POLO RALPH LAUREN CORP
Form SC 13G
April 12, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934

Polo Ralph Lauren Corporation
(Name of Issuer)

Class A Common Stock, $0.01 par value
(Title of Class of Securities)

731572103
(CUSIP Number)

April 2, 2007
(Date of Event Which Requires Filing of this Statement)

Check the following box to designate the rule pursuant to which the Schedule is filed:

o Rule 13d-1(b)
x Rule 13d-1(c)
o Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 731572103

1.	**Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only)** D. E. Shaw & Co., L.P. 13-3695715		
2.	**Check the Appropriate Box if a Member of a Group (See Instructions)** **(a)** o **(b)** o		
3.	**SEC Use Only**		
4.	**Citizenship or Place of Organization** Delaware		
Number of Shares Beneficially Owned by Each Reporting Person With		**5.**	**Sole Voting Power** -0-
		6.	**Shared Voting Power** 2,985,412
		7.	**Sole Dispositive Power** -0-
		8.	**Shared Dispositive Power** 3,114,412
9.	**Aggregate Amount Beneficially Owned by Each Reporting Person** 3,114,412		
10.	**Check if the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions)** o		
11.	**Percent of Class Represented by Amount in Row (9)** 5.1%		
12.	**Type of Reporting Person (See Instructions)** IA, PN		

CUSIP No. 731572103

1.	**Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only)** David E. Shaw		
2.	**Check the Appropriate Box if a Member of a Group (See Instructions)** **(a)** o **(b)** o		
3.	**SEC Use Only**		
4.	**Citizenship or Place of Organization** United States		
Number of Shares Beneficially Owned by Each Reporting Person With		**5.**	**Sole Voting Power** -0-
		6.	**Shared Voting Power** 2,985,412
		7.	**Sole Dispositive Power** -0-
		8.	**Shared Dispositive Power** 3,114,412
9.	**Aggregate Amount Beneficially Owned by Each Reporting Person** 3,114,412		
10.	**Check if the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions)** o		
11.	**Percent of Class Represented by Amount in Row (9)** 5.1%		
12.	**Type of Reporting Person (See Instructions)** IN		

Item 1.

(a) Name of Issuer
Polo Ralph Lauren Corporation

(b) Address of Issuer's Principal Executive Offices
650 Madison Avenue
New York, NY 10022

Item 2.

(a) Name of Person Filing
D. E. Shaw & Co., L.P.
David E. Shaw

(b) Address of Principal Business Office or, if none, Residence
The business address for each reporting person is:
120 W. 45th Street, Tower 45, 39th Floor
New York, NY 10036

(c) Citizenship
D. E. Shaw & Co., L.P. is a limited partnership organized under the laws of the state of Delaware.
David E. Shaw is a citizen of the United States of America.

(d) Title of Class of Securities
Class A Common Stock, $0.01 par value

(e) CUSIP Number
731572103

Item 3. If this statement is filed pursuant to Rule 13d-1(b) or 13d-2(b) or (c), check whether the person filing is a:

Not applicable

Item 4. Ownership

As of April 9, 2007:

(a) Amount beneficially owned:

D. E. Shaw & Co., L.P.:	3,114,412 shares This is composed of (i) 1,514,500 shares in the name of D. E. Shaw Oculus Portfolios, L.L.C., (ii) 13 shares in the name of D. E. Shaw Synoptic Portfolios 2, L.L.C., (iii) 983,299 shares in the name of D. E. Shaw Valence Portfolios, L.L.C., (iv) 244,800 shares that D. E. Shaw Valence, L.L.C. has the right to acquire through the exercise of listed call options, and (v) 371,800 shares under the management of D. E. Shaw Investment

	Management, L.L.C.
David E. Shaw:	3,114,412 shares This is composed of (i) 1,514,500 shares in the name of D. E. Shaw Oculus Portfolios, L.L.C., (ii) 13 shares in the name of D. E. Shaw Synoptic Portfolios 2, L.L.C., (iii) 983,299 shares in the name of D. E. Shaw Valence Portfolios, L.L.C., (iv) 244,800 shares that D. E. Shaw Valence, L.L.C. has the right to acquire through the exercise of listed call options, and (v) 371,800 shares under the management of D. E. Shaw Investment Management, L.L.C.

(b) Percent of class:

D. E. Shaw & Co., L.P.:	5.1%
David E. Shaw:	5.1%

(c) Number of shares to which the person has:

(i)	Sole power to vote or to direct the vote:	
	D. E. Shaw & Co., L.P.:	-0- shares
	David E. Shaw:	-0- shares
(ii)	Shared power to vote or to direct the vote:	
	D. E. Shaw & Co., L.P.:	2,985,412 shares
	David E. Shaw:	2,985,412 shares
(iii)	Sole power to dispose or to direct the disposition of:	
	D. E. Shaw & Co., L.P.:	-0- shares
	David E. Shaw:	-0- shares
(iv)	Shared power to dispose or to direct the disposition of:	
	D. E. Shaw & Co., L.P.:	3,114,412 shares
	David E. Shaw:	3,114,412 shares

David E. Shaw does not own any shares directly. By virtue of David E. Shaw's position as President and sole shareholder of D. E. Shaw & Co., Inc., which is the general partner of D. E. Shaw & Co., L.P., which in turn is the investment adviser of D. E. Shaw Oculus Portfolios, L.L.C. and D. E. Shaw Synoptic Portfolios 2, L.L.C., the managing member and investment adviser of D. E. Shaw Valence Portfolios, L.L.C., and the managing member of D. E. Shaw Valence, L.L.C. and D. E. Shaw Investment Management, L.L.C., and by virtue of David E. Shaw's position as President and sole shareholder of D. E. Shaw & Co. II, Inc., which is the managing member of D. E. Shaw & Co., L.L.C., which in turn is the managing member of D. E. Shaw Oculus Portfolios, L.L.C. and D. E. Shaw Synoptic Portfolios 2, L.L.C., David E. Shaw may be deemed to have the shared power to vote or direct the vote of 2,985,412 shares, and the shared power to dispose or direct the disposition of 3,114,412 shares, the 3,114,412 shares as described above constituting 5.1% of the outstanding shares and, therefore, David E. Shaw may be deemed to be the beneficial owner of such shares. David E. Shaw disclaims beneficial ownership of such 3,114,412 shares.

Item 5. Ownership of Five Percent or Less of a Class

Not Applicable

Item 6. Ownership of More than Five Percent on Behalf of Another Person

Not Applicable

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company or Control Person

Not Applicable

Item 8. Identification and Classification of Members of the Group

Not Applicable

Item 9. Notice of Dissolution of Group

Not Applicable

Item 10. Certification

By signing below, each of D. E. Shaw & Co., L.P. and David E. Shaw certify that, to the best of such reporting person's knowledge and belief, the securities referred to above were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having such purposes or effect.

SIGNATURE

After reasonable inquiry and to the best of their knowledge and belief, the undersigned certify that the information set forth in this statement is true, complete and correct. A Power of Attorney, dated February 24, 2004, granted by David E. Shaw in favor of Anne Dinning, is attached hereto.

Dated: April 12, 2007

D. E. Shaw & Co., L.P.

By: /s/ Anne Dinning

Anne Dinning
Managing Director

David E. Shaw

By: /s/ Anne Dinning

Anne Dinning
Attorney-in-Fact for David E. Shaw

#000000">**Year Bonus ($)**

Kent A. Murphy, Ph.D., *President and Chief Executive Officer*

2007 $156,250

Dale E. Messick, *Chief Financial Officer*

2007 $115,625

Scott A. Graeff, *Chief Commercialization Officer*

2007 $115,625

Robert G. Lenk, Ph.D. *President, Luna nanoWorks Division*

2007 $73,161

Kenneth D. Ferris, *President, Luna Adv. Systems Division*

2007 $82,450

On March 6, 2008, our compensation committee also approved an amendment to the 2007 Bonus Plan whereby portions of the bonuses would be paid in shares of our common stock in lieu of cash. As an incentive to named executive officers to accept stock in lieu of cash bonuses, the compensation committee approved grants of additional shares of stock in amounts equal to five percent (5%) of the number of shares accepted in lieu of the cash bonuses. The compensation committee determined that the grant of an additional 5% of shares was an appropriate incentive for our named executive officers to accept stock in lieu of cash and appropriately recognized that the stock shall be restricted common stock subject to the terms and conditions of our 2006 Equity Compensation Plan. The compensation committee determined to calculate the actual number of shares of stock issued in lieu of cash bonuses to the named executive officers using the closing market price of the stock as listed on the NASDAQ Global Market on March 7, 2008, the following day.

In particular, the compensation committee approved the issuance of 20,349 shares of stock to Dr. Murphy in lieu of cash bonus of $100,000, 9,488 shares of stock to Mr. Messick in lieu of cash bonus of $46,625, 14,677 shares of stock to Mr. Graeff in lieu of cash bonus of $72,125, 4,916 shares of stock to Dr. Lenk in lieu of cash bonus of $24,161, and 9,757 shares of stock to Mr. Ferris in lieu of cash bonus of $47,950. The grant was based on the closing price of our common stock as reported on the NASDAQ Global Market on March 7, 2008 and the foregone portions of cash bonuses, plus a 5% incentive for the election of stock based bonus in lieu of cash.

On March 6, 2008, the compensation committee also approved the Senior Management Incentive Compensation Plan, or 2008 Bonus Plan. Under the terms of the 2008 Bonus Plan, named executive officers would be eligible for annual bonus payments based upon the achievement of specified objectives. Depending upon actual performance versus objectives, participants could receive between zero and 150% of their individual target bonus percentage. Eligibility is triggered only if 95% of our consolidated net income target is met. After this trigger is achieved, a bonus is awarded for each financial component if at least 95% of target for the respective component is achieved. The awards are calculated based upon the participant s overall target with component weights, as follows: 35% based on the achievement of the 2008 net income target, 25% on the achievement of 2008 revenue target, 25% on the cash usage target and 15% on individual qualitative goals being met. It is anticipated that 2008 bonuses will be paid, if earned, in a combination of cash and stock or, under certain circumstances, entirely in stock.

We work with each named executive officer at the beginning of each year to define the qualitative goals based on his or her personal objectives, as well as those of the business unit or function for which the executive is responsible. This process is an integral part of our culture and is intended to reinforce our collaborative, team-oriented and performance-driven environment.

Long Term Equity Incentives Stock and Stock Options

Consistent with our compensation philosophy, a substantial portion of our compensation program is based on long-term performance of our company and the price of our common stock. This component is made up of restricted common stock and stock options. Similar to base salary increases, options are also granted to address promotions and significant changes in responsibility. Although stock options are expensed on our statement of operations and have a negative impact on our net loss, we believe that long-term equity-based compensation is a critical element of our overall compensation program because it helps focus our executives on our long-term financial and operational performance and also aligns the interests of our executives with those of our stockholders. The potential financial value offered through such options is also an important retention tool.

In order to provide an incentive for continued employment, employee stock options previously granted under our 2003 Stock Plan typically vested 25% upon the one year anniversary of the vesting commencement date (generally the employment start date for new hires or the grant date for existing employees) and 1/48 per month thereafter for three years. Since our initial public offering in June 2006, other than the initial option award to our current CFO, which vested according the schedule described above, employee stock options granted under our 2006 Equity Incentive Plan typically vest 40% upon the two-year anniversary of the vesting commencement date and 1/60 per month thereafter for three years. The longer vesting schedule currently used for options granted under our 2006 Equity Incentive Plan, as amended and restated April 16, 2007, is intended to help us maintain eligibility for Small Business Innovative Research, or SBIR, grants through 2008 and also to minimize the short-term dilution to our public stockholders caused by the exercise and sale of employee stock options. To maintain our eligibility for SBIR grants, we must be at least 51% owned and controlled by U.S. citizens or permanent resident aliens, among other conditions. All options granted to executives other than Kent A. Murphy (who is a greater than 10% holder) expire ten years from the date of the grant.

Stock option grants to new hires and annual option grants to existing employees are generally determined within ranges established for each job level. The compensation committee, however, has the ability to award a significantly greater number of options if it deems doing so to be in our best interests and the best interests of our stockholders.

17

Based on the definition of fair market value in our 2006 Equity Incentive Plan stock options are granted having an exercise price equal to the closing price of our stock on the grant date, except for options granted to employees who are beneficial owners of more than 10% of our common stock, in which case the options are generally granted having an exercise price equal to 110% of the closing price in order to qualify such options for incentive stock option treatment under the Internal Revenue Code.

We do not time the granting of our options relative to any favorable or unfavorable news that we release. Stock options for new employees, including executive officers, are generally awarded at the first regular meeting of the compensation committee following the employee s hire date, or, in certain limited cases, at the first regular meeting of the compensation committee following the prospective employee s written acceptance of an employment offer. In the latter case, the grant date of the stock options is the date of the employee s first day of employment, with the exercise price equal to the closing price of the stock that day. All other option awards are also made at regularly scheduled committee meetings. The compensation committee s regular meeting schedule is established several months in advance of each meeting. Thus, proximity of any option or stock award to an earnings announcement or other market events is coincidental.

On January 23, 2007, certain of our named executive officers entered into amended and restated stock sale restriction agreements whereby such named executive officers agreed not to sell more than a fixed number of beneficially held shares of our common stock for a two-year period ending December 31, 2008. In particular, Dr. Murphy, Mr. Messick, Mr. Graeff, and Dr. Lenk each agreed not to sell any securities subject to the agreement in calendar year 2007 and to sell no more than ten percent (10%) of such named executive officer s securities subject to the agreement in calendar year 2008. Mr. Ferris agreed not to sell more than ten percent (10%) of these securities in 2007 and ten percent (10%) in 2008.

On February 27, 2008, certain of our named executive officers again entered into amended and restated stock sale restriction agreements whereby such named executive officers agreed not to sell more than a fixed number of beneficially held shares of our common stock for a three-year period ending December 31, 2010. In particular, Dr. Murphy, Mr. Messick, Mr. Graeff, and Dr. Lenk each agreed not to sell any securities subject to the agreement in calendar year 2008 and to sell no more than ten percent (10%) of such named executive officer s securities subject to the agreement in each of calendar years 2009 and 2010.

The stock sale restriction agreements were entered into with the expectation that such restrictions may help to prolong the company s eligibility for SBIR grants, although there can be no assurance that the company will be able to maintain its SBIR eligibility.

Benefits

In general, our practice is to provide commensurate benefits to employees at all levels of our organization. Consistent with this practice, the following are the primary benefits provided to our full-time employees, including our named executive officers:

Health and dental plan including, at the employee s option, Flexible Spending Accounts and/or a Health Savings Account, or HSA. In the event that an employee elects to participate in an HSA, we contribute $700 to the employee s HSA account annually.

Term life insurance and optional supplemental life insurance;

Optional supplemental health coverage;

Short and long-term disability benefits;

401(k) plan, including a company match of 50 percent of employee contributions up to 10 percent of the employee s total cash compensation; and

Paid time off and holidays.

18

We believe that these benefits are consistent with those offered by other companies and specifically with those companies with which we compete for employees.

Additionally, we provide the following benefits to our CEO and other named executive officers:

Group life insurance premiums, which totaled $2,490 in 2007; and

401(k) plan matches, which totaled $29,953 in 2007.

Termination Benefits and Severance

In 2006, we entered into employment agreements with three of our senior executive officers: our CEO, CFO and our CCO. A brief description of the terms and conditions of these employment agreements are summarized above under the section Employment Agreements and Potential Payments upon Termination or Change-In-Control.

With respect to our CEO, Dr. Murphy s employment agreement provides that if his employment is terminated involuntarily without cause (as defined in his employment agreement) or voluntarily with good reason (as defined in his employment agreement), he is eligible for either, (a) if such termination occurs within twelve (12) months of a change of control, severance equal to eighteen (18) months base salary and eighteen (18) months of continuation of group health benefits, or (b) if such termination does not occur within twelve (12) months of a change of control, severance equal to twelve (12) months base salary and twelve (12) months of continuation of group health benefits. In addition to any severance payable under his employment agreement, Dr. Murphy will also immediately receive an additional twelve (12) months of additional vesting of any unvested stock options and a cash payment equal to the value of any unvested 401(k) match amount.

With respect to our CFO and CCO, each of their respective employment agreements provide that if the executive s employment is terminated involuntarily without cause (as defined in his employment agreement) or voluntarily with good reason (as defined in his employment agreement), the executive is eligible for either, (a) if such termination occurs within twelve (12) months of a change of control, severance equal to twelve (12) months base salary and twelve (12) months of continuation of group health benefits, or (b) if such termination does not occur within twelve (12) months of a change of control, severance equal to nine (9) months base salary and nine (9) months of continuation of group health benefits. In addition to any severance payable under the employment agreements, each executive officer will also immediately receive an additional twelve (12) months of additional vesting of any unvested stock options and a cash payment equal to the value of any unvested 401(k) match amount.

We have no other employment agreements with our executive officers and all of our employees and executive officers are employed at will.

Competitive Market Review and Future Trends

We attempt to align our overall executive compensation with other publicly-traded peer companies who share similar characteristics. Because of our diversified product and service offerings, our peer group includes a broad range of technology and growth companies with whom we compete for executive talent. In general, we consider peer companies based on industry focus, market capitalization, revenue, net income/loss and geographic proximity. Data on compensation practices at such companies has historically been gathered through searches of publicly-available information, including subscription databases and Securities and Exchange Commission filings. We use such information primarily to help guide decisions on base salary, target bonuses and equity-based awards. In determining base salary, we also consider other factors such as job performance, skill set, prior experience, seniority, pay levels of similarly situated positions internally, retention, and market conditions generally.

We intend to continue our strategy of paying competitive short-term cash compensation and offering long-term incentives through equity-based compensation programs that align individual compensation with corporate financial performance. We believe that our total compensation package is reasonable in the aggregate. We also believe that, in light of our compensation philosophy, total compensation for our executives should continue to consist of base salary, annual bonus awards (consisting of cash, stock or a combination of both), long-term equity based compensation, and certain other benefits.

We anticipate that the competitive posture of our total direct compensation will vary year-to-year as a result of our performance, as well as the performance of peer group companies and the market as a whole. Accordingly, the magnitude and weighting of different compensation components will likely evolve as our company grows and we come closer to achieving profitability. As of the date of this proxy statement, we do not intend to enter into any other employment agreements.

COMPENSATION COMMITTEE REPORT

The compensation committee has reviewed and discussed the Compensation Discussion and Analysis contained in this proxy statement with company management. Based on the compensation committee s review of, and the discussions with management with respect to, the Compensation Discussion and Analysis, the compensation committee recommended to the board of directors that the Compensation Discussion and Analysis be included in this proxy statement and, by reference, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 for filing with the Securities and Exchange Commission.

COMPENSATION COMMITTEE

Richard W. Roedel, Chairman

N. Leigh Anderson

Michael Daniels

The foregoing compensation committee report shall not be deemed incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, and shall not otherwise be deemed filed under these acts, except to the extent we specifically incorporate by reference into such filings.

20

EXECUTIVE COMPENSATION

The following table sets forth the summary information concerning compensation earned during the last two completed fiscal years by the following persons: (i) our chief executive officer, (ii) our chief financial officer, and (iii) the three most highly compensated of our other executive officers who received compensation during 2007 of at least $100,000 and who were executive officers on December 31, 2007. We refer to these persons as our named executive officers elsewhere in this proxy. The following table includes all compensation earned by the named executive officers for the respective periods, regardless of whether such amounts were actually paid during the period.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(1)	Option Awards ($)(1)	All Other Compensation ($)	Total ($)
Kent A. Murphy, Ph.D.,	2007	$ 250,000	$ 156,250(2)			$ 8,452(3)	$ 414,702
President and Chief Executive Officer	2006	$ 259,919	$ 55,521			$ 12,752(3)	$ 328,192
Dale E. Messick,	2007	$ 185,000	$ 115,625(2)		155,803	$ 8,249(3)	$ 464,677
Chief Financial Officer	2006	$ 77,083(7)	$ 24,667	$ 39,000(6)	$ 53,331	$ 1,337(3)	$ 195,418
Scott A. Graeff,	2007	$ 185,000	$ 115,625(2)		$ 136,362	$ 8,260(3)	$ 445,247
Chief Commercialization Officer	2006	$ 150,000	$ 36,832		$ 98,764	$ 8,939(3)	$ 294,535
Robert G. Lenk, Ph.D.	2007	$ 177,900	$ 73,161(2)		$ 8,831	$ 477(4)	$ 260,369
President, Luna nanoWorks Division	2006	$ 177,900	$ 26,410		$ 6,584	$ 24,681(5)	$ 235,575
Kenneth D. Ferris	2007	$ 170,000	$ 82,450(2)		$ 114,284	$ 6,863(3)	$ 373,597
President, Luna Adv. Systems Division	2006	$ 165,000	$ 20,060		$ 82,303	$ 7,053(3)	$ 274,416

(1) Amounts represent stock-based compensation expense for the corresponding fiscal year for stock-based compensation granted in the fiscal year as calculated in accordance with FAS 123R, and as further described in Note 8 of the Notes to our Consolidated Financial Statements included in our annual report on Form 10-K for the fiscal year ended December 31, 2007.

(2) On March 6, 2008, the compensation committee of the our board of directors approved the issuance of shares of our restricted common stock in lieu of a portion of the officers cash bonuses at the election of each of the officers. The grant was based on the closing price of our common stock as reported on the NASDAQ Global Market on March 7, 2008 and the foregone portions of cash bonuses, plus a 5% incentive for the election of stock based bonus in lieu of cash. In particular, the compensation committee approved the issuance of 20,349 shares of stock to Dr. Murphy in lieu of cash bonus of $100,000, 9,488 shares of stock to Mr. Messick in lieu of cash bonus of $46,625, 14,677 shares of stock to Mr. Graeff in lieu of cash bonus of $72,125, 4,916 shares of stock to Dr. Lenk in lieu of cash bonus of $24,161, and 9,757 shares of stock to Mr. Ferris in lieu of cash bonus of $47,950.

(3) Includes 401(k) match and policy premium on life insurance.

(4) Includes policy premium on life insurance.

(5) Includes 401(k) match, policy premium on life insurance and commuting expense reimbursement.

(6) Represents value of stock award granted in lieu of cash relocation expense reimbursement.

(7) Mr. Messick was hired as our chief financial officer effective as of August 1, 2006 with an annual salary of $185,000.

Grants of Plan-Based Awards

Our board of directors approved awards under our 2006 Equity Incentive Plan, to several of our named executive officers in 2007. The following table sets forth certain information concerning grants of plan-based awards to named executive officers in 2007:

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)
Kent A. Murphy, Ph.D.				
Dale E. Messick				
Scott A. Graeff	2/27/07		10,000(1)	$ 3.69
Robert G. Lenk, Ph.D.				
Kenneth D. Ferris	2/27/07		10,000(2)	$ 3.69

(1) 40% of the option shares are exercisable 24 months after the vesting commencement day. The remaining option shares are exercisable at a rate of 1/36th per month thereafter. Vesting of such options is also subject to acceleration upon certain events as set forth in Mr. Graeff s employment agreement.

(2) 40% of the option shares are exercisable 24 months after the vesting commencement day. The remaining option shares are exercisable at a rate of 1/36th per month thereafter.

Outstanding Equity Awards at December 31, 2007

The following table shows all outstanding equity awards held by the named executive officers as of December 31, 2007.

	Option Awards			
	Number of Securities Underlying Unexercised Options (#)		Option Exercise Price	Option
Name	Exercisable	Unexercisable	($)	Expiration Date
Kent A. Murphy, Ph.D.	73,008	40,039(1)	$ 0.39	5/20/10
Dale E. Messick	49,999	100,001(2)	$ 5.47	8/29/16
		75,000(3)	$ 3.42	12/20/16
Scott A. Graeff	56,524		$ 0.35	5/20/15
	22,610		$ 0.35	6/3/15
	34,149	22,375(4)	$ 0.35	7/1/15
	90,437		$ 0.35	8/1/15
	38,859	45,926(5)	$ 1.77	2/8/16
		10,000(6)	$ 3.69	2/27/17
Robert G. Lenk, Ph.D.	30,616	25,908(7)	$ 1.77	11/11/15
	2,590	3,063(8)	$ 1.77	2/8/16
Kenneth D. Ferris	20,000		$ 0.35	10/26/14
	38,272	32,382(9)	$ 1.77	2/8/16
		10,000(10)	$ 3.69	2/27/17

(1) Option grant on May 20, 2005 vested 25% on the one year anniversary of the grant date and monthly pro rata for the subsequent three years.

(2) Option grant on August 29, 2006 vested 25% on the one year anniversary of the grant date and monthly pro rata for the subsequent three years.

(3) Option grant on December 20, 2006 vests 40% on the two year anniversary of the grant date and monthly pro rata for the subsequent three years.

(4) Option grant on July 1, 2005 vested 25% on the one year anniversary of the grant date and monthly pro rata for the subsequent three years.

(5) Option grant on February 8, 2006 vested 25% on the one year anniversary of the grant date and monthly pro rata for the subsequent three years.

22

(6) Option grant on February 27, 2007 vests 40% on the two year anniversary of the grant date and monthly pro rata for the subsequent three years.
(7) Option grant on November 11, 2005 vested 25% on the one year anniversary of the grant date and monthly pro rata for the subsequent three years.
(8) Option grant on February 8, 2006 vested 25% on the one year anniversary of the grant date and monthly pro rata for the subsequent three years.
(9) Option grant on February 8, 2006 vested 25% on the one year anniversary of the grant date and monthly pro rata for the subsequent three years.
(10) Option grant on February 27, 2007 vests 40% on the two year anniversary of the grant date and monthly pro rata for the subsequent three years.

Option Exercises and Stock Vested Table

The following table indicates all stock options exercised and value received upon exercise for our named executive officers for the year ended December 31, 2007. No stock awards vested for our named executive officers for the year ended December 31, 2007.

	Option Exercises	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)
Kent A. Murphy, Ph.D.		
Dale E. Messick		
Scott A. Graeff		
Robert G. Lenk, Ph.D.		
Kenneth D. Ferris	36,524	$ 95,554(1)

(1) The value realized on exercise is based on the number of shares underlying the options exercised and the difference between $2.97 per share, which represents the closing market price of our common stock as reported on the Nasdaq Global Market on the exercise date of April 16, 2007, and $0.3538 per share, the exercise price of the option.

Employment Agreements and Potential Payments upon Termination or Change-In-Control

We currently have employment agreements with the following named executive officers: Kent A. Murphy, Dale E. Messick, and Scott A. Graeff.

Employment Agreement with Dr. Kent A. Murphy

On July 14, 2006, we entered into an employment agreement with Kent A. Murphy, Ph.D. as our President and Chief Executive Officer. The following is a brief description of the material terms and conditions of Dr. Murphy s employment agreement.

Pursuant to the terms of the Dr. Murphy s employment agreement, Dr. Murphy will be paid a base salary of not less than $250,000 per year. Dr. Murphy is also eligible for an annual discretionary cash bonus to be determined by our board of directors or the compensation committee, and contingent upon the achievement of objectives set by us from time to time. Dr. Murphy shall also be eligible to receive equity bonuses at such times and in such amounts as determined by the board of directors or the compensation committee.

Pursuant to his employment agreement, if Dr. Murphy s employment is terminated involuntarily without cause (as defined in his employment agreement) or voluntarily with good reason (as defined in his employment agreement), Dr. Murphy is eligible for either: (a) if such termination occurs within 12 months of a change of control, severance equal to 18 months base salary and 18 months of continuation of group health benefits; or (b) if such termination does not occur within 12 months of a change of control, severance equal to 12 months base salary and 12 months of continuation of group health benefits. In addition to the severance under his employment agreement, Dr. Murphy will also immediately receive an additional twelve months of additional vesting of any unvested stock options and a cash payment equal to the value of any unvested 401(k) match amount.

Upon a change of control, the options held by Dr. Murphy at December 31, 2007 would immediately vest as indicated in the table below. Furthermore, assuming a fair market value of our common stock of $8.58 per share, which represents the closing market price of our common stock as reported on the Nasdaq Global Market on December 31, 2007, Dr. Murphy would obtain an immediate increase in the value of his option holdings as indicated in the table below.

Stock Option Shares Vesting Upon a Change of Control	Exercise Price	Increase in Fair Value
40,039	$ 0.39	$ 327,919.41

Employment Agreement with Dale E. Messick

On August 29, 2006, we entered into an employment agreement with Dale E. Messick as our Chief Financial Officer. The following is a brief description of the material terms and conditions of Mr. Messick s employment agreement.

Pursuant to the terms of his employment agreement, Mr. Messick will be paid a base salary of not less than $185,000 per year. Mr. Messick is also eligible for an annual discretionary performance-based cash bonus to be determined by the board of directors or the compensation committee. Mr. Messick shall also be eligible to receive discretionary equity bonuses at such times and in such amounts as determined by the board of directors or the compensation committee.

Pursuant to his employment agreement, if Mr. Messick s employment is terminated involuntarily without cause (as defined in his employment agreement) or voluntarily with good reason (as defined in his employment agreement), Mr. Messick will be eligible for: (a) if such termination occurs within 12 months of a change of control, severance equal to 12 months base salary and 12 months of continuation of group health benefits; or (b) if such termination does not occur within 12 months of a change of control, severance equal to 9 months base salary and 9 months of continuation of group health benefits. In addition to these severance payments, upon such termination Mr. Messick will immediately receive 12 months of additional vesting of any unvested stock options and a cash payment equal to the value of any unvested 401(k) match amount.

Upon a change of control, the options held by Mr. Messick at December 31, 2007 would immediately vest as indicated in the table below. Furthermore, assuming a fair market value of our common stock of $8.58 per share, which represents the closing market price of our common stock as reported on the Nasdaq Global Market on December 31, 2007, Mr. Messick would obtain an immediate increase in the value of his option holdings as indicated in the table below.

Stock Option Shares Vesting Upon a Change of Control	Exercise Price	Increase in Fair Value
100,001	$ 5.47	$ 311,003.11
75,000	$ 3.42	$ 387,000.00

Employment Agreement with Scott A. Graeff

On July 14, 2006, we entered into an employment agreement with Scott A. Graeff as our Chief Financial Officer. This agreement was subsequently amended and restated, effective as of January 1, 2007, to reflect a change to Mr. Graeff s base compensation and a previous change to Mr. Graeff s title to Chief Commercialization Officer. The following is a brief description of the material terms and conditions of Mr. Graeff s employment agreement.

Pursuant to the terms of his amended and restated employment agreement, Mr. Graeff will be paid a base salary of not less than $185,000 per year. Mr. Graeff is also eligible for an annual discretionary cash bonus to be determined by the board of directors or the compensation committee, and contingent upon the achievement of objectives set by us from time to time. Mr. Graeff shall also be eligible to receive equity bonuses at such times and in such amounts as determined by the board of directors or the compensation committee.

Pursuant to his employment agreement, if Mr. Graeff s employment is terminated involuntarily without cause (as defined in his employment agreement) or voluntarily with good reason (as defined in his employment agreement), Mr. Graeff will be eligible for either: (a) if such termination occurs within 12 months of a change of control, severance equal to 12 months base salary and 12 months of continuation of group health benefits; or (b) if such termination does not occur within 12 months of a change of control, severance equal to 9 months base salary and 9 months of continuation of group health benefits. In addition to the severance under his employment agreement, Mr. Graeff will also immediately receive an additional 12 months of additional vesting of any unvested stock options and a cash payment equal to the value of any unvested 401(k) match amount.

Upon a change of control, the options held by Mr. Graeff at December 31, 2007 would immediately vest as indicated in the table below. Furthermore, assuming a fair market value of our common stock of $8.58 per share, which represents the closing market price of our common stock as reported on the Nasdaq Global Market on December 31, 2007, Mr. Graeff would obtain an immediate increase in the value of his option holdings as indicated in the table below.

Stock Option Shares Vesting Upon a Change of Control	**Exercise Price**	**Increase in Fair Value**
22,375	$ 0.35	$ 184,146.25
45,926	$ 1.77	$ 312,756.06
10,000	$ 3.69	$ 48,900.00

25

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information with respect to beneficial ownership of our common stock, as of March 27, 2008, by:

- each beneficial owner of 5% or more of the outstanding shares of our common stock;
- each of our directors;
- each of our named executive officers; and
- all of our executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of the common stock that they beneficially own, subject to applicable community property laws. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options or warrants held by that person that are currently exercisable or exercisable within 60 days of March 27, 2008 are deemed outstanding, but are not deemed outstanding for purposes of computing the percentage ownership of any other person. Unless otherwise indicated, these shares do not include any stock or options awarded after March 27, 2008. A total of 10,901,122 shares of our common stock were outstanding as of March 27, 2008.

Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o Luna Innovations Incorporated, 1 Riverside Circle, Suite 400, Roanoke, Virginia 24016.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Class
Kent A. Murphy, Ph.D (1)	2,753,194	25.3%
Carilion Clinic (2)	2,229,450	20.5%
c/o Carilion Roanoke Memorial Hospital First Floor Roanoke, Virginia 24033		
Wasatch Advisors, Inc (3) 150 Social Hall Avenue Salt Lake City, Utah 84111	684,193	6.6%
Dale E. Messick (4)	85,739	*
Scott A. Graeff (5)	271,976	2.5%
Robert P. Lenk, Ph.D. (6)	39,683	*
Kenneth D. Ferris (7)	86,023	*
N. Leigh Anderson, Ph.D. (8)	42,506	*
John C. Backus, Jr. (9)	146,778	1.3%
Michael Daniels		*
Bobbie Kilberg (10)	42,862	*
Edward G. Murphy, M.D. (11)	2,229,450	20.5%
Richard W. Roedel (12)	149,371	1.4%
All directors and executive officers as a group (12 persons) (13)	5,791,494	53.1%

* Represents less than 1% of the outstanding shares of common stock.

(1) Includes 84,784 shares subject to options that are immediately exercisable or exercisable within 60 days of March 27, 2008.

(2) Does not include $5.0 million aggregate principal amount of senior convertible promissory notes, which convert into up to 1,065,740 shares of common stock, or accrued interest on the notes, which convert into up to an aggregate of 511,553 shares of common stock. Edward G. Murphy, M.D., Don Lorton and Rob Vaughan share voting and investment power over the shares beneficially owned by Carilion Clinic.

26

(3) Based on Schedule 13G/A filed February 14, 2008 reporting information as of December 31, 2007.
(4) Includes 65,624 shares subject to options that are immediately exercisable or exercisable within 60 days of March 27, 2008.
(5) Includes 257,299 shares subject to options that are immediately exercisable or exercisable within 60 days of March 27, 2008.
(6) Includes 39,683 shares subject to options that are immediately exercisable or exercisable within 60 days of March 27, 2008.
(7) Includes 39,742 shares subject to options that are immediately exercisable or exercisable within 60 days of March 27, 2008.
(8) Includes 40,743 shares subject to options that are immediately exercisable or exercisable within 60 days of March 27, 2008.
(9) Includes 144,847 shares subject to options that are immediately exercisable or exercisable within 60 days of March 27, 2008.
(10) Includes 41,803 shares subject to options that are immediately exercisable or exercisable within 60 days of March 27, 2008.
(11) All of Dr. Murphy s shares are beneficially owned by Carilion Clinic. Dr. Murphy, M.D. is the President and Chief Executive Officer of Carilion Clinic and shares voting and investment power over the shares beneficially owned by Carilion Clinic with Don Lorton and Rob Vaughan, the Treasurer and Assistant Treasurer of Carilion Clinic, respectively. Does not include $5.0 million aggregate principal amount of senior convertible promissory notes held by Carilion Clinic, which convert into up to 1,065,740 shares of common stock, or accrued interest on the notes, which convert into up to an aggregate of 511,553 shares of common stock.
(12) Includes 144,847 shares subject to options that are immediately exercisable or exercisable within 60 days of March 27, 2008.
(13) Includes an aggregate of 849,203 shares subject to options that are immediately exercisable or exercisable within 60 days of March 27, 2008.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that certain of our executive officers and directors, and persons who own more than 10% of a registered class of our equity securities, file reports of ownership and changes in ownership (Forms 3, 4 and 5) with the Securities and Exchange Commission. Such executive officers, directors and greater than 10% holders are required to furnish us with copies of all of these forms that they file. Certain executives of our company hold a power of attorney to enable such individuals to file ownership and change in ownership forms on behalf of the reporting persons.

Based solely on our review of these reports or written representations from certain reporting persons, we believe that during 2007, all filing requirements applicable to our officers, directors, greater-than-10% beneficial owners and other persons subject to Section 16(a) of the Exchange Act were met, except that five Form 4s filed by the company on behalf of directors Richard Roedel, Leigh Anderson, Bobbie Kilberg, John Backus and Michael Daniels on December 20, 2007, representing one transaction each, were filed after the applicable two business-day reporting deadline. In addition, the company filed two Form 3/As on February 12, 2007 and February 14, 2007 on behalf of directors Paul E. Torgersen and Edward G. Murphy, respectively, amending Form 3 s originally filed on June 2, 2006 on behalf of such persons. The company also filed one Form 4/A on November 16, 2007 on behalf of Scott A. Meller amending a Form 4 originally filed on his behalf on November 1, 2007.

OTHER INFORMATION

Other Matters to be Presented at the Annual Meeting

We do not know of any matters to be presented at our 2008 annual meeting of stockholders other than those described in this proxy statement. If any other matters are properly brought before the annual meeting, proxies will be voted in accordance with the best judgment of the person or persons voting the proxies.

Security Holder Communication with Board Members

Any holder of our common stock may contact the board of directors or a specified individual director by writing to the attention of the board of directors (or a specified individual director) and sending such communication to the attention of our Corporate Secretary at our executive offices as identified in this proxy statement. Each communication from a stockholder should include the following information in order to permit us to confirm your status as a security holder and enable us to send a response if deemed appropriate:

- the name, mailing address and telephone number of the security holder sending the communication;
- the number and type of our securities owned by such security holder; and
- if the security holder is not a record owner of our securities, the name of the record owner of our securities beneficially owned by the security holder.

Our Corporate Secretary will forward all appropriate communications to the board of directors or individual members of the board of directors as specified in the communication. Our Corporate Secretary may, but is not required to, review all correspondence addressed to the board of directors or any individual member of the board of directors, for any inappropriate correspondence more suitably directed to management.

Stockholder Proposals for 2009 Annual Meeting

Our bylaws provide for advance notice procedures to recommend a person for nomination as a director or to propose business to be considered by stockholders at a meeting. For the 2009 annual meeting of stockholders, such nominations or proposals, other than those made by or at the direction of the board of directors, must be submitted in writing and received by our Corporate Secretary at our offices no later than January 16, 2009, which is 90 days prior to the anniversary of the mailing date of this proxy statement. If our 2009 annual meeting of stockholders is moved more than 30 days before or after the anniversary date of our 2008 annual meeting of stockholders, then the deadline is the close of business on the 10th day following the day notice of the date of the meeting was mailed or made public, whichever occurs first. Such proposals also need to comply with all applicable requirements of the rules and regulations of the SEC. The chairperson of the stockholder meeting may refuse to acknowledge the introduction of your proposal if it is not made in compliance with the foregoing procedures or the applicable provisions of our bylaws.

In addition, for a stockholder proposal to be considered for inclusion in our proxy statement for the 2009 annual meeting of stockholders, the proposal must be submitted in writing and received by our Corporate Secretary at our offices at 1 Riverside Circle, Suite 400, Roanoke, Virginia 24016 no later than December 17, 2008, which is 120 days prior to the anniversary of the mailing date of this proxy statement.