ENERGY FOCUS, INC/DE
Form S-1/A
October 01, 2009

Table of Contents

As filed with the Securities and Exchange Commission on October 1, 2009
Registration No. 333-161768

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 1 TO
FORM S-1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

ENERGY FOCUS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**94-3021850**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

32000 Aurora Road
Solon, Ohio 44139
440.715.1300
(Address including zip code, and telephone number, including area code, of registrant s principal executive offices)
Joseph G. Kaveski
Chief Executive Officer
Energy Focus, Inc.
32000 Aurora Road
Solon, Ohio 44139
440.715.1300
(Name, address, including zip code, and telephone number, including area code, of agent for service)
Copy to:
Gerald W. Cowden, Esq.
Thomas J. Talcott, Esq.
Cowden & Humphrey Co. LPA
4600 Euclid Avenue, Suite 400
Cleveland, Ohio 44103
216.241.2880

Approximate date of commencement of proposed sale to the public:
From time to time after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ (Do not check if a smaller reporting company)	Smaller reporting company o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered (1)	Amount to be Registered	Proposed Maximum Offering Price per Share	Estimated Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Subscription Rights to purchase Common Stock, $0.0001 par value per share	15,100,000	(2)	(2)	(2)
Shares of Common Stock underlying the Rights	7,000,000	$0.965 (3)	$6,755,000 (3)	$376.93 (3)

(1) This registration statement relates to (a) the Rights to purchase Common Stock and (b) the shares of Common Stock deliverable upon the exercise of the Rights.

(2) The Rights are being issued without consideration. Pursuant to Rule 457(g), no separate registration fee is payable with respect to the Rights being offered hereby since the Rights are being registered in the same registration statement as the securities to be offered pursuant thereto.

(3) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended. Represents the aggregate gross proceeds from the exercise of the maximum number of rights that may be exercised. The registration fee has been paid previously.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Preliminary Prospectus Subject To Completion, Dated October 1, 2009

Up to $3.5 million to be raised with up to 4,670,000 Shares of Common Stock Issuable Upon Exercise of Rights to Subscribe for those Shares at $0.75 per Share.

We are distributing at no charge to the holders of our common stock on October 5, 2009, which we refer to as the record date, subscription rights to purchase shares of our common stock. We refer to this offering as the rights offering.

In this rights offering we are distributing to each shareholder one right for every share of common stock that the shareholder owns on the record date. Shareholders presently own 15,078,979 shares of common stock. We are limiting the amount to be raised in this offering to no more than $3.5 million, however, through the issuance of no more than 4,670,000 common shares upon the exercise of rights. If shareholders subscribe for more than 4,670,000 shares, we will allocate that number pro rata among those shareholders who subscribe according to their ownership of shares on the record date.

Each subscription right entitles a shareholder to purchase one share of our common stock at a subscription price of $0.75 per share, which we refer to as the basic subscription right. If a shareholder fully exercises the basic subscription right, other shareholders do not fully exercise their basic subscription rights, and shareholders subscribe for a total of less than 4,670,000 shares, the shareholder will be entitled to exercise an over-subscription right to purchase a portion of the unsubscribed shares at the same price of $0.75 per share, subject to proration, to the maximum number of 4,670,000 shares to be issued in this rights offering, and to reduction by us in certain circumstances. To the extent that a shareholder properly exercises the basic subscription right or the over-subscription right for an amount of shares that exceeds the number of shares available to the shareholder, any excess subscription payment received by the subscription agent will be returned promptly, without interest or penalty.

The subscription rights return to us if they are not exercised by 5:00 p.m., New York City time, on October 30, 2009, the end of the initial subscription period, unless we extend the period. Our board of directors reserves the right to cancel the rights offering at any time, for any reason. If the rights offering is cancelled, all subscription payments received by the subscription agent will be returned promptly.

Table of Contents

You should carefully consider whether to exercise your subscription rights before the expiration of the initial subscription period of the rights offering. All exercises of subscription rights are irrevocable. The subscription rights may be transferred. Our board of directors is making no recommendation regarding your exercise of the subscription rights.

All rights not exercised by shareholders by the expiration date of the initial subscription period will return to us. During a second subscription period running from November 2, 2009 through November 13, 2009 at 5:00 p.m., New York City time, we will have the right to issue rights to both shareholders and non-shareholders in our sole discretion to purchase any or all shares available in the offering but not purchased in the initial subscription period.

This is not an underwritten offering. The shares of common stock are being offered directly by us without the services of an underwriter or selling agent.

Shares of our common stock are, and we expect that the shares of common stock to be issued in the rights offering will be, traded on the NASDAQ Global Market under the symbol EFOI. On September 29, 2009, the closing sale price of our common stock was $1.06 per share. We urge you to obtain a current market price for the shares of our common stock before making any determination with respect to the exercise of your rights.

Exercising the rights and investing in our common stock involves a high degree of risk. In addition, your holdings in our company will be diluted if you do not exercise the full amount of your basic subscription right. We urge you to carefully read the section entitled Risk Factors beginning on page 22 of this prospectus, and all other information included in this prospectus in its entirety before you decide whether to exercise your rights.

Neither the United States Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

If you have any questions or need further information about this rights offering, please call BNY Mellon Shareowner Services, our information agent for the rights offering, at (201) 680-6579 (call collect) or at (866) 282-4940 (toll-free).

The date of this prospectus is October 6, 2009.

TABLE OF CONTENTS

Table of Contents

ABOUT THIS PROSPECTUS

Unless the context otherwise requires, all references to Energy Focus, we, us, our, our company, or the Con this prospectus refer to Energy Focus, Inc., a Delaware corporation, and its subsidiaries, and their respective predecessor entities for the applicable periods, considered as a single enterprise.

You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. For further information, please see the section of this prospectus entitled Where You Can Find More Information. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted.

You should not assume that the information appearing in this prospectus is accurate as of any date other than the date on the front cover of this prospectus, regardless of the time of delivery of this prospectus or any sale of a security. Our business, financial condition, results of operations, and prospects may have changed since those dates.

We obtained statistical data, market data, and other industry data and forecasts used throughout this prospectus from market research, publicly available information, and industry publications. Industry publications generally state that they obtain their information from sources that they believe to be reliable, but they do not guarantee the accuracy or completeness of the information. Similarly, while we believe that the statistical data, industry data, and forecasts and market research are reliable, we have not independently verified the data, and we do not make any representation as to the accuracy of the information. We have not sought the consent of the sources to refer to their reports appearing in this prospectus.

This prospectus contains trademarks, trade names, service marks and service names of Energy Focus, Inc. and other companies.

Table of Contents

QUESTIONS AND ANSWERS ABOUT THE RIGHTS OFFERING

The following are examples of what we anticipate may be common questions about the rights offering. The answers are based on selected information from this prospectus. The following questions and answers do not contain all of the information that may be important to you and may not address all of the questions that you may have about the rights offering. This prospectus contains more detailed descriptions of the terms and conditions of the rights offering and provides additional information about us and our business, including potential risks related to the rights offering, our common stock and our business.

Exercising the rights and investing in our securities involves a high degree of risk. We urge you to carefully read the section entitled Risk Factors beginning on page 22 of this prospectus and all other information included in this prospectus in its entirety before you decide whether to exercise your rights.

Q: What is a rights offering?

A: A rights offering is a distribution of subscription rights on a pro rata basis to all existing shareholders of a company. We are distributing to holders of our common stock, at no charge, as of the close of business on the record date, October 5, 2009, subscription rights to purchase shares of our common stock. Each shareholder will receive one subscription right for every share of common stock that the shareholder owns at the close of business on the record date. Shareholders presently own 15,078,979 shares of common stock. We are limiting the amount to be raised in this offering to no more than $3.5 million, however, through the issuance of no more than 4,670,000 common shares upon the exercise of rights. If shareholders subscribe for more than 4,670,000 shares, we will allocate that number pro rata among those shareholders who subscribe according to their ownership of shares on the record date. The subscription rights will be issued electronically in registered, book-entry form only on our records or on the records of our transfer agent, BNY Mellon Shareowner Services.

Q: Why are you undertaking the rights offering?

A: We are undertaking the rights offering to raise funds for general corporate and working capital purposes, as well as to help fund the acquisition of the Stones River Companies of Nashville, Tennessee, a leading lighting energy solutions provider, as part of our strategy to become a turnkey lighting energy solutions company. Based on approximately $3.1 million of available cash and cash equivalents as of September 30, 2009, we believe that we have sufficient capital to fund our operations into December, 2009. If we fail to raise capital by November, 2009, we may need to forego our purchase of Stones River Companies, significantly curtail operations, cease operations, or seek federal bankruptcy protection.

Table of Contents

Our board of directors has elected a rights offering over other types of financings because a rights offering provides our existing shareholders the opportunity to participate in this offering first. Our board believes this creates less percentage dilution of shareholder ownership interest in our company than if we issued shares to new investors.

Q: How much money will the company raise as a result of the rights offering?

A: Assuming shareholders subscribe for and purchase 4,670,000 shares of our common stock, we estimate that the net proceeds from the rights offering will be approximately $3.1 million, after deducting expenses related to this offering payable by us estimated at approximately $370,000. We may decide to close the rights offering and accept such proceeds of the basic subscription rights and over-subscription rights as we have received as of the expiration date of the rights offering whether or not they are sufficient to meet the objectives we state in this prospectus, other corporate milestones that we may set, or to meet our cash flow needs for operating in the future. In no event, will we raise more than $3.5 million in this offering.

Q: What is a right?

A: Each subscription right will entitle a shareholder to purchase one share of our common stock at a subscription price of $0.75 per share, and carries with it a basic subscription right and an over-subscription right. We will not issue or pay cash in place of fractional rights. Instead, we will round up any fractional rights to the nearest whole right. We refer to this as the step-up privilege.

Q: What is a basic subscription right?

A: Each basic subscription right gives a shareholder the opportunity to purchase one share of our common stock. A shareholder may exercise any number of the shareholder s basic subscription rights or may choose not to exercise any subscription rights at all.

For example, if you own 1,000 shares of our common stock on the record date and you are granted one right for every share of our common stock that you own at that time, then you have the right to purchase up to 1,000 shares of common stock, in each case subject to the maximum number of 4,670,000 shares to be issued in the offering and to adjustment to eliminate fractional rights. If you hold your shares in the name of a broker, dealer, custodian bank, trustee, or other nominee who uses the services of the Depository Trust Company, then the Depository Trust Company will issue one right to the nominee for every share of our common stock that you own at the record date.

Table of Contents

Q: What is an over-subscription right?

A: If a shareholder elects to purchase all of the shares available to the shareholder pursuant to the shareholder s basic subscription right, the shareholder may then elect to subscribe for any number of additional shares that remain unsubscribed as a result of any other shareholders not exercising their basic subscription rights, subject to a pro rata adjustment if requests exceed available shares, to the maximum number of 4,670,000 shares to be issued in this rights offering, and to reduction or addition by us in certain circumstances, as more fully described below.

For example, if you own 1,000 shares of our common stock on the record date, and exercise your basic subscription right to purchase all, but not less than all, 1,000 shares which are available for you to purchase, then, you may also concurrently exercise your over-subscription right to purchase additional shares of common stock that remain unsubscribed as a result of any other shareholders not exercising their basic subscription rights, subject to the pro rata and other adjustments described below. Payments for exercises of over-subscription rights are due at the time payment is made for the basic subscription right.

Q: What happens if holders exercise basic subscription rights or over-subscription rights to purchase more than 4,670,000 shares to raise more than $3.5 million in this offering?

A: If the rights holders exercise their basic subscription rights to purchase more than 4,670,000 shares, we will allocate the 4,670,000 available shares pro rata among rights holders who exercise their basic subscription rights, based on the number of shares they own on the record date. If the rights holders exercise their basic subscription rights to purchase less than 4,670,000 shares, we will allocate the remaining available shares pro rata among rights holders who exercise their over-subscription rights, based on the number of shares they own on the record date. The allocation process will assure that the total number of shares available for basic subscriptions and over-subscriptions is distributed on a pro rata basis. The percentage of shares each rights holder may acquire will be rounded up to result in delivery of whole shares.

Payments for basic subscription and over-subscription rights will be deposited upon receipt by the subscription agent and held in a segregated account with the subscription agent pending a final determination of the number of shares to be issued pursuant to the basic and over-subscription rights. If the prorated amount of shares allocated to you in connection with your basic subscription or over-subscription right is less than your basic subscription or over-subscription request, then the excess funds held by the subscription agent on your behalf will be promptly returned to you without interest or deduction. We will issue certificates representing your shares of our common stock, or credit your account at your nominee holder with shares of our common stock, electronically in registered, book-entry form only on our records or on the records of our transfer agent, BNY Mellon Shareowner Services, that you purchased pursuant to your basic subscription and over-subscription rights as soon as practicable after the rights offering has expired and all proration calculations, reductions, and additions contemplated by the terms of the rights offering have been effected.

Table of Contents

Q: Am I required to exercise all of the rights that I receive in the rights offering?

A: No. You may exercise any number of your subscription rights or you may choose not to exercise any subscription rights. If you choose not to exercise your basic subscription rights in full, however, the relative percentage of our shares of common stock that you own may decrease, as well as well as your voting and other rights may be diluted. In addition, if you do not exercise your basic subscription rights in full, you will not be entitled to participate in the over-subscription rights.

Q: Are there any limits on the number of shares that I may purchase in the rights offering or own as a result of the rights offering?

A: No.

Q: Will the company s officers, directors, and other significant shareholders be exercising their rights?

A: Mr. David Gelbaum, one of our directors and together with his spouse a co-trustee of The Quercus Trust, has advised us that they and the Trust intend to exercise their basic subscription rights. The Gelbaum's and the Trust own approximately 17.9% of our shares of common stock. Some of our other officers, directors, and shareholders also have advised us that they intend to participate in this offering. None of our officers, directors, or shareholders are obligated to participate, however.

Q: Will the shares of common stock that I receive upon exercise of my rights be tradable on the NASDAQ Global Market, other stock exchange or market, or on the OTC Bulletin Board?

A: Our shares of common stock are listed for trading on the NASDAQ Global Market and we expect that the shares of our common stock to be issued upon the exercise of the rights also will be listed for trading on that Market.

Q: How do I exercise my basic subscription rights?

A: You may exercise your subscription rights by properly completing and signing your subscription rights form (Subscription Form). Your Subscription Form, together with full payment of the subscription price, must be received by BNY Mellon Shareowner Services, the subscription agent for this rights offering, on or prior to the expiration date of the rights offering. We sometimes refer to BNY Mellon Shareowner Services, in this prospectus as the subscription agent. BNY Mellon Shareowner Services is also the transfer agent and registrar for our common stock.

Table of Contents

If you use the mail, we recommend that you use insured, registered mail, return receipt requested. We will not be obligated to honor your exercise of subscription rights if the subscription agent receives the documents relating to your exercise after the rights offering expires, regardless of when you transmitted the documents.

Q: How do I exercise my over-subscription rights?

A: In order to properly exercise your over-subscription right, you must: (i) indicate on your Subscription Form that you submit with respect to the exercise of the rights issued to you how many additional shares you are willing to acquire pursuant to your over-subscription right and (ii) concurrently deliver the subscription payment related to your over-subscription right at the time you make payment for your basic subscription rights. All funds from over-subscription rights that are not honored will be promptly returned to investors, without interest or deduction.

Q: What happens if I choose not to exercise my subscription rights?

A: You will retain your current number of shares of common stock even if you do not exercise your basic subscription rights. If you do not exercise your basic subscription right in full, however, the percentage of our common stock that you own will decrease, and your voting and other rights will be diluted to the extent that other shareholders exercise their subscription rights.

Q: Is there more than one subscription period in the rights offering?

A: Yes. There are two subscription periods. The initial subscription period runs from October 6, 2009 through October 30, 2009. The second subscription period runs from November 2, 2009 through November 13, 2009.

Q: When will the rights offering expire?

A: The initial subscription period of the rights offering will expire at 5:00 p.m., New York City time, on October 30, 2009, unless we decide to terminate the rights offering earlier or extend the expiration date for up to an additional thirty trading days at our sole discretion. If we extend the expiration date, you will have at least ten trading days during which to exercise your rights. Holders ownership interests in any rights not exercised at or before that time will return to us without any payment to the holders of those unexercised rights. The subscription agent must actually receive all required documents and payments before that time and date.

Table of Contents

Q: What will happen in the second subscription period?

A: All rights not exercised by shareholders by the expiration date of the initial subscription period will return to us. During the second subscription period running from November 2, 2009 through November 13, 2009 at 5:00 p.m., New York City time, we will have the right to issue rights to both shareholders and non-stockholders in our sole discretion to purchase any or all shares available in the offering but not purchased in the initial subscription period. From time to time in the second subscription period, we may instruct the subscription agent to issue Subscription Forms. The agent promptly will follow those instructions. The procedures and rules applicable to the first subscription period will apply to the second subscription period, except that no Notice of Guaranteed Delivery may be used in the second period.

Q: May I transfer or sell my subscription rights if I do not want to purchase any or all of the shares to which I am entitled?

A: Yes. You may sell, transfer, or assign your subscription rights to anyone in whole or in part. Subscription rights, however, will not be listed for trading on the NASDAQ Global Market, any other stock exchange or market, or on the OTC Bulletin Board. Any transferee of any of your subscription rights must exercise those rights in the same way and subject to the same conditions as apply to you when exercising your rights, except as noted below.

Practically speaking, the subscription agent must receive a proper transfer of a Subscription Form from a transferor by Monday, October 26, 2009 for the transferee to be able to properly exercise the transferee s own re-issued Subscription Form by Friday, October 30, 2009.

Subscription Forms, including those of transferees, not properly or timely exercised in the first subscription period, but properly and timely exercised within the three business-day Notice of Guarantee Period, in our sole discretion may be treated as properly and timely exercised in the initial subscription period, placed first in line in the second subscription period, or not accepted.

Subscription Forms, including those of transferees, not properly or timely exercised in the first subscription period or within the three business-day Notice of Guarantee Period, in our sole discretion may be accepted or not accepted in the second subscription period.

Q: Will the company be requiring a minimum subscription to consummate the rights offering?

A: No. There is no minimum subscription in the rights offering. Our board of directors reserves the right, however, to cancel the offering for any reason, including if it believes that there is insufficient participation by our shareholders.

Table of Contents

Q: Can the board of directors cancel or terminate the rights offering?

A: Yes. Our board of directors may decide to cancel or terminate the rights offering at any time and for any reason before the expiration date. If our board of directors cancels or terminates the rights offering, we will issue a press release notifying shareholders of the cancellation or termination, and any money received from subscribing shareholders will be promptly returned, without interest or deduction.

Q: If the rights offering is not completed, will my subscription payment be refunded to me?

A: Yes. The subscription agent will hold all funds it receives in a segregated bank account until completion of the rights offering. If the offering is not completed, all subscription payments received by the subscription agent will be returned promptly, without interest or penalty. If you own shares in street name , it may take longer for you to receive payment because the subscription agent will return payments to the record holder of your shares.

Q: What should I do if I want to participate in the rights offering but my shares are held in the name of my broker, dealer, custodian bank, trustee, or other nominee?

A: Beneficial owners of our shares whose shares are held by a nominee, such as a broker, dealer, custodian bank, or trustee, must contact that nominee to exercise their rights. In that case, the nominee will complete the Subscription Form on behalf of the beneficial owner and arrange for proper payment by one of the methods described above.

Q: What should I do if I want to participate in the rights offering, but I am a shareholder with a foreign address?

A: Subscription Forms will not be mailed to foreign shareholders whose addresses of record are outside the United States and Canada, or are an Army Post Office (APO) address or Fleet Post Office (FPO). If you are a foreign shareholder, you will be sent written notice of this offering and a copy of this prospectus. The subscription agent will hold your rights, subject to you making satisfactory arrangements with the subscription agent for the exercise of your rights, and follow your instructions for the exercise of the rights if such instructions are received by the subscription agent at or before 11:00 a.m., New York City time, on Monday, October 26, 2009, four business days prior to the expiration date, or, if this offering is extended, on or before four business days prior to the extended expiration date. If no instructions are received by the subscription agent by that time, your rights will return to us without any payment to you of those unexercised rights.

Table of Contents

Q: Will I be charged a sales commission or a fee if I exercise my subscription rights?

A: We will not charge a brokerage commission or a fee to subscription rights holders for exercising their subscription rights. If you exercise your subscription rights and later sell any shares of our common stock through a broker, dealer, custodian bank, trustee, or other nominee, you may be responsible for any fees charged by your broker, dealer, custodian bank, trustee, or other nominee.

Q: What is the recommendation of the board of directors regarding the rights offering?

A: Neither are we, our board of directors, the information agent, nor the subscription agent are making any recommendation as to whether or not you should exercise your subscription rights. You are urged to make your decision in consultation with your own advisors as to whether or not you should participate in the rights offering or otherwise invest in our securities and only after considering all of the information included in this prospectus, including the Risk Factors section that follows.

Q: How was the $0.75 per share subscription price established?

A: The subscription price per share for the rights offering was set by our board of directors. In determining the subscription price, our board of directors considered, among other things, our history, the historical and current market price of our common stock, the fact that holders of rights will have an over-subscription right component, the terms and expenses of this offering relative to other alternatives for raising capital, the size of this offering, and the general condition of the securities market. Based upon the factors described above, our board of directors determined that the subscription price per share represented an appropriate subscription price.

Q. If I also own warrants to purchase shares of common stock of the company will I receive rights on those shares?

A: No, unless you exercise one or more warrants to purchase shares of our common stock before October 5, 2009, the record date for this rights offering.

Q: Is exercising my subscription rights risky?

A: The exercise of your subscription rights and over-subscription rights, and the resulting ownership of our securities, involves a high degree of risk. Exercising your subscription rights means buying additional shares of our common stock and should be considered as carefully as you would consider any other equity investment. You should carefully consider the information under the heading Risk Factors and all other information included in this prospectus before deciding to exercise your subscription rights.

Table of Contents

Q: After I exercise my subscription rights, can I change my mind and cancel my purchase?

A: No. Once you send in your Subscription Form and payment, you cannot revoke the exercise of either your basic subscription or over-subscription rights, even if the market price of our common stock is below the $0.75 per share subscription price. You should not exercise your subscription rights unless you are certain that you wish to purchase additional shares of our common stock at the proposed subscription price. Any rights not exercised at or before that time will expire worthless without any payment to the holders of those unexercised rights.

Q: What are the United States federal income tax consequences of receiving or exercising my subscription rights?

A: A shareholder should not recognize income or loss for United States federal income tax purposes in connection with the receipt or exercise of subscription rights in the rights offering. You should consult your own tax advisor as to the particular consequences to you of the rights offering.

Q: How many shares of our common stock will be outstanding after the rights offering?

A: The number of shares of our common stock that will be outstanding immediately after the completion of the rights offering will be 19,748,979 shares, assuming 4,670,000 shares are issued in the rights offering.

Q: If I exercise my subscription rights, when will I receive shares of common stock purchased in the rights offering?

A: As soon as practicable after the rights offering has expired and all calculations, reductions, and additions contemplated by the terms of the rights offering have been effected, we will issue certificates representing your shares of our common stock, or credit your account at your nominee holder with shares of our common stock, electronically in registered, book-entry form on our records or on the records of our transfer agent, BNY Mellon Shareowner Services, that you purchase pursuant to your basic subscription and over-subscription rights.

Table of Contents

Q: Who is the subscription agent for the rights offering?

A: The subscription agent is BNY Mellon Shareowner Services. BNY Mellon Shareowner Services is also the transfer agent and registrar for our common stock. The address and facsimile numbers of the subscription agent are as follows:

By Mail:

Energy Focus, Inc.
c/o BNY Mellon Shareowner Services
Attn: Corporate Action Dept.
P.O. Box 3301
South Hackensack, NJ 07606

By Hand:

Energy Focus, Inc.
c/o BNY Mellon Shareowner Services
Attn: Corporate Action Dept.
480 Washington Blvd., 27th Floor
Jersey City, NJ 07310

By Overnight Courier:
Energy Focus, Inc.
c/o BNY Mellon Shareowner Services
Attn: Corporate Action Dept.
480 Washington Blvd., 27th Floor
Jersey City, NJ 07310

Facsimile Transmission:
(Eligible Institutions Only)
(201) 680-4626

To confirm receipts of
facsimiles only:
(201) 680-4860

Your delivery to an address other than the address set forth above, or transmission to a facsimile number other than the number set forth above, will not constitute valid delivery and, accordingly, may be rejected by us.

Q: What should I do if I have other questions?

A: If you have any questions or need further information about this rights offering, please call BNY Mellon Shareowner Services, our information agent for the rights offering, at (201) 680-6579 (call collect) or (866) 282-4940 (toll-free).

Table of Contents

PROSPECTUS SUMMARY

This summary highlights important features of this offering and the information included in this prospectus. This summary does not contain all of the information that you should consider before investing in our securities. You should read this prospectus carefully. This prospectus contains important information that you should consider when making your investment decision.

About Energy Focus, Inc.

Founded in 1985, we have come to focus on the design, development, manufacture, marketing, and installation of lighting systems and customer specific energy efficient lighting solutions for a wide-range of uses. Our lighting technology offers significant energy savings, heat dissipation, and maintenance cost benefits over conventional lighting for multiple applications. Over the course of the past year, we have directed our efforts to become a leading provider of turnkey, comprehensive, energy-efficient lighting systems. Just recently, we have decided to accelerate our transition to become a fully-integrated, turnkey, energy systems and solutions provider through the acquisition of a lighting retrofit business. On September 29, 2009, we announced that we intend to acquire the Stones River Companies of Nashville, Tennessee, a leading lighting energy solutions provider.

Overview. We are engaged in the design, development, manufacturing, marketing, and installation of energy efficient lighting systems where we serve two principal markets: commercial/industrial lighting and pool lighting. Our business strategy has evolved into providing our customer base with turnkey, comprehensive energy efficient lighting solutions focused on our patented and proprietary technology. Our solutions include fiber optic (EFO), light-emitting diode (LED), ceramic metal halide (CMH), high-intensity discharge (HID), and other highly energy efficient lighting technologies. Our strategy also incorporates continued investment in research into new and emerging energy sources including, but not limited to, solar energy. Typical savings of current technology averages 80% in electricity costs, while providing full-spectrum light closely simulating daylight colors.

Our product portfolio has been broadened recently to include offerings within LED, CMH, and HID product lines. In 2008, we launched several new lighting products for application within landscape, dock lighting, and cold storage markets. In 2009, we are continuing to broaden these product lines, into landscape lighting markets for example, as well as explore new technologies and markets. These new applications include LED track lighting and a LED replacement tube for fluorescent light tubes, which we expect to launch this year.

Our long-term strategy is to penetrate the $100 billion lighting market by providing turnkey, comprehensive, energy-efficient lighting systems and solutions. Our targeted market segments provide opportunities in the supermarket, commercial, industrial, and government segments. The passage of the Energy Independence and Security Act of 2007 by Congress created a natural market for our energy-efficient products. Under this Act, all incandescent light bulbs must use 25% to 30% less energy than today s products by the years 2012 through 2014. Since many of our EFO products already are 80% more efficient than incandescent bulbs, our focus is to increase the public s knowledge of our technology and to establish comprehensive distribution channels so that demand can be fulfilled quickly. Further, the passage of the American Recovery and Reinvestment Act of 2009 by Congress authorizes the use of $38 billion (reduced from $50 billion) in government funds for advancement of energy conservation programs and $20 billion in tax incentives for renewable energy and efficiency. Provisions of this Act which have the greatest opportunity to benefit us include:

$2 billion in loans for renewable energy projects,

$4.5 billion toward smart-grid applications,

$6.3 billion in state energy-efficient and clean-energy grants, and

$4.5 billion to make federal buildings more energy efficient.

We will continue to focus on market niches where the benefits of our lighting solutions offerings, combined with our technology, are most compelling. These market niches include government facilities, retailers, supermarkets, marine applications, and museums.

We expect to continue our on-going leadership role in the United States government s Very High Efficiency Solar Cell (VHESC) Consortium sponsored by the Defense Advanced Research Projects Agency (DARPA), where we expect to be able to commercialize a solar cell technology that will significantly surpass current solar efficiencies ranging from 6% 20%. Our proven optics technology has already shown the ability to achieve approximately 40% efficiency in a laboratory environment and we believe that this efficiency, or greater, can be achieved on a cost-effective, commercially-viable scale.

Products. We produce, source, and market a wide variety of lighting technologies, which fall into the following categories:

Metal Halide and LED Fiber optic lighting systems (e.g. EFO-Ice®), , E-Luminator

LED and Metal Halide lightings systems (e.g. EFO Docklight, Cold Storage).

Table of Contents

In addition, we also produce customized components such as underwater lenses, color-changing LED lighting fixtures, LED lighting fixtures, landscape lighting fixtures, and lighted water features, including waterfalls and laminar-flow water fountains. Further, we continue to aggressively penetrate the government and military lighting markets. In this regard, our company has many products being actively marketed to the United States federal government agencies through the General Services Administration.

Key features of our products:

Many of our products meet the lighting efficiency standards mandated for the year 2020.

Our products qualify for federal and state tax incentives for commercial and residential consumers in certain states.

Our products make use of proprietary optical systems that enable high efficiencies.

Certain utility companies continue to embrace our technology as an energy-efficient alternative and are promoting our products to their customers.

The heat source of the fiber optic lighting fixtures usually is physically separated from the lamps, providing a cool light. This unique feature has special application in grocery stores, where reduction of food spoilage and melting due to heat is an important goal.

Key benefits of our technology include:

Energy efficiency. Our products can provide our customers with significant energy savings compared to other lighting systems commonly used in similar applications and also satisfy government and other regulatory regulations for energy-efficient lighting.

Better light. Our products can eliminate glare, provide aesthetically pleasing light, and are available in a number of colors.

Elimination of virtually all heat radiation. Our fiber optic and LED systems are designed to prevent the infrared and ultra violet radiation omitted by the lamp from being funneled through the fiber. As a result, the light output omits virtually no infrared or ultra violet light, which produce heat when absorbed by the target.

Cost savings. Our products are able to significantly reduce maintenance and replacement costs that normally are attributed to traditional lighting systems.

Long-Term Strategy. During the past year, we have formulated our objective to become a leading provider of turnkey, comprehensive, energy-efficient, lighting systems and solutions. To achieve this objective, we intend to pursue the following strategies:

Capitalize on the growing need for high return on investment in energy-efficient lighting systems. We intend to continue to devote significant resources to our product development efforts to maximize the energy efficiency and quality of our lighting systems while reducing costs and enabling our customers to meet more stringent government regulations. Further, we plan to continue to develop new proprietary technologies and integrate new and potentially more efficient lighting sources into our lighting systems such as LED.

Focus on increased market penetration where the benefits of our technology are most compelling. We intend to broaden the penetration of our products within commercial, retail, and supermarket channels, which all share urgent needs for highly efficient, flexible, and financially economical lighting solutions. Further, we continue to aggressively penetrate the government and military lighting markets. To reach our target markets, we are significantly increasing both the number and experience level of our direct sales employees. Additionally, we are actively restructuring our independent sales representative network to increase sales volume and accountability of results.

Develop and expand strategic relationships. To expedite the awareness of our technologies, we continue to actively pursue strategic relationships with distributors, energy service companies (ESCO s), lighting designers, and contractors who distribute, recommend, and/or install lighting systems. We continue to cultivate relationships with fixture manufacturers and other participants in the general lighting market.

Develop a commercially-viable, cost-effective solar technology. Through our on-going leadership role in the United States government s VHESC Consortium sponsored by DARPA, we expect to be able to commercialize a solar cell technology that will significantly surpass current solar efficiencies ranging from 6% - 20%. Our proven optics technology has already shown the ability to achieve approximately 40% efficiency in a laboratory environment and we believe that this efficiency, or greater, can be achieved on a cost-effective, commercially-viable scale.

Intellectual Property. We have a policy of protecting our intellectual property through patents, license agreements, trademark registrations, confidential disclosure agreements, and trade secrets, as management deems appropriate. Our intellectual property portfolio consists of 67 issued United States and foreign patents, various pending United States patent applications, and various pending Patent Cooperation Treaty, or PCT, patent applications filed with the World Intellectual Property Organization that serves as the basis of national patent filings in countries of interest. A total of 26 applications are pending. Our issued patents expire at various times between January 2013 and June 2029. Generally, the term of patent protection is 20 years from the earliest effective filing date of the patent application. There can be no assurance, however, that our issued patents are valid or that any patents applied for will be issued. In addition there can be no assurance that our competitors or customers will not copy aspects of our lighting systems or obtain information that we regard as proprietary. There also can be no assurance that others will not independently develop products similar to ours. The laws of some foreign countries in which we sell or may sell our products do not protect proprietary rights to products to the same extent as do the laws of the United States.

Acceleration of Long-Term Strategy. Against the backdrop of the slowing of the United States and world economies, and mindful of our financial results for the past three years and the first two quarters of 2009, we have re-examined our strengths and weaknesses as well as our long-term strategy. We see as our special strengths:

- We have fundamental intellectual property and trade secrets in non-imaging optics and coatings.
- We have an ability to efficiently create, transport, and display light.
- We have a broad and intimate understanding of lighting technologies.
- We have a superior understanding of the existing building market and its desire and need for lighting products and systems.
- We have a core competence in solutions sales, including deal structuring and financing.
- We have a strong relationship with the federal government for conducting research projects.

To capitalize on those strengths and move away from areas where we lack a competitive advantage, we have decided to accelerate our transition to a fully-integrated energy system and solutions provider by taking the following steps.

1. Intensify our focus on the existing building market through national accounts, lighting system solutions, and the strategic acquisition of one or more lighting retrofit business. On September 29, 2009, we announced that we intend to acquire the Stones River Companies of Nashville, Tennessee, a leading lighting energy solutions provider, as part of our strategy to become a turnkey lighting energy solutions company.
2. Develop mainstream lighting technologies, including in the near future Track LED Lighting and a Generation 1 LED Light Tube.
3. Raise additional working capital by doing a rights offering to existing shareholders, with part of the proceeds of that offering to be used for the cash portion of the purchase price of a lighting retrofit company.
4. Explore the divestiture of the following lines of our business: Fiberstars Pools and United States commercial businesses, and our British and German subsidiaries.
5. Reduce our monthly expenses by reducing executive management salaries and eliminating other positions.

Table of Contents

We expect that taking these steps will result in the following outcomes:

The potential divestiture of business units and the raising of additional capital through a rights offering will provide necessary operating funds for 2009 and after.

We will have formed a streamlined organization that is focused on creating economic value through turnkey lighting energy solutions and systems for existing business owners.

We will develop mainstream lighting products for the existing building market that are not currently available and that are differentiated by their performance, energy consumption, longevity, and control ability. This product line up will begin with LED track lighting and LED tube lighting products.

We will grow with the acquisition of one or more lighting retrofit businesses. This will allow us to take advantage of the opportunity created by the federal government stimulus package in public sector markets. This will replace the top-line sales of our divested businesses.

All of these steps will accelerate our transformation into a turnkey, fully-integrated, lighting, energy systems and solutions provider.

We have already begun to implement the above steps. In particular, we are actively seeking to acquire a lighting retrofit business. Part of the cash portion of the purchase price of a business will come from the proceeds of the rights offering to our shareholders.

Principal Executive Offices

Our principal executive offices are located at 32000 Aurora Road, Solon, Ohio 44139. Our telephone number is (440) 715-1300, fax number is (440) 715-1314, and our website address is www.efoi.com. The information on our website is not incorporated by reference into this prospectus and should not be relied upon with respect to this offering.

The Rights Offering

Securities Offered

We are distributing at no charge to the holders of our common stock on October 5, 2009, which we refer to as the record date, subscription rights to purchase shares of our common stock. We are distributing one right to the holder of record for every share of common stock that is held by the holder on the record date. Shareholders presently hold 15,078,979 shares of common stock. We are limiting the amount to be raised in this offering to no more than $3.5 million, however, through the issuance of no more than 4,670,000 common shares upon the exercise of rights. If shareholders subscribe for more than 4,670,000 shares, we will allocate that number among those shareholders who subscribe pro rata according to their ownership of shares on the record date. We expect the total purchase price for the securities offered in this rights offering to be $3.5 million, assuming full participation in the offering.

Table of Contents

Basic Subscription Right	Each right entitles the holder to purchase one share of common stock at the subscription price of $0.75 per share, which we refer to as the basic subscription right.
Over-Subscription Right	Holders who fully exercise their basic subscription rights will be entitled to subscribe for additional shares that remain unsubscribed as a result of any unexercised basic subscription rights, which we refer to as the over-subscription right. The over-subscription right allows a holder to subscribe for an additional amount of shares above that which the holder would otherwise be entitled to subscribe. We will not issue or pay cash in place of fractional rights. Instead, we will round up any fractional rights to the nearest whole right. We refer to this as the step-up privilege. Rights may only be exercised for whole numbers of shares. No fractional shares of common stock will be issued in this offering.
Record Date	Close of business on October 5, 2009.
Commencement Date Initial Subscription Period	October 6, 2009.
Expiration Date of Initial Subscription Period	5:00 p.m., New York City time, on October 30, 2009, unless extended by us as described in this summary below under the caption entitled Extension, Termination, and Cancellation. Any rights not exercised at or before that time will have no value to the holders and the holders ownership interests in them will return to us without any payment to the holders of those unexercised rights.
Second Subscription Period	All rights not exercised by shareholders by the expiration date of the initial subscription period will return to us. During the second subscription period running from November 2, 2009 through November 13, 2009 at 5:00 p.m., New York City time, we will have the right to issue rights to both shareholders and non-shareholders in our sole discretion to purchase any or all shares available in the offering but not purchased in the initial subscription period.

	From time to time in the second subscription period, we may instruct the subscription agent to issue Subscription Forms. The agent promptly will follow those instructions. The procedures and rules applicable to the first subscription period will apply to the second subscription period, except that no Notice of Guaranteed Delivery may be used in the second period.
Subscription Price	$0.75 per share, payable in immediately available funds.
Use of Proceeds	The proceeds from the rights offering, less fees and expenses incurred in connection with the rights offering, will be used primarily for general corporate and working capital purposes, as well as to help fund the acquisition of the Stones River Companies of Nashville, Tennessee, a leading lighting energy solutions provider, as part of our strategy to become a turnkey lighting energy solutions company.
Transferability	You may sell, transfer, or assign your subscription rights to anyone. Subscription rights, however, will not be listed for trading on the NASDAQ Global Market, any other stock exchange or market, or on the OTC Bulletin Board. Any transferee of any of your subscription rights must exercise those rights in the same way and subject to the same conditions as apply to you when exercising your rights, except as noted below. Practically speaking, the subscription agent must receive a proper transfer of a Subscription Form from a transferor by Monday, October 26, 2009 for the transferee to be able to properly exercise the transferee s own re-issued Subscription Form by Friday, October 30, 2009. Subscription Forms, including those of transferees, not properly or timely exercised in the first subscription period, but properly and timely exercised within the three business-day Notice of Guarantee Period, in our sole discretion may be treated as properly and timely exercised in the initial subscription period, placed first in line in the second subscription period, or not accepted.

	Subscription Forms, including those of transferees, not properly or timely exercised in the first subscription period or within the three business-day Notice of Guarantee Period, in our sole discretion may be accepted or not accepted in the second subscription period.
No Recommendation	Neither we nor our board of directors makes any recommendation to you about whether you should exercise any rights. You are urged to consult your own financial advisors in order to make an independent investment decision about whether to exercise your rights. Please see the section of this prospectus entitled Risk Factors for a discussion of some of the risks involved in investing in our securities.
Minimum Condition	There is no minimum subscription in the rights offering. Our board of directors reserves the right, however, to cancel the offering for any reason, including if it believes that there is insufficient participation by our shareholders.
Maximum Offering Size	In no event, will we raise more than $3.5 million in this offering.
No Revocation	If you exercise any of your basic subscription or over-subscription rights, you will not be permitted to revoke or change the exercise or request a refund of monies paid.
United States Federal Income Tax Considerations	A shareholder should not recognize income, gain, or loss for United States federal income tax purposes in connection with the receipt or exercise of subscription rights in the rights offering. You should consult your own tax advisor as to the particular consequences to you of the rights offering. For a detailed discussion, see Material United States Federal Income Tax Considerations.
Extension, Termination, and Cancellation	*Extension.* Our board of directors may extend the expiration date for exercising your subscription rights for up to an additional thirty trading days in their sole discretion. If we extend the expiration date, you will have at least ten trading days during which to exercise your rights. Any extension of this offering will be followed as promptly as practicable by an announcement, and in no event later than 9:00 a.m., New York City time, on the next business day following the previously scheduled expiration date.

Table of Contents

	Termination; Cancellation. We may cancel or terminate the rights offering at any time and for any reason prior to the expiration date. Any termination or cancellation of this offering will be followed as promptly as practicable by announcement thereof, and in no event later than 9:00 a.m., New York City time, on the next business day following the termination or cancellation.
Procedure for Exercising Rights	If you are the record holder of shares of our common stock, to exercise your rights you must complete the Subscription Form and deliver it to the subscription agent, BNY Mellon Shareowner Services, together with full payment for all the subscription rights, pursuant to both the basic subscription right and the over-subscription right, you elect to exercise. The subscription agent must receive the proper forms and payments on or before the expiration date. You may deliver the documents and payments by mail or commercial courier. If regular mail is used for this purpose, we recommend using registered mail, properly insured, with return receipt requested. If you are a beneficial owner of shares of our common stock, you should instruct your broker, dealer, custodian bank, trustee, or other nominee in accordance with the procedures described in the section of this prospectus entitled The Rights Offering Record Date Shareholders Whose Shares are Held by a Nominee.
Subscription Agent	BNY Mellon Shareowner Services.
Information Agent	BNY Mellon Shareowner Services.
Questions	If you have any questions or need further information about this rights offering, please call BNY Mellon Shareowner Services at (201) 680-6579 (collect) or at (866) 282-4940 (toll-free).
Shares Outstanding on the Date Hereof	15,078,979.

Table of Contents

Shares Outstanding after Completion of the Rights Offering	19,748,979 shares of our common stock will be outstanding, assuming 4,670,000 shares are issued in the rights offering.
Issuance of our Common Stock	As soon as practicable after the rights offering has expired and all proration calculations, reductions, and additions contemplated by the terms of the rights offering have been effected, we will issue certificates representing your shares of our common stock, or credit your account at your nominee holder with shares of our common stock, electronically in registered, book-entry form only on our records or on the records of our transfer agent, BNY Mellon Shareowner Services, that you purchase pursuant to your basic and over-subscription rights.
Risk Factors	Investing in our securities involves a high degree of risk. Shareholders considering making an investment in our securities should consider the risk factors described in the section of this prospectus entitled Risk Factors.
Fees and Expenses	We will bear the fees and expenses relating to the rights offering.
Trading Symbol	Our common stock is presently traded on the NASDAQ Global Market under the symbol EFOI , and the shares to be issued in connection with the rights offering are expected to be eligible and listed for trading there.

Key Dates	Record Date:	October 5, 2009.
	Distribution Date:	October 6, 2009.
	Initial Subscription Period:	October 6, 2009 through October 30, 2009.
	Initial Period Expiration Date:	October 30, 2009, unless extended by us.
	Second Subscription Period:	November 2, 2009 through November 13, 2009.

Table of Contents

RISK FACTORS

An investment in our securities involves a high degree of risk. You should carefully consider the risks described below and the other information before deciding to purchase the securities offered in this rights offering. The risks described below are not the only ones facing our company. Additional risks not presently known to us or that we currently consider immaterial may also adversely affect our business. If any of the following risks actually happen, our business, financial condition, and operating results could be materially adversely affected. In this case, you could lose all or part of your investment.

Risks Related to the Rights Offering

Your interest in our company may be diluted as a result of this offering.

Shareholders who do not fully exercise their rights should expect that they will, at the completion of this offering, own a smaller proportional interest in our company than would otherwise be the case had they fully exercised their basic subscription rights.

None of our officers, directors, or shareholders are obligated to exercise their subscription rights.

Mr. David Gelbaum, one of our directors and together with his spouse a co-trustee of The Quercus Trust, has advised us that they and the Trust intend to exercise their basic subscription rights. The Gelbaum's and the Trust own approximately 17.9% of our shares of common stock. Some of our other officers, directors, and shareholders have advised us that they intend to participate in this offering. None of our officers, directors or shareholders are obligated to so participate, however. We cannot guarantee you that any of our officers, directors, or shareholders will exercise their basic subscription or over-subscription rights to purchase any shares issued in connection with this offering.

This offering may cause the price of our common stock to decrease.

The subscription price, together with the number of shares of common stock we propose to issue and ultimately will issue if this offering is completed, may result in an immediate decrease in the market value of our common stock. This decrease may continue after the completion of this offering. If that occurs, you may have bought shares of common stock in the rights offering at a price greater than the prevailing market price. Further, if a substantial number of rights are exercised and the holders of the shares received upon exercise of those rights choose to sell some or all of those shares, the resulting sales could depress the market price of our common stock. There is no assurance that following the exercise of your rights you will be able to sell your common stock at a price equal to or greater than the subscription price.

Table of Contents

You could be committed to buying shares of common stock above the prevailing market price.

Once you exercise your basic subscription and any over-subscription rights, you may not revoke the exercise even if you later learn information that you consider to be unfavorable to the exercise of your rights. On September 29, 2009, the closing sale price of our shares of common stock on the NASDAQ Global Market was $1.06 per share. We cannot assure you that the market price of our shares of common stock will not decline prior to the expiration of this offering or that, after shares of common stock are issued upon exercise of the rights, a subscribing rights holder will be able to sell shares of common stock purchased in this offering at a price equal to or greater than the subscription price.

If we terminate this offering for any reason, we will have no obligation other than to return subscription monies promptly.

We may decide, in our discretion and for any reason, to cancel or terminate the rights offering at any time prior to the expiration date. If this offering is terminated, we will have no obligation with respect to rights that have been exercised except to return promptly, without interest or deduction, the subscription monies deposited with the subscription agent. If we terminate this offering and you have not exercised any rights, such rights will expire worthless.

Our common stock price may be volatile after this rights offering.

The trading price of our common stock may fluctuate substantially. The price of the common stock that will prevail in the market after this offering may be higher or lower than the subscription price depending on many factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include, but are not limited to, the following:

- price and volume fluctuations in the overall stock market from time to time, including increased volatility due to the worldwide credit and economic crisis;
- significant volatility in the market price and trading volume of our securities, including increased volatility due to the worldwide credit and economic crisis;
- actual or anticipated changes or fluctuations in our operating results;
- material announcements by us regarding business performance, financings, mergers and acquisitions, or other transactions;
- general economic conditions and trends;
- competitive factors; or
- departures of key personnel.

Table of Contents

The subscription price determined for this offering may not be an indication of the value of our common stock.

The subscription price for the shares in this offering was set by our board of directors and does not necessarily bear any relationship to the book value of our assets, results of operations, cash flows, losses, financial condition, or any other established criteria for value. You should not consider the subscription price as an indication of the value of our common stock. After the date of this prospectus, our common stock may trade at prices above or below the subscription price.

We will have broad discretion in the use of the net proceeds from this offering and may not use the proceeds effectively.

Although we plan to use the proceeds of this offering primarily for general corporate and working capital purposes, as well as to help fund the acquisition of the Stones River Companies of Nashville, Tennessee, a leading lighting energy solutions provider, as part of our strategy to become a turnkey lighting energy solutions company, we will not be restricted to such use and will have broad discretion in determining how the proceeds of this offering will be used. Our discretion is not substantially limited by the uses set forth in this prospectus in the section entitled Use of Proceeds. While our board of directors believes the flexibility in application of the net proceeds is prudent, the broad discretion it affords entails increased risks to the investors in this offering. Investors in this offering have no current basis to evaluate the possible merits or risks of any application of the net proceeds of this offering. Our shareholders may not agree with the manner in which we choose to allocate and spend the net proceeds.

If you do not act on a timely basis and follow subscription instructions, your exercise of rights may be rejected.

Holders of shares of common stock who desire to purchase shares of our common stock in this offering must act on a timely basis to ensure that all required forms and payments are actually received by the subscription agent prior to 5:00 p.m., New York City time, on the expiration date, unless extended. If you are a beneficial owner of shares of common stock and you wish to exercise your rights, you must act promptly to ensure that your broker, dealer, custodian bank, trustee, or other nominee acts for you and that all required forms and payments are actually received by your broker, dealer, custodian bank, trustee, or other nominee in sufficient time to deliver such forms and payments to the subscription agent to exercise the rights granted in this offering that you beneficially own prior to 5:00 p.m., New York City time on the expiration date, as may be extended. We will not be responsible if your broker, dealer, custodian bank, trustee, or other nominee fails to ensure that all required forms and payments are actually received by the subscription agent prior to 5:00 p.m., New York City time, on the expiration date, as may be extended.

Table of Contents

If you fail to complete and sign the required subscription forms, send an incorrect payment amount, or otherwise fail to follow the subscription procedures that apply to your exercise in this offering, the subscription agent may, depending on the circumstances, reject your subscription or accept it only to the extent of the payment received. Neither we nor the subscription agent undertake to contact you concerning an incomplete or incorrect subscription form or payment, nor are we under any obligation to correct such forms or payment. We have the sole discretion to determine whether a subscription exercise properly follows the subscription procedures.

We cannot guarantee that you will receive any or all of the amount of shares for which you subscribed or over-subscribed.

Holders who fully exercise their basic subscription rights will be entitled to subscribe for an additional amount of shares. If the rights holders exercise their basic subscription rights to purchase more than 4,670,000 shares, we will allocate the 4,670,000 available shares pro rata among rights holders who exercise their basic subscription rights, based on the number of shares they own on the record date. If the rights holders exercise their basic subscription rights to purchase less than 4,670,000 shares, we will allocate the remaining available shares pro rata among rights holders who exercise their over-subscription rights according to their ownership of shares on the record date. The allocation process will assure that the total number of shares available for basic subscriptions and over-subscriptions is distributed on a pro rata basis. The percentage of shares each rights holder may acquire will be rounded up to result in delivery of whole shares. We will not issue more than 4,670,000 shares to raise no more than $3.5 million in this offering. We cannot guarantee that you will receive all of the shares for which you subscribed or all of the shares for which you over-subscribed. If the prorated amount of shares allocated to you in connection with your subscription right or over-subscription right is less than your subscription or over-subscription request, then the excess funds held by the subscription agent on your behalf will be returned to you promptly without interest or deduction and we will have no further obligations to you.

If you make payment of the subscription price by uncertified check, your check may not clear in sufficient time to enable you to purchase shares in this rights offering.

Any uncertified check used to pay for shares to be issued in this rights offering must clear prior to the expiration date of this rights offering, and the clearing process may require five or more business days. If you choose to exercise your subscription rights, in whole or in part, and to pay for shares by uncertified check and your check has not cleared prior to the expiration date of this rights offering, you will not have satisfied the conditions to exercise your subscription rights and will not receive the shares you wish to purchase.

Table of Contents

The receipt of rights may be treated as a taxable distribution to you.

The distribution to shareholders of the rights in this offering should be a non-taxable distribution under Section 305(a) of the Internal Revenue Code of 1986, as amended (the Code). Please see the discussion on the Material United States Federal Income Tax Considerations below. This position is not binding on the IRS, or the courts, however. If this offering is part of a disproportionate distribution under Section 305 of the Code, your receipt of rights in this offering may be treated as the receipt of a taxable distribution to you equal to the fair market value of the rights. Any such distribution would be treated as dividend income to the extent of our current and accumulated earnings and profits, if any, with any excess being treated as a return of capital to the extent thereof and then as capital gain. Each holder of common stock is urged to consult his, her or its own tax advisor with respect to the particular tax consequences of this offering.

There is no market for the subscription rights.

Although the subscription rights are transferable, there is no trading market for them for you to directly realize any value associated with them.

The rights offering does not have a minimum amount of proceeds, which means that if you exercise your rights, you may acquire additional shares of our common stock when we require additional capital.

There is no minimum amount of proceeds required to complete the rights offering. In addition, an exercise of your subscription rights is irrevocable. Therefore, if you exercise the basic subscription right or the over-subscription right, but we do not raise the desired amount of capital in this rights offering and/or the rights offering is not fully subscribed, you may be investing in a company that continues to require additional capital.

Risks Related to Our Company

Going Concern/Liquidity Risk.

Our previous independent registered public accounting firm issued an opinion relating to our consolidated financial statements as of December 31, 2008 and for the three years then ended, raising substantial doubt as to our ability to continue as a going concern. This opinion stems from the combination of the historical losses we have incurred leading to an accumulated deficit of $49,328,000 as of December 31, 2008, our history of not meeting management budgetary forecasts, and our historical inability to generate sufficient cash flow to meet obligations and sustain operations without obtaining additional external financing. In addition, our bank line of credit is due in October 2009. The global credit market crisis has also had a dramatic effect on our industry and customer base. The recession in the United States and Western Europe and the slowdown of economic growth in the rest of the world has created a business environment where it is substantially more difficult to obtain equity funding and additional non-equity financing. Furthermore, this environment has resulted in an increased risk of customer payment defaults. Our liquidity position, as well as our operating performance, has been negatively affected by these economic and industry conditions and by other financial and business factors, many of which are beyond our control.

Management acknowledges that sustaining our historical level of cash utilization is not conducive to remaining a viable entity in this environment, and is in the process of aggressively transforming our business into a turnkey, comprehensive, energy-efficient, lighting solutions provider. In addition, management continues to aggressively reduce costs, as evidenced in the $1,984,000 decrease in operating expenses, excluding loss on impairment in 2008, from 2007 levels. Likewise, operating expenses decreased $2,296,000, excluding loss on impairment of fixed assets in 2009, for the six months ended June 30, 2009 as compared to the six months ended June 30, 2008. These cost reductions have been achieved while simultaneously realigning and expanding our sales and marketing organization. In this regard, we have been very successful in hiring highly experienced salespeople from leading Fortune 500 firms including our new Vice President of Sales. Further, we have aligned our entire engineering and research and development organization around sales and marketing to expedite new product introductions into our served available markets. This realignment is readily evidenced by the 2008 introduction of multiple new products including:

- MR-16 halogen replacement bulbs,
- LED Cold Storage Globe lamps,
- LED Lamps and Fixtures (PAL),
- LED Light Rails,
- LED Docklights,
- HID High Bay Fixtures,
- Fluorescent Fixtures, and
- Compact Fluorescent Light Bulbs.

Lastly, we expect to continue our on-going leadership role in the United States government s Very High Efficiency Solar Cell (VHESC) Consortium sponsored by the Defense Advanced Research Projects Agency (DARPA) where we expect to be able to commercialize a solar cell technology that will significantly surpass current solar efficiencies ranging from 6% 20%. Our proven optics technology has already shown the ability to achieve approximately 40% efficiency in a laboratory environment and we believe that this efficiency, or greater, can be achieved on a cost-effective, commercially-viable scale.

Although we are optimistic about obtaining the funding necessary for us to continue as a going concern through internal means, there can be no assurances that this objective will be successful. Therefore, in the event that our cash reserves and bank lines of credit are deemed by management to not be sufficient to continue to fund operations throughout 2009, we will aggressively pursue one or more of the following external funding sources:

- obtain loans and/or grants available through federal, state, and/or local governmental agencies,
- obtain loans and/or grants from various financial institutions,
- obtain loans from non-traditional investment capital organizations,
- sale and/or disposition of one or more operating units, and
- obtain funding from the sale of our common stock or other equity instruments.

Obtaining financing through the above-mentioned mechanisms contains risks, including:

- government stimulus and/or grant money is not allocated to us despite our focus on the design, development, and manufacturing of energy efficient lighting systems,
- loans or other debt instruments may have terms and/or conditions, such as interest rate, restrictive covenants, and control or revocation provisions, which are not acceptable to management or our Board of Directors,
- the current global economic crisis combined with our current financial condition may prevent us from being able to obtain any debt financing,
- financing may not be available for parties interested in pursuing the acquisition of one or more of our operating units, and
- additional equity financing may not be available to us in the current economic environment and could lead to further dilution of shareholder value for current shareholders of record.

Recently, Silicon Valley Bank (SVB) has reduced the maximum amount of our line of credit from $4 million to $2 million, tightened the borrowing base formula, begun applying collections in our lock box to the outstanding principal balance of our loan, informed us that it does not intend to renew the line of credit when it expires in October 2009, and informed us that we need to repay all borrowings in November 2009. We are also in discussions with other potential financing sources to replace the SVB line, including the possibility of replacing it through a debt facility. In the event that we are required to pay off the SVB loan in October 2009 and are unable to replace it with another suitable form of financing, we will need to deplete our cash and cash equivalents and may have to significantly curtail our operations.

Global Economic Risk.

We may continue to be adversely impacted by the weakness in the general economic environment including the current recessionary and inflationary pressures. Deteriorating economic and market conditions including declines in real estate values and new construction, rising unemployment, tightened credit markets, and weakened consumer confidence are not expected to improve during 2009 and may continue to contribute towards weak product sales. Specifically, the downturn in housing construction has adversely affected the sale of pool lighting products, while the consumer credit crisis may continue to cause retail sales to decrease. Furthermore, material and labor costs may increase as a result of inflationary pressures on certain raw material prices.

Table of Contents

We have significant international activities and customers and plan to continue these efforts. These activities subject us to additional business risks including logistical complexity and the general economic conditions in those markets. Because the market for our products tends to be highly dependent upon general economic conditions, a continued decline in the general world-wide economic environment is likely to continue to adversely impact our traditional product based operating results.

Risks we face in conducting business internationally include the following:

- multiple, conflicting, and changing laws and regulations, export and import restrictions, employment laws, regulatory requirements, and other government approvals, permits, and licenses;
- difficulties and costs in staffing and managing foreign operations such as our offices in Germany and the United Kingdom;
- difficulties and costs in recruiting and retaining individuals skilled in international business operations;
- increased costs associated with maintaining international marketing efforts;
- potentially adverse tax consequences;
- political and economic instability, including wars, acts of terrorism, political unrest, boycotts, curtailments of trade, and other business restrictions; and
- currency fluctuations.

In addition, we face additional risks in the Asia/Pacific region associated with disease, increased political tensions between countries in that region, potentially reduced protection for intellectual property rights, government-fixed foreign exchange rates, relatively uncertain legal processes, and developing telecommunications infrastructures. In addition, some countries in this region, such as China and Japan, have adopted laws, regulations, and policies that impose additional restrictions on the ability of foreign companies to conduct business in their countries or otherwise place them at a competitive disadvantage in relation to domestic companies.

***Competitive Risk*.**

Global competition exists in all of the markets we serve, including our energy solutions market. A number of companies offer directly competitive products and services, including colored halogen lighting for swimming pools and incandescent and fluorescent lighting for commercial decorative and accent lighting. We also compete with LED products in industrial lighting and pool related products. In addition, many of our competitors in the pool lighting market bundle their lighting products with other pool-related products, which many customers find to be an attractive alternative. Our competitors include large and well-established companies such as General Electric, Sylvania, Philips, Schott, 3M, Bridgestone, Pentair, Mitsubishi, and OSRAM/Siemens. Our company also competes with lighting energy solutions companies.

Table of Contents

Furthermore, many of our competitors have substantially greater financial, technical, and marketing resources than we do. We may not be able to adequately respond to technological developments or fluctuations in competitive pricing. We anticipate that any future growth in energy-efficient lighting will be accompanied by continuing increases in competition, which could adversely affect our operating results if we cannot compete effectively. To stay competitive, we must continue to allocate sufficient resources to research and development, which could negatively impact our gross margins. If we are unable to provide more efficient lighting technology than our competitors, our operating results will be adversely affected.

Technological Risk.

The markets for our products are characterized by rapidly changing technology, evolving industry standards, and speed of new product introductions. Our operating results depend on our ability to develop and introduce new products into existing and emerging markets, and to reduce the production costs of existing products. Many of our strategic initiatives are aimed at developing increasingly complex energy efficient lighting solutions. The process of developing this new technology is complex and uncertain, and if we fail to accurately predict customers changing needs and emerging technological trends, our business could be harmed. We must commit significant resources to developing new products before knowing with certainty that our investments will result in products the market will accept. Furthermore, we may not be able to execute successfully because of technical hurdles that we fail to overcome in a timely fashion, or a lack of appropriate resources. This could result in competitors providing those solutions before we do and loss of market share, net sales, and earnings.

The success of new products depends on several factors, including proper new product definition, component costs, timely completion and introduction of these products, differentiation of new products from those of our competitors, and market acceptance of these products. There can be no assurance that we will successfully identify new product opportunities, develop and bring new products to market in a timely manner, or achieve market acceptance of our products or that products and technologies developed by others will not render our products or technologies obsolete or noncompetitive. Specifically, the products and technologies that we identify as emerging technologies, may not prove to have the market success we anticipate, and we may not successfully identify and invest in other emerging or advanced technologies as appropriate.

Table of Contents

Supplier Risk.

We require substantial amounts of purchased materials from selected vendors. With specific materials, we purchase 100% of our requirement from a single vendor. Included in purchased materials are small diameter stranded fiber, plastic fixtures, lamps, reflectors, and power supplies. Substantially all of the materials we require are in adequate supply. However, the availability and costs of materials may be subject to change due to, among other things, new laws or regulations, suppliers allocation to other purchasers, interruptions in production by suppliers, and changes in exchange rates and worldwide price and demand levels. Our inability to obtain adequate supplies of materials for our products at favorable prices could have a material adverse effect on our business, financial position, or results of operations by decreasing our profit margins and by hindering our ability to deliver products to our customers on a timely basis. We have experienced an increase in the costs of certain petroleum-based materials. Although we may determine that it is necessary to pass on the material price increases to our customers, in certain circumstances, it may not be possible for us to pass on these increases. Even if we are able to pass on some or all of these increases, there may be a delay between when we have to pay for the increases and when our customers pay us based on the increased prices. If we are not able to reduce or eliminate the effect of these cost increases through lowering other costs of production or successfully implementing price increases to our customers, such material cost increases could have a negative effect on our operating and financial results.

Third-Party Risk.

Three strategic pieces of our equipment are operated by third parties. Failure to properly maintain the equipment and/or the creation of any delays or inabilities to meet our production requirements on the part of any of these suppliers will result in disruption of promised delivery to our clients.

Credit Risk.

In this climate of global financial and banking crisis, the ability of our customers to maintain credit availability has become more challenging. In particular, certain customers in the pool lighting market and companies that are highly leveraged represent an increasing credit risk. Some customers have reduced their purchases because of these credit constraints. Moreover, our disciplined credit policies have, in some instances, resulted in delayed customer sales. In 2008, we experienced an increase in customer bankruptcies and voluntary liquidations. Continued deterioration of global economic conditions could result in additional customer credit constraints, particularly within our pool lighting market. These actions could have a materially adverse effect on our financial condition, operating results, and cash flows.

Table of Contents

Intellectual Property Risk.

As of August 31, 2009, our intellectual property portfolio consisted of 67 issued United States and foreign patents, various pending United States patent applications, and various pending Patent Cooperation Treaty, or PCT, patent applications filed with the World Intellectual Property Organization that serves as the basis of national patent filings in countries of interest. As of August 31, 2009 a total of 26 applications were pending. Our issued patents expire at various times between January 2013 and June 2029. Generally, the term of patent protection is 20 years from the earliest effective filing date of the patent application.

There can be no assurance, however, that our issued patents are valid or that any patents applied for will be issued. There can be no assurance that our competitors or customers will not copy aspects of our lighting systems or obtain information that we regard as proprietary. There also can be no assurance that others will not independently develop products similar to ours. The laws of some foreign countries in which we sell or may sell our products do not protect proprietary rights to products to the same extent as do the laws of the United States.

Key Employee Risk.

Our future success will depend to a large extent on the continued contributions of certain employees, such as our current chief executive officer, president, chief financial officer, chief operating officer, and chief technical officer. These and other key employees would be difficult to replace. Our future success will also depend on our ability to attract and retain qualified technical, sales, marketing and management personnel, for whom competition is very intense. The loss of, or failure to attract, hire, and retain, any such persons could delay product development cycles, disrupt our operations, or otherwise harm our business or results of operations. We have been successful in hiring experienced energy solutions salespeople from leading firms in the industry including our new Vice President of Sales. However, if these individuals are not successful in achieving our expectations, then planned sales may not occur and the anticipated revenues may not be realized.

Risk of Losing Governmental Funding for Research.

Historically, approximately 43.7% of our research and development efforts have been supported directly by government funding. For the six months ended June 30, 2009, approximately 39.2% of our research and development funding came from government sources. In 2008, approximately 29.0% of our research and development funding came from government sources. For both periods, research and development funding was contracted over short periods, generally one to two years. If government funding is reduced or eliminated, there is no guarantee that we would be able to continue to fund our research and development efforts in technology and products at their current levels, if at all. If we are unable to support our research and development efforts, there is no guarantee that we would be able to develop enhancements to our current products or develop new products.

Table of Contents

Litigation Risk.

At any given time, we may be subject to litigation, the disposition of which may have a material adverse effect upon our business, financial condition, or results of operation. We currently are not involved in any material litigation and we do not anticipate becoming involved in any in the foreseeable future.

Foreign Risk.

We use plants in Mexico, India, and Taiwan to manufacture and assemble many of our pool lighting products. The supply of these finished goods may be impacted by local political or social conditions as well as the financial strength of the companies with which we do business.

Risks Related to Our Common Stock

We have not been in compliance with the continued listing requirements of the NASDAQ Global Market.

From time to time during the last several months, we have not met the NASDAQ Global Market continued listing requirement that calls for the maintenance of a minimum bid price of our common stock of $1.00 per share. We have not received a notice of noncompliance. If our common stock trading value does not meet NASDAQ minimum trade requirements to remain on the Market Exchange, we will be required to either revalue existing shares of common stock or perform other necessary remedial actions. If we are unable to raise the price high enough and if our common stock is to be delisted from trading on NASDAQ Global Market, trading, if any, of our common stock, including the shares of common stock underlying the rights, could then be conducted either in the over-the-counter market or in the OTC Bulletin Board system.

We could issue additional common stock, which might dilute the book value of our common stock.

Our board of directors has authority, without action or vote of our shareholders, to issue all or a part of our authorized but unissued shares. Such stock issuances could be made at a price that reflects a discount or a premium from the then-current trading price of our common stock. In addition, in order to raise capital, or acquire businesses in the future, including a lighting retrofit business, we may need to issue securities or promissory notes that are convertible into or exchangeable for a significant amount of our common stock. These issuances would dilute your percentage ownership interest, which would have the effect of reducing your influence on matters on which our shareholders vote, and might dilute the book value of our common stock. You may incur additional dilution if holders of stock options, whether currently outstanding or subsequently granted, exercise their options, or if warrant holders exercise their warrants to purchase shares of our common stock. If this rights

Table of Contents

offering is fully subscribed, we may have insufficient authorized and unissued shares of common stock to issue in connection with a subsequent equity financing or acquisition transaction, as a result of which we may be required to call a special meeting of our shareholders to authorize additional shares before undertaking or as a condition to completing an offering or acquisition.

We may need to request our shareholders to authorize additional shares of common stock in connection with subsequent equity finance or acquisition transactions.

We are authorized to issue 30,000,000 shares of common stock, of which 15,078,979 shares are issued and outstanding. Assuming full participation in the rights offering, we will have 19,748,979 shares issued and outstanding after the offering. An additional 6,262,206 shares have been reserved for issuance upon exercise of stock options and warrants outstanding prior to this rights offering. If this offering is fully subscribed, we may have insufficient available shares of common stock to issue in connection with a subsequent equity financing or acquisition transaction, as a result of which we may be required to call a special meeting of our shareholders to authorize additional shares before undertaking or as a condition to completing an offering or transaction. We cannot assure you that our shareholders would authorize an increase in the number of shares of our common stock.

As a thinly-traded stock, large sales can place downward pressure on our stock price.

Our common stock, despite certain increases of trading volume from time to time, experiences periods when it could be considered thinly traded. Financing or acquisition transactions resulting in a large number of newly issued shares that become readily tradable, or other events that cause current shareholders to sell shares, could place downward pressure on the trading price of our stock. In addition, the lack of a robust resale market may require a shareholder who desires to sell a large number of shares to sell the shares in increments over time to mitigate any adverse impact of the sales on the market price of our stock.

Shares eligible for future sale may adversely affect the market for our common stock.

As of October 5, 2009, we had a significant number of convertible or derivative securities outstanding, including: (i) 1,896,188 shares of common stock issuable upon exercise of outstanding stock options at a weighted average exercise price of $ 4.09 per share, and (ii) 3,837,639 shares of common stock issuable upon exercise of our outstanding warrants at a weighted average exercise price of $3.18 per share. If or when these securities are exercised into shares of our common stock, the number of our shares of common stock outstanding will increase. Increases in our outstanding shares, and any sales of shares, could have a material adverse effect on the market for our common stock and the market price of our common stock.

In addition, from time to time, certain of our shareholders may be eligible to sell all or some of their shares of common stock by means of ordinary brokerage transactions in the open market pursuant to Rule 144, promulgated under the Securities Act of 1933, which we refer to in this prospectus as the Securities Act, or pursuant to resale prospectuses. Any substantial sale of our common stock pursuant to Rule 144 or pursuant to any resale prospectus may have a material adverse effect on the market price of our securities.

Our executive officers, directors, and their affiliates maintain the ability to substantially influence all matters submitted to shareholders for approval.

As of October 5, 2009, our executive officers, directors, and their affiliates beneficially owned shares representing approximately 27.6% of our common stock. The number of shares that will be purchased by our executive officers, directors, and their affiliates in this rights offering can only be determined upon the completion of the offering. If our executive officers, directors, and their affiliates purchase their pro rata portion of the shares offered in this offering. Accordingly, our current executive officers, directors, and their affiliates have and will continue to have substantial influence over the outcome of corporate actions requiring shareholder approval, including the election of directors, a merger, consolidation, or sale of all or substantially all of our assets, or any other significant corporate transactions, as well as management and affairs. This concentration of ownership may delay or prevent a change of control of us at a premium price if these shareholders oppose it, even if it would benefit our other shareholders.

Provisions in our charter documents and our Rights Agreement may prevent or frustrate attempts by our shareholders to change our management and hinder efforts to acquire a controlling interest in us.

Provisions of our corporate charter and bylaws, and of our Rights Agreement, dated as of October 25, 2006 with Mellon Shareowner Services may discourage, delay, or prevent a merger, acquisition, or other change in control that shareholders may consider favorable, including transactions in which you might otherwise receive premium for your shares. These provisions may also prevent or frustrate attempts by our shareholders to replace or remove our management. These provisions include:

- limitation on the removal of directors;
- advanced notice requirements for shareholder proposals and nominations;
- the inability of shareholders to act by written consent or to call a special meeting;
- the ability of our board of directors to designate the terms of and issue new series of preferred stock without shareholder approval; and
- the poison pill contained in our Rights Agreement.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains, in addition to historical information, forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements relate to future events or our future financial performance and can be identified by the use of forward-looking terminology such as project, may, could, expect, anticipate, estimate, continue or other similar words. These forward-looking s are based on management s current expectations and are subject to a number of factors and uncertainties which could cause actual results to differ materially from those described in these statements. The following are some of the important factors that could cause our actual performance to differ materially from those discussed in the forward-looking statements:

We have incurred significant operating losses and cannot assure you that we will generate profit.

Our previous auditors have indicated there is uncertainty about our ability to continue as a going concern.

If we fail to raise capital and implement our business plan, we may need to forego the acquisition of a lighting retrofit business, significantly curtail operations, cease operations, or seek federal bankruptcy protection.

We are subject to significant competition.

We caution you that actual results or business conditions may differ materially from those projected or suggested in forward-looking statements as a result of various factors including, but not limited to, those described above and in the Risk Factors section of this prospectus. We cannot assure you that we have identified all the factors that create uncertainties. Moreover, new risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ from those contained in any forward-looking statements. You should not place undue reliance on forward-looking statements. We undertake no obligation to publicly release the result of any revision of these forward-looking statements to reflect events or circumstances after the date they are made or to reflect the occurrence of unanticipated events.

USE OF PROCEEDS

Assuming full participation in the rights offering, we estimate that the net proceeds from the rights offering will be approximately $3.1 million, after deducting expenses related to this offering payable by us estimated at approximately $370,000. We intend to use the net proceeds received from the exercise of the rights for general corporate working capital purposes, as well as to help fund the acquisition of the Stones River Companies of Nashville, TN, a leading lighting energy solutions provider, as part of our strategy to become a turnkey lighting energy solutions company.

Table of Contents

If we fail to raise capital in October and November 2009, we may need to forego the acquisition of Stones River Companies, significantly curtail operations, cease operations, or seek federal bankruptcy protection.

CAPITALIZATION

The following table sets forth our capitalization, cash, and cash equivalents:

- on an actual basis as of June 30, 2009; and
- on a pro forma as adjusted basis to give effect to the sale of 4,670,000 shares of our common stock to raise a maximum of $3.5 million in this rights offering, assuming a subscription price of $0.75 per share and our receipt of the net proceeds from that sale.

This table should be read in conjunction with our Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus.

	At June 30, 2009	
	Actual	Pro Forma As Adjusted
	(dollars in thousands)	
Cash and cash equivalents	$ 5,613	$ 8,743
Total liabilities excluding debt	$ 2,691	$ 2,691
Total debt	$ 1,847	1,847
Common stock, $0.0001 par value (30,000,000 shares authorized; 15,078,979 issued and outstanding at June 30, 2009)	1	1
Accumulated other comprehensive income	369	369
Additional paid-in capital	66,238	69,368
Accumulated deficit	(54,718)	(54,718)
Total shareholders equity	$ 11,890	$ 15,020
Total liabilities and shareholders equity	$ 16,428	$ 19,558

Table of Contents

DILUTION

Existing shareholders will experience an immediate dilution of the pro forma net tangible book value per share of our common stock and purchasers in the rights offering will experience an immediate increase. Our net tangible book value as of June 30, 2009 was approximately $11.9 million, or $0.79 per share of our common stock, based upon 15,078,979 shares of our common stock outstanding. Net tangible book value per share is equal to our total net tangible book value, which is our total tangible assets less our total liabilities, divided by the number of shares of our outstanding common stock. Dilution per share equals the difference between the net tangible book value per share of our common stock immediately before the rights offering and the net tangible book value per share immediately after the rights offering.

Based on the aggregate offering of $3.5 million and after deducting estimated offering expenses payable by us of $370,000, and the application of the estimated $3.1 million of net proceeds from the rights offering, our pro forma net tangible book value as of June 30, 2009 would have been approximately $15.0 million, or $0.76 per share. This represents an immediate decrease in pro forma net tangible book value, or dilution, to existing shareholders of $0.03 per share and an immediate increase to purchasers in the rights offering of $0.01 per share.

The following table illustrates these per share changes, assuming a fully subscribed rights offering of 4,670,000 shares at the subscription price of $0.75 per share to raise a maximum of $3.5 million in this offering.

Subscription price	$	0.75
Net tangible book value per share prior to the rights offering		0.79
Pro forma net tangible book value per share after the rights offering		0.76
Dilution in net tangible book value per share to existing shareholders		0.03
Increase per share attributable to purchasers in the rights offering	$	0.01

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data presented below as of and for the fiscal years ended December 31, 2008, 2007, 2006, 2005, and 2004 have been derived from our consolidated financial statements. Our consolidated financial statements as of December 31, 2008 and 2007 and for the fiscal years ended December 31, 2008, 2007, and 2006 are included elsewhere in this prospectus. Our consolidated financial statements as of December 31, 2006, 2005, and 2004 and for the fiscal years ended December 31, 2005 and 2004 are not included in this prospectus. The selected condensed consolidated financial data presented below as of June 30, 2009 and for the six months ended June 30, 2009 and 2008 have been derived from our condensed financial statements included elsewhere in this prospectus, and include, in the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of our financial position and results of operations as of and for these periods. Data from interim periods are not necessarily indicative of the results to be expected for a full year. This selected consolidated financial data should be read in conjunction with Capitalization, Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus.

Table of Contents

(IN THOUSANDS EXCEPT PER SHARE DATA)

	FISCAL YEAR ENDED DECEMBER 31,					SIX MONTHS ENDED JUNE 30,	
	2008	2007	2006	2005	2004	2009	2008
OPERATING SUMMARY							
Net sales	$ 22,950	$ 22,898	$27,036	$28,337	$29,731	$ 6,620	$12,453
Gross profit	5,503	6,282	7,785	10,626	11,511	1,117	3,687
As a percentage of net sales	24%	27.4%	28.8%	37.5%	38.7%	16.9%	29.6%
Net research and development expenses	2,188	2,907	2,341	2,190	1,188	483	593
As a percentage of net sales	9.5%	12.7%	8.7%	7.7%	4%	7.3%	4.8%
Sales and marketing expenses	8,551	9,789	9,774	9,595	8,595	3,530	5,590
As a percentage of net sales	37.3%	42.8%	36.2%	33.9%	28.9%	53.3%	44.9%
General and administrative expenses	5,080	4,651	4,956	3,135	2,459	2,426	2,552
As a percentage of net sales	22.1%	20.3%	18.3%	11.1%	8.3%	36.7%	20.5%
Loss on impairment	4,305					165	
As a percentage of net sales	18.8%	%	%	%	%	2.5%	%
Restructure expenses		456	734	3,120			
As a percentage of net sales	%	2%	2.7%	11%	%	%	%
Loss before tax	(14,698)	(11,127)	(9,537)	(7,314)	(762)	(5,390)	(5,008)
As a percentage of net sales	(64.0)%	(48.6)%	(35.3)%	(25.8)%	(2.6)%	(81.4)%	(40.2)%
Net loss	(14,448)	(11,317)	(9,650)	(7,423)	(704)	(5,390)	(5,088)
As a percentage of net sales	(63.0)%	(49.4)%	(35.7)%	(26.2)%	(2.4)%	(81.4)%	(40.9)%
Net loss per share							

Basic	$ (1.02)	$ (0.98)	$ (0.85)	$ (0.90)	$ (0.10)	$ (0.36)	$ (0.38)
Diluted	$ (1.02)	$ (0.98)	$ (0.85)	$ (0.90)	$ (0.10)	$ (0.36)	$ (0.38)
Shares used in per share calculation:							
Basic	14,182	11,500	11,385	8,223	7,269	14,877	13,521
Diluted	14,182	11,500	11,385	8,223	7,269	14,877	13,521
FINANCIAL POSITION SUMMARY							
Total assets	$ 23,652	$ 29,125	$40,592	$46,209	$27,018	$16,428	$33,353
Cash and cash equivalents	10,568	8,412	15,968	23,578	3,609	5,613	12,249
Working capital	12,514	12,512	22,410	31,530	14,541	12,028	12,512
Credit line borrowings	1,904	1,159	1,124	47		1,776	328
Current portion of long-term borrowings	54	1,726	778	342	38		1,374
Long-term borrowings	245	314	1,862	1,089	484	71	308
Shareholders equity	16,789	21,618	30,880	38,184	21,202	11,890	26,594
Common shares outstanding	14,835	11,623	11,394	11,270	7,351	15,079	14,832

40

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Overview

We are engaged in the design, development, manufacturing, marketing, and installation of energy-efficient lighting systems where we serve two principal markets; commercial/industrial lighting and pool lighting. Our business strategy has evolved into providing our customers with turnkey, comprehensive energy-efficient lighting solutions which include, but are not limited to, our patented and proprietary technology. Our solutions include fiber optic (EFO), light-emitting diode (LED), ceramic metal halide (CMH), high-intensity discharge (HID), and other highly energy efficient lighting technologies. Our strategy also incorporates continued investment in research into new and emerging energy sources including, but not limited to, solar energy. Typical savings of current technology averages 80% in electricity costs, while providing full-spectrum light closely simulating daylight colors.

We expect to continue our on-going leadership role in the United States government s Very High Efficiency Solar Cell (VHESC) Consortium sponsored by the Defense Advanced Research Projects Agency (DARPA), where we expect to be able to commercialize a solar cell technology that will significantly surpass current solar efficiencies ranging from 6% 20%. Our proven optics technology has already shown the ability to achieve approximately 40% efficiency in a laboratory environment and we believe that this efficiency, or greater, can be achieved on a cost-effective, commercially-viable scale.

Results of Operations

Three and Six Months Ended June 30, 2009 Compared to Three and Six Months Ended June 30, 2008

Cash utilization was $1,187,000 for the three months ended June 30, 2009; a 54.2% decrease compared to the three months ended June 30, 2008. Cash utilization for the three months ended June 30, 2008 was $2,589,000. Cash utilization was $4,955,000 for the six months ended June 30, 2009; a 13.9% decrease compared to the six months ended June 30, 2008. Cash utilization for the six months ended June 30, 2008 was $5,753,000.

Net sales were $3,815,000 for the three months ended June 30, 2009; a decrease of 49.9% compared to the three months ended June 30, 2008. The decline primarily resulted from decreased pool lighting sales, $1,365,000, decreased sales by our European subsidiaries, $1,806,000, and decreased government sales, $534,000, from second quarter 2008 levels. EFO sales were $1,765,000 for the three months ended June 30, 2009; a decrease of $2,166,000, or 55.1%, from the three months ended June 30, 2008.

Table of Contents

Net sales were $6,620,000 for the six months ended June 30, 2009; a decrease of 46.8% compared to the six months ended June 30, 2008. The decline primarily resulted from decreased pool lighting sales, $2,301,000, decreased sales by our European subsidiaries, $2,734,000, and decreased government sales, $803,000, from first half 2008 levels. EFO sales were $3,308,000 for the six months ended June 30, 2009; a decrease of $2,707,000, or 45.0%, from first half 2008 levels.

EFO sales in 2009 and 2008 include sales from EFO fiber optic lighting, EFO LED, EFO Controls, and EFO Government products.

Gross profit was $799,000 for the three months ended June 30, 2009; a 67.3% decrease compared to the three months ended June 30, 2008. Gross profit was $1,117,000 for the six months ended June 30, 2009; a 69.7% decrease compared to the six months ended June 30, 2008. The gross profit margin as a percentage of sales decreased to 20.9% and 16.9% for the three and six months ended June 30, 2009, respectively, as compared to 32.1% and 29.6% for the three and six months ended June 30, 2008, respectively. These decreases are primarily a result of the decline in pool lighting sales, which have historically provided higher gross profit margins as compared to our other product lines.

Deteriorating global economic conditions within the housing and construction industries have had an adverse impact not only on our ability to expand within current markets, but also to penetrate new markets. For 2009, we continue to combat these global economic pressures by focusing sales resources in new and existing market channels including food retailers, cold storage, and government facilities. Furthermore, we will continue to implement strategic sourcing and operational cost reductions on a global basis. Selected price increases will also be implemented. Lastly, we are accelerating our transition into a turn-key energy solutions service provider.

Net research and development expenses were $253,000 for the three months ended June 30, 2009; an increase of $61,000, or 31.8%, as compared to the three months ended June 30, 2008. Gross expenses for research and development decreased by 20.3% from prior year levels primarily due to lower project costs in the United States. Net research and development expenses were $483,000 for the six months ended June 30, 2009; a decrease of $110,000, or 18.6%, as compared to the six months ended June 30, 2008. Gross expenses for research and development decreased by 20.0% from prior year levels primarily due to lower project costs in the United States.

Our gross research and development expenses are reduced on a proportional performance basis under DARPA Small Business Innovation Research (SBIR) development contracts. In 2007, SBIR contracts were signed totaling $1,500,000 to be reimbursed over a two-year recovery period. During the first quarter of 2009, additional SBIR contracts were signed totaling $198,000 to be reimbursed over an eight month recovery period. At June 30, 2009, $127,000 remained as unrecognized reductions of gross research and development expenses for these contracts. We are currently pursuing additional contracts through various government agencies, and anticipate being granted additional contracts during the remainder of 2009. The gross research and development spending along with credits from government contracts is shown in the table (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Gross expenses for research and development	$ 390	$ 489	$ 794	$ 993
Deduct: credits from DARPA contracts	(137)	(297)	(311)	(400)
	$ 253	$ 192	$ 483	$ 593

Sales and marketing expenses decreased 39.2% to $1,650,000 for the three months ended June 30, 2009 as compared to $2,712,000 for the three months ended June 30, 2008. Sales and marketing expenses decreased 36.9% to $3,530,000 for the six months ended June 30, 2009 as compared to $5,590,000 for the six months ended June 30, 2008. These decreases are primarily due to lower salaries and benefits and advertising expenses on a global basis, as well as management s efforts to reduce costs.

General and administrative expenses increased 1.7% to $1,202,000 for the three months ended June 30, 2009 as compared to $1,182,000 for the three months ended June 30, 2008. General and administrative expenses decreased 4.9% to $2,426,000 for the six months ended June 30, 2009 as compared to $2,552,000 for the six months ended June 30, 2008. The decrease is primarily due to lower professional fees in the United States, as well as management s efforts to reduce costs.

During the three months ended June 30, 2009, we recognized a non-cash expense of $165,000 for the impairment of certain fixed assets being held for sale. This asset impairment stemmed from the sale of the office building owned and occupied by our German subsidiary, as well as other associated fixed assets. There was no impairment of fixed assets during the first six months of 2008.

We recorded a net loss of $2,349,000 for the three months ended June 30, 2009, a 43.3% increase from the net loss of $1,639,000 for the three months ended June 30, 2008. We recorded a net loss of $5,390,000 for the six months ended June 30, 2009, a 5.9% increase from the net loss of $5,088,000 for the six months ended June 30, 2008.

Fiscal Year Ended December 31, 2008 Compared to Fiscal Year Ended December 31, 2007 Compared to Fiscal Year Ended December 31, 2006

Table of Contents

Net Sales

Our sales breakdowns, by product lines, with EFO products as a separate line item, are as follows (in thousands):

Product Line Breakdown

	Year Ended December 31,		
	2008	2007	2006
EFO	$ 10,888	$ 7,011	$ 5,316
Traditional Pool	5,034	9,002	11,958
Traditional Commercial Lighting	7,028	6,885	9,762
	$ 22,950	$ 22,898	$ 27,036

EFO sales reported in 2006 have been reclassified for comparability with EFO products included in 2008 and 2007.

Net sales increased less than 1% to $22,950,000 for the twelve months ended December 31, 2008. The increase was primarily a result of a $2,281,000 increase in net sales by our European subsidiaries, as well as an increase of $1,569,000 in United States traditional and EFO commercial lighting and government EFO lighting sales. These increases were offset by a $3,798,000 decrease in traditional pool and EFO pool lighting sales. During 2008, $1,292,000 of revenue was recognized from the delivery of certain milestones to E.I. DuPont de Nemours and Company as part of the Very High Efficiency Solar Cell (VHESC) Consortium being funded by DARPA.

EFO sales were $10,888,000 for the twelve months ended December 31, 2008, or 47.4% of total net sales, compared to $7,011,000 for 2007 and $5,316,000 for 2006. EFO sales in 2008, 2007, and 2006 include sales from EFO fiber optic lighting, EFO LED, EFO Controls, and EFO Government products. In 2008, international sales increased significantly to exceed comparable 2007 and 2006 levels resulting from improved penetration of EFO in the Middle East and India construction markets. However, deteriorating global economic conditions within the housing and construction industries did have an adverse impact on the magnitude of our continued expansion within the Middle East and India markets during the second half of 2008.

In 2007, net sales decreased by 15.3% to $22,898,000, compared to $27,036,000 in 2006. The 2007 decrease was a result of lower sales of pool products, excluding EFO, of 24.7%, or $2,956,000, and commercial lighting products of 29.5%, or $2,877,000, which was partially offset by increased sales of EFO products of 31.9%, or $1,695,000. The decrease in traditional pool lighting sales was due primarily to a decrease in sales from our in-ground and jazz lighting products. The decrease in traditional commercial lighting sales was due to lower sales in the United States and Germany.

Table of Contents

International Sales

We have foreign manufacturing operations in the United Kingdom and Germany, and revenue and expenses from these operations are denominated in local currency, thereby creating exposures to changes in exchange rates. Fluctuations in these operations respective currencies may have an impact on our business, results of operations, and financial position. We currently do not use financial instruments to hedge our exposure to exchange rate fluctuations with respect to our international operations. As a result, we may experience substantial foreign currency translation gains or losses due to the volatility of other currencies compared to the United States dollar, which may positively or negatively affect our results of operations attributed to these operations. International sales accounted for approximately 43.8% of net sales in 2008, as compared to 34.7% of net sales in 2007 and 30.6% in 2006. The impact of changes in foreign currency exchange rates resulted in a reduction in reported net sales for 2008 of $406,000 from 2007 levels as compared to an increase in reported net sales for 2007 of $759,000 from 2006 levels. On a local currency basis, net sales increased 27.4% for our international operations from 2007 levels. The breakdown of our geographic sales is as follows (in thousands):

	Year Ended December 31,		
	2008	2007	2006
United States Domestic	$ 12,902	$ 14,949	$ 18,776
Germany	2,918	3,136	2,998
United Kingdom	6,764	4,265	4,817
Others	366	548	445
	$ 22,950	$ 22,898	$ 27,036

Gross Profit

We had gross profit of $5,503,000 in 2008, a decrease of 12.4%, compared to $6,282,000 in 2007. Total gross profit as a percentage of total net sales was 24.0% in 2008, compared to 27.4% in 2007. Included in the 2008 gross profit is total expense in the amount of $1,071,000 related to our modification of the definition of slow-moving and obsolete inventory reserve. Management deems this increase appropriate as technology within the lighting industry continues to accelerate. Gross profit was also favorably impacted by a mid-year price increase within the commercial lighting business unit. For 2009, we intend to continue to combat global economic pressures by focusing sales resources in new and existing market channels including food retailers, cold storage, and government facilities. Further, we will continue to implement strategic sourcing and operational cost reductions on a global basis. Selected price increases will also be implemented.

In 2007, we had gross profit of $6,282,000, compared to $7,785,000 in 2006. As a percentage of sales, the gross profit for 2007, was 27.4% compared to 28.8% in 2006. Lower margins from commercial lighting and pool sales contributed towards much of the decline in 2007.

Table of Contents

Operating Expenses

Research and Development

Gross research and development expenses were $3,083,000 in 2008, a 10.0% decrease from $3,424,000 in 2007. Gross research and development expenses were $3,424,000 in 2007, a 3.7% decrease from $3,556,000 in 2006. The decrease in 2008 was primarily due to a $145,000 decrease in salaries and benefits, and a $195,000 decrease in project related costs. The decrease in 2007 from 2006 levels was primarily due to a decrease in temporary labor and consultant fees of $369,000, offset by an increase in salaries and benefits of $193,000. Our research and development expenses are reduced on a proportional performance basis under DARPA SBIR development contracts. These contracts were signed in 2007, for a total of $1,500,000 to be reimbursed over the two-year life of the contracts. The gross and net research and development spending along with credits from government contracts is shown in the following table (in thousands):

	Year Ended December 31,		
	2008	**2007**	**2006**
Gross Research and Development Expense and Government Reimbursement:			
Gross expenses for research and development	$ 3,083	$ 3,424	$ 3,556
Deduct: incurred and accrued credits from Government contracts	(895)	(517)	(1,215)
Net research and development expense	$ 2,188	$ 2,907	$ 2,341
Total Credits Received and Revenue Recognized on Government Projects:			
Incurred and accrued credits from Government contracts	$ 895	$ 517	$ 1,215
Revenue recognized for completed deliveries	1,670	542	1,979
Net credits received and revenue recognized	$ 2,565	$ 1,059	$ 3,194

Credits received from government contracts for research for which we are the beneficiary during the fiscal year are recorded as a reduction to research and development expense. The amount of credits incurred and accrued from government contracts were $895,000 in 2008, compared to $517,000 in 2007, and $1,215,000 in 2006. Net research and development expenses were 9.5% of sales in 2008, compared to 12.7% of sales in 2007, and 8.7% in 2006.

When the government contract is for the delivery of a product or service, we recognize revenue from those government projects according to proportional performance method or actual deliveries made. Costs related to the completion of the sale are charged to cost of sales. In 2008, revenue recognized from completed deliveries was $1,670,000. The revenue recognized for completed deliveries of products or services was $542,000 in 2007 and $1,979,000 in 2006. For further information on our revenue recognition policy, please refer to Critical Accounting Policies and Estimates within this section of the report.

Net credits received from government reimbursement are the combination of revenue and credits against gross research and development costs. In 2008, our net credits were $2,565,000, compared to $1,059,000 in 2007 and $3,194,000 in 2006.

Table of Contents

Sales and Marketing

Sales and marketing expenses were $8,551,000 in 2008, compared to $9,789,000 in 2007, a decrease of 12.7%. In 2008, sales and marketing expenses for pool lighting amounted to $2,149,000, or 25.1% of total sales and marketing cost, whereas sales and marketing expense for commercial lighting was $6,402,000, or 74.9% of total marketing costs. The decrease in 2008 was primarily a result of a $693,000 decrease in salaries and benefits, a $406,000 decrease in advertising and trade show expenses, and a $133,000 decrease in expenses related to stock-based compensation. Contributing to the overall decrease in salaries versus 2007 levels was the termination of the Vice President of Pool Lighting Sales, and the subsequent reorganization of the pool lighting, commercial lighting, and customer service organizations under new leadership. This reorganization enabled us to re-energize the Fiberstars brand name under common leadership. Further, we have aggressively recruited experienced energy solutions focused salespeople from leading firms in the industry, and have successfully hired a new Vice President of Sales and seasoned account executives. These new employees, combined with our sales consultants, possess more than 211 years of energy solutions/business development experience.

In 2007, sales and marketing expenses were $9,789,000, an increase of less than 1.0% compared to the $9,774,000 in 2006. In 2007, sales and marketing expenses for pool lighting amounted to $2,676,000, or 27.3% of total sales and marketing cost, whereas sales and marketing expense for commercial lighting was $7,113,000, or 72.7% of total marketing costs. In 2006, sales and marketing expenses for pool lighting amounted to $3,087,000, or 31.6% of total sales and marketing cost, whereas sales and marketing expense for commercial lighting was $6,687,000, or 68.4% of total marketing costs.

General and Administrative

General and administrative expenses were 22.1% of sales in 2008, compared to 20.3% of sales in 2007, and 18.3% of sales in 2006. General and administrative expenses were $5,080,000 in 2008, a 9.2% increase, as compared to $4,651,000 in 2007. This increase was largely a result of a $604,000 increase in salaries and benefits primarily due to the May 2008 appointment of our new Chief Executive Officer as well as the reclassification of certain executives out of manufacturing and research and development. Also causing the increase was a $95,000 increase in audit and legal service fees and a $71,000 increase in travel expenses. These increases were offset by reductions in temporary labor and consulting fees, professional service fees, and bad debt expense.

General and administrative expenses were $4,651,000 in 2007, a 6.2% decrease, as compared to $4,956,000 in 2006. This decrease was largely a result of a $241,000 decrease in stock-based compensation compared to 2006, as well as management s efforts to reduce overall costs.

Table of Contents

General and administrative cost reduction efforts during 2007 were offset by a one-time charge of $409,000 for severance, $172,000 of which was in the general and administrative expenses category. The rest of the severance expenses were related to other line items such as sales and marketing and restructuring expenses. In 2007, we also incurred a non-recurring general and administrative charge of $342,000 in the third quarter for bad debts which was due to a change in policy for calculating the reserve. Without these two non-recurring charges, the general and administrative expenses for 2007 would have been $4,137,000, a decrease of 16.5% from 2006.

In the fourth quarter of 2008, as a result of our annual test for impairment required under SFAS 142, and based on an assessment of its present and future operations, we recognized a non-cash expense of $4,305,000 for the impairment of our goodwill. The goodwill was originally recorded at the time of the acquisitions of Fiber Optic International, Crescent Lighting Limited, LBM Lichleit-Fasertechnik, Unison Fiber Optic Lighting Systems, and Lightly Expressed Limited. As of December 31, 2008, we have no remaining goodwill on our books. There was no impairment of goodwill in 2007 or 2006.

The restructuring expenses in 2007 were $456,000, compared to $734,000 in 2006, a decrease of 37.9 %. The 2007 cost is associated with relocating the fiber production operation from Mexico to Solon, Ohio. The 2006 restructuring costs were for the relocation of the corporate headquarters from Fremont, California to Solon, Ohio.

Excluding the non-cash loss on impairment charge of $4,305,000 in 2008, total operating expenses decreased $1,984,000, or 11.1%, from 2007 levels.

Other Income and Expenses

We had interest income of $208,000 and interest expense of $198,000 in 2008. Interest income consists of interest earned on deposits. Interest expense is for bank interest on our line of credit, equipment loans, and on a building loan for our corporate office in Germany. Our interest income was $605,000 in 2007, compared to $760,000 in 2006. Our interest expense was $321,000 in 2007, compared to $277,000 in 2006.

Income Taxes

For 2008, we had a full valuation allowance against our United States and German deferred tax assets. The net deferred tax assets for 2008 amounted to $15,000 and were for our United Kingdom subsidiary, which reported income in 2008 and has been profitable prior to 2007. The income tax benefit from the United States operations in 2008 relates to the reversal of the 2007 deferred tax liability of $252,000 for goodwill as a result of the book impairment. There were no Federal tax expenses for the United States operations in 2008, as any expected benefits were offset by an increase in the valuation allowance. A tax provision of $2,000 was recorded for our United Kingdom operation, and no tax benefits were recorded for the 2008 German operations loss.

Table of Contents

For 2007, we had a full valuation allowance against our deferred tax assets in the United States and Germany. There was a tax expense of $13,000 for our U.K. operations in 2007. There were no tax expenses or benefits for our German operations. In 2007, all expected benefits were offset by an increase in our valuation allowance. We had a tax expense of $177,000 in the United States, resulting from a tax liability associated with tax treatment for goodwill.

For 2006, we had a full valuation allowance against our deferred tax assets in the United States and Germany. There was no tax expense or benefit for our German operation in 2006 as any expected benefit was offset by an increase in our valuation allowance. We had a tax expense of $75,000 in the United States resulting from a tax liability associated with the tax treatment for goodwill. In addition we had a $38,000 tax expense shown for 2006 is a result of tax expense for our United Kingdom operations which experienced a profit for 2006.

Net Loss

The net loss in 2008 was $14,448,000, an increase of 27.7% from our net loss of $11,317,000 in 2007. Included in the 2008 net loss is total expense in the amount of $1,071,000 related to our increase in slow-moving and obsolete inventory reserves. Also included in the 2008 net loss is a non-cash expense of $4,305,000 for the impairment of our goodwill.

For 2007, the net loss of $11,317,000 was an increase of 17.3% compared to the net loss of $9,650,000 in 2006.

Liquidity and Capital Resources

Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008

Cash and Cash Equivalents

At June 30, 2009, our cash and cash equivalents were $5,613,000 as compared to $10,568,000 at December 31, 2008, a net cash decrease of $4,955,000 for the six months ended June 30, 2009. This compares to a net cash increase of $3,837,000 for six months ended June 30, 2008 resulting from the receipt of $9,335,000 of proceeds, net of expenses, from the March 14, 2008 equity financing.

Cash Used in Operating Activities

Net cash used in operating activities primarily consists of net loss adjusted by non-cash items, including impairment charges, depreciation, amortization, stock-based compensation, and the effect of changes in working capital. Cash decreased during the six months ended June 30, 2009, by a net loss of $5,390,000, compared to a net loss of $5,088,000 for the three months ended June 30, 2008. After adjustments, net cash used in operating activities was $4,702,000 for the six months ended June 30, 2009, an increase of 15.9% compared to a net cash usage of $4,058,000 for the six months ended June 30, 2008.

Table of Contents

Cash Provided by (Used in) Investing Activities

Net cash provided by investing activities was $169,000 for the six months ended June 30, 2009; compared to a net cash usage of $298,000 for the six months ended June 30, 2008. This decrease is primarily due to the proceeds generated from the sale of fixed assets associated with our German subsidiary partially offset by acquisitions of fixed assets during the period.

Cash (Used in) Provided by Financing Activities

Net cash used in financing activities was $331,000 for the six months ended June 30, 2009. This cash usage was due to payments on our lines of credit, $2,027,000, and long-term bank borrowings, $288,000, offset by borrowings on our lines of credit of $1,904,000. For the six months ended June 30, 2008, financing activities contributed $8,262,000. This net contribution was due primarily to cash proceeds from issuances of common stock and warrants to purchase shares of our common stock for $9,335,000.

Our bank line of credit in the United States is based on an agreement with Silicon Valley Bank (SVB) dated October 15, 2008, modified effective January 31, 2009 and further modified effective June 12, 2009. As of June 30, 2009, this agreement provides for a $2,000,000 revolving line of credit, renewable on a month-to-month basis. The amount of borrowings available to the company is the lesser of $2,000,000 or 75% of eligible accounts receivable, as defined by the agreement.

Borrowings under this agreement are collateralized by our assets, including intellectual property, and bear interest at the SVB Prime Rate plus 1.50%, as of June 30, 2009. If we terminate the facility prior to maturity, we will be required to pay a 1.00% termination fee. We are required to maintain all of our cash and cash equivalents in operating and investment accounts with SVB and its affiliates. We are also required to comply with certain covenant requirements, including a tangible net worth covenant. As of June 30, 2009, we were not in compliance with this financial covenant as defined by the original credit agreement. The interest rate at June 30, 2009 was 5.50% and 5.00% at December 31, 2008. Borrowings under the revolving line of credit were $1,776,000 at June 30, 2009 and December 31, 2008. Available borrowings under this revolving line of credit were $256,000 at June 30, 2009 and $263,000 at December 31, 2008. The revolving line of credit borrowings are recorded in the consolidated balance sheets as a current liability.

Effective January 31, 2009, we entered into a First Loan Modification and Forbearance Agreement with SVB which modified the one year credit agreement entered into on October 15, 2008. This modification to the terms of the 2008 credit agreement states that borrowings bear interest at the SVB Prime Rate plus 1.50%. SVB also agreed to forebear from exercising its rights and remedies against the company as a result of violating its tangible net worth covenant as of December 31, 2008. This forbearance expired on February 15, 2009.

Effective June 12, 2009, we entered into a Second Loan Modification and Forbearance Agreement with SVB which further modified the one year credit agreement entered into on October 15, 2008, and modified January 31, 2009. This second modification to the terms of the 2008 credit agreement states that borrowings bear interest at the SVB Prime Rate plus 1.50% through June 30, 2009. Beginning July 1, 2009 through, and including, September 30, 2009, borrowings bear interest at the SVB Prime Rate plus 2.00%. Beginning October 1, 2009 and thereafter, borrowings bear interest at the SVB Prime Rate plus 3.00%. While we remained in violation of our tangible net worth covenant, we continued to cooperate with SVB to restructure the existing bank line of credit. In addition, SVB agreed to forebear from exercising its rights and remedies against us as a result of violating our tangible net worth covenant as of June 30, 2009. This forbearance expired on June 30, 2009.

Effective July 22, 2009, we entered into a Third Loan Modification and Forbearance Agreement with SVB which modifies the one year credit agreement entered into on October 15, 2008, and modified January 31, 2009 and June 12, 2009. This third modification to the terms of the 2008 credit agreement revised the amount of borrowings available to us to be the lesser of $2,000,000 or the sum of (i) 75% of eligible accounts receivable, and (ii) other cash equivalents on deposit with SVB. While we remained in violation of our tangible net worth covenant, we continued to cooperate with SVB to restructure the existing bank line of credit. In addition, SVB agreed to forebear from exercising its rights and remedies against us as a result of violating our tangible net worth covenant as of July 31, 2009. This forbearance expired on July 31, 2009.

Effective August 25, 2009, we entered into a Forbearance Agreement with SVB in which SVB agreed to forbear from exercising its rights and remedies against us as a result of violating our tangible net worth covenant as of August 31, 2009. This forbearance was due to expire on August 31, 2009.

SVB has informed us that it does not intend to renew our line of credit when it expires on October 15, 2009 and that we need to repay all borrowings by November 15, 2009.

On May 27, 2009, we entered into a Promissory Note (Note) with The Quercus Trust (The Trust) in the amount of $70,000. Under the terms of this Note, we agree to pay The Trust the principal sum of the Note and interest accruing at a yearly rate of 1.00% in one lump sum payment on or before June 1, 2109. We received the funds on June 9, 2009.

Table of Contents

Through our United Kingdom subsidiary, we maintain a bank overdraft facility of $415,000 (in British pounds sterling, based on the exchange rate at June 30, 2009) under an agreement with Lloyds Bank Plc. There were no borrowings against this facility as of June 30, 2009 or December 31, 2008. This facility is renewed annually on January 1. The interest rate on the facility was 2.75% at June 30, 2009, and 7.25% at December 31, 2008.

Through our German subsidiary, we maintained a credit facility under an agreement with Sparkasse Neumarkt Bank. This credit facility was put in place to finance the building of offices in Berching, Germany, which were owned and occupied by our German subsidiary. In June, 2009, we paid, in its entirety, the balance due on the credit facility with proceeds received from the sale of the office building in Berching, Germany. Borrowings against this facility were $299,000 at December 31, 2008 (in Euros, based on the exchange rate at December 31, 2008). The interest rate was 5.49% at December 31, 2008.

In addition, our German subsidiary has a revolving line of credit with Sparkasse Neumarkt Bank. As of June 30, 2009, there were no borrowings against this line of credit and borrowings of $128,000 (in Euros, based on the exchange rate at December 31, 2008) at December 31, 2008. This revolving facility is renewed annually on January 1. The interest rate on this line of credit was 11.00% at December 31, 2008.

We have continued to incur losses which have been attributable to operational performance, restructuring, and miscellaneous non-cash charges. This trend has, in turn, led to negative cash flows and ongoing bank debt covenant violations. We have managed our liquidity during this period through a series of previously announced cost reduction initiatives, bank debt restructuring, and asset disposals. However, the ongoing global financial crisis has continued to have a dramatic effect on our industry and customer base. Further, the ongoing recession in the United States and Western Europe, combined with the slowdown of economic growth in the rest of the world, continues to foster a business environment where it is extremely difficult and costly to obtain either equity or non-equity financing. This environment has also increased the potential for customer payment defaults. Our liquidity position, as well as our operating performance, has been negatively affected by these economic and industry conditions and by other financial and business factors, many of which are beyond its control.

Management acknowledges that the level of negative cash utilization experienced during the six months ended June 30, 2009, if sustained, could result in the insolvency of the company in 2009 without the infusion of additional equity or non-equity financing. Therefore, we are aggressively pursuing all of the following sources for working capital funding:

- obtain loans from various financial institutions,
- obtain loans from one or more non-traditional investment capital organizations,
- sale and/or disposition of one or more operating units, and
- obtain funding from the sale of our common stock or other equity instruments.

Obtaining financing through the above mentioned mechanisms contain risks, including:

- loans or other debt instruments may have terms and/or conditions, such as interest rate, restrictive covenants, and control or revocation provisions, which are not acceptable to management or our Board of Directors,

- the current global economic crisis combined with our current financial condition may prevent us from being able to obtain any debt financing,

- financing may not be available for parties interested in pursuing the acquisition of one or more of our operating units, and

- additional equity financing may not be available to us in the current economic environment and could lead to further dilution of shareholder value for current shareholders of record.

We continue to aggressively reduce costs, as evidenced in the $2,296,000 decrease in operating expenses, net of a non-cash loss on impairment of fixed assets of $165,000, for the six months ended June 30, 2009, as compared to the six months ended June 30, 2008. Our cash utilization was $1,187,000 for the three months ended June 30, 2009; a 54.2% decrease compared to the cash utilization for the three months ended June 30, 2008 of $2,589,000. Management is executing further cost reductions and organizational realignments in an effort to sustain our ongoing viability throughout the remainder of 2009.

In July 2009, we engaged a leading mergers and acquisitions advisory firm to assist us in evaluating and valuing our individual operating business units and to support the potential divestiture of one or more of those business units.

Fiscal Year Ended December 31, 2008 Compared to Fiscal Year Ended December 31, 2007 Compared to Fiscal Year Ended December 31, 2006

Cash and Cash Equivalents

At December 31, 2008, our cash and cash equivalents were $10,568,000, compared to $8,412,000 at December 31, 2007. We had $245,000 in long-term borrowings and $1,958,000 in short-term borrowings as of December 31, 2008. We had $314,000 in long-term borrowings and $2,885,000 in short-term borrowings as of December 31, 2007.

On March 14, 2008, we received an additional $9,335,000 in equity financing, net of expenses. The investment was made by several current Energy Focus shareholders. These investors agreed to an at-market purchase of approximately 3,184,000 units for $3.205 per unit, based on the closing bid price of Energy Focus common shares on March 13, 2008 of $3.08. Each unit comprised one share of our common stock, par value $0.0001 per share, and one warrant to purchase one share of our common stock at an exercise price of $3.08 per share. The warrants were immediately separable from the units, immediately exercisable, and will expire March 14, 2013. This additional financing is being used to fund working capital requirements and perform additional research and development.

Cash Used in Operating Activities

Net cash used by operating activities primarily consists of net loss adjusted by non-cash items, including depreciation, amortization, stock-based compensation, loss on impairment, and the effect of changes in working capital. Cash decreased during 2008, by a net loss of $14,448,000, compared to net losses of $11,317,000 and $9,650,000 for 2007, and 2006 respectively. After adjustments, net cash used by operating activities was $5,830,000 in 2008, compared to $7,502,000 for 2007 and $7,184,000 in 2006.

Our efforts to manage working capital provided cash of $1,601,000, net of the increase in inventory reserve, during 2008 by reducing accounts receivable and inventory, as well as an increase in accounts payable and accrued expenses. In 2007, cash in the amount of $3,501,000 was provided by reducing accounts receivable and inventory, offset by a use of $2,365,000 of cash by decreasing accounts payable and accrued expenses.

Cash (Used in) Provided by Investing Activities

In 2008, there was a usage of cash of $395,000 for the purchase of fixed assets. There was a net contribution of cash of $11,842,000 in 2007, largely due to net sales of short-term securities totaling $12,351,000. In 2006, the contribution of cash was $2,058,000, also due to net sales of short-term investments totaling $5,761,000, partially offset by the acquisition of fixed assets of $3,703,000.

Cash Provided by Financing Activities

In 2008, the net contribution to cash from financing activities was $8,493,000, compared to $407,000 in 2007 and $2,908,000 in 2006. Proceeds from stock issuances, net of expenses, provided $9,335,000 in cash in 2008. Also in 2008, additional bank borrowings of $5,633,000 were reduced by debt payments of $6,608,000. In 2007, proceeds from issuances provided $964,000 in cash, and additional bank borrowings of $289,000 were reduced by debt payments of $908,000. During 2006, the net cash contribution was due to our receipt of $2,686,000 in proceeds from bank borrowings, of which $1,609,000 was used to finance the purchase of manufacturing equipment.

As a result of the cash used in operating and financing activities, and the cash provided by investing activities, there was a net increase in cash in 2008 of $2,156,000 that resulted in an ending cash balance of $10,568,000 as of December 31, 2008. This compares to a net increase in cash of $4,707,000 in 2007, resulting in an ending cash balance of $8,412,000 at the end of 2007, and a net decrease in cash of $1,849,000 in 2006, resulting in an ending cash balance of $3,705,000 at the end of 2006.

Critical Accounting Policies

The preparation of financial statements requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies, and the reported amounts of revenue and expenses in the financial statements. Material differences may result in the amount and timing of revenue and expenses if different judgments or different estimates were utilized.

Critical accounting policies, judgments, and estimates that we believe have the most significant impact on our financial statements are set forth below:

- Revenue recognition;
- Allowances for doubtful accounts, returns and discounts;
- Long-lived assets;
- Valuation of inventories;
- Accounting for income taxes; and
- Share-Based compensation.

Revenue Recognition

Revenue is recognized when it is realized or realizable, has been earned, and when all of the following has occurred:

- persuasive evidence or an arrangement exists, e.g., a sales order, a purchase order, or a sales agreement,
- shipment has occurred (the standard shipping term is F.O.B. ship point) or services provided on a proportional performance basis or installation have been completed,
- price to the buyer is fixed or determinable, and
- collectability is reasonably assured.

Revenue from product sale generally is recognized upon shipping because of the following:

- all sales made by the company to its customer base are non-contingent, meaning that they are not tied to that customer s resale of products,
- standard terms of sale contain shipping terms of F.O.B. ship point, meaning that title is transferred when shipping occurs, and
- there are no automatic return provisions that allow the customer to return the product in the event that the product does not sell within a defined timeframe.

Revenue from installation services, including design and integration services and other services (where product sales are not incorporated into the contract), is recognized upon the following:

- proportional performance method using the ratio of labor cost incurred to the total final estimated labor cost. Under this method, revenue recognized reflects the portion of anticipated revenue that has been earned.

Table of Contents

Revenue from product sales that incorporate specifically defined installation services is recognized as follows:

product sale at completion of installation and

installation service at completion of installation.

We warrant our products against defects or workmanship issues. We set up allowances for estimated returns, discounts, and warranties upon recognition of revenue and these allowances are adjusted periodically to reflect actual and anticipated returns, discounts, and warranty expenses. These allowances are based on past history and historical trends, current economic conditions, and contractual terms. Our distributor s obligation to us is not contingent upon the resale of our products and as such does not prohibit revenue recognition.

Allowances for Doubtful Accounts, Returns, and Discounts

We establish allowance for doubtful accounts and returns for probable losses, based on past history, current economic conditions, and contractual terms. The specific components are as follows:

Allowance for doubtful accounts for accounts receivable, and

Allowance for sales returns.

In 2008, the total allowance was $486,000, with $356,000 related to accounts receivable and $130,000 related to sales return. In 2007, the total allowance had a balance of $848,000 with $698,000 related to accounts receivable and $150,000 related to sales return.

The company reviews these allowance accounts periodically and adjusts them according to current conditions.

Long-lived Assets

Goodwill represents the excess of acquisition cost over the fair value of tangible and identified intangible net assets of the businesses acquired. Goodwill is not amortized but is subjected to an annual impairment test. Fixed assets are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the related assets (two to fifteen years). Leasehold improvements are amortized on a straight-line basis over their estimated useful lives or the lease term, whichever is shorter, generally three to seven years. When events or changes in circumstances indicate that assets may be impaired, an evaluation is performed comparing the estimated future undiscounted cash flows associated with the asset to the asset s carrying amount to determine whether a write-down to market value or discounted cash flow is required.

Table of Contents

We performed our annual goodwill impairment test at December 31, 2008. The impairment test first utilized a market capitalization methodology to calculate the fair value of our goodwill as of the test date, which was less than its respective carrying value, indicating impairment. As a result, we performed Step two of our impairment analysis. Based on the results of the impairment test, we recorded a non-cash impairment charge for goodwill of $4,305,000 in the fourth quarter of 2008, which represents the entire carrying balance of goodwill, net of foreign currency translation.

Valuation of Inventories

We state inventories at the lower of standard cost (which approximates actual cost determined using the first-in-first-out method) or market. We establish provisions for excess and obsolete inventories after evaluation of historical sales, current economic trends, forecasted sales, product lifecycles, and current inventory levels. During 2008, 2007, and 2006, we charged $1,503,000, $677,000, and $868,000, respectively, to cost of sales for excess and obsolete inventories. Included in 2008 is total expense in the amount of $1,071,000 related to our modification of the definition of slow-moving and obsolete inventory reserve. Management deems this increase appropriate as technology developments within the lighting industry continues to accelerate. Adjustments to our estimates, such as forecasted sales and expected product lifecycles, could harm our operating results and financial position.

Accounting for Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income tax liability in each of the jurisdictions in which we do business. This process involves estimating our actual current tax expense together with assessing temporary differences resulting from differing treatment of items, such as deferred revenues, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. We then must assess the likelihood that these deferred tax assets will be recovered from future taxable income and, to the extent that we believe that recovery is not certain or is unknown; we must establish a valuation allowance.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against our deferred tax assets. At December 31, 2008, we have recorded a full valuation allowance against our deferred tax assets in the United States and Germany, due to uncertainties related to our ability to utilize our deferred tax assets, primarily consisting of certain net operating losses carried forward. The valuation allowance is based upon our estimates of taxable income by jurisdiction and the period over which our deferred tax assets will be recoverable.

Share-Based Payments

In December 2004, the FASB issued FAS No. 123 (revised 2004) or FAS 123(R), Share-Based Payments. FAS 123(R) requires all entities to recognize compensation expense in an amount equal to the fair value of share-based payments, such as stock options granted to employees. The company has applied FAS 123(R) using the modified prospective method. Under this method, we are required to record compensation expense (as previous awards continue to vest) for the unvested portion of previously granted awards that remain outstanding at the date of adoption. In March 2005, the SEC released Staff Accounting Bulletin No. 107, Share-Based Payment (SAB 107), which provides interpretive guidance related to the interaction between FAS 123(R) and certain SEC rules and regulations. It also provides the SEC staff s views regarding valuation of share based payment arrangements. The application of FAS 123(R) with SAB 107 had the effect of increasing stock-based compensation expense and reducing earnings by $715,000 in 2008, $877,000 in 2007, and $1,118,000 in 2006.

We measure all employee stock-based awards as an expense based on the grant-date fair value of these awards. The fair value of options is estimated using the Black-Scholes option pricing model. Weighted average assumptions used in the model include the expected life of the options, volatility, and risk-free interest rate. The estimated expected life of the option is calculated based on the contractual life of the option, the vesting life of the option, and historical exercise patterns of vested options. The volatility estimates are calculated using historical pricing experience.

Recent Accounting Pronouncements

In September 2006, the FASB issued FAS No. 157, Fair Value Measurements (FAS 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This guidance applies only when other guidance requires or permits assets or liabilities to be measured at fair value; it does not expand the use of fair value in any new circumstances. FAS 157 went into effect for fiscal years beginning after November 15, 2007 (effective January 1, 2008, for our company). In February 2008, the FASB issued Staff Position FAS 157-1, which provides that FAS 157 does not apply under FAS 13, Accounting for Leases, and other accounting pronouncements that address fair value measurements for leases. We adopted the financial assets and liabilities portion of this FASB and it had no effect. In February 2008, the FASB also issued Staff Position FAS 157-2, which delays the effective date of FAS 157 for all nonfinancial assets and liabilities, except those recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). For items within the scope of Staff Position FAS 157-2, the effective date will be for fiscal years beginning after November 15, 2008 (January 1, 2009, for our company). FAS No. 157-2 did not have a material impact on our consolidated financial statements.

In December 2007, the FASB issued FAS No. 141(R), Business Combinations (FAS 141(R)). The new pronouncement requires the acquiring entity in a business combination to recognize only the assets acquired and liabilities assumed in a transaction (e.g., acquisition costs must be expensed when incurred), establishes the fair value at the date of acquisition as the initial measurement for all assets acquired and liabilities assumed, and requires expanded disclosures. FAS 141(R) is in effect for fiscal years beginning after December 15, 2008 (January 1, 2009, for our company). The adoption of FAS No. 141(R) did not have a material impact on our consolidated financial statements.

In December 2007, the FASB issued FAS No. 160, Non-controlling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51 (FAS 160). The new pronouncement requires all entities to report non-controlling (minority) interests in subsidiaries as a component of shareholders equity. FAS 160 is in effect for fiscal years beginning after December 15, 2008 (January 1, 2009, for our company). The adoption of FAS No. 160 did not have a material impact on our consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events (SFAS 165). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but prior to the issuance of the financial statements. The statement requires disclosure of the date through which subsequent events were evaluated and the basis for that date. SFAS 165 sets forth the following: (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS 165 was effective for us for the period ending June 30, 2009 and requires prospective application. The adoption of SFAS No. 165 did not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification (Codification) and the Hierarchy of Generally Accepted Accounting Principles (SFAS 168) a replacement of FASB Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles. Under the provisions of SFAS 168, the Codification will become the source of authoritative United States GAAP recognized by the FASB to be applied by nongovernmental entities. The rules and interpretive releases of the SEC under authority federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of SFAS 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. The provisions of SFAS 168 are effective for financial statements issued for interim and annual periods ending after September 15, 2009. We are currently reviewing the provisions of SFAS 168 to determine the impact on our consolidated financial statements.

Table of Contents

Quantitative and Qualitative Disclosures About Market Risk

As of June 30, 2009, we had $563,000 in cash held in foreign currencies based on the exchange rates at June 30, 2009. The balances for cash held overseas in foreign currencies are subject to exchange rate risk. We have a policy of maintaining cash balances in local currencies unless an amount of cash is occasionally transferred in order to repay inter-company debts.

Table of Contents

BUSINESS

Energy Focus Inc. and subsidiaries (Energy Focus) design, develop, manufacture, market, and install lighting systems and customer specific energy efficient lighting solutions for a wide-range of use in both the general commercial market and the pool market. Energy Focus lighting technology offers significant energy savings, heat dissipation and maintenance cost benefits over conventional lighting for multiple applications.

Overview

We are engaged in the design, development, manufacturing, marketing, and installation of energy-efficient lighting systems where we serve two principal markets; commercial/industrial lighting and pool lighting. Our business strategy has evolved into providing our customers with turnkey, comprehensive energy-efficient lighting solutions which include, but are not limited to, our patented and proprietary technology. Our solutions include fiber optic (EFO), light-emitting diode (LED), ceramic metal halide (CMH), high-intensity discharge (HID), and other highly energy efficient lighting technologies. Our strategy also incorporates continued investment in research into new and emerging energy sources including, but not limited to, solar energy. Typical savings of current technology averages 80% in electricity costs, while providing full-spectrum light closely simulating daylight colors.

Our product portfolio has been broadened recently to include offerings within LED, CMH, and HID product lines. In 2008, we launched several new lighting products for application within landscape, dock lighting, and cold storage markets. In 2009, our company continues to broaden these product lines, into landscape lighting markets for example, as well as explore new technologies and markets. These new applications include LED track lighting and LED replacement for fluorescent light tubes which we expect to launch during 2009.

Our long-term strategy is to penetrate the $100 billion lighting market by providing turnkey, comprehensive energy-efficient lighting solutions. Our targeted market segments provide opportunities in the supermarket, commercial, industrial, and government segments. The passage of the Energy Independence and Security Act of 2007 by Congress created a natural market for our energy-efficient products. Under this Act, all incandescent light bulbs must use 25% to 30% less energy than today s products by the years 2012 through 2014. Since many of our EFO products already are 80% more efficient than incandescent bulbs, our focus is to increase the public s knowledge of our technology and to establish comprehensive distribution channels so that demand can be fulfilled quickly. Further, the passage of the American Recovery and Reinvestment Act of 2009 by Congress authorizes the usage of $38 billion (reduced from $50 billion) in government funds for advancement of energy conservation programs and $20 billion in tax incentives for renewable energy and efficiency. Provisions of this Act which have the greatest opportunity to benefit our company include:

Table of Contents

- $2 billion in loans for renewable energy projects,
- $4.5 billion toward smart-grid applications,
- $6.3 billion in state energy-efficient and clean-energy grants, and
- $4.5 billion to make federal buildings more energy efficient.

We will continue to focus on market niches where the benefits of our lighting solutions offerings, combined with our technology, are most compelling. These market niches include government facilities, retailers, supermarkets, marine applications, and museums.

We will also continue to focus on development of our solar technology through our continuing leadership role in the United States government s Very High Efficiency Solar Cell (VHESC) Consortium sponsored by the Defense Advanced Research Projects Agency (DARPA). The purpose of the VHESC project is to develop 50% or greater efficient solar cell for United States military applications which would also be available for commercial application.

Products

We produce, source, and market a wide variety of lighting technologies to serve two general markets: commercial lighting and pool lighting. Our technology falls into the following categories:

- Metal Halide and LED Fiber optic lighting systems (e.g. EFO-Ice®), E-Luminator
- LED and Metal Halide lightings systems (e.g. EFO Docklight, Cold Storage).

In addition, we also produce customized components such as underwater lenses, color-changing LED lighting fixtures, LED lighting fixtures, landscape lighting fixtures, and lighted water features, including waterfalls and laminar-flow water fountains. Further, we continue to aggressively penetrate the government and military lighting markets. In this regard, our company has many products being actively marketed to the United States federal government agencies through the General Services Administration website (https://www.GSAAdvantage.gov).

The key features of our products are as follows:

- Many of our products meet the lighting efficiency standards mandated for the year 2020.
- Our products qualify for federal and state tax incentives for commercial and residential consumers in certain states.
- Our products make use of proprietary optical systems that enable high efficiencies.
- Certain utility companies continue to embrace our technology as an energy-efficient alternative and are promoting our products to their customers. In 2007, Southern California Edison confirmed that our patented product EFO-Ice used only 25% of the energy of comparable fluorescent lighting systems and 33% of the energy of comparable LED systems.

Table of Contents

The heat source of the fiber optic lighting fixtures usually is physically separated from the lamps, providing a cool light. This unique feature has special application in grocery stores, where reduction of food spoilage and melting due to heat is an important goal.

Long-Term Strategy

During the past year, we have formulated our objective to become the leading provider of turnkey, comprehensive, energy-efficient, lighting systems and solutions. To achieve this objective, we intend to pursue the following strategies:

Capitalize on the growing need for high return on investment energy-efficient lighting systems. We intend to continue to devote significant resources to our product development efforts to maximize the energy efficiency and quality of our lighting systems while reducing costs and enabling our customers to meet more stringent government regulations. Further, we plan to continue to develop new proprietary technologies and integrate new and potentially more efficient lighting sources into our lighting systems such as LED.

Focus on increased market penetration where the benefits of our technology are most compelling. We intend to broaden the penetration of our products within commercial, retail, and supermarket channels, which all share urgent needs for highly efficient, flexible, and financially economical lighting solutions. Further, we continue to aggressively penetrate the government and military lighting markets. To reach our target markets, we are significantly increasing both the number and experience level of our direct sales employees. Additionally, we are actively restructuring our independent sales representative network to increase sales volume and accountability of results.

Develop and expand strategic relationships. To expedite the awareness of our technologies, we continue to actively pursue strategic relationships with distributors, energy service companies (ESCO s), lighting designers, and contractors who distribute, recommend, and/or install lighting systems. We continue to cultivate relationships with fixture manufacturers and other participants in the general lighting market.

Develop a commercially-viable, cost-effective solar technology. Through our on-going leadership role in the United States government s VHESC Consortium sponsored by DARPA, we expect to be able to commercialize a solar cell technology that will significantly surpass current solar efficiencies ranging from 6% - 20%. Our proven optics technology has already shown the ability to achieve approximately 40% efficiency in a laboratory environment and we believe that this efficiency, or greater, can be achieved on a cost-effective, commercially-viable scale.

Table of Contents

Sales, Marketing, and Distribution of our Offerings Portfolio

Products

Our products are sold through a combination of direct sales employees, independent sales representatives, and various distributors in different geographic markets throughout the world. Our distributors obligation to us is not contingent upon the resale of our products and as such does not prohibit revenue recognition.

Within the commercial and pool lighting business units, we continue to focus on retailers, hotels, museums, general contractors, and specifiers. Our recent successes include the Las Vegas New York-New York Hotel, and the Miami Beach Fontainebleau Hotel. We also continue our penetration into Whole Foods and Albertson s food retailers. Our typical product sales process includes a testing phase, which starts with a demonstration of our products to key executives, followed by a prototype installation in one store and then to multiple stores. Finally, we install in selected stores within the same chain.

Solutions

Our solutions based sales are designed to enhance total value by providing turnkey, high-quality, energy-efficient lighting application alternatives that positively impact customers profitability, the environment, and the communities we serve. These solutions are sold through our direct sales employees, and include not only our proprietary energy-efficient lighting systems, but also sourced lighting systems, energy audits, and service agreements.

Within the solutions business unit, we are focusing on multi-location food retailers, cold storage facilities, retailers, museums, and industrial/commercial real estate companies. Our recent successes include projects completed at a leading regional supplier of cold storage services as well as a building products supplier.

As of December 31, 2008, we had approximately 117 sales and independent sales representatives throughout the United States and Europe. We have been successful in hiring experienced salespeople from leading firms in the industry including our new Vice President of Sales.

Our ten largest customers accounted for 32.1% of our net sales for the twelve months ended December 31, 2008. In 2008, there was no single customer who accounted for more than 10.0% of net sales.

Table of Contents

Manufacturing and Suppliers

We produce our lighting systems through a combination of internal and outsourced manufacturing and assembly. Our internal lighting system manufacturing consists primarily of fiber processing, final assembly, testing, and quality control. We use independent contractors to manufacture some components and sub-assemblies and have worked with a number of our vendors to design custom components to meet our specific needs. We manage inventories of domestically produced component parts on a just-in-time basis when practicable. Our quality assurance program provides for testing of all sub-assemblies at key stages in the assembly process as well as testing of finished products.

Some of our products are manufactured off shore, resulting in cost savings. Under a Production Share Agreement initiated in 2003 and renewed in August 2007, we conduct contract assembly in Mexico through North American Production Sharing Inc. and Industrias Unidas de BC, SA de CV, or North American. Under this agreement, North American provides administrative and manufacturing services, including labor services and the use of manufacturing facilities in Mexico, for the manufacturing and assembly of certain fiber optic systems and related equipment and components. We also perform final assembly of products acquired from Australia, India, and Taiwan. These suppliers supply products on a purchase order basis.

We currently purchase our small-diameter stranded fiber from multiple vendors, including Mitsubishi. In sales volume, our products that incorporate small-diameter stranded fiber historically have been the single largest fiber product that we sell and represent significant sales volume.

Research and Development

Research and development has been a key focus of our company; accordingly, we have committed substantial resources to this endeavor. Our research and development team is dedicated to continuous improvement and innovation of our current lighting technologies, including fiber optics, LED, and HID systems. Further, our research and development team plays a leading role in the United States government s VHESC Consortium sponsored by DARPA. The purpose of the VHESC project is to develop a 50% greater efficient solar cell for United States military applications which would be available for commercial application.

Research and development expense, net of credits from the government, for the years ended December 31, 2008, 2007, and 2006 were $2,188,000, $2,907,000 and $2,341,000, respectively.

Our recent achievements include:

2009: In March 2009, the Department of Defense selected Energy Focus to receive a Phase I Small Business Innovative Research (SBIR) Grant to begin the development of a Solid State Infrared Replacement for the M-278 Flare for the United States Army s Hydra Rocket System. In July 2009 the Naval Research Warfare Center awarded us a $1.4 million contract to develop and produce solid state lighting fixtures for use specifically on Virginia Class attack submarines. In August 2009, the Defense Advanced Research Project Agency (DARPA) awarded us a $0.5 million SBIR extension grant to develop and produce solid state lighting fixtures for general use on United States Navy ships.

Table of Contents

2008: In November 2008, the United States Department of Energy named Energy Focus an Energy Star Partner. Energy Star is a joint program of the United States Environmental Protection Agency and Department of Energy helping Americans save money and protect the environment through energy efficient products and practices. Also in November, DARPA, through their SBIR Program, awarded us a contract to develop Explosion Proof LED fixtures. In December, the DARPA SBIR Program awarded us a contract to develop berth lighting systems that will effectively reset a sailor s body clock for environments where the natural circadian rhythm is frequently disrupted. The two DARPA SBIR contracts are for a total of $198,000. Also in December, we installed high efficiency lighting fixtures to retrofit 100% of the high-bay lighting in a hangar deck on board an Arleigh Burke class Naval Destroyer. This installation followed a year-long demonstration on board naval vessels that replaced existing fluorescent, incandescent, and halogen lighting with various LED lighting solutions.

2007: In August 2007, the VHESC Consortium reported a world record of 42.9% conversion efficiency on photovoltaic devices (PV). Energy Focus is a member of this consortium, and these solar cells make use of our proprietary optics technology. In November, we were awarded a $1,000,000 contract with E.I. DuPont de Nemours and Company to develop advanced solar cell technologies. Additionally, we were awarded additional Phase II contracts for two DARPA SBIR projects to research lamp coating technologies and an extruded, large-core fiber processing method. The two DARPA SBIR Phase II contracts are for a total of $1,500,000. Lastly, we were awarded the prestigious DARPA Tech Award for Excellence in recognition of our outstanding achievement for bridging the technology gap between inefficient traditional light sources and advanced high-efficiency light systems.

2006: We entered into a DARPA agreement with the Navy for supplying our lighting on three ships. Revenues from these ship installations totaled $1,979,000.

Intellectual Property

We have a policy of seeking to protect our intellectual property through patents, license agreements, trademark registrations, confidential disclosure agreements, and trade secrets, as management deems appropriate. As of August 31 2009 our intellectual property portfolio consisted of 67, issued United States and foreign patents, various pending United States patent applications, and various pending Patent Cooperation Treaty, or PCT, patent applications filed with the World Intellectual Property Organization that serves as the basis of national patent filings in countries of interest. A total of 26 applications are pending. Our issued patents expire at various times between January 2013 and June 2029. Generally, the term of patent protection is 20 years from the earliest effective filing date of the patent application. There can be no assurance, however, that our issued patents are valid or that any patents applied for will be issued. There can be no assurance that our competitors or customers will not copy aspects of our lighting systems or obtain information that we regard as proprietary. There also can be no assurance that others will not independently develop products similar to ours. The laws of some foreign countries in which we sell or may sell our products do not protect proprietary rights to products to the same extent as do the laws of the United States.

We are aware that a large number of patents and pending patent applications exist in the field of fiber optic technology and LED lighting. We are also aware that certain competitors hold and have applied for patents related to fiber optic lighting and LED lighting. Although, to date, we have not been involved in litigation challenging our intellectual property rights, we have in the past received communications from third parties asserting rights over our patents or that our technology infringes upon intellectual property held by such third parties. Based on information currently available to us, we do not believe that any such claims involving our technology or patents are meritorious. However, we may be required to engage in litigation to protect our patent rights or to defend against the claims of others. There can be no assurance that third parties will not assert claims that our products infringe upon third-party patents or other intellectual property rights or that, in case of a dispute, licenses to such technology will be available, if at all, on reasonable terms. In addition, we may need to take legal action to enforce our intellectual property rights in the future. In the event of litigation to determine the validity of any third-party claims or claims by us against third parties, such litigation, whether or not determined in our favor could result in significant expense to us and divert the efforts of our technical and management personnel from productive tasks. Also, in the event of an adverse ruling in such litigation, we might be required to expend significant resources to develop non-infringing technology or to obtain licenses to the infringing technology, and the licenses may not be available on acceptable terms. In the event of a successful claim against us and our failure to develop or license a substitute technology, our operating results could be adversely affected.

Acceleration of Long-Term Strategy.

Against the backdrop of the slowing of the United States and world economies, and mindful of our financial results for the past three years and the first two quarters of 2009, we have re-examined our strengths and weaknesses as well as our long-term strategy. We see as our special strengths:

We have fundamental intellectual property and trade secrets in non-imaging optics and codings.

We have an ability to efficiently create, transport, and display light.

We have a broad and intimate understanding of lighting technologies.

We have a superior understanding of the existing building market and its desire and need for lighting products and systems.

We are developing a core competence in solutions sales, including deal structuring and financing.

We have a strong relationship with the federal government for research.

To capitalize on those strengths and move away from areas where we lack a competitive advantage, we have decided to accelerate our transition to a fully-integrated energy system and solutions provider by taking the following steps.

1. Intensify our focus on the existing building market through national accounts, lighting system solutions, and the strategic acquisition of one or more lighting retrofit company. On September 29, 2009, we announced that we intend to acquire the Stones River Companies of Nashville, Tennessee, a leading lighting energy solutions provider, as part of our strategy to become a turnkey lighting energy solutions company.

2. Develop mainstream lighting technologies, including in the near future Track LED Lighting and a Generation 1 LED Light Tube.

3. Raise additional working capital by doing a rights offering to existing shareholders, with part of the proceeds of that offering to be used for the cash portion of the purchase price of a lighting retrofit company.

4. Explore the divestiture of the following lines of our business: Fiberstars Pools and United States commercial businesses, and our British and German subsidiaries.

5. Reduce our monthly expenses including reducing executive management salaries and eliminating other positions.

We expect that taking these steps will result in the following outcomes:

The sale of business units and raising of additional capital in a rights offering will provide necessary operating funds for 2009 and after.

We will have formed a streamlined organization that is very focused on creating economic value through term key lighting energy solutions and systems for existing business owners.

We will have developed mainstream lighting products for the existing building market that are not currently available and that are differentiated by their performance, energy consumption, longevity, and control ability. This product line up will begin with LED track lighting and LED tube lighting products.

We will grow with the acquisition of one or more lighting retrofit businesses. This will allow us to take advantage of the opportunity created by the federal government stimulus package in public sector markets. This will replace the top-line sales of our divested businesses.

All of these steps will accelerate our transformation into a fully-integrated, lighting, energy systems and solutions provider.

We have already begun to implement the above steps. In particular, we are actively looking for a lighting retrofit business to acquire. Part of the cash portion of the purchase price of a business will come from the proceeds of the rights offering to our shareholders.

Table of Contents

Backlog

We typically ship standard products within a few days after receipt of order. Custom products are shipped within 30-60 days of receipt of order. Generally, there is not a significant backlog of orders except at year-end. Our backlog at the end of 2008 was $860,000, compared to $983,000 at the end of 2007.

Competition

Our commercial lighting products compete against a variety of lighting products, including conventional light sources such as incandescent light bulbs, as well as metal halide lamps, LEDs, compact fluorescent lamps, other fiber optic lighting systems, and decorative lighting. Our pool lighting products compete with other sources of pool lighting in the areas of in-pool lighting, including colored and color-changing underwater lighting, and pool accent lighting. Principal competitive factors include price, performance, ease of installation, and maintenance requirements.

The market for lighting energy solutions is fragmented. We face competition from lighting manufacturers, distributors, as well as electrical contractors, lighting maintenance contractors, and other energy services companies. We compete primarily on the basis of technology, quality, light quality and design, client relationships, lighting application knowledge, energy efficiency, customer service, and marketing support.

We are pursuing a targeted type of customer and have products that are uniquely designed to address opportunities and solve problems experienced by these target clients. Our solutions business competes with in-house resources and non-traditional ESCO s. We typically do not directly compete with the traditional ESCO s due to their focus on the municipality, university, school, healthcare and federal government markets. There are approximately 45 traditional ESCO s in the United States. However, since lighting is almost always an integral solution in their bundle of energy efficiency measures, many of them are also prospective clients for our products. The solutions business may also compete with lighting maintenance companies because our products often last 5 50 times longer than the products we replace, and thus the maintenance companies see a reduction in service revenues. However, these same companies are often also partners who perform the installation on our projects as well as potential customers of the products we manufacture. Principal competitive factors include the client relationship, price, access to competitive financing, performance guarantees, and ongoing maintenance requirements.

Table of Contents

We expect that our ability to compete effectively will depend substantially upon our ability to successfully provide our customers with greater performance at reduced costs. Principal competitors in our markets include large lamp manufacturers, lighting fixture companies, distributors, and ESCO s whose financial resources substantially exceed ours. These competitors may introduce new or improved products that may reduce or eliminate some of the competitive advantage of our products. We anticipate that the primary competition to our systems will come from new technologies that offer increased energy efficiency, lower maintenance costs and/or lower heat radiation. In certain applications, we compete with LED systems produced by large lighting companies such as Phillips and General Electric. In traditional commercial lighting applications, we compete primarily with local and regional lighting manufacturers that, in many cases, are more established in their local markets than our company. In traditional commercial lighting, fiber optic lighting products are offered by a number of smaller companies, some of which compete aggressively on price. Some of these competitors offer products with performance characteristics similar to those of our products. Additionally, some conventional lighting companies now manufacture or license fiber optic lighting systems that compete with our products. Many companies compete with us in Asia, including Phillips, Mitsubishi, Bridgestone, and Toray. Mitsubishi also sells our BritePak® fiber cables in Japan.

In 2008, we introduced numerous new product families, including:

LED Cold Storage Globe lamps,

LED Lamps and Fixtures (PAL),

LED Light Rails,

LED Docklights,

HID High Bay Fixtures,

Fluorescent fixtures, and

Compact Fluorescent Light Bulbs.

In the pool lighting market, we face competition from suppliers and distributors who bundle lighting and non-lighting products and sell these packages to pool builders and installers. In addition, we face competition directly from manufacturers who produce their own lighting systems and components. For example, in this market, competitive products are offered by Pentair s American Products Division, a major manufacturer of pool equipment and supplies, as well as Super Vision International. In the spa lighting business, spa manufacturers install LED lighting systems during the manufacturing process. We intend to develop new fiber optic and LED lighting products that are complementary to traditional pool lights currently sold by pool equipment suppliers. To maximize the sales of these new products, we continue to leverage our well-established presence in the domestic pool lighting market and are expanding into the international pool lighting market.

Employees

As of December 31, 2008, we had 92 full-time employees, 18 of whom are located in the United Kingdom, 8 in Germany, and 66 in the United States. We have 6 employees dedicated to developing technology, research, and product development. We also have 37 people involved with sales and sales support.

No employees are subject to any collective bargaining agreement, and we believe our employee relations to be good.

Table of Contents

Business Segment

We operate in a single industry segment where we serve two principal markets; commercial/industrial lighting and pool lighting. We market our products for worldwide distribution primarily through independent sales representatives and distributors in North America, Europe, and the Far East.

Properties

Our principal executive offices and commercial lighting manufacturing and assembly facilities are located in a 79,000 square foot facility in Solon, Ohio, under a lease agreement expiring in April 2011. Approximately 12,000 square feet of this space is subleased to another tenant through June 2010. We also have leased sales facilities in Pleasanton, California, and Berkshire, United Kingdom. In addition, we have a contract manufacturing facility near Tijuana, Mexico. We believe that our current facilities are adequate to support our current and anticipated operations.

Legal Proceedings

From time to time, we occasionally become involved in ordinary routine litigation incidental to our business. We currently are not involved in any material litigation, and we do not anticipate becoming involved in any in the foreseeable future.

Principal Executive Offices

Our principal executive offices are located at 32000 Aurora Road, Solon, Ohio 44139. Our telephone number is 440.715.1300, fax number is 440.715.1314, and our website address is www.efoi.com. The information on our website is not incorporated by reference into this prospectus and should not be relied upon with respect to this offering.

Table of Contents

MANAGEMENT

Directors and Officers

Our board of directors and executive officers are as follows.

Name	Age	Director or Officer Since	Background
John M. Davenport	64	2005	**Director and President.** Mr. Davenport joined the Company in November 1999 as Vice President and Chief Technology Officer and was appointed Chief Operating Officer in July 2003 and President in July 2005. He also served as Chief Executive Officer from July 2005 until May 2008. Prior to joining Energy Focus, Mr. Davenport served as President of Unison Fiber Optic Lighting Systems, LLC, from 1998 to 1999. Mr. Davenport began his career at GE Lighting in 1972 as a research physicist and thereafter served 25 years in various capacities including GE Lighting s research and development manager and as development manager for high performance LED projects. He is a recognized expert in light sources, lighting systems and lighting applications, with special emphasis in low wattage discharge lamps, electronic ballast technology and distributed lighting systems using fiber optics.
J. James Finnerty	57	2008	**Director.** Mr. Finnerty is currently a Managing Director of Terra Nova Capital, a New York City-based boutique investment bank, where he focuses on raising capital for emerging growth companies in the energy, technology, life sciences, and specialty consumer sectors. Mr. Finnerty s career has spanned more than 30 years in the institutional money management community having worked for Kidder Peabody, Hambrecht and Quist, Deutsche Bank and Merriman, Curhan, and Ford. Mr. Finnerty has focused his efforts in the Boston institutional financial marketplace where he successfully covered all the major accounts including Fidelity, Putnam, Wellington, etc. He has been involved in countless financings including Adobe, Pixar, Genzyme, Amazon, Starbucks, and The North Face to name a few. Mr. Finnerty has a Master s in Business

			Administration from Cornell University and a Bachelor of Arts in Economics from Boston College. Mr. Finnerty is NASD Series 7 and 63 licensed.
David Gelbaum	60	2009	**Director.** Mr. Gelbaum has been a private investor since 2002. From 1972 until 2002, he developed quantitative models for stock price returns and derivative securities for TGS Management, and from 1972 until 1989 he worked at Oakley &

Table of Contents

Name	Age	Director or Officer Since	Background
			Sutton in a similar capacity. Mr. Gelbaum has been a strong supporter of the environment and outdoor education and in 2006 was named the 9th Most Influential Person in Southern California by the Los Angeles Times Magazine for his work in protecting the environment in Southern California. Now, with his wife, Monica, Mr. Gelbaum is a trustee in the Quercus Trust. Almost all of the Quercus Trust s investments are in the Cleantech space. In addition to holding approximately 20% of Energy Focus common stock, the Trust includes in its holdings other alternate energy names such as Applied Solar Modules, Axion Power, EntechSolar, and ThermoEnergy. In addition to these public holdings, the fund has interests in a number of privately held companies in the Cleantech space. Currently, Mr. Gelbaum serves as Chairman of the Board of Directors for EntechSolar.
Laurence V. Goddard	56	2008	**Director.** Mr. Goddard is a director and the President of the Parkland Group, Inc. which he founded in 1989 to provide specialized turnaround and business improvement services. Mr. Goddard s experience includes business performance and profitability improvement, turnarounds, workouts and management support. Mr. Goddard has extensive experience in manufacturing businesses of all types, as well as distribution, retail, service and construction businesses. From 1982 to 1990, Mr. Goddard was the President and CEO of WACO International, a national manufacturer and distributor of construction equipment and supplies located in Cleveland, Ohio. At WACO, Mr. Goddard led the acquisition of eight companies which resulted in the growth of revenues from $8 million to over $100 million. Mr. Goddard has also held roles at Price Waterhouse in Canada. He is a Canadian Chartered Accountant (inactive), a Chartered Business Valuator (inactive) a Certified Turnaround Professional, and was a

			director/chairman of the Nominating and Governance Committee and member of the Audit Committee of Oglebay Norton from 2004 to February 2008.
Michael A. Kasper	59	2004	**Director.** Mr. Kasper is a former executive with Procter & Gamble and Optical Coating Laboratory (now JDS Uniphase) spanning 29 years in industry. His primary background was in Operations Management as a Manufacturing Plant Manager and Director of Operations with P&G. He was Vice President and General Manager of the Applied Photonics Division at OCLI and served as Senior Vice President of Human Resources following the merger with JDSU. He was also President & CEO for United

Table of Contents

Name	Age	Director or Officer Since	Background
			Way of Sonoma-Mendocino Lake for three years and currently is Principal of Complete Executives, consulting on executive development. Mr. Kasper is an honors graduate of Lafayette College with a Bachelor s of Science in Mechanical Engineering.
Joseph G. Kaveski	48	2008	**Director and Chief executive Officer.** Mr. Kaveski joined the Company in April 2008 as Vice President for Business Development and Global Marketing. On May 6, 2008 the Company s Board of Directors appointed him as Chief Executive Officer. Prior to joining Energy Focus, Mr. Kaveski led his own strategic engineering consulting business, TGL Company, Leawood, Kansas. As a consultant, he worked with Energy Focus on strategic planning initiatives from September 2007 to April 2008. From November 2004 through February 2006, Mr. Kaveski was Vice President of Energy Management Services and Strategic Projects and a member of the senior management team at Johnson Controls, Inc., Milwaukee, Wisconsin, a global leader in automotive experience, building efficiency and power solutions.
Paul von Paumgartten	61	2008	**Director.** Mr. von Paumgartten joined the Board in October 2004, and was appointed Lead Director in October 2008. From 1982 up to the present he has held various positions at Johnson Controls, Inc., most recently serving as Director, Energy & Environment since October 1999. Prior to that, he was Director of Performance Contracts at Johnson Controls, Inc. Mr. von Paumgartten also was instrumental in the formation of LEED ™ (Leadership in Energy and Environmental Design), the energy efficiency qualification program of the United States Green Building Council. This is a qualification program for sustainable design developed by an industry coalition representing many segments of the building industry. Mr. von Paumgartten serves as treasurer for LEED

			™.
David N. Ruckert	71	1987	**Director.** Mr. Ruckert joined the Company in November 1987 as President, Chief Operating Officer, and a director. He served as Chief Executive Officer of the Company from October 1988 to July 2006 and served as Secretary of the Company from February 1990 to February 1994. He retired as CEO in June 2005 and as President in September, 2005. From June 1985 to October 1987, he was Executive Vice President of Greybridge, a toy company which he co-founded that was later acquired by Worlds of Wonder in 1987. Prior to that time, he was Executive Vice President of Atari from October 1982 to June 1984 and was a Manager/Vice President of Bristol-Myers Company in New York from October 1966 to October 1982.

Table of Contents

Name	Age	Director or Officer Since	Background
Philip E. Wolfson	64	1986	**Director.** Since 1998, Dr. Wolfson has served as Chief Executive Officer of Phytos, Inc., an herbal medicine development company. He has been Assistant Clinical Professor at the University of California School of Medicine in San Francisco since 1986 and has maintained a private practice in psychiatric medicine since 1982. Dr. Wolfson also served as a director and a consultant to NTI from 1989 to 1992.
Nicholas G. Berchtold, Jr.	42	2007	**Vice President of Finance, Chief Financial Officer, and Secretary.** Mr. Berchtold was the division controller at Wellman Products Group, a division of Hawk Corporation, from 2000 to 2007, where he was responsible for global financial reporting and analysis. Additionally, he served as the corporate assistant controller at Olympic Steel, Inc. from 1997 to 2000.
Roger R. Buelow	36	2005	**Chief Technology Officer.** Vice President of Engineering from February 2003 to July 2005. Prior to joining the Company in 2003, Mr. Buelow was the director of engineering at Unison Fiber Optic Lighting Systems, LLC from 1998 to 1999.
Eric W. Hilliard	41	2006	**Vice President and Chief Operating Officer.** Mr. Hilliard served as a Business Manager at Saint Gobain Flight Structures Business from 2002 to 2006. Additionally, he served at Goodrich Aerospace Company and HJ Heinz Company for 7 years from 1994 to 2002.

Board of Directors Meetings and Committees of the Board

Director Independence. The Board of Directors has determined each of the following directors to be an Independent Director as that term is defined by applicable listing standards of The NASDAQ Stock Market and SEC rules:

J. James Finnerty
David Gelbaum
Laurence V. Goddard
Michael A. Kasper
Paul von Paumgartten
David N. Ruckert
Philip E. Wolfson

These seven directors are referred to individually as an Independent Director and collectively as the Independent Directors. Mr. von Paumgartten serves the board as its lead director.

Table of Contents

Board Meetings and Committees; Annual Meeting Attendance. The Board of Directors held a total of six meetings during the fiscal year ended December 31, 2008. All directors attended at least 75% of the aggregate number of meetings of the Board of Directors and of the committees on which such directors serve. In 2008, Mr. Kaveski and Mr. Davenport represented the Board at the annual meeting. The Board of Directors has appointed a Compensation Committee, an Audit and Finance Committee, and a Nominating and Corporate Governance Committee. The Board has determined that each director who serves on these committees is an Independent Director. The Board has approved a charter for the Compensation Committee, the Audit and Finance Committee, and the Nomination and Corporate Governance Committee, and has adopted Corporate Governance Guidelines for itself.

The Compensation Committee of the Board of Directors, which currently consists of Messrs. Wolfson (Chairman), Kasper, and von Paumgartten, held nine meetings in 2008. The Compensation Committee s primary functions are to discharge the responsibilities of the Board of Directors relating to compensation of the Company s executive officers and to produce a report on executive compensation for inclusion in the Company s annual proxy statement. Other specific duties and responsibilities of the Compensation Committee are to: review and recommend to the Board corporate goals and objectives relevant to compensation of the Chief Executive Officer, evaluate his performance in light of such goals and objectives and set his compensation level based on this evaluation; develop and monitor compensation arrangements for executive officers of the Company, including review and approval of individual compensation; recommend to the Board guidelines for the review of the performance and establishment of compensation and benefit policies for all other employees; make recommendations regarding compensation plans and policies; administer the Company s stock option plans and other compensation plans; and make recommendations to the Board regarding compensation of the Board of Directors.

The Board has approved a charter for the Compensation Committee. A copy of this charter can be found on the Company s website at www.efoi.com.

The Audit and Finance Committee of the Board of Directors, which currently consists of Messrs. Ruckert (Chairman), Goddard, and Finnerty, held six meetings in 2008. The Audit and Finance Committee s primary functions are to assist the Board of Directors in its oversight of the integrity of the Company s financial statements and other financial information, the Company s compliance with legal and regulatory requirements, the qualifications, independence and performance of the Company s independent auditors and the performance of the Company s internal audit function. Other specific duties and responsibilities of the Audit and Finance Committee are to: appoint, compensate, evaluate and, when appropriate, replace the Company s independent auditors; review and pre-approve audit and permissible non-audit services; review the scope of the annual audit; monitor the independent auditors relationship with the Company; and meet with the independent auditors and management to discuss and review the Company s financial statements, internal controls, and auditing, accounting and financial reporting processes.

Table of Contents

The Board of Directors has determined that Mr. Goddard is an audit committee financial expert, as defined by the SEC rules, and that each Committee member is an Independent Director. The Board has approved a charter for the Audit and Finance Committee. A copy of this charter can be found on the Company s website at www.efoi.com.

The Nominating and Corporate Governance Committee of the Board of Directors, which currently consists of Messrs. Kasper (Chairman), von Paumgartten, and Wolfson held two meeting in 2008. The Nominating and Corporate Governance Committee s primary functions are to seek, evaluate and recommend nominees for election to the Board of Directors and to oversee matters of corporate governance. Other specific duties and responsibilities of the Nominating and Corporate Governance Committee are to: determine the composition of the committees of the Board; make recommendations regarding candidates for director proposed by shareholders; consider and plan for executive officer succession as well as review management development and succession programs; review on an annual basis the performance of the Board and of management; and consider and make recommendations on matters related to the practices, policies and procedures of the Board.

The Board has approved a charter for the Nominating and Corporate Governance Committee. A copy of this charter can be found on the Company s website at www.efoi.com.

Prior to each annual meeting of shareholders, the Nominating and Corporate Governance Committee identifies nominees first by evaluating the current directors whose terms will expire at the annual meeting and who are willing to continue in service. These candidates are evaluated based on the criteria described above, including as demonstrated by the candidate s prior service as a director, and the needs of the Board with respect to the particular talents and experience of its directors. In the event that a director does not wish to continue in service, the Nominating and Corporate Governance Committee determines not to re-nominate the director, or a vacancy is created on the Board as a result of a resignation, an increase in the size of the board or other event, the Committee will consider various candidates for Board membership, including those suggested by the Committee members, by other Board members, by any executive search firm engaged by the Committee and by shareholders. A shareholder who wishes to suggest a prospective nominee for the Board should notify the Secretary of the Company or any member of the Committee in writing, with any supporting material the shareholder considers appropriate, at the following address: Energy Focus, Inc., 32000 Aurora Road, Solon, Ohio 44139.

The Company does not have a policy regarding attendance by the Directors at the Company s Annual Meeting. Messrs. Kaveski and Davenport were present at the last meeting held on June 24, 2009.

Table of Contents

No interlocking relationship exists between the Company s board of directors and board of directors or compensation committee of any other company, nor has any interlocking relationship existed in the past.

Summary Compensation Table

The following table sets forth information about compensation of our Chief Executive Officer, our President, our Vice President of Finance and Chief Financial Officer, and our other two highest paid executive officers (our Named Executive Officers):

78

Table of Contents

Name and Principal Position	Year	Salary ($)	Bonus ($) (1)	Option Awards ($) (2)	Non-Equity Incentive Plan Compensation ($) (3)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings ($)	All Other Compensation ($) (4)	Total ($)
Joseph G. Kaveski Chief Executive Officer (April 7, 2008 to present)	2008	176,919		20,134			44,585	241,638
John M. Davenport President	2008	250,000		211,908			540	462,448
	2007	250,000		277,928			880	528,808
	2006	250,000		294,039			773	544,812
Nicholas G. Berchtold Chief Financial Officer and Vice President of Finance	2008	175,000		35,860			540	211,400
	2007	68,317		8,912				77,229
Eric W. Hilliard Chief Operating Officer	2008	190,000		104,227			540	294,767
	2007	180,000		90,517			612	271,129
	2006	28,846						28,846
Roger R. Buelow Chief Technology Officer	2008	175,000		47,713			6,720	229,433
	2007	183,229	10,000	33,052			365	226,646
	2006	140,000		38,603			258	178,861

(1) Reflects discretionary bonus for Mr. Buelow.

(2) Information about stock options granted to our Named Executive Officers during 2008 is set forth in the 2008 Grants of Plan-BasedPlan-Based Awards Table. That Table also sets forth the aggregate grant date fair value of the stock options granted

during 2008 computed in accordance with FAS 123(R).

(3) The amounts set forth in this column reflect stock options granted to our Named Executive Officers. The amounts listed are equalto the compensation cost recognized by the Company during the year indicated for financial statement purposes in accordancewith FAS 123 ®. This valuations method values stock options granted during the indicated year and previous years. A discussion of the assumptions used in calculating the compensation cost is set forth in Note 9 of the Notes to Consolidated Financial Statements in our 2008 Annual Report on Form 10-K.

(4) The amounts set forth in this column for 2008 include:

- Company contributions for life insurance policies and automobile allowances;
- For Mr. Kaveski, consulting fees;

Table of Contents

2008 Grants of Plan-Based Awards

The following table sets forth information with respect to stock option awards granted to the Named Executive Officers during 2008:

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards Threshold ($)	Target ($)	Maximum ($)	Estimated Future Payouts Under Equity Incentive Plan Awards Threshold (#)	Target (#)	Maximum (#)	All Other Option Awards Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards (1)
Joseph G. Kaveski	05/06/08							100,000	2.00	106,000.00
	11/24/08							100,000	1.37	81,000.00
Nicholas G. Berchtold	12/17/08							25,000	1.40	20,750.00
John M. Davenport	05/06/08							100,000	2.00	106,000.00
Eric W. Hilliard	10/23/08							25,000	1.37	20,000.00

(1) The dollar values of stock options disclosed in this column are equal to the aggregate grant date fair value computed in accordance with SFAS 123(R). A discussion of the assumptions used in calculating the grant date fair value is set forth in Note 9 of the Notes to the Consolidated Financial Statements in our 2008

Annual Report on Form 10-K.

Stock Options. The stock options that we granted to our Named Executive Officers in 2008 were granted under our 2004 Incentive Stock Plan and 2008 Incentive Stock Plan. In accordance with the terms of those Plans, each option exercise price is equal to the market value of our common stock on the date the option is granted. The market value is equal to the closing price of our common stock on the date of grant on the NASDAQ Stock Market. The options vest over four years at the rate of 25% of the shares covered by the option on each anniversary of the grant date. Stock options are not transferable other than by will or the laws of descent and distribution.

Table of Contents

Outstanding Equity Awards at December 31, 2008