

LUNA INNOVATIONS INC
Form DEF 14A
April 20, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

LUNA INNOVATIONS INCORPORATED
(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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- x No fee required.
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 - (2) Aggregate number of securities to which transaction applies:

 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

 - (4) Proposed maximum aggregate value of transaction:

 - (5) Total fee paid:
- .. Fee paid previously with preliminary materials.
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 - (1) Amount Previously Paid:

 - (2) Form, Schedule or Registration Statement No.:

 - (3) Filing Party:

 - (4) Date Filed:

1 Riverside Circle, Suite 400

Roanoke, Virginia 24016

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON MAY 22, 2012

To the Stockholders of Luna Innovations Incorporated:

Notice is hereby given that the Annual Meeting of Stockholders of Luna Innovations Incorporated (the Company) will be held at the **Roanoke Higher Education Center, 108 N. Jefferson Street, Roanoke, Virginia 24016 on Tuesday, May 22, 2012, at 9:00 a.m. EDT** for the following purposes:

1. To elect the Board's two nominees named herein to serve as Class III members of the Company's board of directors to hold office until the 2015 annual meeting of stockholders.
2. To ratify the appointment, by the audit committee of the Company's board of directors, of Grant Thornton LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2012.
3. To transact any other business that is properly brought before the meeting or any adjournment or postponement thereof.

Please refer to the attached proxy statement, which forms a part of this Notice and is incorporated herein by reference, for further information with respect to the business to be transacted at the annual meeting.

Stockholders of record at the close of business on April 9, 2012 (the Record Date) are entitled to notice of, and to vote at, the annual meeting or any adjournment or postponement thereof. The presence, in person or by proxy, of shares of the Company's common stock representing a majority of shares of the Company's common stock issued and outstanding on the Record Date will be required to establish a quorum at the annual meeting.

Your vote is important. Please sign, date and return the enclosed proxy card as soon as possible, or vote by telephone or on the Internet as instructed in these materials, to make sure that your shares are represented at the annual meeting. If you are a stockholder of record of the Company's common stock, you may cast your vote by proxy or in person at the annual meeting. If your shares are held of record by a brokerage firm, bank or other nominee, you must obtain a proxy issued in your name from that record holder and should instruct the record holder as to how to vote your shares.

By Order of the Board of Directors,

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/s/ Talfourd H. Kemper, Jr.
Talfourd H. Kemper, Jr.
Vice President, General Counsel and Secretary

Roanoke, Virginia

April 24, 2012

You are cordially invited to attend the annual meeting. Whether or not you plan to attend in person, please complete, sign, date and return the accompanying proxy card in the enclosed envelope, or vote by telephone or on the Internet as instructed in these materials, as promptly as possible in order to ensure your representation at the meeting. Even if you have voted by proxy, you may still vote in person if you attend the meeting.

Important Notice Regarding the Availability of Proxy Materials for the Meeting of Stockholders to be held on May 22, 2012: The Proxy Statement and Annual Report to Stockholders are available at <https://www.materials.proxyvote.com/550351>.

LUNA INNOVATIONS INCORPORATED

PROXY STATEMENT

FOR

ANNUAL MEETING OF STOCKHOLDERS

MAY 22, 2012

INFORMATION CONCERNING SOLICITATION AND VOTING

General

This proxy statement is furnished to the stockholders of Luna Innovations Incorporated (the Company, we, us, or our) in connection with the solicitation of proxies for use at our annual meeting of stockholders to be held on May 22, 2012 at 9:00 a.m. EDT at the Roanoke Higher Education Center, 108 N. Jefferson Street, Roanoke, Virginia 24016 for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. Directions to the annual meeting may be found at <http://www.education.edu/directions-parking.html>. Information on how to vote in person at the annual meeting is discussed below.

A copy of our Annual Report to Stockholders, which includes our annual report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission, together with this proxy statement and accompanying proxy card, is expected to be mailed on or about April 24, 2012 to our stockholders of record as of the close of business on April 9, 2012 (the Record Date). Those materials are also available at <https://www.materials.proxyvote.com/550351>.

This solicitation is made on behalf of our board of directors, and we will pay the costs of solicitation. We will reimburse banks, brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending our proxy material to our stockholders. Our principal executive offices are located at 1 Riverside Circle, Suite 400, Roanoke, Virginia 24016, and our telephone number is (540) 769-8400.

Shares Entitled to Vote and Quorum Requirement

Our outstanding common stock constitutes the only class of securities entitled to vote at the annual meeting. Stockholders of record of our common stock at the close of business on the Record Date are entitled to notice of, and to vote at, our 2012 annual meeting of stockholders. A list of our stockholders will be available for review at our principal executive offices during regular business hours for a period of ten days prior to the annual meeting. As of the close of business on April 9, 2012, 13,888,454 shares of our common stock were issued and outstanding; therefore, the presence at the meeting, in person or by proxy, of at least 6,944,228 shares of common stock will constitute a quorum. Each share of common stock owned as of the Record Date is entitled to one vote. If there is no quorum, holders of a majority of shares present at the meeting in person or represented by proxy may adjourn the meeting to another date.

Voting Procedures

The procedures for voting differ depending on whether you are a stockholder of record (that is, if your shares are registered directly in your own name with the Company's transfer agent) or you hold your shares in street name (that is, your shares are held in an account at a brokerage, bank, dealer or other similar organization rather than in your own name, in which case you are considered to be the beneficial owner of those shares).

Stockholders of Record

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Stockholders of record may vote by (i) completing and returning the enclosed proxy card prior to the meeting, (ii) voting over the telephone, (iii) voting on the Internet, (iv) voting in person by ballot at the meeting, or (v) submitting a signed proxy card at the meeting.

A proxy card is enclosed for your use. We ask that you carefully review, complete, sign, date and return the proxy card in the accompanying envelope, which is postage prepaid if mailed in the United States.

Instead of submitting your vote in person or by mail, you may vote by telephone or over the Internet. In order to vote by telephone or over the Internet, please have the enclosed proxy card available for reference, and call the number or visit the website listed on the proxy card and follow the instructions. You will be asked to provide the company number and control number from the enclosed proxy card. Your vote must be received by 11:59 p.m., Eastern Time on Monday, May 21, 2012 to be counted. The telephone and Internet voting procedures are designed to authenticate stockholders' identities, to allow stockholders to give their voting instructions and to confirm that stockholders' instructions have been recorded properly.

If you are a stockholder of record and do not vote by completing your proxy card, by telephone, by mail, over the Internet or in person at the annual meeting, your shares will not be voted.

Beneficial Owners

If your shares are held in street name, the organization holding your account is considered to be the stockholder of record for purposes of voting at the annual meeting. If you are a beneficial owner of shares registered in the name of your broker, bank, or other agent, you should have received a voting instruction form with these proxy materials from that organization rather than from the Company. As a beneficial owner, you still have the right to direct your broker or other agent regarding how to vote the shares in your account. Simply complete and mail the voting instruction form to ensure that your vote is counted. Alternatively, you may vote by telephone or over the Internet as instructed by your broker or bank.

You are also invited to attend the annual meeting. However, since you are not the stockholder of record, you may not vote your shares in person at the meeting unless you request and obtain a valid proxy from your broker or other agent. Follow the instructions from your broker or bank included with these proxy materials, or contact your broker or bank to request a proxy form.

If you are a beneficial owner and do not instruct your broker, bank, or other agent how to vote your shares, the question of whether your broker or nominee will still be able to vote your shares depends on whether the New York Stock Exchange, or NYSE, deems the particular proposal to be a routine matter. Even though our common stock is listed on the NASDAQ Capital Market, the NYSE rules apply to brokers who are NYSE members voting on matters being submitted to stockholders at our annual meeting. Brokers and nominees can use their discretion to vote uninstructed shares with respect to matters that are considered to be routine, but not with respect to non-routine matters. Under the rules and interpretations of the NYSE, non-routine matters are matters that may substantially affect the rights or privileges of stockholders, such as mergers, stockholder proposals, elections of directors (even if not contested), executive compensation and certain corporate governance proposals, even if supported by management. Accordingly, your broker or nominee may not vote your shares on Proposal No. 1 without your instructions, but may vote your shares on Proposal No. 2.

We provide Internet proxy voting to allow you to vote your shares online, with procedures designed to ensure the authenticity and correctness of your proxy vote instructions. There is no cost associated with casting your vote online. However, please be aware that you must bear any costs associated with your Internet access, such as usage charges from Internet access providers and telephone companies.

The persons named as attorneys-in-fact to vote the proxies, My E. Chung and Dale E. Messick, were selected by the board of directors and are executive officers of the Company. All properly executed proxies returned in time to be counted at the annual meeting will be voted.

If you return a signed and dated proxy card without marking voting selections, then unless there are different instructions on the proxy card, your shares will be voted at the meeting **FOR** the election of the two director nominees listed in Proposal No. 1 and **FOR** the ratification of the appointment of our independent

registered public accounting firm in Proposal No. 2. With respect to any other business that may properly come before the annual meeting and be submitted to a vote of stockholders, proxies will be voted in accordance with the best judgment of the designated proxy holders.

All votes cast at the annual meeting will be tabulated by the person or persons appointed by our board of directors to act as inspectors of election for the meeting. The inspectors of election will separately count, for Proposal No. 1, the election of directors, votes For, Withhold and broker non-votes, and with respect to Proposal No. 2, votes For and Against, abstentions and broker non-votes. Broker non-votes occur when a beneficial owner of shares held in street name does not give instructions to the broker or nominee holding the shares as to how to vote on matters deemed non-routine, in which case the broker or nominee cannot vote the shares, as described above.

Abstentions and broker non-votes will be counted as shares that are present and entitled to vote for purposes of determining the presence of a quorum. Abstentions will be counted towards the vote total for Proposal No. 2 and will have the same effect as Against votes. Broker non-votes have no effect and are not included in the tabulation of voting results on either proposal.

The director nominees listed in Proposal No. 1 will be elected by a plurality of the votes of the shares present or represented by proxy at the meeting and entitled to vote on the election of directors. The two nominees receiving the most For votes will be elected. The appointment of our independent registered public accounting firm listed in Proposal No. 2 will be ratified if a majority of shares present or represented by proxy at the meeting and entitled to vote thereon vote **FOR** such proposal.

Your vote is important. Accordingly, please carefully review, complete, sign, date and return the enclosed proxy card, or vote over the telephone or Internet, whether or not you plan to attend the annual meeting in person.

If you receive more than one set of proxy materials, your shares may be registered in more than one name or in different accounts. Please follow the voting instructions on the proxy cards in the proxy materials to ensure that all of your shares are voted.

Changing Your Vote

If you are a stockholder of record, you may revoke your proxy at any time before it is actually voted at the meeting either by signing and submitting a new proxy card with a later date or by attending the annual meeting and voting in person. You may also grant a subsequent proxy by telephone or over the Internet. Your most recently submitted proxy card or telephone or Internet proxy is the one that will be counted. Merely attending the meeting, however, will not revoke your submitted proxy unless you vote at the meeting, which will have the effect of revoking your proxy. You may also send a timely written notice that you are revoking your proxy to our Corporate Secretary at 1 Riverside Circle, Suite 400, Roanoke, Virginia 24016.

If you hold shares through a bank or brokerage firm, you should have received a proxy card and voting instructions with these proxy materials, and you must contact the bank or brokerage firm directly to revoke any prior voting instructions.

Results of Voting

Preliminary voting results will be announced at the annual meeting. In addition, final voting results will be published in a current report on Form 8-K that we expect to file within four business days after the annual meeting. If final voting results are not available to us in time to file a Form 8-K within four business days after the annual meeting, we intend to file a Form 8-K to publish preliminary results and, within four business days after the final results are known to us, file an additional Form 8-K to publish the final results.

PROPOSAL NO. 1**ELECTION OF DIRECTORS****General Information**

Our board of directors is divided into three classes (Class I, Class II and Class III) with staggered three-year terms. Each class consists, as nearly as possible, of one-third of the total number of directors. Vacancies on the board of directors may be filled only by persons elected by a majority of the remaining directors. A director elected by the board of directors to fill a vacancy in a class, including vacancies created by an increase in the number of directors, shall serve for the remainder of the full term of that class and until the director's successor is duly elected and qualified.

The board of directors currently has eight members, including two Class III directors whose terms expire at the 2012 annual meeting. One of these directors, Jonathan M. Cool, has not been nominated for re-election at the annual meeting, and his term will expire upon the election of his successor at the annual meeting. The terms of the Class I and Class II directors will expire at the 2013 and 2014 annual meetings of the stockholders, respectively. The Class I and Class II directors will continue to serve their respective terms.

Our board of directors has nominated My E. Chung and Neil D. Wilkin, Jr. to serve as Class III directors for a three-year term expiring at the 2015 annual meeting of stockholders and until their successors have been duly elected and qualified, or, if sooner, until the director's death, resignation or removal. Mr. Chung is currently the President and Chief Executive Officer of, and a director of, the Company. He was originally appointed in April 2011 as a Class I director. In February 2012, Mr. Chung resigned as a Class I director and was immediately reappointed as a Class III director whose term was scheduled to expire at the 2012 annual meeting. Mr. Wilkin was originally recommended to our Nominating and Governance Committee by a non-management member of our Nominating and Governance Committee.

Directors are elected by a plurality of the votes of shares present in person or represented by proxy and entitled to vote on the election of directors. Proxies cannot be voted for more than two nominees. The two nominees receiving the highest number of For votes will be elected. Only votes For and Withheld will affect the outcome. Broker non-votes will have no effect on this proposal. Shares represented by executed proxies will be voted For the election of the two nominees recommended by the board of directors unless the proxy is marked in such a manner so as to withhold authority to vote. If any of the nominees is unable or unexpectedly declines to serve as director, the board of directors may designate another nominee to fill the vacancy, and the proxy will be voted for that nominee. Each person nominated for election has agreed to serve if elected, and we have no reason to believe that either nominee will be unable to serve.

The names of the two nominees for director and of our other directors whose terms will continue after the annual meeting, their ages as of April 1, 2012, and certain other information about them are set forth below. Kent Murphy and Edward Murphy are not related. There are no family relationships among our directors or executive officers.

Names of Nominees	Age	Position(s)	Director Since
My E. Chung	59	Director	2011
Neil D. Wilkin, Jr.	48	Director nominee	N/A
Names of the Incumbent Directors with			
Terms Continuing After 2012 Annual Meeting	Age	Position(s)	Director Since
Kent A. Murphy, Ph.D.	53	Vice Chairman of the Board of Directors	1990
Edward G. Murphy, M.D.	56	Director	2005
Richard W. Roedel	62	Chairman of the Board of Directors	2005
Michael W. Wise	61	Director	2011
Warner Dalhouse	77	Director	2010
John B. Williamson, III	57	Director	2010

Our Nominating and Governance Committee seeks to assemble a board of directors that, as a whole, possesses the appropriate balance of professional and industry knowledge, financial expertise and high-level management experience necessary to oversee and direct our business. To that end, the committee has identified and evaluated nominees in the broader context of the board's overall composition, with the goal of recruiting members who complement and strengthen the skills of other members and who also exhibit integrity, collegiality, sound business judgment and other qualities that the committee views as critical to effective functioning of the board. The biographies below include information, as of the date of this proxy statement, relating to the specific and particular experience, qualifications, attributes or skills of each director or nominee that led the committee to believe that the nominee or director should serve or continue to serve, as applicable, on the board. However, each of the members of the committee may have a variety of reasons why he believes a particular person would be an appropriate nominee for the board, and these views may differ from the views of other members.

Class III Director Nominees for Election for a Three-Year Term Expiring at the 2015 Annual Meeting of Stockholders

My E. Chung has served as our President and Chief Executive Officer and as a member of our board of directors since April 2011. He previously served as Senior Vice President of Worldwide Sales for Sunrise Telecom, a publicly held provider of communications test and measurement solutions for telecom, cable and wireless networks, from September 2009 to March 2011. In 2005, Mr. Chung was appointed as President and Chief Executive Officer of Circadiant Systems, an optical testing company, and served in that role until the company's acquisition by JDS Uniphase Corporation in November 2008, and continued as senior director of the Circadiant business unit of the combined company until June 2009. From 1998 to 2004, he served as Group President of Spirent Communications, a division of Spirent PLC, a publicly held provider of communications test equipment, and served on Spirent PLC's board of directors as Executive Director from 2001 to 2004. Previously, he was Division President of Acterna, formerly known as Telecommunications Techniques Corporation, or TTC. Having joined TTC in 1987 as National Sales Manager, Mr. Chung later became Director of Sales and Vice President of U.S. Sales. In 1992, he became Division President with responsibility for the Network Services Division focusing on products used in the installation and maintenance of networks at customer premises. His responsibilities included product development, marketing, manufacturing and accounting. He was involved in setting TTC's strategic direction through a number of strategic partnerships and acquisitions. Mr. Chung's earlier career was spent at Agilent, formerly Hewlett-Packard Company, where he spent 11 years in sales and sales management. Mr. Chung received a bachelor's degree in electrical engineering from New Jersey Institute of Technology. The Nominating and Governance Committee believes that Mr. Chung's position as our President and Chief Executive Officer and his prior management experience with technology companies will enable him to continue to make valuable contributions to our board of directors.

Neil D. Wilkin, Jr. is a nominee of our board of directors. He has served since September 2003 as chairman of the board of directors and President and Chief Executive Officer of Optical Cable Corporation, a publicly held optical fiber company based in Roanoke, Virginia. Mr. Wilkin has served as a director of Optical Cable Corporation since 2001 and previously served as Chief Financial Officer and Senior Vice President of that company from 2001 to 2003. Prior to joining Optical Cable Corporation, Mr. Wilkin served as Senior Vice President, Chief Financial Officer and Treasurer of homebytes.com, incorporated, or Homebytes, a nationally licensed real estate brokerage company, which he joined in 2000. He also was Senior Vice President and Chief Financial Officer of Owners.com, Inc., a subsidiary of Homebytes. Mr. Wilkin previously practiced law for over five years, with expertise in mergers and acquisitions, corporate finance and general corporate matters, at the firms of McGuireWoods LLP and Kirkland & Ellis. Mr. Wilkin is also a Certified Public Accountant and practiced with Coopers & Lybrand (a predecessor to PricewaterhouseCoopers) before returning to graduate business school and law school. Mr. Wilkin earned his MBA degree from the Darden School at the University of Virginia, is a graduate of the University of Virginia School of Law, and received his undergraduate degree from the McIntire School of Commerce at the University of Virginia. The Nominating and Governance Committee believes that Mr. Wilkin's experience as a public technology company chief executive officer and his business,

entrepreneurial, financial and legal backgrounds will enable him to make valuable contributions to our board of directors.

THE BOARD OF DIRECTORS RECOMMENDS YOU VOTE FOR EACH NAMED NOMINEE.

Class I Directors Continuing in Office Until the 2013 Annual Meeting

Richard W. Roedel has served as a member of our board of directors since 2005 and as chairman of our board of directors since January 2010. Mr. Roedel also serves as a director of publicly held companies Brightpoint, Inc., IHS, Inc., Sealy Corporation, Lorillard, Inc. and Six Flags Entertainment Corporation. Mr. Roedel is chairman of the compensation committee of Brightpoint, chairman of the audit committee and member of the nominating and corporate governance committee of Sealy, chairman of the audit committee and member of the nominating committee of Lorillard, and a member of the audit committees of IHS and Six Flags. Mr. Roedel also serves as the lead independent director of Lorillard. He is also a director of the Association of Audit Committee Members, Inc., a not-for-profit organization dedicated to strengthening audit committees, and Broadview Network Holdings, Inc., a private company with publicly traded debt. Mr. Roedel was a director and chairman of the audit committee of Dade Behring Holdings, Inc. from 2002 until 2007 when Dade was acquired by Siemens AG. Mr. Roedel served in various capacities at Take-Two Interactive Software, Inc. from 2002 until 2005, including chairman and chief executive officer. From 1971 through 2000, he was employed by BDO Seidman LLP, becoming an audit partner in 1980, later being promoted in 1990 to managing partner in Chicago and then managing partner in New York in 1994, and finally, in 1999, to chairman and chief executive officer. Mr. Roedel holds a B.S. degree in accounting from The Ohio State University and is a Certified Public Accountant. The Nominating and Governance Committee believes that Mr. Roedel's public accounting experience and his status as an authority on issues facing audit committees, his extensive service on public company boards and committees and his deep familiarity with our company make him a valuable member of the board of directors.

Edward G. Murphy, M.D. has served as a member of our board of directors since 2005. Since July 2011, Dr. Murphy has served as chairman of the board of directors of Sound Physicians, a provider of hospitalist physician services. From 2001 until June 2011, Dr. Murphy served as President and Chief Executive Officer of Carilion Clinic, where he previously served as Executive Vice President and Chief Operating Officer since joining Carilion in 1998. The Nominating and Governance Committee believes that Dr. Murphy's scientific expertise, local leadership, industry background and experience as a chief executive officer of a healthcare system all position him to make an effective contribution to the medical and scientific understanding of the board, which the committee believes to be particularly important as we accelerate our product development efforts. Dr. Murphy holds a B.S. degree in biochemistry and economics from the University of New York at Albany and an M.D. from Harvard Medical School and serves on the faculty of the Virginia Tech Carilion School of Medicine.

Kent A. Murphy, Ph.D. founded our company in 1990 and served as our President until May 2010 and as our Chief Executive Officer until August 2010. Dr. Murphy also served as chairman of our board of directors from 1992 to January 2010 and has served as vice chairman of the board since August 2010. Since August 2010, Dr. Murphy has acted as a strategic advisor to several technology businesses. The Nominating and Governance Committee believes that Dr. Murphy, with his prior history as our founder and chief executive officer and his long tenure as an officer and director, along with his depth and breadth of scientific knowledge in critical areas, brings to the board of directors an extensive knowledge of our company and scientific expertise. Dr. Murphy received a Ph.D. in electrical engineering from Virginia Polytechnic Institute and State University (Virginia Tech) and was formerly a tenured professor in Virginia Tech's Bradley Department of Engineering.

Class II Directors Continuing in Office Until the 2014 Annual Meeting

Michael W. Wise has served as a member of our board of directors since May 2011. Mr. Wise currently serves as the Chief Financial Officer of Corvesta, Inc., an insurance and technology holding company, and Chief

Financial Officer of its subsidiary Delta Dental of Virginia. Mr. Wise serves on the boards of directors and as treasurer of several additional Corvesta portfolio companies, including Mercury Data Exchange, a technology company providing electronic data interchange solutions to insurance payers, provider practices, practice management system vendors and healthcare clearinghouses in the dental industry; Corvesta Life Insurance Company, a life and health insurance company; and Corvesta Services Software Solutions India, an offshore information technology services company. Prior to joining Delta Dental of Virginia as its Chief Financial Officer in 1996, Mr. Wise owned and managed several small businesses. He also currently serves and has in the past served on numerous boards of directors of local non-profit organizations. The Nominating and Governance Committee believes that Mr. Wise's accounting and financial background, his experience in funding and managing technology companies through growth periods, his experience as an entrepreneur and his local and community leadership make him a valuable member of our board of directors. Mr. Wise is also one of our largest stockholders, which the committee believes evidences his commitment to the long-term interests of our stockholders. He received B.S. degree in Business Administration - Accounting from West Virginia University and was previously a Certified Public Accountant.

Warner Dalhouse has served as a member of our board of directors since January 2010. Prior to his retirement, he was Chairman and Chief Executive Officer of Dominion Bankshares Corporation, which later became First Union National Bank of Virginia. He currently serves as a director and chairman of the corporate governance committee of HomeTown Bankshares Corporation, a publicly held local bank, as well as a director of the Virginia Tech Carilion School of Medicine. The Nominating and Governance Committee believes that Mr. Dalhouse's local leadership, extensive executive and director experience, banking background and compensation committee experience will allow him to continue to make valuable contributions to the board of directors. He received a B.S. degree in Commerce from the University of Virginia and attended the Rutgers University Stonier Graduate School of Banking.

John B. Williamson, III has served as a member of our board of directors since January 2010. He has served as Chairman and Chief Executive Officer of RGC Resources, Inc., a publicly held energy distribution and services holding company, since 2003. Mr. Williamson is a member of the boards of directors of Botetourt Bankshares, Inc., a publicly held local bank where he serves as chairman of the audit committee; Optical Cable Corporation, a publicly held optical fiber manufacturer, where he serves as the chairman of the audit committee and a member of the nominating and corporate governance committee; and Corning Natural Gas Corporation, a publicly held natural gas company, where he serves on the audit and compensation committees. He was formerly a board member of NTELOS, Inc., a publicly held telecommunications company, where he also served as chairman of the audit committee. Mr. Williamson also formerly served in government executive capacities, including as County Administrator for Botetourt and Nelson Counties in Virginia. The Nominating and Governance Committee believes that Mr. Williamson's public company chief executive officer experience, his experience as audit committee chairman of other public companies and his local and community leadership will enable him to continue to make valuable contributions to the board of directors. He earned a bachelor's degree in business administration and management from Virginia Commonwealth University and an M.B.A. degree from the College of William and Mary.

Independence of the Board of Directors

As required under the NASDAQ Stock Market (NASDAQ) listing standards, a majority of the members of a listed company's board of directors must qualify as independent, as affirmatively determined by the board of directors. Our board of directors consults with legal counsel to ensure that the board's determinations are consistent with relevant securities and other laws and regulations regarding the definition of independent, including those set forth in pertinent NASDAQ listing standards, as in effect from time to time.

Consistent with these considerations, after review of all relevant identified transactions or relationships between each director or director nominee, or any of his family members, and the Company, its senior management and its independent auditors, our board of directors has affirmatively determined that the following six current directors are independent within the meaning of the applicable NASDAQ listing standards: Mr. Wise,

Dr. Ed Murphy, Mr. Dalhouse, Mr. Williamson, Mr. Cool and Mr. Roedel. The Board has also affirmatively determined that Mr. Wilkin, the Board's nominee for director, is independent within the meaning of the applicable NASDAQ listing standards. In making these determinations, the board found that none of these directors or nominees for director had a material or other disqualifying relationship with the Company. Dr. Kent Murphy, the Company's former President and Chief Executive Officer, is not independent by virtue of his prior employment with us through August 2010. Mr. Chung is not independent, as he is currently employed by us as our President and Chief Executive Officer.

Board Leadership Structure

In January 2010, our board of directors designated an independent non-executive Chairman, Mr. Roedel, who has authority, among other things, to call and preside over board meetings, including meetings of the independent directors, to set meeting agendas and to determine materials to be distributed to the board. Accordingly, the non-executive Chairman has substantial ability to shape the work of the board. We believe that separation of the positions of Chairman and Chief Executive Officer reinforces the independence of the board in its oversight of our business and affairs. In addition, we believe that having an independent non-executive Chairman creates an environment that is more conducive to objective evaluation and oversight of management's performance, increasing management accountability and improving the ability of the board to monitor whether management's actions are in the best interests of the Company and our stockholders. As a result, we believe that having an independent non-executive Chairman can enhance the effectiveness of the board as a whole.

Role of the Board in Risk Oversight

One of the board's key functions is informed oversight of our risk management process. The board does not have a standing risk management committee, but rather administers this oversight function directly through the board as a whole, as well as through its standing committees that address risks inherent in their respective areas of oversight. Our Audit Committee has the responsibility to consider and discuss our major financial risk exposures and the steps our management has taken to monitor and control these exposures, including guidelines and policies to govern the process by which risk assessment and management is undertaken. The Audit Committee also monitors compliance with legal and regulatory requirements. Our Nominating and Governance Committee monitors the effectiveness of our corporate governance policies, including whether they are successful in preventing illegal or improper liability-creating conduct. Our Compensation Committee assesses and monitors whether any of our compensation policies and programs have the potential to encourage excessive risk-taking.

Information Regarding Certain Committees of the Board of Directors

Our board of directors has established an Audit Committee, a Compensation Committee and a Nominating and Governance Committee. Our board of directors and its committees meet regularly throughout the year and also hold special meetings and act by written consent from time to time as appropriate. Our board of directors has delegated various responsibilities and authority to these committees as generally described below. The committees regularly report on their activities and actions to the full board of directors. Each of these committees of our board of directors has a written charter approved by our board of directors. In 2010, our board also established a Strategy Committee to focus on our long-term strategy.

The following table provides the membership information for 2011 for each of the Audit, Compensation and Nominating and Governance committees:

Name	Audit	Compensation	Nominating and Governance
My E. Chung			
Kent A. Murphy, Ph.D.			
Edward G. Murphy, M.D.	X ⁽¹⁾		
N. Leigh Anderson, Ph.D.(2)	X	X	
Warner Dalhouse		X*	X
John B. Williamson, III	X*	X ⁽³⁾	X
Jonathan M. Cool			
Richard W. Roedel	X ⁽¹⁾	X	X*
Michael W. Wise(4)	X	X ⁽³⁾	

* Committee Chairman

- (1) Dr. Edward Murphy replaced Mr. Roedel on the Audit Committee on November 15, 2011.
- (2) Mr. Anderson's term on our board of directors expired on May 24, 2011.
- (3) Mr. Williamson was replaced on the Compensation Committee by Mr. Wise on May 24, 2011.
- (4) Mr. Wise was elected to our board of directors and appointed to these committees on May 24, 2011.

Audit Committee

The Audit Committee of our board of directors recommends the appointment of our independent auditors, reviews our internal accounting procedures and financial statements, and consults with and reviews the services provided by our independent auditors, including the results and scope of their audit.

The Audit Committee is currently composed of Mr. Williamson, Dr. Edward Murphy and Mr. Wise. Mr. Williamson is the chairman of the committee. Mr. Wise replaced Dr. Anderson on May 24, 2011. Dr. Edward Murphy replaced Mr. Roedel on November 15, 2011. The Audit Committee met six times, including telephonic meetings, during 2011.

The board of directors reviews the NASDAQ listing standards definition of independence for audit committee members on an annual basis and has determined that each member of the Audit Committee is independent within the meaning of the requirements of the Sarbanes-Oxley Act of 2002 and applicable SEC and NASDAQ rules, including Rule 5605(c)(2)(A)(i) and (ii) of the NASDAQ listing rules. The board of directors has also determined that each of Messrs. Williamson and Wise qualifies as an audit committee financial expert, as currently defined under applicable SEC rules, as did Mr. Roedel during his service on the Audit Committee. In reaching this determination, the Board made a qualitative assessment of their level of knowledge and experience based on a number of factors, including their formal education and extensive experience at an executive and audit committee level and, in the case of Messrs. Wise and Roedel, their professional experience as certified public accountants.

The Audit Committee operates under a written charter adopted by the board of directors, which is available in the Investor Relations section of our website at www.lunainnovations.com.

Compensation Committee

The Compensation Committee of our board of directors reviews and implements changes to the compensation and benefits for our executive officers, administers our stock plans, and establishes and reviews general policies relating to compensation and benefits for certain of our officers.

The Compensation Committee is currently composed of Mr. Dalhouse, Mr. Wise and Mr. Roedel. Mr. Wise replaced Dr. Anderson and Mr. Roedel replaced Mr. Williamson on May 24, 2011. Mr. Dalhouse serves as the chairman of the committee. The Compensation Committee met four times in 2011.

Each member of the Compensation Committee is independent within the meaning of applicable NASDAQ listing rules.

The Compensation Committee operates under a written charter adopted by the board of directors, which is available in the Investor Relations section of our website at www.lunainnovations.com.

Typically, the Compensation Committee meets at least quarterly and with greater frequency if necessary. The agenda for each meeting is usually developed by the chairman of the compensation committee, in consultation with the Chief Executive Officer, Chief Financial Officer and/or General Counsel. The Compensation Committee meets regularly in executive session. However, from time to time, various members of management and other employees as well as outside advisors or consultants may be invited by the Compensation Committee to make presentations, to provide financial or other background information or advice or to otherwise participate in Compensation Committee meetings. The charter of the Compensation Committee grants the Compensation Committee authority to obtain, at the expense of the Company, advice and assistance from internal and external legal, accounting or other advisors. In particular, the Compensation Committee has the sole authority to retain compensation consultants to assist in its evaluation of executive and director compensation, including the authority to approve the consultant's reasonable fees and other retention terms. As described below in Compensation Discussion and Analysis, the Compensation Committee engaged an independent third-party compensation consultant, Radford, in 2011 to conduct a competitive review and analysis of our current executive compensation program.

Historically, the Compensation Committee has made most of the significant adjustments to annual compensation and determined bonus and equity awards, if any, at one or more meetings held during the first quarter of the year. However, the Compensation Committee also considers adoption of annual senior management incentive plans, including new performance objectives, matters related to individual compensation, such as compensation for new executive hires, as well as high-level strategic issues, such as the efficacy of the Company's compensation strategy, potential modifications to that strategy and new trends, plans or approaches to compensation, at various meetings throughout the year. Generally, the Compensation Committee obtains the recommendations and advice of the Chief Executive Officer and Chief Financial Officer regarding the form and amount of compensation for executive officers other than themselves.

The specific determinations of the Compensation Committee with respect to Executive Compensation for the year ended December 31, 2011 are described in greater detail in the Compensation Discussion and Analysis section of this proxy statement.

Nominating and Governance Committee

The Nominating and Governance Committee of our board of directors is responsible for reviewing the appropriate size, function and needs of the board of directors, establishing criteria for evaluating and selecting new members of the board, identifying and recommending qualified director nominees to the board for approval and monitoring and making recommendations to the board of directors on matters relating to corporate governance. The Nominating and Governance Committee met eight times during 2011.

The Nominating and Governance Committee currently consists of Messrs. Roedel, Dalhouse and Williamson. Mr. Roedel serves as chairman of the committee. All members of the Nominating and Governance Committee are independent within the meaning of applicable NASDAQ listing rules.

The Nominating and Governance Committee operates under a written charter adopted by the board of directors, which is available in the Investor Relations section of our website at www.lunainnovations.com.

Board of Directors and Committee Meeting Attendance

Our board of directors met nine times, including telephonic meetings, during 2011. Each of our directors who served in 2011 attended at least 75% of the aggregate number of meetings held during his tenure by the board of directors and by the committees of the board of directors on which he served.

Independent members of the board of directors regularly meet in executive session without management present.

Annual Meeting Attendance

Our policy is to invite and encourage all directors to attend the annual meeting of stockholders, if possible. All of the members of our board of directors who were serving at the time of our 2011 annual meeting of stockholders attended that meeting, other than Dr. Anderson, whose term expired at the meeting.

Director Nomination Process

Candidates for director nominees are reviewed in the context of the current composition of the board of directors, the operating requirements of the Company and the long-term interests of stockholders. Our Nominating and Governance Committee identifies director nominees by first evaluating the current members of the board of directors willing to continue in service. In the case of incumbent directors whose terms of office are set to expire, the Nominating and Governance Committee reviews these directors' overall service to the Company during their terms, including the number of meetings attended, level of participation, quality of performance and any other relationships and transactions that might impair the directors' independence. Current members with skills and experience that are relevant to our business and who are willing to continue in service are considered for nomination.

If any member of the board of directors does not wish to continue in service, or the committee or board of directors decides not to nominate a member for re-election, the committee identifies the desired skills and experience of a new nominee. In the case of new director candidates, the Nominating and Governance Committee also determines whether the nominee is independent for NASDAQ purposes, which determination is based upon applicable NASDAQ listing standards, applicable SEC rules and regulations and the advice of counsel, if necessary. The Nominating and Governance Committee then uses its network of contacts to compile a list of potential candidates. The Nominating and Governance Committee conducts any appropriate and necessary inquiries into the backgrounds and qualifications of possible candidates after considering the function and needs of the board of directors. Current members of the board of directors and senior management are then polled for their recommendations. To date, the Nominating and Governance Committee has not engaged professional search firms or other third parties to identify or evaluate potential nominees, but the committee may do so in the future.

The Nominating and Governance Committee will also consider nominees recommended by stockholders, and any such recommendations should be forwarded to our Corporate Secretary in writing at our executive offices as identified in this proxy statement. Such recommendations should include the following information:

the name, age, business address and residence address of the proposed candidate;

the principal occupation or employment of the proposed candidate and the candidate's business experience for at least the previous five years;

the class and number of shares of our stock which the proposed candidate beneficially owns;

a description of all arrangements or understandings between the stockholder making the recommendation and each proposed candidate;

any information reasonably necessary to determine whether the proposed candidate meets SEC and NASDAQ independence standards; and

any other information relating to such proposed candidate that is required to be disclosed in solicitations of proxies for elections of directors or is otherwise required pursuant to Regulation 14A under the Exchange Act (including without limitation such proposed candidate's written consent to being named in any proxy statement as a nominee and to serve as a director if elected).

Such recommendations should be provided at least 120 days prior to the anniversary date of the mailing of our proxy statement for the previous annual meeting of stockholders. The committee does not intend to alter the manner in which it evaluates candidates, including the criteria set forth below, based on whether or not the candidate was recommended by a stockholder.

The Nominating and Governance Committee evaluates individual director candidates based upon a number of criteria, including:

a high degree of personal and professional integrity;

commitment to promoting the long-term interests of our stockholders;

broad general business experience and acumen, which may include experience in management, finance, marketing and accounting, with particular emphasis on technology companies or policy-making experience in governmental or non-profit institutions;

adequate time to devote attention to the affairs of the Company;

an ability to bring balance to our board of directors in light of the Company's current and anticipated needs and in light of the skills and attributes of the other board members; and

other attributes relevant to satisfying the requirements imposed by the SEC and NASDAQ.

The Nominating and Governance Committee retains the right to modify these qualifications from time to time.

Our Nominating and Governance Committee does not have a formal policy regarding board diversity. Diversity is one of a number of factors, however, that the committee takes into account in identifying nominees, and the Nominating and Governance Committee believes that it is essential that the board members represent diverse viewpoints. The committee seeks a diversity of business experience and believes that the current composition of the board of directors, supplemented by the nomination of Mr. Wilkin to replace Mr. Cool, helps us achieve this goal.

Director Compensation

The following table sets forth certain information concerning cash and non-cash compensation earned by the non-employee members of our board of directors in 2011. The compensation paid to My Chung, our President and Chief Executive Officer, is described below under Executive Compensation. Mr. Chung does not receive any additional compensation for his service as a director.

Name	Fees Earned or Paid in Cash (1)(\$)	Option Awards (2)(\$)	All Other Compensation (\$)	Total (\$)
N. Leigh Anderson, Ph.D.	2,250			2,250
Edward G. Murphy, M.D.	16,500			16,500
Warner Dalhouse	30,250			30,250
John B. Williamson, III	32,250			32,250
Jonathan M. Cool	26,000			26,000
Richard W. Roedel	21,250			21,250
Michael W. Wise	11,500	217,332(3)		11,500
Kent A. Murphy	10,500		289,740(4)	300,240

(1) During 2011, all of our non-employee directors elected to receive payment of their fees in either shares of common stock or in restricted stock units pursuant to our non-employee directors' deferred compensation plan. Restricted stock units are convertible into shares of our

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common stock on a one-for-one basis upon specified events as described below. In lieu of fees earned in 2011, Dr. Anderson received 1,071 restricted

stock units under the deferred compensation plan, with a grant date fair value of \$2,250; Dr. Edward Murphy received 9,723 shares of common stock, with a grant date fair value of \$16,500, as well as 3,182 shares of common stock, with a grant date fair value of \$6,000, that were issued to Carilion Clinic at Dr. Murphy's request prior to his June 2011 resignation from Carilion Clinic; Mr. Dalhouse received 18,203 restricted stock units under the deferre