ENERGY FOCUS, INC/DE
Form S-1/A
December 23, 2013

As filed with the Securities and Exchange Commission on December 23, 2013

Registration No. 333-192885

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)

James Tu

Executive Chairman and 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:

John M. Gherlein

Janet A. Spreen

Baker & Hostetler LLP

PNC Center

1900 East 9th Street

Cleveland, Ohio 44114

Telephone: (216) 621-0200

Facsimile: (216) 696-0740

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. X

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.

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.

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.

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   Accelerated filer

Non-accelerated filer   (Do not check if a smaller reporting company)   Smaller reporting company X

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)(2)	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, $0.0001 par value per share	32,479,187	$0.50(3)	$16,239,593.50(3)	$2,091.66
Common Stock, $0.0001 par value per share	29,525,000	$0.25(4)	$7,381,250.00(4)	$845.89(4)

(1) The shares being registered include such indeterminate number of additional shares of common stock issuable for no additional consideration by reason of any stock dividend, stock split, recapitalization or other similar transaction effected without the receipt of consideration, which results in an increase in the number of outstanding shares of our common stock. In the event of a stock split, stock dividend or similar transaction involving our common stock, in order to prevent dilution, the number of shares registered shall be automatically increased to cover the additional shares in accordance with Rule 416(a) under the Securities Act of 1933.

(2) Pursuant to Rule 429 under the Securities Act of 1933, as amended, and as further described herein, 29,525,000 shares of common stock were previously registered on the registrant's Registration Statement on Form S-1 as amended, File No. 333-183058, which became effective on August 13, 2012, and are being included in this Registration Statement.

(3) Estimated solely for the purpose of computing the registration fee in accordance with Rule 457(a) of the Securities Act. The Registrant's common stock is quoted on the Over-The-Counter Bulletin Board under the symbol "EFOI." This estimate is based upon the closing sales price per share of the shares of common stock of the Registrant on December 11, 2013.

(4) $845.89 of this amount was previously paid in connection with the registrant's filing of the Registration Statement on Form S-1 as amended, File No. 333-183058, based on the closing sales price per share of the shares of common stock of the Registrant on August 1, 2012.

The Registrant hereby amends this registration statement on the 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 the registration statement shall become effective on a date as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.

EXPLANATORY NOTE

In accordance with Rule 429 under the Securities Act of 1933, as amended (the "Securities Act") the prospectus included herein is a combined prospectus which relates to the Registrant's Registration Statement on Form S-1, File No. 333-183058, which was first filed on August 3, 2012, as amended, (the "2012 Registration Statement"), as well as the registration of additional securities as set forth herein. This Registration Statement constitutes the first post-effective amendment to the 2012 Registration Statement, as well as a new Registration Statement for the registration of additional securities. The post-effective amendment shall hereafter become effective concurrently with the effectiveness of this Registration Statement in accordance with Section 8(a) of the Securities Act.

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 we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED DECEMBER 23, 2013

PROSPECTUS

ENERGY FOCUS, INC.

62,004,187 Shares of Common Stock

The Selling Shareholders identified in this prospectus may offer and sell up to 62,004,187 shares of Energy Focus, Inc. common stock, consisting of:

18,490,055 shares of common stock held by certain of the Selling Shareholders,

6,521,739 shares of our common stock held by a Selling Shareholder as a result of the conversion of $1,500,000 of 5% convertible subordinated notes into common stock,

26,717,393 shares of our common stock that may be issued upon conversion of the 5% convertible subordinated notes held by certain of the Selling Shareholders,

10,275,000 shares of common stock that may be issued upon exercise of warrants to purchase common stock held by certain of the Selling Shareholders.

The outstanding shares of common stock offered hereunder, the 5% convertible subordinated notes and the warrants were issued to the Selling Shareholders in certain private transactions from 2010 through 2013. See "Financing Transactions" beginning on page 15.

We are not selling any shares of our common stock in this offering and we will not receive any of the proceeds from the sale of these shares by the Selling Shareholders. We will, however, receive proceeds if warrants to purchase common stock are exercised and those proceeds will be used for our general corporate purposes.

The prices at which the Selling Shareholders may sell the shares will be determined by the prevailing market price for the shares or in negotiated transactions. See “Plan of Distribution” beginning on page 21. We will bear all costs associated with the registration of the shares covered by this prospectus.

Our common stock is registered under Section 12(g) of the Securities Exchange Act of 1934 and quoted on the Over-The-Counter Bulletin Board under the symbol “EFOI.” On December 20, 2013, the last reported sale price for our common stock was $0.49 per share.

Investing in our common stock involves certain risks. See “Risk Factors” beginning on page 5 for a discussion of these risks.

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

The date of this prospectus is _______ __, 2013.

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ABOUT THIS PROSPECTUS

This prospectus is part of registration statements that we filed with the Securities and Exchange Commission (the "SEC"). Under the registration process, the Selling Shareholders may, from time to time, offer and sell up to 62,004,187 shares of our common stock, as described in this prospectus, in one or more offerings. This prospectus provides you with a general description of the common stock that the Selling Shareholders may offer. Each time the Selling Shareholders sell securities under this registration statement, we may provide a prospectus supplement that will contain additional information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Any statement that we make in this prospectus will be modified or superseded by any inconsistent statement made by us in a prospectus supplement. You should read this prospectus and any prospectus supplement carefully before making an investment decision.

You should rely only on the information contained in this prospectus and any prospectus supplement. 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.

Unless the context otherwise requires, all references to "Energy Focus," "we," "us," "our," "our company," or "the Company" 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.

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

PROSPECTUS SUMMARY

This prospectus provides you with a general description of the common stock being offered. You should read this prospectus, including all documents incorporated herein by reference, together with additional information described under the heading "Where You Can Find More Information."

Business

We are a Delaware corporation. Our principal executive offices are located at 32000 Aurora Road, Solon, Ohio 44139. Our telephone number is 440.715.1300. The address of our website is www.efoi.com. Information on our website is not part of this prospectus.

We design, develop, manufacture, and market energy-efficient lighting products, and we are a leading provider of turnkey energy-efficient lighting solutions in the governmental and public sector market and general commercial market. Until November 2013, we also sold products in the pool market. Our lighting technology offers significant energy savings, heat dissipation and maintenance cost benefits over conventional lighting for multiple applications.

We continue to evolve our business strategy to provide turnkey solutions, which use, but are not limited to, our patented and proprietary technology. Our solutions include light-emitting diode, fluorescent, and other high energy-efficient lighting technologies. Our strategy also incorporates continued investment into the research of new and emerging energy sources including, but not limited to, LED and solar energy applications.

Our long-term strategy is to penetrate the existing building and U.S. military lighting markets by providing turnkey, comprehensive energy-efficient lighting solutions, which utilize our proprietary energy-efficient lighting products. Early in 2012 we announced a cooperative agreement to develop the Asian market for our light-emitting diode products. We will continue to focus on markets where the benefits of our lighting solutions offerings, combined with our technology, are most compelling. These markets include: schools, universities, hospitals, office buildings, parking garages, supermarkets, cold storage facilities, and manufacturing environments.

Recent Developments

Effective November 25, 2013, we entered into an Asset Purchase Agreement (the "Agreement") with S.R. Smith, LLC ("Buyer"), pursuant to which we sold our pool products business to the Buyer for a cash purchase price of $5.2 million. Under the terms of the Agreement, we sold substantially all of the assets associated with the pool products business and Buyer assumed certain related liabilities, including our facility in Pleasanton, California. The purchase price is subject to adjustment based on our working capital at closing. The Agreement contains representations, warranties and covenants of the Company and Buyer and prohibits us from competing with Buyer in the pool business for a period of five years following the closing. The Agreement also provides for an escrow of $500,000 of the purchase price to secure customary indemnification obligations with respect to our representations, warranties and covenants of such parties and other obligations of the Company under the Agreement. We have agreed to provide Buyer with certain specified transition services to allow for the efficient transition of the business to Buyer.

A portion of the purchase price was used to pay the lender under our credit facility in order to remove liens on the purchased assets. Our borrowing ability under the facility will likely be decreased to reflect our reduced asset base after the transaction.

Financing Transactions

The shares of our common stock that may be sold pursuant to this prospectus consist of outstanding shares and shares that may be issued upon exercise of warrants or upon conversion of 5% subordinated convertible promissory notes that were issued by us in private placement transactions from 2010 to 2013, which are summarized below. The offerings were not registered under the Securities Act and were conducted in reliance upon the exemptions from the registration requirements of the Securities Act in Section 4(2) of the Securities Act and Rule 506 of Regulation D. See "Financing Transactions."

LOC Transaction. On August 11, 2011, we entered into a Letter of Credit Agreement ("LOC") with Mark Plush, the Company's former Chief Financial Officer, for $250,000. The LOC had a term of 24 months and interest rate of 12.5% on the face amount and was repaid in full on July 3, 2013. As an incentive to enter into the LOC, we issued to Mr. Plush a five-year detached warrant to purchase 125,000 shares of common stock at an exercise price of $0.01 per share.

2010 Warrants. On March 17, 2010, we entered into a Purchase Agreement and a registration rights agreement with Lincoln Park Capital Fund, LLC ("LPC"), pursuant to which LPC agreed to purchase 350,000 shares of our common stock, together with warrants to purchase 350,000 shares at an exercise price of $1.20 per share, for total consideration of $375,000. The warrants have a term of five years and were not exercisable until six months after they were issued.

2012 Private Placement of Stock and Warrants. Between February 29, 2012 and March 2, 2012, we raised $4.9 million in a private placement by selling 19,600,000 units to ten investors, with each unit consisting of one share of common stock and one-half warrant to purchase one share of common stock, pursuant to a Securities Purchase Agreement with each investor. The purchase price of each unit was $0.25. Each warrant entitles the holder to purchase one share of our common stock at an exercise price of $0.54. Each warrant was immediately exercisable and expires three years from the date of issuance.

2012 and 2013 Private Placements of Notes. On December 13, 2012, we sold $1.5 million in principal amount of 5% subordinated convertible notes pursuant to a Note Purchase Agreement with three investors. The notes mature on December 31, 2015, have a five percent annual interest rate, and are convertible into our common stock at the rate of $0.23 per share. Between January 31, 2013 and October 10, 2013, we sold an additional $6.145 million in aggregate principal amount of 5% subordinated convertible notes to 10 investors, including two who also purchased notes in December 2012, pursuant to a Note Purchase Agreement with each investor. Like the December 2012 notes, the notes have a five percent annual interest rate and are convertible into our common stock at the rate of $0.23 per share; however, the 2013 notes mature on December 31, 2016. During the second and fourth quarters of 2013, one investor converted $1,500,000 in aggregate principal amount of notes into 6,521,739 shares of common stock.

The conversion dates and maturity dates for the notes outstanding as of December 11, 2013 are shown below:

Amount in $000's	Date First Convertible	Maturity Date
$ 500	April 30, 2013	December 31, 2015
1,750	July 31, 2013	December 31, 2016
1,850	September 30, 2013	December 31, 2016
700	October 31, 2013	December 31, 2016
150	December 31, 2013	December 31, 2016

295	January 31, 2014	December 31, 2016
900	February 28, 2014	December 31, 2016
$ 6,145		

Securities Offered

Common stock outstanding prior to this offering	51,352,799 shares—This number does not include the 26,717,393 shares of common stock that may be issued upon conversion of the 5% convertible subordinated notes and the 10,275,000 shares of common stock that may be issued upon exercise of warrants held by certain of the Selling Shareholders that may be sold hereunder. This number does include the 6,521,739 shares of common stock issued upon conversion of 5% convertible subordinated notes as of the date hereof that may be sold hereunder.
Common stock to be offered by the Selling Shareholders	62,004,187 shares—This number includes the 26,717,393 shares of common stock that may be issued upon conversion of the 5% convertible subordinated notes, the 6,521,739 shares of common stock issued upon conversion of 5% convertible subordinated notes as of the date hereof, the 10,275,000 shares of common stock that may be issued upon exercise of warrants held by certain of the Selling Shareholders and the 18,490,055 shares of common stock held by certain of the Selling Shareholders that may be sold hereunder.
Common stock outstanding after this offering	88,345,192 shares—This number includes the 26,717,393 shares of common stock that may be issued upon conversion of the 5% convertible subordinated notes and the 10,275,000 shares of common stock that may be issued upon exercise of warrants held by certain of the Selling Shareholders. This number does not include (1) outstanding options to purchase 2,851,226 shares of our common stock, of which options to purchase 1,922,780 shares were exercisable as of December 11, 2013, (2) outstanding restricted share units for 36,858 shares of our common stock, of which 0 have vested, (3) outstanding warrants to purchase 800,494 shares of our common stock, all of which were exercisable as of December 11, 2013, and (4) an additional 7,501,489 shares of our common stock issuable pursuant to future awards under our equity incentive and employee stock purchase plans.
Use of Proceeds	We will receive no proceeds from the sale by the Selling Shareholders of shares of common stock in this offering. We will, however, receive proceeds if warrants to purchase common stock are exercised and those proceeds will be used for our general corporate purposes. We will recognize a reduction in debt if the subordinated convertible debt is converted to common stock; however, we will receive no proceeds from the sale of those shares.
Over-The-Counter Bulletin Board symbol	EFOI

RISK FACTORS

You should carefully consider the risks described below before purchasing our common stock. Our most significant risks and uncertainties are described below. They are not the only risks that we face, however. If any of the following risks actually occur, our business, financial condition, or results or operations could be materially, adversely affected, the price of our common stock could decline, and you may lose all or part of your investment therein. You should acquire shares of our common stock only if you can afford to lose your entire investment.

Risks Associated with Our Business.

We have a history of operating losses and may incur losses in the future, and our auditors have issued a "Going Concern" opinion.

We have experienced net losses of $5.7 million, $6.1 million and $8.5 million for the years ended December 31, 2012, 2011 and 2010, respectively. As of December 31, 2012, we had an accumulated deficit of $80.6 million and, as of September 30, 2013, our accumulated deficit was $84.4 million. Although management continues to address many of the legacy issues that have historically burdened our financial performance, we still face challenges in order to reach profitability. In order for us to attain profitability and growth, we will need to successfully address these challenges, including improvement in gross margins, execution of our marketing and sales plans for our turnkey energy-efficient lighting solutions business, the development of new technologies into sustainable product lines, the continuation of cost reductions throughout our organization, and continued improvements in our supply chain performance.

Our independent public accounting firm has issued an opinion in connection with our 2012 Annual Report on Form 10-K raising substantial doubt as to our ability to continue as a going concern. This opinion stems from our historically poor operating performance, and our historical inability to generate sufficient cash flow to meet obligations and sustain operations without obtaining additional external financing. Although we continue to work towards receiving the funding necessary for us to continue as a going concern, there can be no assurances that this objective will be successful. As such, we will continue to review and pursue selected external funding sources, if necessary, to execute these objectives including, but not limited to, the following:

- obtain financing from traditional or non-traditional investment capital organizations or individuals,
- potential sale or divestiture of one or more operating units, and
- obtain funding from the sale of our common stock or other equity or debt instruments.

Obtaining financing through the above-mentioned mechanisms contains 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 environment in capital markets combined with our capital constraints may prevent us from being able to obtain adequate 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 capital environment and could lead to further dilution of shareholder value for current shareholders of record, which dilution may be substantial.

Depressed general economic conditions may adversely affect our operating results and financial condition.

Our business is sensitive to changes in general economic conditions, both inside and outside the United States. An economic downturn may adversely impact our business. In our legacy businesses, sales of our lighting products depend significantly upon the level of new building construction, which is affected by housing market trends, interest rates and the weather. In addition, due to the seasonality of construction and the sales of lighting products, our revenue and income have tended to be significantly lower in the first quarter of each year. We may experience substantial fluctuations in our operating results from period to period as a consequence of these factors. Slow growth in the economy or an economic downturn could adversely affect our ability to meet our working capital requirements and growth objectives, or could otherwise adversely affect our business, financial condition and results of operations. As a result, any general or market-specific economic downturns, particularly those affecting new building construction and renovation, or that cause end-users to reduce or delay their purchases of lighting products, services, or retrofit activities, would have a material adverse effect on our business, cash flows, financial condition and results of operations.

If we are unable to respond effectively as new lighting technologies and market trends emerge, our competitive position and our ability to generate revenue and profits may be harmed.

To be successful, we will need to keep pace with rapid changes in LED technology, changing customer requirements, new product introductions by competitors and evolving industry standards, any of which could render our existing products obsolete if we fail to respond in a timely manner. Development of new products incorporating advanced technology is a complex process subject to numerous uncertainties. We have previously experienced, and could in the future, experience delays in the introduction of new products. If effective new sources of light other than LED's are discovered, our current products and technologies could become less competitive or obsolete. If others develop innovative proprietary lighting technology that is superior to ours, or if we fail to accurately anticipate technology and market trends, respond on a timely basis with our own development of new products and enhancements to existing products, and achieve broad market acceptance of these products and enhancements, our competitive position may be harmed and we may not achieve sufficient growth in our net sales to attain or sustain profitability.

If we are not able to compete effectively against companies with greater resources, our prospects for future success will be jeopardized.

The lighting industry is highly competitive. In the high performance lighting markets in which we sell our advanced lighting systems, our products compete with lighting products utilizing traditional lighting technology provided by many vendors. Additionally, in the advanced lighting markets in which we have primarily competed to date, competition has largely been fragmented among a number of small manufacturers. However, some of our competitors, particularly those that offer traditional lighting products, are larger companies with greater resources to devote to research and development, manufacturing and marketing.

Moreover, in the general lighting market, we expect to encounter competition from an even greater number of companies. Our competitors are expected to include the large, established companies in the general lighting industry, such as General Electric, Osram Sylvania and Royal Philips Electronics. Each of these competitors has undertaken initiatives to develop LED technology. These companies have global marketing capabilities and substantially greater resources to devote to research and development and other aspects of the development, manufacture and marketing of LED lighting products than we possess. The relatively low barriers to entry into the lighting industry and the limited proprietary nature of many lighting products also permit new competitors to enter the industry easily.

In each of our markets, we also anticipate the possibility that LED manufacturers, including those that currently supply us with LEDs, may seek to compete with us. Our competitors' lighting technologies and products may be more readily accepted by customers than our products. Additionally, to the extent that competition in our markets intensifies, we may be required to reduce our prices in order to remain competitive. If we do not compete effectively, or if we reduce our prices without making commensurate reductions in our costs, our net sales and profitability and our future prospects for success may be harmed.

If we are unable to obtain and adequately protect our intellectual property rights, our ability to commercialize our products could be substantially limited and our business could be adversely affected.

We consider our technology and processes proprietary. If we are not able to adequately protect or enforce the proprietary aspects of our technology, competitors may utilize our proprietary technology. As a result, our business, financial condition and results of operations could be adversely affected. We protect our technology through a combination of patent, copyright, trademark and trade secret laws, employee and third-party nondisclosure agreements, and similar means. Despite our efforts, other parties may attempt to disclose, obtain or use our technologies. Our competitors may also be able to independently develop products that are substantially equivalent or superior to our products or slightly modify our patents. In addition, the laws of some foreign countries do not protect our proprietary rights as fully as do the laws of the United States. As a result, we may not be able to protect our proprietary rights adequately in the United States or abroad.

We have engaged in litigation in the past and litigation may be necessary in the future to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Litigation may also be necessary to defend against claims of infringement or invalidity by others. An adverse outcome in litigation or any similar proceedings could subject us to significant liabilities, require us to license disputed rights from others or require us to cease marketing or using certain products or technologies. We may not be able to obtain any licenses on acceptable terms, if at all. We also may have to indemnify certain customers if it is determined that we have infringed upon or misappropriated another party’s intellectual property. The cost of addressing any intellectual property litigation claim, both in legal fees and expenses, and the diversion of management resources, regardless of whether the claim is valid, could be significant and could materially harm our business, financial condition and results of operations.

If critical components that we currently purchase from a small number of third-party suppliers become unavailable or third-party manufacturers otherwise experience delays, we may incur delays in shipment, which would damage our business.

We depend on others to manufacture a significant portion of the component parts incorporated into our products. We purchase our component parts from third-party manufacturers that serve the advanced lighting systems market and believe that alternative sources of supply are readily available for most component parts. However, consolidation in the lighting industry could result in one or more current suppliers being acquired by a competitor, rendering us unable to continue purchasing necessary amounts of key components at competitive prices.

In an effort to reduce manufacturing costs, we have outsourced the production of certain parts and components, as well as finished goods in our product lines, to a number of overseas suppliers. While we believe alternative sources for the production of these products are available, we have selected these particular manufacturers based on their ability to consistently produce these products per our specifications, ensuring the best quality product at the most cost effective price. We depend on our suppliers to satisfy performance and quality specifications and to dedicate sufficient production capacity within scheduled delivery times. Although we maintain contracts with selected suppliers, we may be vulnerable to unanticipated price increases, payment term changes and product shortages. Accordingly, the loss of all or one of these suppliers or delays in obtaining shipments could have a material adverse effect on our operations until such time as an alternative supplier could be found. We may be subject to various import duties applicable to materials manufactured in foreign countries and may be affected by various other import and export restrictions, as well as other considerations or developments impacting upon international trade, including economic or political instability, shipping delays and product quotas. These international trade factors will, under certain circumstances, have an impact on the cost of components, which will have an impact on the cost to us of the manufactured product and the wholesale and retail prices of our products.

If the companies to which we outsource the manufacture of our products fail to meet our requirements for quality, quantity, and timeliness, our revenue and reputation in the marketplace could be harmed.

We outsource a significant portion of the manufacture and assembly of our products. We currently depend on a small number of contract manufacturers to manufacture our products at plants in various locations throughout the world, primarily in the United States, China and Taiwan. These manufacturers supply most of the necessary raw materials and provide all necessary facilities and labor to manufacture our products. We currently do not have long-term contracts with all of these manufacturers. If these companies were to terminate their arrangements with us without adequate notice, or fail to provide the required capacity and quality on a timely basis, we would be unable to manufacture and ship our lighting products until replacement manufacturing services could be obtained. To qualify a new contract manufacturer, familiarize it with our products, quality standards and other requirements, and commence volume production is a costly and time-consuming process. If it became necessary to do so, we may not be able to establish alternative manufacturing relationships on acceptable terms.

Our reliance on contract manufacturers involves certain additional risks, including the following:

- lack of direct control over production capacity and delivery schedules,
- lack of direct control over quality assurance, manufacturing yields, and production costs,
- risk of loss of inventory while in transit from China and Taiwan, and
- risks associated with international commerce, particularly with China and Taiwan, including unexpected changes in legal and regulatory requirements, changes in tariffs and trade policies, risks associated with the protection of intellectual property and political and economic instability.

Any interruption in our ability to manufacture and distribute products could result in delays in shipment, lost sales, reductions in revenue and damage to our reputation in the market, all of which would adversely affect our business.

We depend on independent distributors and sales representatives for a substantial portion of our net sales, and the failure to manage our relationships with these third parties, or the termination of these relationships, could cause our net sales to decline and harm our business.

We rely significantly on indirect sales channels to market and sell our products. Most of our products are sold through third-party independent distributors and sales representatives. In addition, these parties provide technical sales support to end-users. Our current agreements within these sales channels are non-exclusive with regard to lighting products in general, but exclusive with respect to LED lighting products. We anticipate that any such agreements we enter into in the future will be on similar terms. Furthermore, our agreements are generally short-term, and can be cancelled by these sales channels without significant financial consequence. We cannot control how these sales channels perform and cannot be certain that we or end-users will be satisfied by their performance. If these distributors and sales representatives significantly change their terms with us, or change their historical pattern of ordering products from us, there could be a significant impact on our net sales and profits.

Our products could contain defects or they may be installed or operated incorrectly, which could reduce sales of those products or result in claims against us.

Despite product testing, defects may be found in our existing or future products. This could result in, among other things, a delay in the recognition or loss of net sales, loss of market share or failure to achieve market acceptance. These defects could cause us to incur significant warranty, support and repair costs, divert the attention of our engineering personnel from our product development efforts, and harm our relationship with our customers. The occurrence of these problems could result in the delay or loss of market acceptance of our lighting products and would likely harm our business. Some of our products use line voltages (such as 120 or 240 AC), which involve enhanced risk of electrical shock, injury or death in the event of a short circuit or other malfunction. Defects, integration issues or other performance problems in our lighting products could result in personal injury or financial or other damages to end-users or could damage market acceptance of our products. Our customers and end-users could also seek damages from us for their losses. A product liability claim brought against us, even if unsuccessful, would likely be time consuming and costly to defend.

If we are unable to accurately estimate the risks, revenues or costs associated with a project, we may achieve a lower than expected profit or incur a loss on that project.