

Navios Maritime Acquisition CORP

Form 424B5

November 15, 2010

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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

**Filed Pursuant to 424(b)(5)
Registration File No. 333-169320**

SUBJECT TO COMPLETION, DATED NOVEMBER 15, 2010

**PRELIMINARY PROSPECTUS SUPPLEMENT
(To Prospectus Dated September 20, 2010)**

**6,000,000 Shares
Navios Maritime Acquisition Corporation
Common Stock
\$ per share**

We are selling 6,000,000 shares of our common stock. We are a Marshall Islands corporation.

We have granted the underwriters an option for 30 days to purchase up to 900,000 additional shares of common stock to cover over-allotments.

Our common stock is listed on the New York Stock Exchange under the symbol NNA. The last reported sale price of our common stock on the New York Stock Exchange on November 12, 2010 was \$5.80 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page S-8 of this prospectus supplement and page 7 of the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus are truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public Offering Price	\$	\$
Underwriting Discount	\$	\$
Proceeds to us (before expenses)	\$	\$

The underwriters expect to deliver the common stock to purchasers on or about November , 2010 through the book-entry facilities of The Depository Trust Company.

Joint Book-Running Managers

Citi

Wells Fargo Securities

Manager

S. Goldman Advisors LLC

November , 2010

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This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering of common stock. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to this offering of common stock. Generally, when we refer to the prospectus, we refer to both parts combined. If information varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

You should rely only on the information contained or incorporated by reference in this prospectus or any free writing prospectus we may authorize to be delivered to you. We have not and the underwriters have not authorized anyone to provide you with different information. If anyone provides you with additional, different or inconsistent information, you should not rely on it. You should not assume that the information contained in this prospectus or any free writing prospectus we may authorize to be delivered to you, as well as the information we previously filed with the Securities and Exchange Commission, or SEC, that is incorporated by reference herein, is accurate as of any date other than its respective date. Our business, financial condition, results of operations and prospects may have changed since such dates.

We are offering to sell the common stock, and are seeking offers to buy the common stock, only in jurisdictions where offers and sales are permitted. The distribution of this prospectus and the offering of the common stock in certain jurisdictions may be restricted by law. Persons outside the United States who come into possession of this prospectus must inform themselves about and observe any restrictions relating to the offering of the common stock and the distribution of this prospectus outside the United States. This prospectus does not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a Registration Statement on Form F-3 regarding the securities covered by this prospectus. This prospectus does not contain all of the information found in the registration statement. For further information regarding us and the securities offered in this prospectus, you may wish to review the full registration statement, including its exhibits. In addition, we file annual, quarterly and other reports with and furnish information to the SEC. You may inspect and copy any document we file with or furnish to the SEC at the public reference facilities maintained by the SEC at 100 F Street, NE, Washington, D.C. 20549, at prescribed rates or from the SEC's web site on the Internet at www.sec.gov free of charge. Please call the SEC at 1-800-SEC-0330 for further information on public reference rooms. You can also obtain information about us at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

We are subject to the information requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and, in accordance therewith, are required to file with the SEC annual reports on Form 20-F and provide to the SEC other material information on Form 6-K. These reports and other information may be inspected and copied at the public reference facilities maintained by the SEC or obtained from the SEC's website as provided above. As a foreign private issuer we are exempt under the Exchange Act from, among other things, certain rules prescribing the furnishing and content of proxy statements, and our directors and principal unitholders and the executive officers of our general partner are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act, including the filing of quarterly reports or current reports on Form 8-K. However, we furnish or make available to our unitholders annual reports containing our audited consolidated financial statements prepared in accordance with U.S. GAAP and make available to our unitholders quarterly reports containing our unaudited interim financial information for the first three fiscal quarters of each fiscal year.

We make our periodic reports as well as other information filed with or furnished to the SEC available, free of charge, through our website, at www.navios-acquisition.com, as soon as reasonably practicable after those reports and other information are electronically filed with or furnished to the SEC.

INCORPORATION OF DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference into this prospectus information that we file with the SEC. This means that we can disclose important information to you without actually including the specific information in this prospectus by referring you to other documents filed separately with the SEC. The information incorporated by reference is an important part of this prospectus. Information that we later provide to the SEC, and which is deemed to be filed with the SEC, automatically will update information previously filed with the SEC, and may replace information in this prospectus.

We incorporate by reference into this prospectus the documents listed below:

Annual Report on Form 20-F for the year ended December 31, 2009 filed on January 29, 2010;

Report on Form 6-K filed on April 8, 2010;

Report on Form 6-K filed on April 12, 2010;

Report on Form 6-K filed on April 26, 2010;

Report on Form 6-K filed on May 4, 2010;

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Report on Form 6-K filed on May 24, 2010;

Report on Form 6-K filed on May 27, 2010;

Report on Form 6-K filed on June 4, 2010;

Report on Form 6-K filed on July 21, 2010;

Report on Form 6-K filed on July 22, 2010;

Report on Form 6-K filed on July 26, 2010;

Report on Form 6-K filed on July 27, 2010;

Report on Form 6-K filed on July 29, 2010;

Report on Form 6-K filed on August 6, 2010;

Report on Form 6-K filed on August 24, 2010;

Report on Form 6-K filed on September 2, 2010;

Report on Form 6-K filed on September 8, 2010;

Report on Form 6-K filed on September 10, 2010;

Report on Form 6-K filed on September 15, 2010;

Report on Form 6-K filed on September 21, 2010;

Report on Form 6-K filed on October 13, 2010;

Report on Form 6-K filed on October 26, 2010;

Report on Form 6-K filed on November 8, 2010;

Report on Form 6-K filed on November 9, 2010;

Report on Form 6-K filed on November 10, 2010;

Report on Form 6-K filed on November 12, 2010;

Report on Form 6-K filed on November 15, 2010;

The description of our common stock contained in our Form 8-A filed on June 19, 2008; and

Our reports on Form 6-K furnished to the SEC after the date of this prospectus and prior to the termination of this offering only to the extent that we expressly state in such reports that they are being incorporated by

reference into the Registration Statement of which this prospectus is a part.

These reports contain important information about us, our financial condition and our results of operations.

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You may obtain any of the documents incorporated by reference in this prospectus from the SEC through its public reference facilities or its website at the addresses provided above. You also may request a copy of any document incorporated by reference in this prospectus (excluding any exhibits to those documents, unless the exhibit is specifically incorporated by reference in this document), at no cost by visiting our internet website at www.navios-acquisition.com or by writing or calling us at the following address:

Vasiliki (Villy) Papaefthymiou
Secretary
Navios Maritime Acquisition Corporation
85 Akti Miaouli Street
Piraeus, Greece 185 38
(011) +30 210 459 5000

You should rely only on the information incorporated by reference or provided in this prospectus. We have not and the underwriters have not authorized anyone else to provide you with any information. You should not assume that the information incorporated by reference or provided in this prospectus is accurate as of any date other than the date on the front of each document. The information contained in our website is not incorporated by reference into this prospectus and should not be considered as part of this prospectus.

TRADEMARKS, SERVICE MARKS AND TRADE NAMES

This prospectus contains our trademarks, service marks and trade names, including our proprietary logos and the domain name for our website, and also contains the trademarks, service marks and trade names of other companies.

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements under the captions Prospectus Supplement Summary and Risk Factors and elsewhere in this prospectus constitute forward-looking statements. These forward-looking statements are not historical facts, but rather are based on our current expectations, estimates and projections about our business, our plans, objectives of management for future operations, our industry, and our beliefs and assumptions. In addition, we and our representatives may from time to time make other oral or written statements which are also forward-looking statements. Such statements include, in particular, statements about the strength of world economies, fluctuations in currencies and interest rates, general market conditions, including fluctuations in charter hire rates and vessel values, changes in demand in the shipping industry, changes in our operating expenses, including bunker prices, drydocking and insurance costs, statements about the acquisition of our vessels to be delivered in the future, statements about our charter policy and industry outlook, changes in governmental rules and regulations or actions taken by regulatory authorities, potential liability from future litigation, general domestic and international political conditions, potential disruption of shipping routes due to accidents or political events, and other important factors described in this prospectus and from time to time in the reports we file with the SEC. In some cases, you can identify the forward-looking statements by the use of words such as may, could, should, would, expect, plan, anticipate, forecast, believe, estimate, predict, propose, potential, continue or the negative of these terms or other common terminology.

These statements are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. We caution you not to place undue reliance on these forward-looking statements, which reflect our management's view only as of the date of this prospectus. We are not obligated to update these statements or publicly release the result of any revisions to them to reflect events or circumstances after the date of this prospectus or to reflect the occurrence of unanticipated events. For purposes of the information contained in this prospectus, when we state that a risk, uncertainty or problem may, could or would have a material adverse effect on our business or words to that effect, we mean that the risk, uncertainty or problem may, could or would have a material adverse effect on the business, results of operations, financial condition, cash flow or prospects of our company.

In addition to the factors and matters described in this prospectus, including under Risk Factors, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

our ability to maintain or develop new and existing customer relationships, including our ability to enter into charters for our vessels;

our ability to successfully grow our business and our capacity to manage our expanding business;

our future operating and financial results, including the amount of fixed hire and profit share that we may receive;

our ability to identify and consummate desirable acquisitions, joint ventures or strategic alliances, business strategy, areas of possible expansion, and expected capital expenditure or operating expenses;

tanker industry trends, including charter rates and vessel values and factors affecting vessel supply and demand;

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our ability to take delivery of, integrate into our fleet, and employ the newbuildings we have on firm order or any newbuildings we may order in the future and the ability of shipyards to deliver vessels on a timely basis;

the aging of our vessels and resultant increases in operation and drydocking costs;

the ability of our vessels to pass classification inspection and vetting inspections by oil majors;

significant changes in vessel performance, including increased vessel breakdowns;

the creditworthiness of our charterers and the ability of our contract counterparties to fulfill their obligations to us;

our ability to repay outstanding indebtedness, to obtain additional financing and to obtain replacement charters for our vessels, in each case, at commercially acceptable rates or at all;

changes to governmental rules and regulations or action taken by regulatory authorities and the expected costs thereof;

potential liability from litigation and our vessel operations, including discharge of pollutants;

changes in general economic and business conditions;

general domestic and international political conditions, including wars, acts of piracy and terrorism;

changes in production of or demand for oil and petroleum products, either globally or in particular regions;

changes in the standard of service or the ability of our technical managers to be approved as required; and

future sales of our common stock in the public market.

You should read this prospectus completely with the understanding that actual future results may be materially different from expectations. All forward-looking statements made in this prospectus are qualified by these cautionary statements. These forward-looking statements are made only as of the date of this prospectus, and we do not undertake any obligation to update or revise any forward-looking statements.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights certain information contained elsewhere in this prospectus and the documents incorporated by reference herein and does not contain all of the information you will need in making your investment decision. You should carefully read this entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein, including the Risk Factors for more information about important risks that you should consider before buying our common stock. Unless otherwise specifically stated, the information presented in this prospectus supplement assumes the underwriters have not exercised their over-allotment option. Unless otherwise specified or unless the context otherwise requires, in this prospectus, references to the Company, Navios Acquisition, we, our and us, refer to Navios Maritime Acquisition Corporation and its subsidiaries. References to Navios Partners are to Navios Maritime Partners L.P. References to Navios Holdings are to Navios Maritime Holdings Inc.

Business Overview

Navios Acquisition owns a large fleet of modern crude oil, refined petroleum product and chemical tankers providing world-wide marine transportation services. Our strategy is to charter our vessels to international oil companies, refiners and large vessel operators under long, medium and short-term charters. We are committed to providing quality transportation services and developing and maintaining long-term relationships with our customers. We believe that the Navios brand will allow us to take advantage of increasing global environmental concerns that have created a demand in the petroleum products/crude oil seaborne transportation industry for vessels and operators that are able to conform to the stringent environmental standards currently being imposed throughout the world.

Our current fleet consists of a total of 22 double-hulled tanker vessels, aggregating approximately 2.9 million deadweight tons or dwt. The fleet includes seven very large crude carrier (VLCC) tankers (over 200,000 dwt per ship), which transport crude oil, and six Long Range 1 (LR1) product tankers (50,000-79,999 dwt per ship), seven Medium Range 2 (MR2) product tankers (30,000-49,999 dwt per ship) and two chemical tankers (25,000 dwt per ship), which transport refined petroleum products and bulk liquid chemicals. Of the 22 vessels in our current fleet, we have taken delivery of six VLCC tankers, two LR1 tankers and one chemical tanker. We expect to take delivery of the other chemical tanker by the end of this year, three vessels in 2011 and nine vessels in 2012. We also have options to acquire two additional product tankers. All the vessels that we have taken delivery of, as well as one that we will take delivery of in the second quarter of 2011, are currently chartered-out to high-quality counterparties, including Formosa Petrochemical Corporation, Sinochem Group, SK Shipping, DOSCO (a wholly owned subsidiary of COSCO) or their affiliates, with an average remaining charter period of approximately 6.6 years. As of November 11, 2010, we have charters covering 95.6% of available days in 2010, 81.3% of available days in 2011, 57.4% of available days in 2012 and 36.3% of available days in 2013, based on the estimated scheduled delivery dates for vessels under construction.

Our principal focus is the transportation of crude oil, refined petroleum products (clean and dirty) and bulk liquid chemicals. We will seek to establish a leadership position by leveraging the established expertise and reputation of Navios Holdings for maintaining high standards of performance, risk management, reliability and safety. Navios Holdings has a long track record in the drybulk shipping and logistics industries and has developed strong relationships with charterers, financing sources and shipping industry participants. We believe that our modern fleet and the Navios brand name should allow us to charter-out our vessels for long periods of time and to high-quality counterparties. In addition, by leveraging the managerial support and the purchasing power of Navios Holdings, we believe that we can operate our business efficiently and cost effectively. Our business model is to seek to generate stable and predictable cash flows through our contracted revenues and ability to operate our fleet at costs below the

industry average for vessels of a similar type.

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Navios Acquisition owns 22 crude oil, product tanker and chemical tanker vessels with options to acquire two additional vessels.

Eight of the vessels that we have taken delivery of, as well as the VLCC tanker that we expect to take delivery of in the second quarter of 2011, are chartered-out on long-term contracts with an average duration of 7.3 years at fixed base rates. The charter contracts of seven of our 10 currently chartered vessels have profit sharing arrangements, which allow us to capture increased earnings during strong freight markets, while ensuring a minimum base charter rate in any market environment.

Our fleet also includes 13 newbuilding vessels not currently delivered. As these vessels near completion and delivery, we expect to charter these vessels under long, medium and short-term charters, subject to market conditions. As a result of the planned deliveries, our available days of 1,166 in 2010 will grow to 5,738 available days in 2012 and 8,030 in 2013, when all 22 vessels are in operation for a full year.

Our consolidated fleet as of the date of this prospectus consisted of the following:

Vessel	Type	DWT	Built/Delivery Date	Net Charter Rate (\$ per day)	Expiration Date	Profit Share
<u>Owned Vessels</u>						
Colin Jacob	LR 1	74,671	2007	17,000	June 2013	50% above \$17,000
Ariadne Jacob	LR 1	74,671	2007	17,000	July 2013	50% above \$17,000
Nave Cosmos	Chemical Tanker	25,130	Q4 2010	10,238 (1)	February 2011	None
Shinyo Splendor	VLCC	306,474	1993	38,019	5/18/2014	None
Shinyo Navigator	VLCC	300,549	1996	42,705	12/18/2016	None
C. Dream	VLCC	298,570	2000	29,625 (2)	3/15/2019	50% above \$30,000
						40% above \$40,000
Shinyo Ocean	VLCC	281,395	2001	38,400	1/10/2017	50% above \$43,500
Shinyo Kannika	VLCC	287,175	2001	38,025	2/17/2017	50% above \$44,000
Shinyo Saowalak	VLCC	298,000	2010	48,153	6/15/2025	35% above \$54,388
						40% above \$59,388
						50% above \$69,388

Owned Vessels to be Delivered

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Nave Polaris	Chemical Tanker	25,000	Q4 2010			
Shinyo Kieran	VLCC	298,000	Q2 2011	48,153	6/15/2026	35% above \$54,388
						40% above \$59,388
						50% above \$69,388
TBN	LR 1	75,000	Q4 2011			
TBN	LR 1	75,000	Q4 2011			
TBN	LR 1	75,000	Q3 2012			
TBN	LR 1	75,000	Q4 2012			
TBN	MR 2	50,000	Q1 2012			
TBN	MR 2	50,000	Q2 2012			
TBN	MR 2	50,000	Q3 2012			
TBN	MR 2	50,000	Q3 2012			
TBN	MR 2	50,000	Q4 2012			
TBN	MR 2	50,000	Q4 2012			
TBN	MR 2	50,000	Q4 2012			

Options to Acquire Vessels(3)

TBN	LR 1	75,000	Q4 2012
TBN	LR 1	75,000	Q4 2012

- (1) Charterer's option to extend the charter out rate for an additional three months at \$12,188 per day.
- (2) Vessel sub-chartered at \$34,843 per day over the next two years.

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- (3) Our options to acquire these two LR 1 vessels expire on March 31, 2011. These vessels are not considered part of our core fleet.

Competitive Strengths

We believe that the following strengths will allow us to maintain a competitive advantage within the international shipping market:

Modern, High-Quality Fleet. We own a large fleet of modern, high-quality double-hull tankers that are designed for enhanced safety and low operating costs. We believe that the increased enforcement of stringent environmental standards currently being imposed throughout the world has resulted in a shift in major charterers' preference towards greater use of modern double-hull vessels. We also have a large proportion of newbuild product and chemical tankers in our fleet. Since our inception, we have committed to and have fully financed investments of over \$1.0 billion, including investments of approximately \$0.6 billion in newbuilding constructions. Once we have taken delivery of all of our vessels, scheduled to occur by the end of the fourth quarter of 2012, the average age of our fleet will be 4.4 years. We believe that owning and maintaining a modern, high-quality fleet reduces off-hire time and operating costs, improves safety and environmental performance and provides us with a competitive advantage in securing employment for our vessels.

Operating Visibility Through Contracted Revenues. Eight of the nine vessels that we have taken delivery of, as well as one that we will take delivery of in the second quarter of 2011, are chartered out with an average remaining charter period of approximately 7.3 years, and we believe our existing charter coverage provides us with predictable, contracted revenues and operating visibility. As of November 11, 2010, we have charters covering 95.6% of available days in 2010, 81.3% of available days in 2011, 57.4% of available days in 2012 and 36.3% of available days in 2013, based on the estimated scheduled delivery dates for vessels under construction. The charter arrangements for our seven VLCC tankers, two contracted LR1 tankers and one chemical tanker represent at least \$33.2 million in 2010, \$107.4 million in 2011, \$116.1 million in 2012 and \$109.5 million in 2013 of aggregate contracted net charter revenue, exclusive of any profit sharing. The fixed revenue provided by the charter contracts we currently have in place are expected to be able to cover the total cash expenses (including the operating expenses, estimated debt service requirements and corporate overhead) of our entire existing or contracted fleet as it is delivered over 2010, 2011 and 2012.

Diversified Fleet. Our diversified fleet, which includes VLCC, product and chemical tankers, allows us to serve our customers' international crude oil, petroleum product and liquid bulk chemical transportation needs. VLCC tankers transport crude oil and operate on primarily long-haul trades from the Arabian Gulf to the Far East, North America and Europe. Product tankers transport a large number of different refined oil products, such as naphtha, gasoline, kerosene, jetfuel and gasoil, and principally operate on short- to medium-haul routes. Chemical tankers transport primarily organic and inorganic chemicals, vegetable oils and animal fats. We believe that our fleet of vessels servicing the crude oil, product and chemical tanker transportation sectors provides us with more balanced exposure to oil and commodities and more diverse opportunities to generate revenues than would a focus on any single shipping sector.

High-Quality Counterparties. Our strategy is to charter our vessels to international oil companies, refiners and large vessel operators under long, medium and short-term charters. We are committed to providing safe and quality transportation services and developing and maintaining long-term relationships with our customers, and we believe that our modern fleet will allow us to charter-out our vessels to high-quality counterparties and for long periods of time. Our current charterers include Dalian Ocean Shipping Company (DOSCO), a wholly owned subsidiary of COSCO, one of China's largest state-owned enterprises specializing in global shipping, logistics and ship building and repairing, Sinochem, a Fortune Global 500 company; Formosa Petrochemical Corporation, a leading Taiwanese

energy company; and SK Shipping Company Limited, a leading Korean shipowner and transportation company and part of the Korean multinational business conglomerate, the SK Group; or their affiliates.

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An Experienced Management Team and a Strong Brand. We have an experienced management team that we believe is well regarded in the shipping industry. The members of our management team have considerable experience in the shipping and financial industries. We also believe that we will be able to leverage the management structure at Navios Holdings, which benefits from a reputation for reliability and performance and operational experience in both the tanker and drybulk markets. Our management team is led by Angeliki Frangou, our Chairman and Chief Executive Officer, who has over 20 years of experience in the shipping industry. Ms. Frangou is also the Chairman & CEO of Navios Holdings and Navios Partners and has been a Chief Executive Officer of various shipping and finance companies in the past. Ms. Frangou is a member of a number of recognized shipping committees. We believe that our well respected management team and strong brand may present us with market opportunities not afforded to other industry participants.

Business Strategy

We seek to generate predictable and growing cash flow through the following:

Strategically Manage Sector Exposure. We intend to operate a fleet of crude carriers and product and chemical tankers, which we believe will provide us with diverse opportunities with a range of producers and consumers. As we grow our fleet, we expect to adjust our relative emphasis among the crude oil, product and chemical tanker sectors according to our view of the relative opportunities in these sectors. We believe that having a mixed fleet of tankers provides the flexibility to adapt to changing market conditions and will allow us to capitalize on sector-specific opportunities through varying economic cycles.

Enhance Operating Visibility With Charter-Out Strategy. We believe that we are a safe, cost-efficient operator of modern and well-maintained tankers. We also believe that these attributes, together with our strategy of proactively working towards meeting our customers' chartering needs, will contribute to our ability to attract leading charterers as customers and to our success in obtaining attractive long-term charters. We will also seek profit sharing arrangements in our long-term time charters, to provide us with potential incremental revenue above the contracted minimum charter rates. Depending on then applicable market conditions, we intend to deploy our vessels to leading charterers on a mix of long, medium and short-term time charters, with a greater emphasis on long-term charters and profit sharing. We believe that this chartering strategy will afford us opportunities to capture increased profits during strong charter markets, while benefiting from the relatively stable cash flows and high utilization rates associated with longer term time charters. As of November 11, 2010, we have charters covering 95.6% of available days in 2010, 81.3% of available days in 2011, 57.4% of available days in 2012 and 36.3% of available days in 2013, based on the estimated scheduled delivery dates for vessels under construction. We will look to secure employment for the newbuilding product and chemical tankers we have acquired over the next two years, as we draw nearer to taking delivery of the vessels.

Capitalize on Low Vessel Prices. We intend to grow our fleet using Navios Holdings' global network of relationships and long experience in the marine transportation industry to make selective acquisitions of young, high-quality, modern, double-hulled vessels in the crude oil, product and chemical tanker transportation sectors. We are focused on purchasing tanker assets at favorable prices. We are the chairman of our Nominating and Governance Committee. Mr. Roedel, as chairman of the Nominating and Governance Committee, elected to forego any compensation in such capacity for the fiscal years 2010 and 2011.

In addition, for the fiscal year 2010, directors who were neither employees nor consultants to the Company were eligible to receive the following meeting fees: (1) \$1,000 per meeting for attending board meetings in person; (2) \$500 per meeting for attending board meetings telephonically and for attending committee meetings in person; and (3) \$250 per meeting for attending committee meetings telephonically.

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Retainers and meeting fees for fiscal year 2010 were paid quarterly. Effective July 1, 2011, however, the Company has decided to cease paying meeting fees and instead pay directors who are neither employees nor consultants an annual retainer of \$10,000. In an effort to minimize the cash impact of these amounts, retainers will be payable, at the election of the director, in either shares of common stock or restricted stock units issued pursuant to our non-employee directors' deferred compensation plan.

Under the terms of our non-employee directors' deferred compensation plan, the number of restricted stock units issued to a director is based on the amount of cash meeting fees or retainer earned and the closing price of our common stock on the first trading day of the applicable quarter for retainer fees and the first trading day of the quarter immediately following the date of the board or committee meetings for which meeting attendance fees were earned. These restricted stock units represent rights to receive shares of our common stock at a later date. A participating director may elect to receive up to the number of shares of our common stock equal to the number of whole restricted stock units then credited to that director's restricted stock unit account, in either (i) a lump sum, or (ii) substantially equal annual installments over a period not to exceed five years. Participating directors may elect to receive their common stock due under the plan upon either (a) separation from service with us, (b) a change of control, (c) an unforeseen emergency or (d) a time or fixed schedule as specified at the time of their initial deferral election.

Other Equity-Based Compensation. Non-employee directors are also eligible to receive stock awards and option grants under our 2006 Equity Incentive Plan. Under this plan, newly elected independent directors are eligible to receive an option to purchase up to 120,000 shares of our common stock upon election to the board, of which one-third vests on the first anniversary of the grant date and the remaining two-thirds vests in 24 equal monthly installments thereafter. Independent directors who are re-elected for a new term also receive an option to purchase 120,000 shares of common stock, which vests in 36 equal monthly installments from the date of grant.

The Nominating and Governance Committee believes that directors should have stock options vesting over each month of service, so that stock options should be granted to any director whose current stock options will become fully vested prior to the expiration of his term. In April 2010, the committee recommended to the Board that the foregoing options be made available to all non-employee directors upon re-election for a new term on our board. Accordingly, upon the re-election in May 2010 of Dr. Edward Murphy, the board of directors granted Carilion Clinic (at Dr. Murphy's direction) an option to purchase 120,000 shares of common stock, which vests in 36 equal monthly installments through May 2012.

In January 2010, the Compensation Committee also granted Mr. Roedel an option to purchase 60,000 shares of common stock, which vests in 36 equal monthly installments through January 2013, in recognition of his service as the non-executive Chairman of our board of directors (which, when combined with options granted to him in September 2009 upon his appointment as lead independent director, totals options to purchase 120,000 shares in respect of his service as the non-executive Chairman).

Also in January 2010, the Compensation Committee granted each of the three new independent directors, Messrs. Dalhouse, Cool and Williamson, an option to purchase 120,000 shares of common stock, of which one-third vested in January 2011 and the remaining two-thirds vests in 24 equal monthly installments thereafter. In addition, in January 2010, the Compensation Committee granted Dr. Anderson an option to purchase 86,667 shares of common stock, which was vested in part retroactively to March 2009 and continues vesting in monthly

installments through May 2011, which term is commensurate with the expiration of his term as director, and an additional option to purchase 40,000 shares of common stock, which vests in 36 equal monthly installments through January 2013, in recognition of his extraordinary efforts and loyalty to the Company as an independent director during 2009.

All options issued to directors are granted with an exercise price equal to the closing price of our common stock on the NASDAQ Capital Market on the grant date.

Compensation Committee Interlocks and Insider Participation

During 2010, our Compensation Committee consisted of Mr. Dalhouse, Dr. Anderson and Mr. Williamson. Mr. Roedel also served on the committee until January 22, 2010, at which time Messrs. Dalhouse and Williamson were appointed. None of the members of our Compensation Committee during 2010 is or was a present or former officer or employee of the Company, nor did such members engage in any transaction or relationship requiring disclosure in this proxy statement under the section titled Certain Relationships and Related Transactions.

No executive officer of the Company served as a director or member of the Compensation Committee (or other board committee performing equivalent functions) of any other entity during the last fiscal year, one of whose executive officers served on our board of directors or compensation committee.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics that applies to all our directors and employees, including our principal executive officer, principal financial officer and principal accounting officer or controller. The full text of our Code of Business Conduct and Ethics is posted on our website at www.lunainnovations.com in the Investor Relations section. If we make any substantive amendments to the Code of Business Conduct and Ethics or grant any waiver from a provision of the Code to any executive officer or director, we will promptly disclose the nature of the amendment or waiver on our website.

EXECUTIVE OFFICERS

The following table sets forth certain summary information concerning our executive officers as of April 1, 2011.

Name	Age	Position
Dale E. Messick	47	Interim President and Chief Operating Officer
Mark E. Froggatt, Ph.D.	42	Chief Technology Officer
Scott A. Graeff	44	Interim Chief Financial Officer and Chief Commercialization Officer and Treasurer
Talfourd H. Kemper, Jr.	42	Vice President, General Counsel and Secretary

Dale E. Messick has served as our interim President and Chief Operating Officer since August 2010 and, previously, as our Chief Financial Officer since August 2006. Prior to joining us, Mr. Messick served in various capacities at Worldspan, L.P., a provider of transaction processing and information technology services to the global travel industry, including as Chief Financial Officer from 1997 to 2004 and Senior Vice President - Finance from 2004 to 2005. At Worldspan, Mr. Messick managed a staff of 160 people in the United States, Mexico, and Europe and was responsible for accounting, financial reporting, budgeting, financial planning and analysis, and internal audit operations. Previously, Mr. Messick worked in the audit practice of PricewaterhouseCoopers. Mr. Messick received a B.B.A. degree in accounting from the College of William and Mary and is a certified public accountant.

Mark E. Froggatt, Ph. D. has been our Chief Technology Officer since September 2005. Prior to joining us, Dr. Froggatt co-founded Luna Technologies in 2000 to develop instrumentation for fiber optic devices and served as its chief technology officer until our acquisition of Luna Technologies in September 2005. Dr. Froggatt is the primary inventor of the technology used in our OVA product and is a leader in the field of interferometric measurement. Before founding Luna Technologies, Dr. Froggatt worked at the NASA Langley Research Center developing ultrasonic and optical instrumentation for which he received eight patents. He received B.S. and M.S. degrees in electrical engineering from Virginia Polytechnic Institute and State University and a Ph.D. from the University of Rochester Institute of Optics.

Scott A. Graeff has served as our interim Chief Financial Officer since August 2010, as our Chief Commercialization Officer since May 2010 and as our Treasurer since July 2005. He previously served as our Chief Commercialization Officer from August 2006 to March 2009, as our Chief Operating Officer from March 2009 to May 2010, and as our Chief Financial Officer and Executive Vice President, Corporate Development, from July 2005 to August 2006. Mr. Graeff was also a member of our Board of Directors from August 2005 until March 2006. From 1999 to 2001, Mr. Graeff served as Chief Financial Officer of Liquidity Link, a software development company. From 2001 to 2002, Mr. Graeff served as President and Chief Financial Officer of Autumn Investments. From 2002 until 2005, Mr. Graeff served as a Managing Director for Gryphon Capital Partners, a venture capital investment group. From 2003 until July 2005, Mr. Graeff also served as the Acting Chief Financial Officer of Luna Technologies, Inc., which we acquired in September 2005. Mr. Graeff holds a B.S. degree in commerce from the University of Virginia.

Talfourd H. Kemper, Jr., has served as our Vice President, General Counsel and Secretary since November 2008. Prior to joining us, Mr. Kemper was an equity Principal with the law firm of Woods Rogers PLC in Roanoke, Virginia from 2003 until 2008, where his legal practice focused on corporate and securities law, venture capital financing, mergers and acquisitions and intellectual property and licensing. Mr. Kemper received an A.B. degree in economics from Duke University and a J.D. degree from the University of Virginia School of Law, where he served on the Editorial Board of the *Virginia Law Review*.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Policies and Procedures for Transactions with Related Persons

Related person transactions, which we define as all transactions involving an executive officer, director, nominee for director or a holder of more than five percent of our common stock, including any of their immediate family members and any entity owned or controlled by such persons, are reviewed and approved by the Audit Committee of our board of directors and a majority of disinterested directors on our board.

In any transaction involving a related person, our Audit Committee and board of directors consider all of the available material facts and circumstances of the transaction, including:

the direct and indirect interests of the related persons;

in the event the related person is a director or director nominee (or immediate family member of a director or director nominee or an entity with which a director or director nominee is affiliated), the impact that the transaction will have on a director's or director nominee's independence;

the risks, costs and benefits of the transaction to us; and

whether any alternative transactions or sources for comparable services or products are available.

After considering all such facts and circumstances, our Audit Committee and board determine whether approval or ratification of the related person transaction is in our best interests. For example, if our Audit Committee determines that the proposed terms of a related person transaction are reasonable and at least as favorable as could have been obtained from unrelated third parties, it will recommend to our board of directors

that such transaction be approved or ratified. Alternatively, if a related person transaction will compromise the independence of one of our directors or director nominees, our Audit Committee may recommend that our board of directors reject the transaction if it could affect our ability to comply with securities laws and regulations or NASDAQ listing requirements.

Each transaction described below was approved or ratified by our Audit Committee or the disinterested members of our board of directors after making a determination that the transaction was on terms no less favorable than those we could have obtained from unrelated third parties.

The policies and procedures described above for reviewing and approving related person transactions are not in writing. The charter for our Audit Committee, however, provides that one of the committee's responsibilities is to review and approve in advance any proposed related person transactions.

Transactions and Relationships with Directors, Nominees for Director, Executive Officers and Five Percent Stockholders

Other than compensation described in Executive Compensation and Director Compensation elsewhere in this proxy statement and as described below, we believe that there has not been any other transaction or series of transactions during 2009 or 2010 to which we were or are to be a participant in which the amount involved exceeds \$120,000 and in which any director, nominee for director, executive officer or holder of more than five percent of our common stock, or members of any such person's immediate family, had or will have a direct or indirect material interest.

Carilion Lease

On July 20, 2006, we entered into an amended lease agreement with Carilion Medical Center, an affiliate of Carilion Clinic, for our corporate headquarters in Roanoke, Virginia. Under the terms of the amended lease agreement, we agreed to lease a total of 24,057 square feet in two phases starting approximately September 1, 2006 and January 1, 2007. During 2009 and 2010, we paid Carilion Medical Center rent of \$590,675 and \$605,627, respectively.

As a part of the transaction with Carilion described below, we agreed to extend this lease on customary and reasonable terms through December 31, 2015, and we also agreed not to exercise our right to terminate the lease prior to expiration of its term.

Carilion Clinic is the beneficial owner of more than five percent of our outstanding common stock, and Dr. Edward Murphy, currently Chief Executive Officer of Carilion Clinic, is also a member of our board of directors.

Carilion Notes, Warrants and the Exchange of Carilion Notes for Preferred Stock

On May 21, 2008, we and Carilion Clinic amended each of the five Senior Convertible Promissory Notes dated December 30, 2005 and held by Carilion Clinic. The amendments extended the maturity dates of those notes from December 30, 2009 to December 31, 2012.

As consideration for the amendments to these notes, we granted Carilion Clinic a warrant to purchase 10,000 shares of our common stock. The exercise price of the warrant was \$7.98 per share, the closing price of our common stock as reported on the NASDAQ Global Market on May 21, 2008. The warrants are exercisable beginning December 31, 2012 and originally had an exercise period through December 31, 2017.

In January 2010, we entered into a transaction with Carilion Clinic in which Carilion agreed to exchange all of its Senior Convertible Promissory Notes, including all accrued but unpaid interest, for (i) 1,321,514 shares of

our newly designated Series A Convertible Preferred Stock and (ii) an additional warrant to purchase 356,000 shares of our common stock at an exercise price of \$2.50 per share. This warrant is exercisable beginning February 1, 2013 and continuing until December 31, 2020. We also agreed to reduce the exercise price of Carilion's prior common stock warrant from \$7.98 to \$2.50 per share and to extend its expiration date to December 31, 2020. As of the date of the exchange, the outstanding principal balance of the Senior Convertible Promissory Notes was \$5.0 million, and the aggregate accrued but unpaid interest on the notes was \$1.2 million.

Separation and Consulting Agreement with Dr. Kent Murphy

On August 10, 2010, we and Dr. Kent Murphy mutually agreed to terminate his employment with the Company, and Dr. Murphy resigned his position as our President and Chief Executive Officer. On that date, we entered into a separation and consulting agreement providing that, for a period of 18 months from August 10, 2010, Dr. Murphy would provide certain consulting services to us as our Senior Strategic and Technology Advisor, and we would compensate him at a fixed rate of \$22,500 per month, plus business expenses as may be approved by us. To the extent that Dr. Murphy is eligible for and timely elects to receive continuation coverage under COBRA, we have also agreed to pay group healthcare coverage continuation premiums for Dr. Murphy and his covered dependents during the term of the consulting arrangement, which have a value of approximately \$1,212 per month. We also paid Dr. Murphy \$72,500 in respect of his accrued paid time off and any legal fees incurred by Dr. Murphy in connection with the preparation of the separation and consulting agreement and related agreements. The aggregate value of the amounts payable to Dr. Murphy under this agreement is approximately \$500,000 over the 18-month term of the agreement that continues through February 2012.

As part of the consulting agreement, Dr. Murphy has agreed not to compete with us or to solicit specified customers of ours during the term of his consultancy. We and Dr. Murphy have also agreed to customary covenants relating to non-disparagement and to our confidential information and intellectual property.

Dr. Murphy has also agreed that through December 31, 2012, he will not hire, retain the services of or recruit (or attempt to do any of the foregoing) any employee or representative of ours, either directly or indirectly, on his own behalf or on behalf of any other person or company. He also cannot encourage, prompt, induce or solicit any of our employees or representatives to (i) end their relationship with us or (ii) become affiliated with or perform any work for any business that is competitive with our business. This applies to any employee or representative of ours as of August 10, 2010, or as of any time during the term of the consulting arrangement, except for employees that may be terminated in connection with any general reduction in force of more than five individuals at the same time.

Contemporaneously with the execution of the consulting agreement, we and Dr. Murphy entered into a mutual release of any potential claims, including any arising out of Dr. Murphy's employment with us.

If we terminate Dr. Murphy's services for any reason under the consulting agreement during its term, or upon his death or disability, Dr. Murphy or his heirs will remain entitled to receive the compensation described above for the remainder of the term, subject to Dr. Murphy's execution of an additional release of claims in favor of us.

Letter Agreement with Dr. Kent Murphy Relating to Registration Rights

In connection with the separation and consulting agreement entered into with Dr. Murphy described above, we and Dr. Murphy also entered into a letter agreement relating to Dr. Murphy's registration rights for his shares of common stock under that certain Amended and Restated Investor Rights Agreement, dated as of January 13, 2010, by and among us, Carilion Clinic and certain of our other stockholders, including Dr. Murphy, which we refer to as the Rights Agreement. Under the Rights Agreement, Dr. Murphy has specified rights to cause us to effect the registration of his shares in certain circumstances.

Under the letter agreement, Dr. Murphy has agreed, through the period ending December 31, 2011, which we refer to as the Restricted Period, that he will not sell or otherwise make certain transfers of his shares of common stock, including in reliance on the exemption from registration under Rule 144 under the Securities Act of 1933, as amended, and will not exercise certain of his registration rights under the Rights Agreement during the Restricted Period, except that he may request one registration on Form S-3 during the Restricted Period for the registration of up to 800,000 shares of common stock then held by him, subject to compliance with the terms of the Rights Agreement.

As of the date of this proxy statement, Dr. Murphy has not exercised his rights under the letter agreement.

Indemnification Agreements with Officers and Directors

We have entered into indemnity agreements with certain officers and directors that provide, among other things, that we will indemnify such officer or director, under the circumstances and to the extent provided for therein, for expenses, damages, judgments, fines and settlements he may be required to pay in actions or proceedings that he is or may be made a party by reason of his position as a director, officer or other agent of the Company, and otherwise to the fullest extent permitted under Delaware law and our bylaws.

PROPOSAL NO. 2**RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC****ACCOUNTING FIRM**

Our Audit Committee has appointed Grant Thornton LLP as our independent registered public accounting firm for the year ending December 31, 2011 and has further directed that management submit the selection of independent registered public accounting firm for ratification by the stockholders at the annual meeting. Grant Thornton has served as our independent audit firm since 2005. A representative of Grant Thornton is expected to be present at our 2011 annual meeting of stockholders and will have an opportunity to make a statement and respond to appropriate questions from stockholders.

Ratification of the appointment of Grant Thornton as our independent registered public accounting firm is not required by our bylaws or other applicable legal requirements. However, our board of directors is submitting the appointment of Grant Thornton to the stockholders for ratification as a matter of good corporate practice. If our stockholders fail to ratify the appointment, the Audit Committee will reconsider whether or not to retain the firm. Even if the appointment is ratified, the Audit Committee at its discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in our best interests and the best interests of our stockholders.

The affirmative vote of a majority of shares of our common stock present at the 2011 annual meeting of stockholders in person or by proxy and entitled to vote is required to ratify the appointment of Grant Thornton as our independent registered public accounting firm for the year ending December 31, 2011. Abstentions will have the same effect as a vote against this proposal. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether this matter has been approved.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS YOU VOTE FOR PROPOSAL NUMBER 2.**Audit and Related Fees for Fiscal Years 2009 and 2010**

The following table sets forth a summary of the aggregate fees billed to us by Grant Thornton LLP for professional services for the fiscal years ended December 31, 2009 and 2010, respectively. All of the services described in the following fee table were approved by the Audit Committee.

Name	2009	2010
Audit Fees	\$ 374,567	\$ 324,145
Audit-Related Fees		
Tax Fees		
All Other Fees		
Total Fees	\$ 374,567	\$ 324,145

The Audit Committee meets regularly with Grant Thornton LLP throughout the year and reviews both audit and, if applicable, non-audit services performed by Grant Thornton LLP as well as fees charged for such services. The Audit Committee has determined that the provision of the services described above is compatible with maintaining Grant Thornton LLP's independence in the conduct of its audit functions.

Pre-Approval Policies and Procedures

The Audit Committee has adopted, and the board of directors has approved, a policy that sets forth the procedures and the conditions pursuant to which services proposed to be performed by the independent auditors may be pre-approved. The policy generally pre-approves all audit services and non-audit services by our independent auditors, except in the case of non-audit services where subsequent approval is necessary and

permissible. Pursuant to its pre-approval policy, the Audit Committee may delegate pre-approval authority for non-audit services to one or more of its members. The member to whom such authority is delegated must report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next scheduled meeting. During 2009 and 2010, all services provided by Grant Thornton LLP were pre-approved by the Audit Committee in accordance with this policy.

AUDIT COMMITTEE REPORT

As described more fully in its charter, the purpose of the Audit Committee is to assist the board of directors with its oversight responsibilities regarding the integrity of our financial statements, our compliance with legal and regulatory requirements, assessing our independent registered public accounting firm's qualifications and independence and, if applicable, the performance of the persons performing internal audit duties for the Company.

Company management is responsible for preparation, presentation and integrity of our financial statements as well as our financial reporting processes, accounting policies, internal audit function, internal accounting controls and disclosure controls and procedures. Our independent registered public accounting firm is responsible for performing an independent audit of our consolidated financial statements in accordance with generally accepted auditing standards and to issue a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes. The following is the Audit Committee's report submitted to the board of directors for 2010.

The Audit Committee has:

reviewed and discussed our audited financial statements for the fiscal year ended December 31, 2010 with management and Grant Thornton LLP, our independent registered public accounting firm;

discussed with Grant Thornton LLP the matters required to be discussed by Statement of Auditing Standards No. 61, *Communications with Audit Committees*, as currently in effect and as adopted by the Public Company Accounting Oversight Board in Rule 3200T; and

received from Grant Thornton LLP the disclosures and a letter regarding their independence as required by the applicable requirements of the Public Company Accounting Oversight Board requesting Grant Thornton LLP's communication with the Audit Committee concerning independence and discussed the auditors' independence with them.

In addition, the Audit Committee has met separately with Company management and with Grant Thornton LLP.

Based on the review and discussions referred to above, the Audit Committee recommended to the board of directors that the audited 2010 financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2010 for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE

John B. Williamson, III, Chairman

N. Leigh Anderson

Richard W. Roedel

The foregoing audit committee report is not soliciting material, shall not be deemed incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof, and shall not otherwise be deemed filed under these acts, except to the extent we specifically incorporate by reference into such filings.

PROPOSAL NO. 3

BYLAW PROPOSAL

On January 18, 2011, we received notice from Dr. Murphy, who was the beneficial owner of 2,781,457 shares, or 20.6% of our outstanding common stock as of March 31, 2011, of his intention to present to stockholders at the annual meeting the following proposal to amend our Bylaws:

To replace the first sentence of Section 3.2 in its entirety with the following sentence: The number of directors that shall constitute the entire Board shall be seven (7).

To delete the second sentence of Section 3.2 in its entirety.

To delete the words and newly created directorships resulting from any increase in the authorized number of directors, or appearing in the second sentence of Section 3.4 in their entirety.

Article V of our amended and restated certificate of incorporation provides that the number of directors that constitutes the entire board of directors shall be determined in the manner set forth in our bylaws. Section 3.2 of our bylaws currently provides that the authorized number of directors shall be fixed from time to time exclusively by the board pursuant to a resolution duly adopted by a majority of the board members then in office, and no reduction of the authorized number of directors shall have the effect of removing any director before such director's term of office expires. Therefore, if the Bylaw Proposal were adopted by our stockholders, our board of directors would no longer have the ability to fix the number of directors.

Under our current bylaws, our board of directors has the flexibility to increase or decrease the size of the board of directors if it determines that such increase or decrease would be in the best interests of the Company and its stockholders. Recruiting qualified candidates is a challenging and time-consuming process, and our board of directors believes that it is in the best interests of our stockholders to retain the ability of our board of directors to either increase the size of our board of directors to add a highly-qualified candidate if such a candidate becomes available or to decrease the size of our board of directors in a year when no such candidate is readily available.

For example, we are currently conducting a search for a new Chief Executive Officer. If the Bylaw Proposal were approved, our board of directors would not have the ability to add a highly qualified Chief Executive Officer to the board, even if our board of directors believed that doing so would be in the best interests of our stockholders. In addition, in the event that a member of our board of directors retires, resigns or is not re-elected, our board of directors could determine not to fill the resulting vacancy, depending on the availability of suitable candidates. However, if the Bylaw Proposal were approved, our board of directors would be forced to fill the vacancy regardless of the availability of qualified candidates.

Our board of directors believes that retaining the ability to increase or decrease the size of our board of directors or to appoint any particular person to our board of directors, if appropriate, continues to be in the best interests of our stockholders.

If you return a signed WHITE proxy card without providing voting instructions, your shares will be voted against the Bylaw Proposal.

The affirmative vote of the holders of two-thirds of the stock issued and outstanding and entitled to vote at the annual meeting is required to approve Proposal No. 3, the Bylaw Proposal. Abstentions and broker non-votes will have the same effect as a vote against the Bylaw Proposal.

THE BOARD OF DIRECTORS RECOMMENDS YOU VOTE AGAINST PROPOSAL NUMBER 3.

COMPENSATION DISCUSSION AND ANALYSIS

The following discussion and analysis of our compensation arrangements with our named executive officers should be read together with the compensation tables and related disclosures set forth elsewhere in this proxy statement. Actual compensation programs that we adopt may differ materially from currently planned programs as summarized in this discussion.

Executive Summary

We seek to closely align the interests of our named executive officers with the interests of our stockholders. Our compensation programs are designed to reward our named executive officers for the achievement of short-term and long-term strategic and operational goals and financial performance, without encouraging unnecessary or excessive risk-taking. Our performance-oriented compensation program consists of base salary, annual cash bonuses, long-term equity incentives, such as stock awards and stock option grants, benefits and, for certain senior executive officers, severance and termination protection.

For 2010, our primary corporate goals related to our earnings before interest, taxes, depreciation, amortization and stock compensation expenses, and our cash retention. Our executive compensation policies for the year were, therefore, designed to incentivize our executive officers to execute against the most significant financial performance objectives and focus on value creation. We sought to incentivize this performance primarily through cash incentives that were based on our financial performance.

The highlights of our 2010 executive compensation program were as follows:

Based on consultation with Radford, an independent compensation consultant engaged by our Compensation Committee, we increased base salaries for our named executive officers, most of whom had not received base salary increases since 2007.

In May 2010, we paid a special one-time discretionary cash bonus in the amount of \$35,000 to Dr. Kent Murphy, our CEO at the time, in recognition of his efforts through our litigation with Hansen Medical, Inc. and our emergence from Chapter 11 reorganization.

We established a cash incentive bonus program, which rewarded our named executive officers for our corporate financial performance, specifically profitability and liquidity targets. As a result of corporate financial performance, each of our named executive officers serving as an executive officer as of the end of 2010 received a cash bonus equal to approximately 16% of his base salary.

In August 2010, we entered into a separation and consulting agreement with Dr. Kent Murphy, our former CEO, which provides for benefits valued in the aggregate at approximately \$500,000 over the 18-month term of the agreement through February 2012 (consisting of cash compensation of \$22,500 per month for a period of 18 months, continued health benefits, valued at approximately \$1,212 per month, for the same 18 months, and \$72,500 paid to Dr. Murphy in respect of his accrued paid time off and legal fees incurred by Dr. Murphy in connection with his separation).

In March 2011, we also paid discretionary bonuses to Dale Messick, our interim President and Chief Operating Officer, and Scott Graeff, our interim Chief Financial Officer and Chief Commercialization Officer, in recognition of their performance of additional responsibilities in 2010 as part of our management transition. Each bonus consisted of a \$35,000 cash payment and \$35,000 of restricted common stock, valued at the closing price of our common stock on the date of grant, that vests ratably over a three year period ending March 2014.

Overview of Compensation Philosophy

Our overall compensation philosophy is to provide executive compensation packages that enable us to attract, retain and motivate highly qualified executive officers to achieve our short-term and long-term business

goals. Consistent with this philosophy, the following elements provide a framework for our executive compensation program: base salary; bonus and award programs designed to reinforce desired performance goals; and non-cash compensation intended to align the interests of our executives with those of our stockholders.

Role of Compensation Committee

Our executive compensation program is approved and monitored by the Compensation Committee of our board of directors. During 2010, the members of the Compensation Committee were Warner Dalhouse, John Williamson and Leigh Anderson. Mr. Dalhouse served as chairman of the committee. Richard Roedel also served on the committee until the appointment of Messrs. Dalhouse and Williamson on January 22, 2010. All of the members of our Compensation Committee are independent, non-employee directors.

Under the terms of its charter, the Compensation Committee is responsible for reviewing and approving compensation granted to our executive officers, including our chief executive officer, or CEO, and those executive officers who report directly to the CEO and any other Section 16 officers. In particular, the Compensation Committee reviews and approves for the CEO and the other executive officers the following components of compensation:

annual base salary;

cash and equity bonuses, including the specific goals and amount;

other equity compensation, if any;

employment agreements, severance arrangements, and change in control provisions, as applicable;

signing bonus or payment of relocation costs, above normal Company policy, if applicable; and

any other material benefits, other than those provided to all employees.

The Compensation Committee also serves as the administrator for our equity incentive plans. All stock-based awards, including new grants to existing employees and executive officers, as well as grants to new employees, are approved by the Compensation Committee. The Compensation Committee is also responsible for annually evaluating the performance of our CEO.

The Compensation Committee has the authority to retain its own compensation consultant and to obtain advice and assistance from internal or external legal, accounting or other advisors as it sees fit. The Compensation Committee engaged an independent third-party compensation consultant, Radford, in 2010 and 2011 to conduct a competitive review and analysis of our current executive compensation program.

Executive Compensation Program

Our performance-oriented compensation program consists of base salary, annual cash bonuses, long-term equity incentives, such as stock awards and stock option grants, benefits and, for certain senior executive officers, severance and termination protection. We believe that appropriately balancing the total compensation package and ensuring the viability of each component of the package is necessary in order to provide compensation that is competitive and to attract and retain talent. As a small company, we also try to optimize the mix of components to make such compensation programs cost effective for us.

The Compensation Committee intends for our compensation program to provide basic elements that ensure that management is fairly remunerated and has reasonable security so that the management team can perform at its best and take prudent risks. The committee believes that it does not use highly leveraged short-term incentives that drive high risk investments at the expense of our long-term value.

Our Compensation Committee typically evaluates the performance of each executive officer annually, based on the achievement of both corporate goals and individual qualitative performance objectives and makes its

compensation decisions accordingly. Total compensation for our executive officers may vary significantly from year to year based on Company, divisional and individual performance. Further, the value of equity-based awards to our executives will vary based on fluctuation in our stock price from time to time.

The following is a more detailed explanation of the primary components of our executive compensation program.

Base Salary

When considering base salary, as a threshold matter, we strongly consider our financial condition and our cash flows and cash availability. Base salary is then determined by considering competitive salary data and individual job performance. In determining base salary, we primarily rely on factors such as job performance, skill set, prior experience, past levels of compensation, seniority, pay levels of similarly situated positions internally, alternative opportunities that may be available to executives, retention, and market conditions generally. Base salaries for executive officers are reviewed at least annually. In each case, we take into account the results achieved by the executive, his future potential, the scope of the officer's responsibilities and the depth of his experience. We do not apply specific formulas to determine annual pay increases, if any, and our Compensation Committee attempts to make decisions regarding changes in base salary in the context of other short-term and long-term compensation components. Approved increases in base salary are effective upon approval by the Compensation Committee, generally in the first quarter of the year.

Since we became a public company in 2006 and through June 2010, we generally did not provide annual increases in the base salaries of our executive officers. In July 2010, considering the factors noted above as well as the improvements experienced in the Company's cash flow and available cash on hand, and in consultation with Radford, our independent compensation consultant, we increased the base salaries of our executive officers in amounts generally consistent with the cumulative value that the officers would have received had they received previous annual increases at a rate approximating the annual merit increases provided to our employees overall. Likewise, in March 2011, the Compensation Committee approved annual increases for the executive officers in amounts consistent with the percentage increase provided to the rest of our employees in 2011.

Incentive Bonuses

In May 2010, the Compensation Committee approved a one-time discretionary cash bonus in the amount of \$35,000 to Dr. Kent Murphy, our CEO at the time, in recognition of his efforts through our litigation with Hansen Medical, Inc. and our emergence from Chapter 11 reorganization in January 2010. This one-time discretionary bonus is reported in the Bonus column of the Summary Compensation Table below.

In July 2010, our Compensation Committee adopted a senior management incentive plan for fiscal year 2010. Under the terms of the incentive plan, certain of our employees, including Dr. Murphy and all of our other named executive officers, were to be eligible to receive bonus payments based upon a target percentage equal to 50% of their respective annual salaries as of December 31, 2010 and the achievement of certain performance objectives related to, among other things, earnings before interest, taxes, depreciation, amortization, and stock compensation, or adjusted EBITDA, for 2010. The Compensation Committee selected these corporate metrics because the committee believed them to be the appropriate indicators of success in the execution of our operating plan and achievement of key corporate goals and because these factors are critical to increasing the value of our common stock. No bonuses would be paid, however, unless our cash on hand at December 31, 2010, net of amounts owed under our line of credit, exceeded \$3.7 million. If net cash exceeded the \$3.7 million threshold value, and assuming that the accrual of amounts under the plan would not cause our adjusted EBITDA, current liquidity or quick ratio to be below specified amounts as of the end of the year, then 25% of the excess cash would be available to fund the incentive plan.

Our actual net cash at December 31, 2010 was \$4.7 million. Our adjusted EBITDA for 2010 was \$2.9 million, our net current liquidity, defined as cash plus accounts receivable less accounts payable and amounts due

under our line of credit, was \$10.4 million at December 31, 2010, and our quick ratio at December 31, 2010 was approximately 1.6:1.0. As a result, we achieved the requisite threshold corporate metrics, and approximately \$188,000 of cash was paid out to the participants in the incentive compensation plan in March 2011. The payouts approximated 16% of each participant's annual salary as of December 31, 2010. For the named executive officers, these amounts paid in 2011 are reported in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table below. As Dr. Murphy resigned his position as our President and Chief Executive Officer in August 2010, he was not eligible to receive a bonus under the senior management incentive plan.

In March 2011, in addition to the payments awarded under the 2010 senior management incentive plan, the Compensation Committee approved a discretionary bonus with a value in the amount of \$70,000 to each of Dale Messick, our interim President and Chief Operating Officer, and Scott Graeff, our interim Chief Financial Officer and Chief Commercialization Officer, in recognition of their performance of additional responsibilities in 2010 as part of our management transition. Each bonus consisted of a \$35,000 cash payment and \$35,000 of restricted common stock, valued at the closing price of our common stock on the date of grant, that vests ratably over a three year period ending March 2014. The cash portion of these bonuses is reported in the Bonus column of the Summary Compensation Table below. In accordance with SEC compensation disclosure rules, the restricted stock portion of these bonuses will be reported as Stock Awards for 2011 and are not included in the Summary Compensation Table below.

Long Term Equity Incentives

Consistent with our compensation philosophy, a substantial portion of our compensation program is based on our long-term performance and the price of our common stock. This component may include both grants of restricted common stock and restricted stock units as well as stock options, although our compensation committee has historically favored the use of stock options only. Similar to base salary increases, options may also be granted in connection with promotions or significant changes in responsibility. Although grants of stock-based awards can impact our operating results, we believe that long-term equity-based compensation can be an important 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.

To the extent that our Compensation Committee approves stock-based awards, the grants typically vest over a period of five years, with 40% vesting on the two-year anniversary of the date of grant, and the remaining 60% vesting in 36 monthly installments thereafter. This vesting schedule is intended to help us maintain eligibility for Small Business Innovative Research, or SBIR, grants and also to minimize the short-term dilution to our stockholders caused by the exercise 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. Options generally 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.

Stock options are granted with 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. Any incentive stock options granted to a holder of greater than 10% of our outstanding common stock have an exercise price equal to 110% of the closing price on the date of grant.

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.

We do not have any requirements for our named executive officers to hold minimum amounts of our common stock. Dr. Kent Murphy, as our founder, held a significant amount of equity at the time of our initial public offering in 2006 and continues to do so. The Compensation Committee believes that additional grants of stock-based awards were not a necessary incentive to retain Dr. Murphy.

Separation and Consulting Agreement with Dr. Kent Murphy

On August 10, 2010, we and Dr. Murphy mutually agreed to terminate his employment with us, and Dr. Murphy resigned his position as our President and Chief Executive Officer. On that date, we entered into a separation and consulting agreement providing that, for a period of 18 months from August 10, 2010, Dr. Murphy would provide certain consulting services to us as our Senior Strategic and Technology Advisor, and we would compensate him at a fixed rate of \$22,500 per month, plus business expenses as may be approved by us. To the extent that Dr. Murphy is eligible for and timely elects to receive continuation coverage under COBRA, we have also agreed to pay group healthcare coverage continuation premiums for Dr. Murphy and his covered dependents during the term of the consulting arrangement, which have a value of approximately \$1,212 per month. We also paid Dr. Murphy \$72,500 in respect of his accrued paid time off and any legal fees incurred by Dr. Murphy in connection with the preparation of the separation and consulting agreement and related agreements. The aggregate value of the amounts payable to Dr. Murphy under this agreement is approximately \$500,000 over the 18-month term of the agreement that continues through February 2012. For a more detailed discussion of the terms of this agreement, please see "Transactions and Relationships with Directors, Nominees for Director, Officers and Five Percent Stockholders - Separation and Consulting Agreement with Dr. Kent Murphy" above.

Other 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, vision and dental insurance including, at the employee's option, Flexible Spending Accounts and/or a Health Savings Account;

Term life insurance and optional supplemental life insurance;

Optional supplemental health coverage;

Short- and long-term disability benefits;

401(k) plan, under which we match 25% of an employee's contributions up to 10% of the employee's total cash compensation, which match vests over a period of three years; and

Paid time off and holidays.

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

Termination Benefits and Severance

We have entered into employment agreements with our named executive officers. The terms of these employment agreements are summarized below under the section "Employment Agreements and Potential Payments upon Termination or Change-In-Control."

Competitive Market Review

We generally 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, we believe 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 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 2010, we engaged Radford as our outside advisor to evaluate and recommend changes to the list of peer companies we use to evaluate executive compensation, to benchmark executive compensation against that peer group and to provide us with insights and market data on executive and director compensation matters, both generally and within our industry. Radford did not provide any other services to us and received no compensation from us other than with respect to these benchmarking services. Radford determined our peer group based on its survey consisting of 81 public companies with less than \$50 million in revenues, with an industry focus on medical device and life science companies. Upon review of this peer group information and in consultation with Radford, our Compensation Committee increased base salaries as described above under Executive Compensation Program Base Salary.

Future Trends

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 the Company grows and we come closer to achieving profitability.

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 incorporated by reference in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the Securities and Exchange Commission.

COMPENSATION COMMITTEE

Warner Dalhouse, Chairman

N. Leigh Anderson

John B. Williamson, III

The foregoing compensation committee report is not soliciting material, shall not be deemed incorporated by reference into any filing by us under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof, and shall not otherwise be deemed filed under these acts, except to the extent we specifically incorporate by reference into such filings.

EXECUTIVE COMPENSATION

The following table sets forth the summary information concerning compensation earned during the last three completed fiscal years by all persons who served as our principal executive officer during 2010 and our two next most highly compensated executive officers during 2010 who were serving as executive officers as of December 31, 2010. We refer to these persons as our named executive officers elsewhere in this proxy statement. 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.

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Non-Equity Incentive Plan Compensation (\$)	Option Awards (\$)	All other Compensation (\$)	Total (\$)
Kent A. Murphy, Ph.D.(1)	2010	154,769(1)	35,000(2)			185,064(3)	374,833
<i>Former President and Chief Executive Officer</i>	2009	250,000				6,742(4)	256,742
	2008	250,000				8,680(4)	258,680
Dale E. Messick	2010	195,000	35,000(5)	30,872(6)		2,345(4)	263,217
<i>Interim President and Chief Operating Officer</i>	2009	185,000			116,548(7)	4,277(4)	305,825
	2008	185,000				7,981(4)	192,981
Scott A. Graeff,	2010	191,000	35,000(5)	29,677(6)		4,548(4)	260,225
<i>Interim Chief Financial Officer and Chief Commercialization Officer</i>	2009	185,000			24,621(7)	4,270(4)	213,891
	2008	185,000				8,453(4)	193,453
Mark Froggatt, Ph.D.,	2010	178,500		29,677(6)		12,858(4)(8)	221,035
<i>Chief Technology Officer</i>	2009	160,000			167,844(7)	3,874(4)	331,718
	2008	160,000				7,958(4)	167,958

(1) Dr. Kent Murphy's base salary was increased in 2010 to \$270,000 annually. Dr. Murphy resigned as President and Chief Executive Officer effective August 10, 2010 and was paid his salary through that date. He remains a consultant to us and a member of the board of directors.

(2) Discretionary bonus paid to Dr. Kent Murphy in May 2010.

(3) In connection with the separation of Dr. Murphy on August 10, 2010, Dr. Murphy agreed to provide certain strategic consulting services to us for 18 months, for which he is to be paid at a fixed rate of \$22,500 per month. For the period from August 10, 2010 through December 31, 2010, these accrued consulting fees amounted to \$105,242. Under the terms of the agreement, we will pay an additional \$270,000 in consulting fees during 2011 and approximately \$29,758 during 2012. We have also agreed to pay group healthcare coverage continuation premiums for Dr. Murphy and his covered dependents during the 18-month term, the value of which amounted to \$3,996 for the period from August 10, 2010 through December 31, 2010. At the current value, these premiums would represent an additional approximately \$15,274 to be paid to Dr. Murphy in 2011 and \$2,546 in 2012. In addition, under Dr. Murphy's separation agreement, we paid him the fixed amount of \$72,500 in respect of his accrued vacation and legal fees incurred by Dr. Murphy in connection with the negotiation of the separation agreement. Therefore, the aggregate value of amounts payable to Dr. Murphy under this agreement is \$499,316, of which \$181,738 was paid in 2010, \$285,274 is payable in 2011 and \$32,304 is payable in 2012. The amount reported in the table above for 2010 also includes \$3,326 of Company 401(k) plan matching contributions.

(4) Represents Company 401(k) plan matching contributions and policy premiums paid for life insurance for the benefit of the officer.

(5)

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In March 2011, we awarded discretionary bonuses in the amount of \$70,000 to each of Mr. Messick and Mr. Graeff with respect to their respective service to us in 2010 during a management transition. One-half of the bonus, or \$35,000, was paid in cash and is reported in the table above. The remaining \$35,000 was paid in the form of shares of our common stock. Each of Mr. Messick and Mr. Graeff received 19,444 shares, which is equal to \$35,000 divided by \$1.80 per share, the closing price of our common stock as reported on the NASDAQ Capital Market on March 1, 2011, the date of grant. In accordance with SEC compensation disclosure rules, amounts are not reported in the table above with respect to these shares for 2010, but will be reported as Stock Awards for 2011.

- (6) Represents amounts paid to the officer under our 2010 senior management incentive plan upon the achievement of specified business objectives.

- (7) Amounts represent the aggregate grant date fair value of grants made in the indicated year, as calculated in accordance with ASC Topic 718 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, 2010.
- (8) The Other Compensation for Dr. Froggatt also includes \$8,700 paid to reimburse him for personal expenses incurred in connection with a business trip, as well as an associated gross-up for income tax effect.

Grants of Plan-Based Awards for 2010

The following table provides information with regard to potential cash bonuses for 2010 payable under our senior management incentive plan.

Name	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1)(2)		
	Threshold \$	Target \$	Maximum \$
Kent A. Murphy (3)	1	135,000	135,000
Dale E. Messick	1	102,500	102,500
Scott A. Graeff	1	98,500	98,500
Mark Froggatt, Ph.D.	1	98,500	98,500

- (1) In the table above, the Threshold column represents the smallest total bonus that would have been paid for 2010 to each named executive officer if we had achieved the minimum adjusted EBITDA requirement, subject to the availability of cash on hand at December 31, 2010, above a specified threshold. If cash exceeded the threshold value, then 25% of the excess over threshold was available to fund the senior management incentive plan, up to a maximum of the 50% of the annual salary for each of the named executive officers as of December 31, 2010. Therefore, the threshold amount for 2010, due to the cash availability requirement, could have been as low as \$1 and, for 2010, the Target and Maximum bonus amounts are the same.
- (2) The actual bonuses paid in March 2011 under our senior management incentive plan in respect of 2010 performance were \$30,872, \$29,677, and \$29,677 for Messrs. Messick, Graeff and Froggatt, respectively, as described above under Compensation Discussion and Analysis Executive Compensation Program Incentive Bonuses. Such amounts are included in Non-Equity Incentive Plan Compensation in the Summary Compensation Table above.
- (3) Dr. Murphy's employment with us ceased in August 2010 and therefore he was not eligible to receive any bonus under the plan.

Outstanding Equity Awards at December 31, 2010

The following table shows all outstanding equity awards held by our named executive officers as of December 31, 2010.

Name	Number of Securities Underlying Unexercised Options (#)		Option Awards Exercise Price (\$)	Option Expiration Date
	Exercisable	Unexercisable		
Kent A. Murphy				
Dale E. Messick	150,000		\$ 5.47	8/29/16
	59,880	15,120 (1)	\$ 3.42	12/20/16
		100,000 (2)	\$ 1.70	2/24/19
Scott A. Graeff			\$ 0.35	5/20/15
			\$ 0.35	6/3/15
	56,524		\$ 0.35	7/1/15
	22,610		\$ 0.35	8/1/15
	56,524		\$ 1.77	2/8/16
	90,437			
	84,785			
	7,652	2,348 (3)	\$ 3.69	2/27/17
		50,000 (4)	\$ 0.82	5/12/19
Mark Froggatt, Ph.D.	20,762		\$ 0.35	11/1/13
	56,524		\$ 1.77	11/11/15
	28,262		\$ 1.77	2/8/16
	1,222		\$ 3.67	1/25/17
	11,478	278(5)	\$ 3.69	2/27/17
	46,185	3,522(3)		
		28,815 (6)	\$ 5.73	11/13/17
		125,000 (2)	\$ 1.70	2/24/19
		45,000 (4)	\$ 0.82	5/12/19

- (1) Represents the portion of an option granted on December 20, 2006 that remained unvested and unexercisable as of December 31, 2010. These unvested shares vest in 11 equal monthly installments through December 20, 2011.
- (2) Represents shares underlying an option granted on February 24, 2009. This option vests with respect to 40% of these shares on the two-year anniversary of the grant date, with the remaining 60% vesting in 36 equal monthly installments thereafter.
- (3) Represents the portion of an option granted on February 27, 2007 that remained unvested and unexercisable as of December 31, 2010. These unvested shares vest in 14 equal monthly installments through February 27, 2012.
- (4) Represents shares underlying an option granted on May 12, 2009. This option vests with respect to 40% of these shares on the two-year anniversary of the grant date, with the remaining 60% vesting in 36 equal monthly installments thereafter.
- (5) Represents the portion of an option granted on January 25, 2007 that remained unvested and unexercisable as of December 31, 2010. These unvested shares vest in 13 equal monthly installments through January 25, 2012.
- (6) Represents the portion of an option granted on November 13, 2007 that remained unvested and unexercisable as of December 31, 2010. These unvested shares vest in 23 equal monthly installments through November 13, 2012.

Option Exercises and Stock Vested During 2010

The table below sets forth information concerning the exercise of stock options for each named executive officer during 2010. There was no vesting of any restricted stock during 2010.

Name	Option Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)
Kent A. Murphy	113,047	183,226
Dale E. Messick		
Scott A. Graeff		
Mark Froggatt		

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

We currently have employment agreements with each of our named executive officers as described below. As described above under Compensation Discussion and Analysis, we and Dr. Kent Murphy were previously parties to an employment agreement that was mutually terminated, and we and Dr. Murphy entered into a Separation and Consulting Agreement on August 10, 2010 in connection with his resignation as our President and Chief Executive Officer. A summary of this agreement, and the amounts paid to Dr. Murphy in connection with his separation and consulting arrangement, are described in detail above in Compensation Discussion and Analysis Separation Agreement with Dr. Kent Murphy.

Employment Agreement with Dale E. Messick

We previously entered into an employment agreement with Dale E. Messick to serve as our Chief Financial Officer. In August 2010, Mr. Messick was appointed as interim President and Chief Operating Officer following Dr. Murphy's separation. Mr. Messick's employment agreement was not amended in connection with this appointment. The employment agreement has a term that continues through June 30, 2011. The term of the agreement automatically renews for a period of one year unless either party terminates it at least 90 days in advance of the scheduled expiration of the term.

Pursuant to the terms of his employment agreement, in addition to his base salary, Mr. Messick is eligible for an annual discretionary performance-based cash bonus to be determined by the board of directors or the Compensation Committee. Mr. Messick is also 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 for 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 (as defined in his employment agreement), 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 of base salary and 9 months of continuation of group health benefits. In addition to these severance payments, upon such termination, Mr. Messick would 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.

If Mr. Messick had been terminated without cause on December 31, 2010, or if he had terminated his employment for good reason as of such date, certain of his options held as of that date would have accelerated. This acceleration would have resulted in no value to Mr. Messick, as shown in the table below, since each option held by Mr. Messick that had not fully vested as of December 31, 2010 has an exercise price higher than \$1.67 per share, the closing price of our common stock as reported on the NASDAQ Capital Market on that date.

Stock Option Shares		Value of Awards	
Vesting Upon		Subject to	
Termination without Cause	Exercise Price	Acceleration	
or for Good Reason			
15,120	\$ 3.42	\$ 0 (1)	
56,667	\$ 1.70	\$ 0 (1)	

(1) The exercise price of this option was below the closing price, and therefore no value would have been realized in connection with acceleration of vesting as of December 31, 2010.

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. Mr. Graeff's title was further changed in March 2009 to Chief Operating Officer. In August 2010, Mr. Graeff was appointed as interim Chief Financial Officer following Mr. Messick's appointment as interim President and Chief Operating Officer. Mr. Graeff's employment agreement was not amended in connection with this appointment. The employment agreement has a term that continues through June 30, 2011. The term of the agreement automatically renews for a period of one year unless either party terminates it at least 90 days in advance of the scheduled expiration of the term.

Pursuant to the terms of his amended and restated employment agreement, in addition to his base salary, Mr. Graeff is 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 is also 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 for 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 (as defined in his employment agreement), 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 of base salary and 9 months of continuation of group health benefits. In addition to the severance under his employment agreement, upon such termination, Mr. Graeff would 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.

If Mr. Graeff had been terminated without cause on December 31, 2010, or if he had terminated his employment for good reason as of such date, certain of his options held as of that date would have accelerated. This acceleration would have resulted in value to Mr. Graeff as shown in the table below. The value of the acceleration to Mr. Graeff is based on the excess of the fair value of our common stock on December 31, 2010, which was \$1.67 per share, the closing price of our common stock as reported on the NASDAQ Capital Market on that date, over the exercise price of the option.

Stock Option Shares		Value of Awards	
Vesting Upon		Subject to	
Termination without Cause		Acceleration	
or for Good Reason	Exercise Price		
2,348	\$ 3.69	\$ 0 (1)	
25,833	\$ 0.82	\$ 21,958	

- (1) The exercise price of this option was below the closing price, and therefore no value would have been realized in connection with acceleration of vesting as of December 31, 2010.

Employment Agreement with Mark Froggatt

On July 16, 2009, we entered into an employment agreement with Mark Froggatt, Ph.D, as our Chief Technology Officer. The employment agreement has a term that continues through July 31, 2011. The term of the agreement automatically renews for a period of one year unless either party terminates it at least 90 days in advance of the scheduled expiration of the term.

Pursuant to the terms of his employment agreement, in addition to his base salary, Dr. Froggatt is eligible for an annual discretionary performance-based cash bonus to be determined by the board of directors or the compensation committee. Dr. Froggatt is also 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 Dr. Froggatt's employment is terminated involuntarily without cause (as defined in his employment agreement) or voluntarily for good reason (as defined in his employment agreement), Dr. Froggatt 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 (as defined in his employment agreement), severance equal to 9 months of base salary and 9 months of continuation of group health benefits. In addition to these severance payments, upon such termination, Dr. Froggatt would 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.

If Dr. Froggatt had been terminated without cause at December 31, 2010, or if he had terminated his employment for good reason as of such date, certain of his options held as of that date would have accelerated. This acceleration would have resulted in value to Dr. Froggatt as shown in the table below. The value of the acceleration to Dr. Froggatt is based on the excess of the fair value of our common stock on December 31, 2010, which was \$1.67 per share, the closing price of our common stock as reported on the NASDAQ Capital Market on that date, over the exercise price of the option.

Stock Option Shares		Value of Awards	
Vesting Upon		Subject to	
Termination without Cause		Acceleration	
or for Good Reason	Exercise Price		
256	\$ 3.67	\$ 0 (1)	
3,018	\$ 3.69	\$ 0 (1)	
15,033	\$ 5.73	\$ 0 (1)	

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70,833	\$ 1.70	\$ 0 (1)
23,250	\$ 0.82	\$ 19,763

- (1) The exercise price of this option was below the closing price, and therefore no value would have been realized in connection with acceleration of vesting as of December 31, 2010.

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 31, 2011, by:

each person known by us to be beneficial owners of 5% or more of the outstanding shares of our common stock;

each of our directors and the board of directors nominees for director;

each of the executive officers named in the Summary Compensation Table, to whom we refer as 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 SEC. 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, restricted stock units, warrants or other exercisable or convertible securities held by that person that are currently exercisable or convertible or exercisable or convertible within 60 days of March 31, 2011 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, options or restricted stock units awarded after March 31, 2011. A total of 13,499,496 shares of our common stock were outstanding as of March 31, 2011.

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	2,781,457	20.6%
Carilion Clinic (1) c/o Carilion Roanoke Memorial Hospital	3,683,985	24.7%
First Floor		
Roanoke, Virginia 24033		
Hansen Medical, Inc. (2) 800 East Middlefield Road	1,315,918	9.7%
Mountain View, CA 94043		
Dale E. Messick (3)	303,144	2.2%
Scott A. Graeff (4)	378,483	2.7%
Mark Froggatt, Ph.D. (5)	246,253	1.8%
N. Leigh Anderson, Ph.D. (6)	195,220	1.4%
John B. Williamson, III (7)	71,233	*
Warner Dalhouse (8)	74,010	*
Jonathan M. Cool (9)	75,260	*
Edward G. Murphy, M.D. (10)	3,683,985	24.7%
Richard W. Roedel (11)	388,429	2.8%
Michael W. Wise (12)	513,155	3.8%
All directors and executive officers as a group (11 persons) (13)	10,064,049	60.7%

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- * Represents less than 1% of the outstanding shares of common stock.
- (1) Includes 1,321,514 shares of Series A Convertible Preferred Stock, which are currently convertible into an equivalent number of shares of common stock, as well as 76,869 shares of common stock payable as

- accrued dividends on the Series A Convertible Preferred Stock that will be issued upon the holder's request, and 39,888 shares subject to stock options that are immediately exercisable or exercisable within 60 days of March 31, 2011. Does not include 366,000 shares of common stock underlying warrants that are not exercisable within 60 days of March 31, 2011. Edward G. Murphy, M.D., Don Lorton and Rob Vaughan share voting and investment power over the shares beneficially owned by Carilion Clinic.
- (2) Excludes shares issuable upon exercise of a warrant, exercisable until January 12, 2013, that entitles Hansen to purchase additional shares of our common stock, at a purchase price of \$0.01 per share, such that the total number of shares issuable under the warrant, plus the reported shares, is equal to 9.9% of our outstanding common stock.
 - (3) Includes 261,085 shares subject to options that are immediately exercisable or exercisable within 60 days of March 31, 2011.
 - (4) Includes 339,362 shares subject to options that are immediately exercisable or exercisable within 60 days of March 31, 2011.
 - (5) Represents shares subject to options that are immediately exercisable or exercisable within 60 days of March 31, 2011
 - (6) Includes 160,919 shares subject to options that are immediately exercisable or exercisable within 60 days of March 31, 2011, and 32,538 shares of common stock issuable pursuant to restricted stock units held under our Non-Employee Director's Deferred Compensation Plan that are payable under circumstances within the control of the holder.
 - (7) Includes 52,999 shares subject to options that are immediately exercisable or exercisable within 60 days of March 31, 2011, and 10,234 shares of common stock issuable pursuant to restricted stock units held under our Non-Employee Director's Deferred Compensation Plan that are payable under circumstances within the control of the holder.
 - (8) Includes 52,999 shares subject to options that are immediately exercisable or exercisable within 60 days of March 31, 2011, and 11,011 shares of common stock issuable pursuant to restricted stock units held under our Non-Employee Director's Deferred Compensation Plan that are payable under circumstances within the control of the holder.
 - (9) Includes 52,999 shares subject to options that are immediately exercisable or exercisable within 60 days of March 31, 2011, and 12,760 shares of common stock issuable pursuant to restricted stock units held under our Non-Employee Director's Deferred Compensation Plan that are payable under circumstances within the control of the holder.
 - (10) Consists of shares held by Carilion Clinic. Dr. Murphy 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.
 - (11) Includes 334,906 shares subject to options that are immediately exercisable or exercisable within 60 days of March 31, 2011, and 49,000 shares of common stock issuable pursuant to restricted stock units held under our Non-Employee Director's Deferred Compensation Plan that are payable under circumstances within the control of the holder.
 - (12) Includes 13,105 shares held by Mr. Wise's family members over which Mr. Wise shares voting and investment power.
 - (13) Includes 1,321,514 shares of Series A Convertible Preferred Stock, which are currently convertible into an equivalent number of shares common stock, as well as 76,869 shares of common stock payable as accrued dividends on the Series A Convertible Preferred Stock that will be issued upon the holder's request. Also includes an aggregate of 115,543 shares of common stock issuable pursuant to restricted stock units issued under our Non-Employee Director's Deferred Compensation Plan that are payable under circumstances within the control of the holders, and an aggregate of 1,578,910 shares of common stock issuable under stock options that are immediately exercisable or exercisable within 60 days of March 31, 2011.

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 of our executives hold a power of attorney to enable such individuals to file ownership and change in ownership forms on behalf of the reporting persons.

To our knowledge, based solely on our review of these reports or written representations from certain reporting persons that no other reports were required, we believe that during 2010, all filing requirements applicable to our officers, directors, greater than 10% stockholders and other persons subject to Section 16(a) of the Exchange Act were complied with, except for the late filing of the Form 3s reporting the initial beneficial ownership for Dr. Williamson, Mr. Dalhouse and Mr. Cool. In addition, Mr. Dalhouse filed one late Form 4 reporting one purchase of common stock.

OTHER INFORMATION

Solicitation of Proxies

We will bear the cost of our proxy solicitation. We have retained MacKenzie Partners, a professional proxy solicitation firm, at an estimated cost of \$75,000, plus reimbursement of expenses, to assist us in soliciting proxies from brokers, nominees, institutions and individuals. MacKenzie expects that approximately 25 of its employees will assist in the solicitation. We may also request banks, brokers, fiduciaries, custodians, nominees and certain other record holders to send proxies, proxy statements and other materials to their principals at our expense. Such banks, brokers, fiduciaries, custodians, nominees and other record holders will be reimbursed by us for their reasonable out-of-pocket expenses of solicitation. Solicitation of proxies by mail may be supplemented by telephone, facsimile, e-mail or personal solicitation by the persons identified as participants on *Appendix A* to this proxy statement. No additional compensation will be paid to directors, officers or other regular employees for such services. Our expenses related to the solicitation (in excess of those normally spent for an annual meeting with an uncontested director election and excluding salaries and wages of our regular employees and officers) are currently expected to be approximately \$ _____ in the aggregate, of which approximately \$ _____ has been spent to date.

Other Matters to be Presented at the Annual Meeting

We do not know of any matters to be presented at our 2011 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. The purpose of this review is to allow the board to avoid having to consider irrelevant or inappropriate communications, such as advertisements, solicitations and hostile communications, or any correspondence more suitably directed to management.

Stockholder Proposals for 2012 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 but not to be included in our proxy materials. For the 2012 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 _____, 2012, which is 90 days prior to the anniversary of the expected first mailing date of this proxy statement. If our 2012 annual meeting of stockholders is moved more than 30 days before or after

the anniversary date of our 2011 annual meeting of stockholders, then the deadline is the close of business on the tenth 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 a 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 2012 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 31, 2011, which is 120 days prior to the anniversary of the expected mailing date of this proxy statement. You are also advised to review our bylaws, which contain additional requirements about advance notice of stockholder proposals and director nominations.

Householding of Annual Meeting Materials

Some banks, brokers and other nominee record holders may participate in the practice of householding proxy statements and their accompanying documents. This means that only one set of our annual meeting materials is sent to multiple stockholders in your household. We will promptly deliver a separate copy of these documents without charge to you upon written request to Luna Innovations Incorporated, 1 Riverside Circle, Suite 400, Roanoke, Virginia 24016, Attn: Investor Relations. If you want to receive separate copies of our annual meeting materials in the future, or if you are receiving multiple copies and would like to receive only one copy per household, you should contact your bank, broker or other nominee record holder, or you may contact us at the above address and phone number.

By Order of the Board of Directors

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

April 15, 2011

A copy of our Annual Report to the Securities and Exchange Commission on Form 10-K for the fiscal year ended December 31, 2010 is available without charge on our website, www.lunainnovations.com, or upon written request to: Corporate Secretary, Luna Innovations Incorporated, 1 Riverside Circle, Suite 400, Roanoke, Virginia 24016.

INFORMATION CONCERNING PARTICIPANTS IN THE SOLICITATION

Under applicable SEC regulations, the members of the Board of Directors, the Board of Directors nominees and certain of our officers and employees may be deemed to be participants with respect to our solicitation of proxies in connection with our 2011 annual meeting of stockholders. Certain information about the persons who may be deemed participants is provided below.

Directors and Director Nominees

The names of our directors and director nominees are set forth below. The principal occupations of our directors who may be deemed participants in our solicitation are set forth in this proxy statement under Election of Directors, and the business address at which each director carries out such principal occupation is set forth below.

Director	Principal Business Address
Michael W. Wise	Delta Dental of Virginia 4818 Starkey Road Roanoke, Virginia 24018
Warner Dalhouse	c/o Luna Innovations Incorporated 1 Riverside Circle, Suite 400 Roanoke, Virginia 24016
John B. Williamson, III	RGC Resources, Inc. 519 Kimball Avenue Roanoke, Virginia 24016
Edward G. Murphy	Carilion Clinic c/o Carilion Roanoke Memorial Hospital First Floor Roanoke, Virginia 24033
Jonathan M. Cool	c/o Luna Innovations Incorporated 1 Riverside Circle, Suite 400 Roanoke, Virginia 24016
Richard W. Roedel	c/o Luna Innovations Incorporated 1 Riverside Circle, Suite 400 Roanoke, Virginia 24016
N. Leigh Anderson	c/o Luna Innovations Incorporated 1 Riverside Circle, Suite 400

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Kent A. Murphy

Roanoke, Virginia 24016

c/o Luna Innovations Incorporated

1 Riverside Circle, Suite 400

Roanoke, Virginia 24016

Officers and Employees

The principal occupations of our officers and employees (who are not otherwise directors) who may be deemed participants in our solicitation of proxies are set forth below. The principal occupation refers to such person's position with us, and the business address is c/o Luna Innovations Incorporated, 1 Riverside Circle, Suite 400, Roanoke, Virginia 24016.

Name	Principal Occupation
Dale E. Messick	Interim President and Chief Operating Officer
Mark E. Froggatt, Ph.D.	Chief Technology Officer
Scott A. Graeff	Interim Chief Financial Officer, Chief Commercialization Officer and Treasurer
Talfourd H. Kemper, Jr.	Vice President, General Counsel and Secretary

Information Regarding Ownership of Our Securities by Participants

None of the participants owns any of our common stock of record that they do not also own beneficially. The number of shares of our common stock held by our directors, director nominees and executive officers is set forth in this proxy statement under Security Ownership of Certain Beneficial Owners and Management.

Information Regarding Transactions in Our Securities by Participants

The following table sets forth purchases and sales of shares of our securities by the participants listed below during the past two years. Unless otherwise indicated, all transactions were in the open market. None of the purchase price or market value of the securities listed below is represented by funds borrowed or otherwise obtained for the purpose of acquiring or holding such securities.

Name	Date	Number of Shares of Common Stock, Options to Purchase Shares of Common Stock, Purchased or (Disposed of)	Notes
Michael W. Wise	May 5, 2009	8,000	Purchases of Common Stock at approximately \$0.74
	June 4, 2009	6,000	Purchases of Common Stock between \$0.46 and \$0.47
	June 5, 2009	5,000	Purchases of Common Stock at \$0.47
	June 8, 2009	5,000	Purchases of Common Stock at approximately \$0.47
	June 24, 2009	5,000	Purchases of Common Stock between \$0.43 and \$0.45
	June 25, 2009	3,000	Purchases of Common Stock at approximately \$0.48
	June 29, 2009	10,000	Purchases of Common Stock between \$0.46 and \$0.50
	July 16, 2009	2,000	Purchase of Common Stock at approximately \$0.55

Name	Date	Number of Shares of Common Stock, Options to Purchase Shares of Common Stock, Purchased or (Disposed of)	Notes
	July 17, 2009	51,000	Purchases of Common Stock between \$0.30 and \$0.36
	July 20, 2009	15,000	Purchases of Common Stock between \$0.31 and \$0.33
	July 22, 2009	10,000	Purchases of Common Stock between \$0.31 and \$0.35
	July 23, 2009	17,000	Purchases of Common Stock between \$0.33 and \$0.35
	July 24, 2009	13,000	Purchases of Common Stock between \$0.35 and \$0.40
	July 30, 2009	3,000	Purchases of Common Stock at \$0.40
	August 3, 2009	2,000	Purchases of Common Stock at \$0.39
	August 4, 2009	5,000	Purchases of Common Stock between \$0.35 and \$0.38
	August 5, 2009	6,000	Purchases of Common Stock at \$0.37
	August 6, 2009	4,000	Purchase of Common Stock at \$0.40
	August 7, 2009	8,000	Purchases of Common Stock between \$0.37 and \$0.41
	August 10, 2009	7,000	Purchases of Common Stock between \$0.36 and \$0.39
	August 12, 2009	15,000	Purchases of Common Stock between \$0.36 and \$0.38
	August 13, 2009	10,000	Purchases of Common Stock between \$0.37 and \$0.39
	August 18, 2009	2,000	Purchases of Common Stock between \$0.35 and \$0.40
	August 20, 2009	3,000	Purchases of Common Stock at \$0.38
	August 21, 2009	14,000	Purchases of Common Stock at approximately \$0.42
	August 24, 2009	6,000	Purchases of Common Stock between \$0.55 and \$0.57
	August 25, 2009	5,000	Purchases of Common Stock between \$0.77 and \$0.79
	September 3, 2009	2,802	Purchases of Common Stock between \$0.55 and \$0.59
	September 4, 2009	5,000	Purchases of Common Stock between \$0.69 and \$0.75
	September 8, 2009	3,000	Purchases of Common Stock between \$0.72 and \$0.74

Name	Date	Number of Shares of Common Stock, Options to Purchase Shares of Common Stock, Purchased or (Disposed of)	Notes
	September 11, 2009	4,000	Purchases of Common Stock at approximately \$0.68
	September 16, 2009	16,000	Purchases of Common Stock at \$0.64
	September 17, 2009	3,000	Purchases of Common Stock between \$0.63 and \$0.64
	September 21, 2009	6,500	Purchases of Common Stock \$0.72 and \$0.79
	September 24, 2009	11,000	Purchases of Common Stock between \$1.13 and \$1.15
	November 4, 2009	15,252	Purchases of Common Stock at approximately \$1.40
	November 12, 2009	19,700	Purchases of Common Stock between \$1.44 and \$1.68
	November 16, 2009	500	Purchase of Common Stock at \$1.45
	November 16, 2009	10,398	Purchases of Common Stock at approximately \$1.47
	November 17, 2009	4,400	Purchases of Common Stock at \$1.47
	November 18, 2009	4,000	Purchases of Common Stock at \$1.45
	November 19, 2009	2,000	Purchases of Common Stock between \$1.44 and \$1.50
	December 2, 2009	500	Purchases of Common Stock at \$1.34
	December 4, 2009	700	Purchases of Common Stock at \$1.37
	December 11, 2009	100	Purchase of Common Stock at \$2.14
	February 22, 2010	3,200	Purchases of Common Stock between \$3.34 and \$3.35
	February 22, 2010	12,000	Purchases of Common Stock at approximately \$3.32
	March 25, 2010	8,000	Purchases of Common Stock at approximately \$2.61
	May 3, 2010	52,000	Purchases of Common Stock between \$2.36 and \$2.38
	May 14, 2010	20,000	Purchases of Common Stock at approximately \$2.23
	June 28, 2010	5,000	Purchases of Common Stock between \$2.36 and \$2.45
	July 6, 2010	5,000	Purchase of Common Stock at \$2.20
	July 8, 2010	5,000	Purchases of Common Stock at approximately \$2.18

Name	Date	Number of Shares of Common Stock, Options to Purchase Shares of Common Stock, Purchased or (Disposed of)	Notes
	July 20, 2010	15,000	Purchases of Common Stock at approximately \$1.97
	July 23, 2010	15,000	Purchases of Common Stock between \$2.13 and \$2.19
	July 26, 2010	2,000	Purchases of Common Stock between \$2.06 and \$2.21
	August 9, 2010	2,000	Purchases of Common Stock at approximately \$2.27
	March 21, 2011	1,000	Purchase of Common Stock at approximately \$1.74
Warner Dalhouse	January 12, 2010	120,000	Grant of Stock Option with exercise price of \$4.43
	January 13, 2010	10,000	Purchase of Common Stock at \$3.95
	April 1, 2010	1,720.18	Grant of Stock Units (right to acquire stock)
	July 1, 2010	3,240.74	Grant of Stock Units (right to acquire stock)
	October 1, 2010	3,403.14	Grant of Stock Units (right to acquire stock)
	January 3, 2011	2,647.06	Grant of Stock Units (right to acquire stock)
	April 1, 2011	3,571.43	Grant of Stock Units (right to acquire stock)
John B. Williamson, III	July 31, 2009	200	Purchase of Common Stock at \$0.39
	December 3, 2009	2,300	Purchase of Common Stock at \$1.38
	December 18, 2009	1,000	Purchase of Common Stock at \$1.78
	December 21, 2009	780	Purchase of Common Stock at \$1.75
	December 28, 2009	220	Purchase of Common Stock at \$2.10
	January 12, 2010	120,000	Grant of Stock Option with exercise price of \$4.43
	April 1, 2010	688	Grant of Stock Units (right to acquire stock)
	July 1, 2010	2,662.03	Grant of Stock Units (right to acquire stock)
	October 1, 2010	3,795.81	Grant of Stock Units (right to acquire stock)
	January 3, 2011	3,088.24	Grant of Stock Units (right to acquire stock)
	April 1, 2011	3,928.51	Grant of Stock Units (right to acquire stock)

Name	Date	Number of Shares of Common Stock, Options to Purchase Shares of Common Stock, Purchased or (Disposed of)	Notes
Edward G. Murphy	July 1, 2009	8,490	Grant of Stock in lieu of Director Fees
	October 1, 2009	1,667	Grant of Stock in lieu of Director Fees
	January 4, 2010	1,136	Grant of Stock in lieu of Director Fees
	April 1, 2010	688	Grant of Stock in lieu of Director Fees
	May 14, 2010	120,000	Grant of Stock Option with exercise price of \$2.32
	May 14, 2010	(120,000)	Transfer of Stock Option to Carilion Clinic
Jonathan M. Cool	January 12, 2010	120,000	Grant of Stock Option with exercise price of \$4.43
	April 1, 2010	1,605	Grant of Stock in lieu of Director Fees
	May 10, 2010	25,531	Grant of Restricted Stock
	July 1, 2010	2,778	Grant of Stock in lieu of Director Fees
	October 1, 2010	2,618	Grant of Stock in lieu of Director Fees
	January 3, 2011	2,500	Grant of Stock in lieu of Director Fees
Richard W. Roedel	April 1, 2011	2,619	Grant of Stock in lieu of Director Fees
	May 12, 2009	120,000	Grant of Stock Option with exercise price of \$0.82
	July 1, 2009	16,037.73	Grant of Stock Units (right to acquire stock)
	September 14, 2009	60,000	Grant of Stock Option with exercise price of \$0.61
	October 1, 2009	2,916.67	Grant of Stock Units (right to acquire stock)
	January 4, 2010	2,613.63	Grant of Stock Units (right to acquire stock)
Jonathan M. Cool	January 12, 2010	60,000	Grant of Stock Option with exercise price of \$4.43
	April 1, 2010	2,178.89	Grant of Stock Units (right to acquire stock)
	July 1, 2010	3,356.48	Grant of Stock Units (right to acquire stock)
	October 1, 2010	2,094.24	Grant of Stock Units (right to acquire stock)
	January 3, 2011	1,470.59	Grant of Stock Units (right to acquire stock)
	April 1, 2011	2,500	Grant of Stock Units (right to acquire stock)

Name	Date	Number of Shares of Common Stock, Options to Purchase Shares of Common Stock, Purchased or (Disposed of)	Notes
N. Leigh Anderson	April 1, 2009	2,102.80	Grant of Stock Units (right to acquire stock)
	July 1, 2009	15,801.88	Grant of Stock Units (right to acquire stock)
	October 1, 2009	2,569.44	Grant of Stock Units (right to acquire stock)
	January 4, 2010	2,329.54	Grant of Stock Units (right to acquire stock)
	January 20, 2010	126,667	Grant of Stock Option with exercise price of \$3.45
	April 1, 2010	802.75	Grant of Stock Units (right to acquire stock)
	July 1, 2010	1,504.62	Grant of Stock Units (right to acquire stock)
	October 1, 2010	2,094.24	Grant of Stock Units (right to acquire stock)
	January 3, 2011	1,764.71	Grant of Stock Units (right to acquire stock)
Kent A. Murphy	April 1, 2011	1,071.43	Grant of Stock Units (right to acquire stock)
	May 20, 2010	113,047	Exercise of Stock Option with exercise price of \$0.3892
Dale E. Messick	August 16, 2010	1,500	Purchase of Common Stock at \$1.90
	August 17, 2010	1,000	Purchase of Common Stock at \$1.90
	March 1, 2011	19,444	Grant of Restricted Stock
Scott A. Graeff	May 12, 2009	50,000	Grant of Stock Option with exercise price of \$0.82
	August 16, 2010	1,900	Purchase of Common Stock at \$1.85
	August 17, 2010	1,475	Purchase of Common Stock at \$1.85
	August 18, 2010	1,625	Purchase of Common Stock at \$1.85
	March 1, 2011	19,444	Grant of Restricted Stock
Talfourd H. Kemper, Jr.	December 7, 2010	35,000	Grant of Stock Option with exercise price of \$1.82
Mark E. Froggatt, Ph.D.	May 12, 2009	45,000	Grant of Stock Option with exercise price of \$0.82

Miscellaneous Information Concerning Participants

Except as described in this Appendix A or in this proxy statement, none of the participants nor any of their respective affiliates or associates, referred to together as the Participant Affiliates, (i) directly or indirectly

beneficially owns any shares of our common stock or any securities of any subsidiary of ours or (ii) has had any relationship with us in any capacity other than as a stockholder, employee, officer or director. Furthermore, except as described in this proxy statement, neither any participant nor any Participant Affiliate is either a party to any transaction or series of transactions since January 1, 2009, or has knowledge of any currently proposed transaction or series of proposed transactions, (i) to which the Company was or is to be a party, (ii) in which the amount involved exceeds \$120,000 and (iii) in which any participant or Participant Affiliate had, or will have, a direct or indirect material interest.

Except as described in this proxy statement, no participant or Participant Affiliate has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon at our 2011 annual meeting of stockholders.

Except as described in this proxy statement, no participant or Participant Affiliate has entered into any agreement or understanding with any person respecting any future employment by us or any of our affiliates or any future transactions to which we or any of our affiliates will or may be a party. Except as described in this proxy statement, there are no contracts, arrangements or understandings by any participant or Participant Affiliate within the past year with any person with respect to any of our securities, including, but not limited to, joint ventures, loan or option arrangements, puts or calls, guarantees against loss or guarantees of profit, division of losses or profits, or the giving or withholding of proxies.

WHITE PROXY CARD

PRELIMINARY COPY SUBJECT TO COMPLETION
PROXY SOLICITED BY THE BOARD OF DIRECTORS OF

LUNA INNOVATIONS INCORPORATED

FOR THE ANNUAL MEETING OF STOCKHOLDERS ON MAY 24, 2011

The undersigned hereby appoints Talfourd H. Kemper, Jr. and Dale E. Messick, and each of them, as attorneys and proxies of the undersigned, with full power of substitution, to vote all of the shares of Luna Innovations Incorporated Common Stock which the undersigned may be entitled to vote at the annual meeting of stockholders of Luna Innovations Incorporated to be held at the Roanoke Higher Education Center, Claude Moore Education Complex, 109 North Henry Street, Roanoke, Virginia 24016, on May 24, 2011, at 9:00 a.m. local time, and at any and all continuations, adjournments or postponements thereof, with all powers that the undersigned would possess if personally present, upon and in respect of the matters on the reverse side and in accordance with the accompanying instructions, with discretionary authority as to any and all other matters that may properly come before the meeting.

The undersigned hereby revokes all proxies previously given by the undersigned to vote at the annual meeting of stockholders or any continuation, adjournment or postponement thereof.

(Continued and to be signed on the reverse side)

WHITE PROXY CARD

NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIAL:

The Notice of Meeting, proxy statement and proxy card
are available at <http://www.ViewOurMaterial.com/luna>.

YOUR VOTE IS IMPORTANT

Please take a moment now to vote your shares of Luna Innovations Incorporated
Common Stock for the upcoming annual meeting of stockholders.

PLEASE REVIEW THE PROXY STATEMENT AND VOTE TODAY IN ONE OF THREE WAYS:

1. **Vote by Telephone** Call toll-free in the U.S. or Canada at **1-888-693-8683**, on a touch-tone telephone. If outside the U.S. or Canada, call **+1-412-299-7666**. Please follow the simple instructions. You will be required to provide the unique control number printed below.

OR

2. **Vote on the Internet** Access **<http://www.cesvote.com>** and follow the simple instructions. You will be required to provide the unique control number printed below.

CONTROL NUMBER: â

You may vote by telephone or by Internet 24 hours a day 7 days a week. Your telephone or Internet vote authorizes the named proxies to vote your shares in the same manner as if you had marked, signed and returned a proxy card.

OR

3. **Vote by Mail** If you do not wish to vote by telephone or by Internet, please complete, sign, date and return the proxy card in the envelope provided, or mail to: **Luna Innovations Incorporated, c/o c/o Corporate Election Services, P.O. Box 3230, Pittsburgh, PA 15230-9404.**

ä To vote by mail, please detach along perforated line and mail in the envelope provided. ä

n

PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE x

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ALL NOMINEES IN PROPOSAL NO. 1, FOR PROPOSAL NO. 2, AND AGAINST PROPOSAL NO. 3.

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1. Election of Three (3) Class II Members of the Board of Directors to serve until the 2014 annual meeting of stockholders:

“ **FOR ALL NOMINEES**

“ **WITHHOLD AUTHORITY
FOR ALL NOMINEES**

“ **FOR ALL EXCEPT**
(See instructions below)

NOMINEES:

- i 1 Michael W. Wise
- i 2 Warner Dalhouse
- i 3 John B. Williamson, III

INSTRUCTIONS:

To withhold authority to vote for any individual nominee(s), mark **FOR ALL EXCEPT** and fill in the circle next to each nominee you wish to withhold, as shown here:

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	FOR	AGAINST	ABSTAIN
2. Proposal to ratify the appointment of Grant Thornton LLP as the Company's independent registered public accounting firm for its fiscal year ending December 31, 2011.
3. Shareholder proposal to amend the Company's bylaws to fix the size of the Board at seven (7) members and remove the Board's ability to change the size of the Board.

THE PROXIES WILL VOTE THE SHARES REPRESENTED BY THIS PROXY AS SPECIFIED, BUT IF NO SPECIFICATION IS MADE, THE PROXIES WILL VOTE THE SHARES FOR ALL NOMINEES IN PROPOSAL NO. 1, FOR APPROVAL OF PROPOSAL NO. 2, AND AGAINST PROPOSAL NO. 3. THE PROXIES MAY VOTE IN THEIR DISCRETION AS TO OTHER MATTERS WHICH MAY COME BEFORE THE MEETING.

YOU WILL SAVE THE COMPANY EXPENSE AND TIME IF YOU DATE, SIGN AND RETURN THIS PROXY AS SOON AS POSSIBLE BEFORE MAY 24, 2011.

Signature of Stockholder

Date:

Signature of Stockholder

Date:

(if held jointly)

Note: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

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