2019
Reconciliation of EBITDA and Adjusted EBITDA			
Net income	\$ 14,615	\$ 11,004	\$ 5,343
Less: income from discontinued operations, net of income taxes	15,866	9,766	-
Net income from continuing operations	(1,251)	1,238	5,343
Interest expense	217	124	16
Investment income		(549)	(394)
Income tax expense (benefit)	(1,148)	48	(1,654)
Depreciation and amortization	1,137	908	2,503
EBITDA	(1,045)	1,769	5,814
Share-based compensation	715	628	1,544
Non-Recurring Charges (1)	596	751	1,390
Amortization of Inventory Step-up	-	-	725
Adjusted EBITDA	\$ 266	\$ 3,148	\$ 9,473

(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

