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Fiber Optics Co. Agrees To Reforms To End Derivative Suit

By **Sydney Price**

Law360 (October 30, 2025, 9:28 PM EDT) -- Fiber optic equipment company Luna Innovations Inc. has reached a deal with its investors to settle their derivative claims alleging the company was damaged by its failure to properly recognize revenue in its filings with the U.S. Securities and Exchange Commission.

According to a motion filed Wednesday in California federal court, the **settlement** calls for a host of corporate governance reforms, which would reduce the likelihood of repeat governance lapses such as those the shareholders described in the lawsuit. A preliminary hearing on the deal is set for Dec. 2.

The suit's individual defendants include Luna's audit committee board chair Warren B. Phelps III, former Chief Financial Officers Eugene J. Nistro and George Gomez-Quintero, as well as several current and former board members.

Among other things, the deal requires the chair of Luna's audit committee to meet with the company's finance chief at least four times a year to discuss quarterly and annual financial results and regulatory compliance issues.

Counsel for the shareholders are seeking \$500,000 in fees and expenses, and two plaintiffs requested \$2,500 service awards, according to the motion.

Roanoke, Virginia-headquartered Luna provides fiber optic solutions for applications in various industries, including aerospace, automotive, oil, gas and security, according to the suit launched last September.

The litigation alleges Luna's shares fell nearly 36% in March 2024 when the company announced that investors could no longer rely upon certain financial statements released in fiscal year 2023 because Luna had failed to recognize revenue in accordance with generally accepted accounting principles. Shares fell again by 12% the next month when Luna revealed the mistakes actually dated back to fiscal year 2022, the complaint said.

Throughout the relevant period, which began in May 2022, Luna affirmed its disclosure controls and procedures were effective, the shareholders alleged.

The complaint said the members of the audit board breached their fiduciary duties to Luna by "failing to prevent, correct or inform the Board of the issuance of material misstatements and omissions," and were unjustly enriched.

The suit also asserts that Luna has incurred substantial costs in an ongoing related **securities class action**.

Representatives of the parties did not immediately respond to requests for comment Thursday.

The investors are represented by Robert C. Moest and Timothy W. Brown of The Brown Law Firm PC, Alex J. Tramontano, Betsy C. Manifold and Rachele R. Byrd of Wolf Haldenstein Adler Freeman & Herz LLP, Seth D. Rigrodsky, Timothy J. MacFall and Samir Aougab of Rigrodsky Law PA and Joshua H. Grabar of Grabar Law Office.

Luna is represented by Lisa R. Bugni of King & Spalding LLP.

The case is Hays et al. v. Graeff et al., case number 2:24-cv-08194, in the U.S. District Court for the Central District of California.

--Editing by Covey Son.

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