UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K/A

(Amendment No. 1)

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

Date of Report (Date of earliest event reported): October 15, 2018

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))

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 9.01 Explanatory Note

As previously reported, on October 15, 2018, Luna Technologies, Inc., a wholly-owned subsidiary of Luna Innovations Incorporated (the "Company"), acquired substantially all of the assets other than cash and investments in foreign entities, of Micron Optics, Inc. ("MOI"). This Form 8-K/A is filed as an amendment to the Form 8-K filed by the Company on October 16, 2018. The information previously reported in Form 8-K is hereby incorporated by reference into this Form 8-K/A. The purpose of this Form 8-K/A is to file the financial statements and pro forma information required by Item 9.01.

(a) Financial statements of businesses acquired

The following audited year-end financial statements of MOI are filed herewith as Exhibit 99.1 and incorporated by reference herein:
Independent Auditor's Report
Balance Sheet as of December 31, 2017
Statement of Operations for the year ended December 31, 2017
Statement of Stockholders' Equity for the year ended December 31, 2017
Statement of Cash Flows for the year ended December 31, 2017
Notes to Financial Statements

The following unaudited interim financial statements of MOI are filed herewith as Exhibit 99.2 and incorporated by reference herein:
Unaudited Balance Sheet as of September 30, 2018
Unaudited Statements of Operations for the nine months ended September 30, 2018 and 2017
Unaudited Statements of Cash Flows for the nine months ended September 30, 2018 and 2017
Notes to Unaudited Interim Financial Statements

(b) Pro forma financial information

The following pro forma information is filed herewith as Exhibit 99.3 and incorporated by reference herein:
Unaudited Pro Forma Balance Sheet as of September 30, 2018
Unaudited Pro Forma Statement of Operations for the nine months ended September 30, 2018
Unaudited Pro Forma Statement of Operations for the year ended December 31, 2017
Notes to Unaudited Pro Forma Financial Statements

(c) Shell company transactions
- Not applicable

Item 9.01. Financial Statements and Exhibits

(d) Exhibits.

Exhibit	Description
23.1	Consent of Independent Auditor
99.1	Audited Financial Statements of Business Acquired
99.2	Interim Unaudited Financial Statements of Business Acquired
99.3	Pro Forma Financial Information

SIGNATURES

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

Luna Innovations Incorporated

By: /s/ Scott A. Graeff

Scott A. Graeff
President and Chief Executive Officer

Date: December 31, 2018

Exhibit 23.1

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our report dated December 31, 2018, with respect to the financial statements of the United States Operations of Micron Optics, Inc. for the year ended December 31, 2017 included in the Current Report on Form 8-K/A of Luna Innovations Incorporated dated December 31, 2018. We consent to the incorporation by reference of said report in the Registration Statements of Luna Innovations Incorporated on Form S-3 (File No. 333-191809), Form S-4 (File No. 333-201956), and on Forms S-8 (File No. 333-211802, File No. 333-204435, and File No. 333-138745).

/s/ Grant Thornton LLP

Arlington, Virginia
December 31, 2018

Exhibit 99.1

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors

United States Operations of Micron Optics, Inc.

We have audited the accompanying financial statements of the United States Operations of Micron Optics, Inc. (a Georgia corporation), which comprise the balance sheet as of December 31, 2017, and the related statement of operations, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United States Operations of Micron Optics, Inc. as of December 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Arlington, Virginia
December 31, 2018

United States Operations of Micron Optics, Inc.
Balance Sheet
December 31, 2017

Assets		
Current Assets		
Cash and cash equivalents	$	1,094,085
Short term investments		202,100
Accounts receivable, net		1,495,228
Inventory, net		1,710,858
Prepaid expenses and other current assets		71,790
Total current assets		4,574,061
Long Term Assets		
Property and equipment, net		366,612
Intangible assets, net		247,342
Total long term assets		613,954
Total Assets	$	5,188,015
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$	171,399
Accrued liabilities		442,293
Related party payable		1,433,750
Other current liabilities		212,500
Total liabilities		2,259,942
Commitments and contingencies		—
Stockholders' Equity		
Common stock, Class A, par value $0.001, 130,688,000 shares authorized, 56,703,774 shares issued, 42,183,567 shares outstanding		45,723
Common stock, Class B, par value $0.001, 49,312,000 shares authorized, issued, and outstanding		53,712
Additional paid in capital		6,443,958
Treasury stock, 14,519,007 shares		(473,753)
Accumulated deficit		(3,141,567)
Total stockholders' equity		2,928,073
Total Liabilities and Stockholders' Equity	$	5,188,015

The accompanying notes are an integral part of these financial statements.

United States Operations of Micron Optics, Inc.
Statement of Operations
For the Year Ended December 31, 2017

Revenue	$	7,872,228
Cost of sales		3,482,561
Gross profit		4,389,667

Operating expenses	
Selling, general and administrative	3,909,531
Research and development	1,184,819
Total operating expenses	5,094,350
Operating loss	(704,683)
Non-operating expense	
Interest	(76,399)
Other	(33,623)
Total non-operating expense	(110,022)
Net loss before income taxes	(814,705)
Provision for income taxes	—
Net loss	$ (814,705)

The accompanying notes are an integral part of these financial statements.

United States Operations of Micron Optics, Inc.

Statement of Changes in Stockholders' Equity

For the Year Ended December 31, 2017

	Common Stock- Class A		Common Stock- Class B		Treasury Stock		Additional Paid in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	$	Shares	$	Shares	$	$	$	$
January 1, 2017	42,183,567	$ 45,723	49,312,000	$ 53,712	14,519,007	$ (473,753)	$ 6,433,707	$ (2,326,862)	$ 3,732,527
Net loss	—	—	—	—		—	—	(814,705)	(814,705)
Stock based compensation	—	—	—	—		—	10,251	—	10,251
December 31, 2017	42,183,567	$ 45,723	49,312,000	$ 53,712	14,519,007	$ (473,753)	$ 6,443,958	$ (3,141,567)	$ 2,928,073

The accompanying notes are an integral part of these financial statements.

United States Operations of Micron Optics, Inc.

Statement of Cash Flows

For the Year Ended December 31, 2017

Cash used in operating activities		
Net loss	$	(814,705)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization		230,202
Reserve for obsolete inventory		(108,475)
Stock based compensation		10,251
Interest accrued on short term investments		(455)
Bad debt expense		10,000
Changes in operating assets and liabilities		
Accounts receivable		(123,240)
Inventory		744,671
Other assets		(20,523)
Accounts payable and accrued liabilities		(60,564)
Net cash used in operating activities		(132,838)
Cash used in investing activities		
Purchases of property and equipment		(163,320)
Net cash used in investing activities		(163,320)
Cash provided by financing activities		—
Net decrease in cash and cash equivalents		(296,158)

Cash and cash equivalents, beginning of period		1,390,243
Cash and cash equivalents, end of period	$	1,094,085

Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$	—
Cash paid during the year for income taxes	$	—

The accompanying notes are an integral part of these financial statements

Note 1- Organization and Summary of Significant Accounting Policies

Micron Optics, Inc. (“MOI”), headquartered in Atlanta, Georgia, was incorporated in the state of Georgia in 1989. The U.S. operations of MOI (“we” or “the Company”) is a leading provider of innovative optical components and laser-based equipment that advance the quality of optical measurements, allowing the sensing, imaging, and telecommunications industries to make critical measurements. Our portfolio of tunable optical filters, swept lasers, optical sensors and sensing interrogators delivers the highest degree of measurement precision, resolution, and accuracy required for our customers.

Basis of Presentation

The accompanying financial statements and related notes of MOI are presented on a carve-out basis and have been prepared from the historical consolidated balance sheet, statements of operations and cash flows attributed to the U.S. operations of MOI and in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). Historically, financial statements of the U.S. operations of MOI have not been prepared, as it has not operated separately from MOI. These financial statements reflect the revenues and direct expenses of the U.S. operations of MOI and include material assets and liabilities of MOI that are specifically identifiable to the U.S. operations.

Use of Estimates

The preparation of our financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in our financial statements and the accompanying notes thereto. Although these estimates are based on our knowledge of current events and actions we may undertake in the future, actual results may differ from such estimates and assumptions.

Revenues

Revenues are generated from the sale of commercial products to the end user and through distribution channels. We sell fiber optic sensing systems to end users for use in numerous fiber optic based measurement applications. Revenues are recorded net of applicable sales taxes collected from customers and payable to state or local governmental entities.

We recognize revenue relating to our products when persuasive evidence of an arrangement exists, delivery has occurred, the selling price is fixed or determinable and collectability of the resulting receivable is reasonably assured.

Allowance for Uncollectible Receivables

Accounts receivable are recorded at their face amount, less an allowance for doubtful accounts. We review the status of our uncollected receivables on a regular basis. In determining the need for an allowance for doubtful accounts, we consider our customers' financial stability, past payment history, and other factors that bear on the ultimate collection of such amounts. The allowance was $40,000 at December 31, 2017.

Cash Equivalents

We consider all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. We regularly maintain cash balances with financial institutions which exceed Federal Deposit Insurance Corporation ("FDIC") insurance limits. At December 31, 2017, we had approximately $0.8 million in excess of FDIC insured limits.

Short term investments

Short term investments include certificates of deposit with financial institutions and having maturities greater than three months.

Fair Value Measurements

Our financial assets and liabilities are measured at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Valuation techniques are based on observable or unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1- Quoted prices for identical instruments in active markets
- Level 2- Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant value drivers are observable
- Level 3- Valuations derived from valuation techniques in which significant value drivers are unobservable

The carrying values of cash and cash equivalents, short term investments, accounts receivable and accounts payable approximate fair value because of the short-term nature of these instruments.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. We record depreciation using the straight-line method over the following estimated useful lives:

Equipment	5 years
Furniture and fixtures	7 years
Software	3 years
Leasehold improvements	Lesser of lease term or life of improvements

Intangible Assets

Intangible assets consist of patents related to certain intellectual property that we have developed or acquired. We amortize our intangible assets over their estimated useful lives, generally 17 years, and analyze the reasonableness of the remaining life whenever events or circumstances indicate that the carrying amount may not be recoverable to determine whether their carrying value has been impaired.

Research and Development

Research and development costs are expensed as incurred. We expensed $1.2 million of research and development costs for the year ended December 31, 2017.

Valuation of Long-Lived Assets

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by comparing the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. Assets to be disposed of by sale are reflected at the lower of their carrying amount or fair value less cost to sell.

Inventory

Inventory consists of finished goods, work in process and raw materials valued at the lower of cost (determined on the first-in, first-out basis) or market.

Stock Based Compensation

We recognize stock based compensation expense based upon the fair value of the underlying equity award as of the date of grant. We have engaged a valuation expert to estimate the fair value of our equity as of the date of grant. Restricted stock is valued at its fair value on the date of grant. We recognize stock based compensation for such awards on a straight-line basis over the requisite service period of the awards, taking into account the effects of the employees’ expected exercise and post-vesting employment termination behavior.

Warranty

We provide a standard warranty of one year on sales of certain products. In addition, we may offer customers an option to purchase enhanced or extended warranties. We maintain a reserve to provide for our expected costs of performance under these future warranty obligations.

Advertising

We expense the cost of advertising as incurred. Advertising expenses were approximately $9,000 for the year ended December 31, 2017.

Concentration of Revenues

For the year ended December 31, 2017, one customer accounted for approximately 13% of our total revenues. Accounts receivable from this customer were $0.2 million at December 31, 2017.

Income Taxes

We recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. We evaluate our ability to benefit from all deferred tax assets and establish valuation allowances for amounts we believe are not more-likely-than-not to be realizable. For uncertain tax positions, we use a more-likely-than-not threshold, 51% or greater, based on the technical merits of the income tax position taken. Income tax positions that meet the more-likely-than-not recognition threshold are measured in order to determine the tax benefit recognized in the financial statements. Penalties, if probable and reasonably estimable, and interest expense related to uncertain tax positions are recognized as a component of the tax provision.

We account for income taxes using the liability method. Deferred tax assets or liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities as measured by the enacted tax rates which will be in effect when the differences reverse. A valuation allowance against net deferred tax assets is provided unless we conclude it is more likely than not that the deferred tax assets will be realized.

Recently Issued Accounting Pronouncements

In April 2016, the FASB amended the FASB Accounting Standards Codification and created a new Topic 606, and issued ASU No. 2016-10, Revenue from contracts with customers: Identifying Performance Obligations and Licensing. This amendment prescribes that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendment supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Accounting Standards Codification, and is effective for annual and interim reporting periods beginning after December 15, 2018. We do not expect the adoption of Topic 606 to have a material impact on our financial condition, results of operations or cash flows as a result of adopting this standard.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which requires a lessee to recognize in its statement of financial position an asset and liability for most leases with a term greater than 12 months. Lessees should recognize a liability to make lease payments and a right-of-use asset representing the lessee's right to use the underlying asset for the lease term. The amendment is effective for fiscal years ending after December 15, 2019, including interim periods within those fiscal years. We are currently evaluating the impact the adoption of this standard will have on our consolidated financial statements.

Note 2- Inventory

Inventory consists of finished goods, work in process, and raw materials valued at the lower of cost (determined on the first-in, first-out basis) or market.

Components of inventory at December 31, 2017, were as follows:

Finished goods	$	561,512
Work in process		456,250
Raw materials		952,850
		1,970,612
Reserve for obsolete and slow-moving inventory		(259,754)
	$	1,710,858

Note 3- Accounts Receivable

Accounts receivable at December 31, 2017 consisted of the following:

Trade accounts receivable	$	1,388,614
Related party accounts receivable		146,614
		1,535,228
Less: allowance for doubtful accounts		(40,000)
	$	1,495,228

Note 4- Property and Equipment

Property and equipment, net, at December 31, 2017 consisted of the following:

Equipment	$	3,427,480
Furniture and fixtures		341,501
Leasehold improvements		287,005
		4,055,986
Accumulated depreciation		(3,689,374)
	$	366,612

Depreciation expense for the year ended December 31, 2017 was $0.2 million.

Note 5- Intangible Assets

Intangible assets, representing primarily costs of patents on our intellectual property, at December 31, 2017, consisted of the following:

Cost	$	1,104,974
Less: accumulated amortization		(857,634)
	$	247,340

Our issued patents have remaining terms ranging from less than one year to eleven years, with an average remaining term of 4.8 years. Amortization for the year ended December 31, 2017, was $49,374. Estimated amortization, based on the net value of intangible assets at December 31, 2017, for each of the next five years and beyond is as follows:

Year ending December 31,		
2018	$	46,195
2019		39,894
2020		36,743
2021		32,286
2022		28,394
2023 and beyond		63,828
	$	247,340

Note 6- Accrued Liabilities

Accrued liabilities at December 31, 2017 consisted of the following:

Accrued Compensation	$	107,427
Accrued 401(k) match		88,176
Warranty reserve		99,678
Accrued interest on related party payable		82,554
Other		64,458
	$	442,293

Note 7- Other Current Liabilities

In 2014, the Company entered into a stock purchase agreement whereby the Company agreed to pay $0.5 million to a third party in equal quarterly installments over a period of 10 years. In 2016, after making cumulative payments of $87,500, a dispute arose between the parties, and the Company ceased making the quarterly payments required under the stock purchase agreement. In July 2018, the parties settled the dispute for $0.3 million, of which $0.1 million was paid by the company's insurance carrier and $0.2 million was paid by the Company.

Note 8- Income Taxes

Income tax expense was $0 for the year ended December 31, 2017. Deferred tax assets and liabilities as of December 31, 2017, consisted of the following:

Net operating loss carryforwards	$	2,321,737
Federal credit carryforwards		1,551,319
UNICAP		112,228
Depreciation and amortization		(5,790)
Warranty reserve		25,854
Other		10,679
Total		4,016,027
Valuation allowance		(4,016,027)
Net deferred tax asset	$	—

Income tax expense for the year ended December 31, 2017, differs from the amount computed by applying the federal statutory income tax rate to our net loss before income taxes as follows:

Income tax at federal statutory rate	34.00 %
State taxes, net of federal tax effects	— %
Prior period true-ups	— %
Net operating loss	— %
Change in valuation allowance	115.51 %
Federal credit carryover	1.11 %
Meals and entertainment	(1.15)%
Tax Cuts and Jobs Act Rate Change	(149.47)%
	— %

The realization of our deferred income tax assets is dependent upon sufficient taxable income in future periods. In assessing whether deferred tax assets may be realized, we consider whether it is more likely than not that some portion, or all, of the deferred tax asset will be realized. We consider scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies that we can implement in making our assessment. We have U.S. federal income tax net operating loss carryforwards at December 31, 2017, of approximately $8.8 million, which expire at varying dates through 2037. We have federal tax credit carryforwards at December 31, 2017 of approximately $2.0 million, which expire at varying dates through 2037.

The U.S. federal statute of limitations remains open for the year 2015 and onward. However, if and when the Company claims net operating loss carryforwards from years prior to 2015 against future taxable income, those losses may be examined by the taxing authorities. We currently have no income tax returns under examination. U.S. state jurisdictions have statutes of limitations generally ranging from three to seven years. We currently have no state income or franchise tax returns under examination.

We have established a reserve for unrecognized tax benefits as of December 31, 2017 of $387,830 in connection with general business credits that, if recognized, would result in adjustments to deferred taxes.

Balance of reserve for uncertain tax positions at January 1, 2017	$	(386,043)
Additions related to tax positions of the current year		(1,787)
Additions related to tax positions of prior years		—
Deductions		—
Settlements		—
Balance of reserve for uncertain tax positions at December 31, 2017	$	(387,830)

We currently have no positions for which we expect that the amount of unrecognized tax benefit will increase or decrease significantly within twelve months of the reporting date or for which we believe there is significant risk of disallowance upon audit. The total liabilities associated with the unrecognized tax benefits that, if recognized, would impact the Company's effective tax rate are $387,830. Unrecognized tax benefits of $387,830 are recorded on the balance sheet as a reduction to deferred tax assets. At December 31, 2017, the Company currently has no unrecognized tax benefits against which interest or penalties has been accrued.

Management believes it is not more likely than not that the deferred tax assets at December 31, 2017, will be realized and, as a result, a valuation allowance was established against all such deferred tax assets.

Effective January 1, 2017, we adopted ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which simplifies the presentation of deferred taxes by requiring that deferred tax assets and liabilities be classified as noncurrent in any classified balance sheet rather than being separated in current and non-current amounts. The adoption of ASU No. 2015-17 did not have a significant impact on our financial statements.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act ("TCJA") tax reform legislation. TCJA makes significant changes in U.S. tax law including a reduction in the corporate tax rates, changes to net operating loss carryforwards and carrybacks, and a repeal of the corporate alternative minimum tax. TCJA reduced the U.S. corporate tax rate from 35% to 21%. As a result of the enacted law, the Company was required to revalue deferred tax assets and liabilities at the enacted tax rate. This revaluation resulted in a reduction of approximately $1.2 million in the deferred tax asset at December 31, 2017, and a corresponding reduction in the valuation allowance. The other provisions of TCJA did not have a material impact on the 2017 financial statements.

Note 9- Stockholders' Equity

The Company has two classes of common stock. Each share of Class A common stock entitles the holder to one vote on all matters submitted to a vote of the stockholders of the Company. Each share of Class B common stock entitles the holder to ten votes on all matters submitted to a vote of the stockholders of the Company. Each share of Class B common stock may be converted into one share of Class A common stock at the option of the Class B stockholder or upon the occurrence of certain events. Class A and Class B stockholders are entitled to share ratably in the assets of the Company available for distribution to the holders of common stock upon any liquidation or dissolution of the Company.

The Company is also authorized to issue up to 20,000,000 shares of preferred stock upon terms to be determined at the time of issuance. No shares of preferred stock have been issued.

During 2017, the Company established a stock incentive plan providing directors, employees, and certain other key persons stock based compensation opportunities in the form of stock options, stock appreciation rights, and restricted stock. The plan provides for up to 75 million shares plus the remaining balance of unissued shares under prior equity compensation plans established in 2000, 2001, and 2008. Options granted under the 2017 plan may be incentive stock options or nonqualified stock options. Each option granted under the plan expires within 10 years of the date of grant, unless the option is an incentive stock option and the grantee owns ten percent or more of the total combined voting power of all classes of stock, in which case such option expires within five years of the date of grant. Stock options issued during 2017 vest over 4 years. The plan also provides for accelerated vesting of outstanding option awards following a change in control. Option activity during 2017 was as follows:

	Options Outstanding			Options Exercisable		
	Number of Shares	Exercise Price Per Share		Number of Shares	Weighted Average Exercise Price	
Balance at January 1, 2017	—		—	—		—
Granted	57,850,000	$	0.009	—	$	—
Canceled	—		—	—		—
Exercised	—		—	—		—
Balance at December 31, 2017	57,850,000	$	0.009	—	$	—
Vested, December 31, 2017	—					

Vested and non-vested options have a weighted average grant date fair value of $0.006 per share. The grant date fair value of stock options was determined using the Black-Scholes valuation model. Since the Company is a private entity with no current or historical market data for fair value, the volatility input for the valuation model was estimated based upon the historical profitability of the Company for a trailing three year period. The expected term was estimated based upon the weighted average of the vesting term and contractual term of the option grant. The risk-free interest rate is based on U.S. Treasury interest rates, the terms of which are consistent with the expected life of the stock options. Inputs to the Black-Scholes model for stock options granted in 2017 were as follows:

Valuation Assumption	
Expected dividend rate	—
Expected volatility	86.52%
Expected term (years)	6.25
Risk free interest rate	2.25%

We expect to recognize future stock based compensation cost of approximately $0.1 million over the remaining vesting period of 3.8 years.

Note 10- Commitments and Contingencies

We lease our office in Atlanta, Georgia under an operating lease that expires October 2020. We recognize rent expense on a straight-line basis over the lease term. Rent expense under this lease was approximately $0.3 million for the year ended December 31, 2017. Minimum future payments under this lease as of December 31, 2017 are:

Year ending December 31,		
2018	$	304,185
2019		310,275
2020		263,200
	$	877,660

From time to time, we may become involved in litigation in relation to claims arising out of our operations in the normal course of business. While management currently believes it is not reasonably possible the amount of ultimate liability, if any, with respect to these actions will have a material adverse effect on our financial position, results of operations or liquidity, the ultimate outcome of any litigation is uncertain.

In 2016, the Company filed with its insurance carrier a claim for theft associated with certain actions of a former executive. The claim was resolved in 2018, resulting in a payment of $0.1 million to the Company.

Note 11- Employee Profit Sharing Plan

We maintain a salary reduction/profit-sharing plan under provisions of Section 401(k) of the Internal Revenue Code. The plan is offered to all permanent employees of the Company. We contribute a minimum of 100% of the salary deferral elected by each employee up to a maximum deferral of 3% of eligible compensation plus a minimum of 50% of the salary deferral elected by each employee between 3% and 5% of eligible compensation. We accrued $88,176 for the employer contribution to the plan for the year ended December 31, 2017, and funded such amount subsequent to December 31, 2017.

Note 12- Related Party Transactions

During 2017, we maintained an equity ownership of approximately 51% in a Japanese company to which we sell our products for distribution in specified territories. Revenues for the year ended December 31, 2017 include $0.3 million of sales to this related party. At December 31,

2017, our accounts receivable from this entity were $0.1 million. In 2018, we reduced our ownership stake in this related party to approximately 25%.

On November 30, 2016, we entered into a Settlement, Release and Indemnity Agreement (the "Agreement") with National Instruments Corporation ("NI"), one of our stockholders, related to certain claims for breaches of representations and warranties pursuant to a stock purchase agreement between us and NI. Under the terms of the Agreement, as amended, we agreed to repurchase approximately 6 million shares of Class A common stock for an aggregate of $2.3 million based upon a schedule of quarterly payments of $0.1 million through September 2021. As of December 31, 2017, an aggregate of $0.6 million had been paid under this agreement. The Agreement also provides that beginning in the third quarter of 2018, we can accelerate the payment of the remaining balance at a reduced cost. The remaining minimum balance to be paid considering this option for acceleration as of December 31, 2017 was $1.4 million. In conjunction with the sale of the Company as described in Note 13, the remaining outstanding balance was paid on October 15, 2018.

Two of our former executives and significant shareholders of the Company, owning approximately 19% and 4% of our outstanding stock as of December 31, 2017, also have financial interests in Technica Optical Components LLC ("Technica"), a supplier to the Company. For the year ended December 31, 2017, we purchased approximately $31,000 of products from Technica.

Note 13- Subsequent Event

On October 15, 2018, substantially all of the assets related to our U.S. operations, other than cash, were acquired by Luna Technologies, Inc., a wholly owned subsidiary of Luna Innovations Incorporated, for $5.0 million in cash, subject to a positive or negative adjustment based upon the final determination of our working capital compared to a target working capital amount specified in the Asset Purchase Agreement.

Exhibit 99.2

United States Operations of Micron Optics, Inc.

Balance Sheets

	September 30, 2018 (Unaudited)	December 31, 2017 (Derived from Audited)
Assets		
Current Assets		
Cash and cash equivalents	$ 1,299,778	$ 1,094,085
Short term investments	202,100	202,100
Accounts receivable, net	1,843,120	1,495,228
Inventory, net	1,440,583	1,710,858
Prepaid expenses and other current assets	41,583	71,790
Total current assets	4,827,164	4,574,061
Long Term Assets		
Property and equipment, net	273,623	366,612
Intangible assets, net	212,695	247,342
Total long term assets	486,318	613,954
Total Assets	$ 5,313,482	$ 5,188,015
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 212,152	$ 171,399
Accrued liabilities	471,851	442,293
Related party payable	1,224,710	1,433,750
Other current liabilities	—	212,500
Total liabilities	1,908,713	2,259,942
Commitments and contingencies	—	—
Stockholders' Equity		
Common stock, Class A, par value $0.001, 130,688,000 shares authorized, 56,703,774 shares issued, 41,280,060 and 42,183,567 shares outstanding	45,723	45,723
Common stock, Class B, par value $0.001, 49,312,000 shares authorized, issued, and outstanding	53,712	53,712
Additional paid in capital	6,467,797	6,443,958
Treasury stock, 15,422,514 and 14,519,007 shares	(473,753)	(473,753)
Accumulated deficit	(2,688,710)	(3,141,567)
Total stockholders' equity	3,404,769	2,928,073
Total Liabilities and Stockholders' Equity	$ 5,313,482	$ 5,188,015

The accompanying notes are an integral part of these financial statements.

United States Operations of Micron Optics, Inc.

Statement of Operations

(Unaudited)

	For the Nine Months Ended September 30, 2018	2017
Revenue	6,380,147	$ 5,890,538
Cost of sales	2,443,266	2,403,041
Gross profit	3,936,881	3,487,497
Operating expenses		
Selling, general and administrative	2,472,816	3,040,455
Research and development	1,052,372	858,853
Total operating expenses	3,525,188	3,899,308
Operating income/(loss)	411,693	(411,811)
Non-operating income/(expense)		
Interest	(56,786)	(57,048)
Other income	97,950	6,403
Total non-operating income/(expense)	41,164	(50,645)
Net income/(loss) before income taxes	452,857	(462,456)
Provision for income taxes	—	—
Net income/(loss)	$ 452,857	$ (462,456)

The accompanying notes are an integral part of these financial statements

United States Operations of Micron Optics, Inc.

Statement of Cash Flows

(Unaudited)

	For the Nine Months Ended September 30, 2018	2017
Cash provided by operating activities		
Net income/(loss)	$ 452,857	$ (462,456)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	157,566	125,733
Reserve for obsolete inventory	150,718	(115,000)
Stock based compensation	23,839	7,428
Bad debt expense	—	9,000
Changes in operating assets and liabilities		
Accounts receivable	(347,892)	515,126
Inventory	119,557	334,687
Other assets	30,207	(30,347)
Accounts payable and accrued liabilities	70,311	(21,260)
Other accrued liabilities	(212,500)	—
Net cash provided by operating activities	444,663	362,911
Cash used in investing activities		
Purchases of property and equipment	(29,930)	(94,332)
Net cash used in investing activities	(29,930)	(94,332)
Cash used in financing activities		
Payments on related party note	(209,040)	—
Net cash used in financing activities	(209,040)	—
Net increase in cash and cash equivalents	205,693	268,579
Cash and cash equivalents, beginning of period	1,094,085	1,390,243
Cash and cash equivalents, end of period	$ 1,299,778	$ 1,658,822
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ —	$ —
Cash paid during the year for taxes	$ —	$ —

The accompanying notes are an integral part of these financial statements

Note 1- Organization and Summary of Significant Accounting Policies

Micron Optics, Inc. (“MOI”), headquartered in Atlanta, Georgia, was incorporated in the state of Georgia in 1989. The U.S. operations of MOI (“we” or “the Company”) is a leading provider of innovative optical components and laser-based equipment that advance the quality of optical measurements, allowing the sensing, imaging, and telecommunications industries to make critical measurements. Our portfolio of tunable optical filters, swept lasers, optical sensors and sensing interrogators delivers the highest degree of measurement precision, resolution, and accuracy required for our customers.

Basis of Presentation

The unaudited financial statements included in these interim financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). These rules and regulations permit some of the information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") to be condensed or omitted. In management's opinion, the unaudited financial statements contain all adjustments that are of a normal recurring nature, necessary for a fair presentation of the results of the U.S. operations of MOI for the nine month periods ended September 30, 2018 and September 30, 2017. Operating results for the nine month period ended September 30, 2018, are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. These unaudited financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2017, and the notes thereto.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accompanying interim financial statements and related notes of the Company are presented on a carve-out basis and have been prepared from the historical interim balance sheet, statements of operations and cash flows attributed to the U.S. operations of MOI and in accordance with U.S. GAAP. Historically, interim financial statements of the United States operations of the U.S. operations of MOI have not been prepared, as it has not operated separately from MOI. These interim financial statements reflect the revenues and direct expenses of the U.S. operations of MOI and include material assets and liabilities of MOI that are specifically identifiable to U.S. operations.

Fair Value Measurements

Our financial assets and liabilities are measured at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Valuation techniques are based on observable or unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1- Quoted prices for identical instruments in active markets
- Level 2- Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant value drivers are observable
- Level 3- Valuations derived from valuation techniques in which significant value drivers are unobservable

The carrying values of cash and cash equivalents, short term investments, accounts receivable and accounts payable approximate fair value because of the short-term nature of these instruments.

Income Taxes

We recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. We evaluate our ability to benefit from all deferred tax assets and establish valuation allowances for amounts we believe are not more-likely-than-not to be realizable. For uncertain tax positions, we use a more-likely-than-not threshold, 51% or greater, based on the technical merits of the income tax position taken. Income tax positions that meet the more-likely-than-not recognition threshold are measured in order to determine the tax benefit recognized in the financial statements. Penalties, if probable and reasonably estimable, and interest expense related to uncertain tax positions are recognized as a component of the tax provision.

We account for income taxes using the liability method. Deferred tax assets or liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities as measured by the enacted tax rates which will be in effect when the differences reverse. A valuation allowance against net deferred tax assets is provided unless we conclude it is more likely than not that the deferred tax assets will be realized.

Recently Issued Accounting Pronouncements

In April 2016, the FASB amended the FASB Accounting Standards Codification and created a new Topic 606, and issued ASU No. 2016-10, Revenue from contracts with customers: Identifying Performance Obligations and Licensing. This amendment prescribes that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendment supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Accounting Standards Codification, and is effective for annual and interim reporting periods beginning after December 15, 2018. We do not expect the adoption of Topic 606 to have a material impact on our financial condition, results of operations or cash flows as a result of adopting this standard.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which requires a lessee to recognize in its statement of financial position an asset and liability for most leases with a term greater than 12 months. Lessees should recognize a liability to make lease payments and a right-of-use asset representing the lessee's right to use the underlying asset for the lease term. The amendment is effective for fiscal years ending after December 15, 2019, including interim periods within those fiscal years. We are currently evaluating the impact the adoption of this standard will have on our consolidated financial statements.

Note 2- Accounts Receivable

Accounts receivable consisted of the following:

	September 30, 2018	December 31, 2017
Trade accounts receivable	$ 1,841,768	$ 1,388,614
Related party accounts receivable	41,352	146,614
	1,883,120	1,535,228
Less: allowance for doubtful accounts	(40,000)	(40,000)
	$ 1,843,120	$ 1,495,228

Note 3- Inventory

Inventory consists of finished goods, work in process, and raw materials valued at the lower of cost (determined on the first-in, first-out basis) or market.

Components of inventory were as follows:

	September 30, 2018	December 31, 2017
Finished goods	434,275	561,512
Work in process	123,277	456,250
Raw materials	1,293,503	952,850
	1,851,055	1,970,612
Reserve for obsolete and slow-moving inventory	(410,472)	(259,754)
	1,440,583	1,710,858

Note 4- Property and Equipment

Property and equipment, net, consisted of the following:

		September 30, 2018		December 31, 2017
Equipment	$	3,457,410	$	3,427,480
Furniture and fixtures		341,501		341,501
Leasehold improvements		287,005		287,005
		4,085,916		4,055,986
Accumulated depreciation		(3,812,293)		(3,689,374)
	$	273,623	$	366,612

Depreciation expense for each of the nine months ended September 30, 2018 and 2017 was $122,919 and $88,702, respectively.

Note 5- Intangible Assets

Intangible assets, representing primarily costs of patents on our intellectual property, consisted of the following:

		September 30, 2018		December 31, 2017
Cost		1,104,974	$	1,104,974
Less: accumulated amortization		(892,279)		(857,632)
	$	212,695	$	247,342

Amortization expense for the nine months ended September 30, 2018 and 2017 was $34,647 and $37,031, respectively.

Note 6- Accrued Liabilities

Accrued liabilities consisted of the following:

		September 30, 2018		December 31, 2017
Accrued Compensation	$	218,383	$	107,427
Accrued 401(k) match		74,696		88,176
Warranty reserve		99,678		99,678
Accrued interest on related party payable		—		82,554
Other		79,094		64,458
	$	471,851	$	442,293

Note 7- Income Taxes

For the nine months ended September 30, 2018 and 2017, our income tax expense was $0. Our effective tax rate differs from the federal and state statutory rates due to utilization of net operating loss carryforwards and a valuation allowance recorded against our remaining deferred tax assets.

Note 8- Stockholders' Equity

The Company has two classes of common stock. Each share of Class A common stock entitles the holder to one vote on all matters submitted to a vote of the stockholders of the Company. Each share of Class B common stock entitles the holder to ten votes on all matters submitted to a vote of the stockholders of the Company. Each share of Class B common stock may be converted into one share of Class A common stock at the option of the Class B stockholder or upon the occurrence of certain events. Class A and Class B stockholders are entitled to share ratably in the assets of the Company available for distribution to the holders of common stock upon any liquidation or dissolution of the Company.

The Company is also authorized to issue up to 20,000,000 shares of preferred stock upon terms to be determined at the time of issuance. No shares of preferred stock have been issued.

The following table details our equity transactions during the nine months ended September 30, 2018:

	Common Stock- Class A		Common Stock- Class B		Treasury Stock		Additional Paid in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	$	Shares	$	Shares	$	$	$	$
Balance- January 1, 2018	42,183,567	$ 45,723	49,312,000	$ 53,712	14,519,007	$ (473,753)	$ 6,443,958	$ (3,141,567)	$ 2,928,073
Net income	—	—	—	—	—	—	—	452,857	452,857
Share based compensation	—	—	—	—	—	—	23,839	—	23,839
Purchase of treasury shares from related party	(903,507)	—	—	—	903,507	—	—	—	—
Balance- September 30, 2018	41,280,060	$ 45,723	49,312,000	$ 53,712	15,422,514	$ (473,753)	$ 6,467,797	$ (2,688,710)	$ 3,404,769

Note 9- Related Party Transactions

During the nine months ended September 30, 2018 and 2017, we maintained an equity ownership of approximately 51% in a Japanese company to which we sell our products for distribution in specified territories. Revenues for the nine months ended September 30, 2018 and 2017 each include $0.2 million of sales to this related party, respectively. At September 30, 2018, our accounts receivable from this entity were approximately $41,000. In December 2018, we reduced our ownership stake in this related party to approximately 25%.

On November 30, 2016, we entered into a Settlement, Release and Indemnity Agreement (the "Agreement") with National Instruments Corporation ("NI"), one of our stockholders, related to certain claims for breaches of representations and warranties pursuant to a stock purchase agreement between us and NI. Under the terms of the Agreement, as amended, we agreed to repurchase approximately 6 million shares of Class A common stock for an aggregate of $2.3 million based upon a schedule of quarterly payments of $0.1 million through September 2021. As of September 30, 2018, an aggregate of $0.9 million had been paid under this agreement. The Agreement also provides that beginning in the third quarter of 2018, we can accelerate the payment of the remaining balance at a reduced cost. The remaining minimum balance to be paid considering this option for acceleration as of September 30, 2018 was $1.2 million. In conjunction with the sale of the Company as described in Note 10, the remaining outstanding balance was paid on October 15, 2018.

In 2016, the Company filed with its insurance carrier a claim for theft associated with certain actions of a former executive. The claim was resolved in 2018, resulting in a payment of $0.1 million to the Company.

Note 10- Subsequent Event

On October 15, 2018, substantially all of the assets related to our U.S. operations, other than cash, were acquired by Luna Technologies, Inc., a wholly owned subsidiary of Luna Innovations Incorporated, for $5.0 million in cash, subject to a positive or negative adjustment based upon the final determination of our working capital compared to a target working capital amount specified in the Asset Purchase Agreement.

Exhibit 99.3

Unaudited Pro Forma Financial Statements

The following Unaudited Pro Forma Financial Statements (the “pro forma financial statements”) give effect to the acquisition of certain assets and liabilities of the U.S. operations of Micron Optics Inc. ("MOI") by Luna Technologies, Inc., a wholly owned subsidiary of Luna Innovations Incorporated ("Luna"), in a transaction to be accounted for under the acquisition method of accounting in accordance with Accounting Standards Codification 805, *Business Combinations*, with Luna as the identified acquirer the "Transaction.") These pro forma financial statements have been derived from the historical financial statements of Luna and MOI and are prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). The Unaudited Pro Forma Statement of Operations (the “pro forma statement of operations”) for the nine months ended September 30, 2018 and for the year ended December 31, 2017 combine the historical consolidated statement of operations of Luna and MOI for the respective periods, and give pro forma effect to the Transaction as if it had been completed on January 1, 2017. The Unaudited Pro Forma Balance Sheet (the “pro forma balance sheet”) as of September 30, 2018, combines the historical consolidated balance sheets of Luna and MOI as of September 30, 2018 and gives pro forma effect to the acquisition as if it had been completed on September 30, 2018.

The historical consolidated financial data has been adjusted to give pro forma effect to events that are (i) directly attributable to the Transaction, (ii) factually supportable and (iii) with respect to the statement of operations, expected to have a continuing impact on the combined results. The pro forma adjustments are preliminary and based on management’s estimates of the fair value and useful lives of the assets acquired and liabilities assumed and have been prepared to illustrate the estimated effect of the Transaction and certain other adjustments.

Assumptions and estimates underlying the unaudited adjustments to the pro forma financial statements are described in the accompanying notes, which should be read in conjunction with the pro forma financial statements. Since the pro forma financial statements have been prepared based on preliminary estimates, the final amounts recorded at the date of closing of the Transaction may differ materially from the information presented. These estimates are subject to change pending further review of the assets acquired and liabilities assumed and the final purchase price and its allocation thereof.

The pro forma financial statements have been presented for illustrative purposes only in accordance with Article 11 of Regulation S-X and are not necessarily indicative of the financial condition or results of operations of future periods or the financial condition or results of operations that actually would have been realized had the entities been combined during the period presented. The pro forma financial statements do not give effect to the potential impact of current financial conditions, regulatory matters or any anticipated synergies, operating efficiencies or cost savings that may be associated with the Transaction. These financial statements also do not include any integration costs, dissynergies or estimated future transaction costs, except for fixed contractual transaction costs, that the companies may incur as a result of the Transaction.

Pro Forma Financial Information

Unaudited Pro Forma Balance Sheet

As of September 30, 2018

	Luna Historical	MOI Historical	Excluded Assets and Liabilities of MOI	Pro Forma Adjustments	Note	Pro Forma Combined
Assets						
Cash and cash equivalents	$ 47,144,719	$ 1,299,778	$ (1,299,778)	$ (5,000,000)	(a)	$ 42,144,719
Short term investments	—	202,100	(202,100)	—		—
Accounts receivable	9,110,713	1,843,120	—	—		10,953,833
Receivable from sale of HSOR business	4,002,342	—	—	—		4,002,342
Contract assets	2,611,122	—	—	—		2,611,122
Inventory	5,462,414	1,440,583	—	—		6,902,997
Prepaid expenses and other current assets	730,368	41,583	—	—		771,951
Total current assets	69,061,678	4,827,164	(1,501,878)	(5,000,000)		67,386,964
Long term contract assets	343,492	—	—	—		343,492
Property and equipment	2,678,411	273,623	—	722,000	(c)	3,674,034
Intangible assets	1,709,003	212,695	—	(212,695)	(b)	2,774,977
				1,065,974	(c)	
Other assets	1,995	—	—	—		1,995
Total assets	$73,794,579	$5,313,482	$(1,501,878)	$(3,424,721)		$74,181,462
Liabilities and Stockholders' Equity						
Current portion of long term debt	$ 1,073,571	$ —	$ —	$ —		$ 1,073,571
Current portion of capital lease obligations	39,748	—	—	—		39,748
Accounts payable	2,297,457	212,152	—	—		2,509,609
Accrued liabilities	6,589,310	471,851	(297,120)	—		6,764,041
Contract liabilities	1,548,371	—	—	—		1,548,371
Related party payable	—	1,224,710	(1,224,710)	—		—
Total current liabilities	11,548,457	1,908,713	(1,521,830)	—		11,935,340
Long term capital lease obligations	83,405	—	—	—		83,405
Deferred rent	1,072,696	—	—	—		1,072,696
Total liabilities	12,704,558	1,908,713	(1,521,830)	—		13,091,441
Stockholders' Equity						
Preferred stock	1,322	—	—	—		1,322
Common stock	30,081	99,435	(99,435)	—		30,081
Treasury stock	(2,116,640)	(473,753)	473,753	—		(2,116,640)
Additional paid in capital	85,353,909	6,467,797	(6,467,797)	—		85,353,909
Accumulated deficit	(22,178,651)	(2,688,710)	2,688,710	—		(22,178,651)
Total stockholders' equity	61,090,021	3,404,769	(3,404,769)	—		61,090,021
Total liabilities and stockholders' equity	$73,794,579	$5,313,482	$(4,926,599)	$ —		$74,181,462

The accompanying notes are an integral part of these pro forma financial statements.

Unaudited Pro Forma Statement of Operations

For the Nine Months September 30, 2018

	Luna Historical	MOI Historical	Pro Forma Adjustments	Note	Pro Forma Combined
Revenues					
Technology development	$ 15,418,919	$ —	$ —		$ 15,418,919
Products and licensing	13,960,003	6,380,147	—		20,340,150
Total revenues	29,378,922	6,380,147	—		35,759,069
Cost of revenues					
Technology development	11,131,965	—	—		11,131,965
Products and licensing	5,381,333	2,443,266	—		7,824,599
Total cost of revenues	16,513,298	2,443,266	—		18,956,564
Gross profit	12,865,624	3,936,881	—		16,802,505
Operating expense					
Selling, general and administrative	9,898,064	2,472,816	337,500	(d)	12,920,691
			212,311	(e)	
Research, development and engineering	2,513,497	1,052,372			3,565,869
Total operating expenses	12,411,561	3,525,188	549,811		16,486,560
Operating income	454,063	411,693	(549,811)		315,945
Other income/(expense)					
Investment income	350,976	—	—		350,976
Other income/(expense)	(16,001)	97,950	—		81,949
Interest expense	(103,208)	(56,786)	—		(159,994)
Total other income	231,767	41,164	—		272,931
Income from continuing operations before income taxes	685,830	452,857	(549,811)		588,876
Income tax benefit	(674,329)	—	—		(674,329)
Net income from continuing operations	$ 1,360,159	$ 452,857	$ (549,811)		$ 1,263,205
Net income per share from continuing operations					
Basic	$ 0.05				$ 0.05
Diluted	$ 0.04				$ 0.04
Weighted average common shares and common equivalent shares outstanding					
Basic	27,901,631				27,901,631
Diluted	33,055,881				33,055,881

The accompanying notes are an integral part of these pro forma financial statements.

Unaudited Pro Forma Statement of Operations

For the Year Ended December 31, 2017

	Luna Historical	MOI Historical	Pro Forma Adjustments	Note	Pro Forma Combined
Revenues					
Technology development	$ 18,576,383	$ —	$ —		$ 18,576,383
Products and licensing	27,660,891	7,872,228	—		35,533,119
Total revenues	46,237,274	7,872,228	—		54,109,502
Cost of revenues					
Technology development	13,988,378	—	—		13,988,378
Products and licensing	14,120,071	3,482,561	—		17,602,632
Total cost of revenues	28,108,449	3,482,561	—		31,591,010
Gross profit	18,128,825	4,389,667	—		22,518,492
Operating expense					
Selling, general and administrative	14,770,986	3,909,531	450,000	(d)	19,393,485
			262,968	(e)	
Research, development and engineering	3,469,193	1,184,819			4,654,012
Total operating expense	18,240,179	5,094,350	712,968		24,047,497
Operating loss	(111,354)	(704,683)	(712,968)		(1,529,005)
Other expense					
Other income/(expense)	(4,498)	(33,623)	—		(38,121)
Interest expense	(218,506)	(76,399)	—		(294,905)
Total other expense	(223,004)	(110,022)	—		(333,026)
Income from continuing operations before income taxes	(334,358)	(814,705)	(712,968)		(1,862,031)
Income tax benefit	(295,753)	—	—		(295,753)
Net income from continuing operations	$ (38,605)	$ (814,705)	$ (712,968)		$ (1,566,278)
Net income per share from continuing operations					
Basic and diluted	$ —				$ (0.06)
Weighted average common shares and common equivalent shares outstanding					
Basic and diluted	27,579,988				27,579,988

The accompanying notes are an integral part of these pro forma financial statements.

On October 15, 2018, Luna Technologies Inc., a wholly-owned subsidiary of Luna Innovations Incorporated, ("Luna" or the "Company") completed the acquisition of substantially all of the assets related to the U.S. operations, other than cash, of Micron Optics, Inc. ("MOI"). Under the terms of the asset purchase agreement, Luna acquired substantially all of the assets of MOI other than cash and investments in foreign entities and assumed certain liabilities of MOI as of the acquisition date. The unaudited pro forma financial statements have been prepared to give effect to the completed acquisition as if the acquisition had taken place as of January 1, 2017, the beginning of the earliest fiscal period presented, with respect to the statements of operations, and as of September 30, 2018, with respect to the balance sheet.

The pro forma amounts have been developed from the unaudited consolidated financial statements for the nine months ended September 30, 2018, for Luna and the U.S. operations of MOI, as well as the audited consolidated financial statements of Luna contained in its Annual Report on Form 10-K for the year ended December 31, 2017, and audited financial statements of the U.S. operations of MOI for the year ended December 31, 2017. The assumptions, estimates, and adjustments here have been made solely for the purposes of developing the financial statements.

In accordance with the purchase method of accounting, the assets and liabilities of MOI were recorded at their respective estimated fair values as of the date of acquisition. Management's estimates of the fair value of assets acquired and liabilities assumed are based, in part, on third-party evaluations. The preliminary allocation of the purchase price was based upon a preliminary valuation, and our estimates and assumptions are subject to change.

The unaudited pro forma financial statements are provided for illustrative purposes only and are not intended to represent the actual consolidated results of operations or the consolidated financial positions of Luna had the acquisition occurred on the dates assumed, nor are they necessarily indicative of future consolidated results of operations or consolidated financial position. The unaudited pro forma financial statements should be read in conjunction with the separate historical consolidated financial statements of Luna and the U.S. operations of MOI.

Note A. Basis of Presentation

On October 15, 2018, the Company completed the acquisition of substantially all of the assets, other than cash, of the U.S. operations of MOI, a leading provider of innovative optical components and laser-based equipment that advance the quality of optical measurements, allowing the sensing, imaging, and telecommunications industries to make critical measurements. The acquisition expands the Company's capabilities in fiber-optic based sensing applications. The purchase price was $5.0 million in cash, subject to future adjustment based upon the final determination of the working capital of MOI, as defined in the asset purchase agreement. The estimated excess of the purchase price over the estimated fair value of the net tangible assets acquired was approximately $1.8 million. The intangible assets consist primarily of acquired technology, customer relationships, and trade names. The Company is still evaluating the fair value of the acquired assets and liabilities and any pre-acquisition contingencies. Therefore, the final allocation of the purchase price has not been completed.

Note B. Pro Forma Adjustments

Amounts included under the column heading "Excluded Assets and Liabilities of MOI" on the unaudited pro forma balance sheet represent the values of the assets and liabilities of the U.S. operations of MOI that were not acquired or assumed by Luna under the terms of the asset purchase agreement. The excluded assets and liabilities consist primarily of cash, amounts receivable or payable for taxes associated with periods prior to the acquisition date, and amounts payable for employment related costs associated with periods prior to the acquisition date.

Amounts included under the column heading "Pro Forma Adjustments" in the unaudited financial statements include the estimated purchase price allocation, incremental share-based compensation expense for stock options granted to certain key employees at the acquisition date, and amortization expense associated with the identified intangible assets. The pro forma adjustments included in the unaudited financial statements are as follows:

(a)- Reflect the payment of the purchase price to MOI
(b)- Eliminate balance of intangible assets recorded prior to the acquisition
(c)- Record estimated value of intangible assets acquired as identified in preliminary purchase price allocation
(d)- Record incremental share-based compensation expense associated with stock options granted at the acquisition date
(e)- Eliminate historical depreciation expense of MOI property and equipment assets and amortization expense associated with the historical intangible assets of MOI and record the amortization expense associated with the fair value of property and equipment and intangible assets identified in the preliminary purchase price allocation.