

ENERGY FOCUS, INC/DE

Form S-1/A

July 22, 2014

As filed with the Securities and Exchange Commission on July 22, 2014

Registration No. 333-196140

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 (I.R.S. Employer

incorporation or organization) Identification No.)

32000 Aurora Road, Suite B

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, Suite B

Solon, Ohio 44139

(440)715-1300

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable 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.

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered (1)	Proposed Maximum Offering Price Per Share (2)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee (3)
Common Stock, \$.0001 par value per share	2,875,000	\$5.65	\$16,243,750	\$2092.20

(1) Includes 375,000 shares issuable upon exercise of an option to purchase additional shares granted to the underwriters.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, based on the average of the high and low sale prices per share of the Common Stock on the OTCQB Marketplace as of a date (July 17, 2014) within five business days prior to filing this Registration Statement.

(3) \$1,481.20 of this amount was already paid in connection with a prior filing of this Registration Statement.

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.

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 JULY 22, 2014

PROSPECTUS

ENERGY FOCUS, INC.

2,500,000 Shares of Common Stock

We are offering 2,500,000 shares of our common stock.

Our common stock is currently quoted on the OTCQB Marketplace operated by the OTC Markets Group, Inc., or OTCQB, under the symbol "EFOI." On July 21, 2014, the last reported sale price for our common stock was \$4.90 per share. Our common stock has been approved for listing on The NASDAQ Capital Market under the symbol "EFOI" concurrently with the closing of this offering.

Investing in our common stock involves certain risks. See "Risk Factors" beginning on page 8 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.

	Per Share	Total
Public Offering Price	\$	\$
Underwriting Discounts and Commissions (1)	\$	\$

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You should rely only on the information contained in this prospectus or in any free writing prospectus that we authorize to be distributed to you. We have not, and the underwriters have not, authorized anyone to provide you with additional or different information. This document may only be used where it is legal to sell these securities. You should assume that the information contained in this prospectus is accurate only as of the date of this prospectus.

No action is being taken in any jurisdiction outside the United States to permit a public offering of the common stock or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of the prospectus applicable to that jurisdiction.

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. This summary does not contain all of the information that you should consider before investing in our common stock. 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.”

Unless otherwise indicated, the information in this prospectus reflects a one-for-ten reverse stock split of our common stock effected on July 16, 2014, and all share and per share data has been adjusted for the one-for-ten reverse stock split for all periods presented. Share numbers as adjusted for the split do not take into account the cash out of fractional shares. The actual amount of shares may be less than the amount shown.

Our Company

Energy Focus, Inc., together with its subsidiaries, designs, develops, manufactures, and markets energy-efficient LED lighting products, and is a leading provider of turnkey, energy-efficient, lighting retrofit solutions in the general commercial and the governmental and public sector markets. Energy Focus’ LED lighting technology offers significant energy savings, heat dissipation and maintenance cost benefits over conventional lighting for multiple applications.

Our business operates in the following two segments:

Products: providing military, public sector, general commercial and industrial energy-efficient LED lighting offerings; and

Solutions: providing turnkey, high-quality, energy-efficient LED lighting application alternatives, primarily to the existing public-sector building market. We have also begun pursuing opportunities in the commercial and industrial sectors.

In November 2013, we sold and discontinued our pool products business, and are focusing our resources solely on our LED lighting retrofit business. With this as our goal, our solutions segment began focusing its efforts on only bidding all-LED replacement solutions in energy services companies’ (“ESCOs”) contract proposals versus fluorescent replacements. To support our lighting product business, research and development remains a key focus. Our research and development team is dedicated to the continuous improvement and innovation of our LED lighting technologies. Historically, we have supported much of our R&D activities through government grants. With our renewed focus on LED products, we have concentrated our efforts on bidding on research contracts and grants from those that support

LED technologies.

Our Industry

According to the International Energy Agency (IEA)/Organisation for Economic Co-operation and Development (OECD), lighting is responsible for 19% of global electricity use. A Philips Market Intelligence 2011 report stated that in the United States alone, a 40% reduction in electricity use from lighting would save \$53 billion in annual energy costs and reduce energy demand the equivalent of 198 mid-sized power stations. We believe there is a substantial opportunity to achieve these electricity reductions through the broad adoption of LED bulbs, as they consume 50% to 85% less electricity and last three to ten times longer than traditional incandescent or fluorescent bulbs.

Our goal is to become a LED lighting retrofit leader by bringing affordable, high performance tubular light emitting diode (“TLED”) products to the global marketplace. According to a 2013 NPD DisplaySearch LED Lighting Market and Forecast Report, the global penetration rate for TLEDs in 2012 was 3.2% and is expected to grow to 22.3% in 2016. In the U.S., the penetration rate for TLEDs in 2012 was less than 1%, according to a 2013 U.S. Department of Energy report titled “Adoption of Light-Emitting Diodes in Common Lighting Applications.”

Specifically, we concentrate on selling our TLED products to three primary end markets: commercial and industrial, military and maritime and ESCOs. Our focus consists of replacing fluorescent lamps in troffer (i.e., standard office building recessed linear lighting) fixtures, high-bay fixtures, and parking garage luminaries with our TLED lamps. According to the “2010 U.S. Market Lighting Characterization” report published by the U.S. Department of Energy in January 2012, there were approximately 1.8 billion linear fluorescent lamps in the United States in the non-residential market in 2010. Based on these statistics and our calculations, we believe this total addressable market for our TLEDs in the U.S. alone is in excess of \$25 billion.

Our Products and Solutions

We produce, source, and/or market a wide variety of lighting technologies to serve our primary end markets, including the following:

LED luminaires and fixtures to serve the U.S. Navy,

TLED replacements for linear fluorescent lamps,

LED luminaires and fixtures,

LED docklights,

TLED parking garage luminaires and fixtures,

LED cold storage globe luminaires, and

LED retrofit kits for high-intensity discharge (“HID”) applications.

The key features of our products are as follows:

Many of our products meet the lighting efficiency standards mandated by the Energy Independence and Security Act of 2007 (“EISA 2007”).

Many of our products qualify for federal and state tax and rebate incentives for commercial and residential consumers in certain states.

Many of our products make use of proprietary optical and electronics delivery systems that enable high efficiencies with superior lighting qualities.

Through our solutions segment, we partner with ESCOs where we specialize in developing and designing lighting retrofit solutions that generate guaranteed financial returns by using highly innovative lighting technologies. Our services include comprehensive lighting and energy audits, lighting design and solution development, turnkey lighting

implementation, Leadership in Energy & Environmental Design (“LEED”) ready lighting upgrades, and pre and post upgrade monitoring and measurement.

We are aggressively expanding our efforts to sell our LED linear replacement lamps into the general commercial and industrial sectors. We plan to open regional sales offices in strategic areas of the U.S. to extend our presence in certain key cities.

We continue to seek to aggressively penetrate the government and military lighting markets. In this regard, we have many products being actively marketed to United States federal government agencies through our distribution partners as well as our direct sales force and online web presence.

Our Strengths and Strategy

Our long-term strategy is to continue to penetrate existing commercial and industrial buildings, and military and maritime lighting markets by providing turnkey, comprehensive and cost competitive energy-efficient lighting solutions that utilize our energy-efficient LED lighting products. We will continue to focus on markets where the economic benefits of our lighting solutions offerings are most compelling. These markets include the U.S. Navy, municipalities, universities, schools, hospitals, office buildings, parking garages, supermarkets, retail chains, warehouse facilities and manufacturing environments. The passage of the Energy Savings Performance Contracts legislation in nearly all the U.S. states and EISA 2007 by Congress created a natural market for our energy-efficient products due to certain mandated efficiency standards that our products meet.

Since many of our products today are more efficient than traditional lighting products such as incandescent bulbs and fluorescent lamps, our focus is to increase awareness and knowledge of our technology and offerings within our target markets and to establish comprehensive distribution networks so that we can reach as many potential customers as possible and as soon as possible.

Our strengths, which we believe provide a strategic competitive advantage, include the following:

providing the only LED fluorescent replacement lamps currently approved for the U.S. Navy,

providing high quality, price competitive TLED lamps to replace fluorescent and High Intensity Discharge (HID) lamps for commercial and industrial markets,

providing our customers with high performance LED lighting retrofit solutions with low total overall cost of ownership,

a broad and intimate understanding of lighting technologies and LED lighting applications,

a strong understanding of the existing commercial and industrial building market drivers and the evolution towards “green” lighting products and energy-efficient lighting systems that maximize customer return on investment,

fundamental proprietary knowledge of non-imaging optics and coatings, and

strong relationships and long-term partnerships with the federal government and government contractors for research and development.

Our tactical approach to implement our long-term strategy includes:

continuing to seek to aggressively penetrate the government and military lighting markets through our distribution partners, direct sales force and online presence,

continuing to develop mainstream lighting technologies that directly compete against linear fluorescent general illumination lamps and that lead the TLED retrofit market from quality, reliability and price standpoints,

penetrating the lighting retrofit market of existing buildings by adding sales associates and expanding geographical reaches in both the U.S. and U.K. markets, and

continuing to strengthen our services and value added to our customers by providing comprehensive LED solutions capabilities.

Through our strengths and these actions, we seek to achieve the following objectives:

sales growth and improved gross margins and overall financial performance,

further penetration of our military-grade LED lighting products to the military and maritime markets,

high quality and comprehensive sales and distribution networks to directly reach and service our clients,

a streamlined and effective organization that is focused on creating economic value for our customers through our energy-efficient LED products and solutions in the lighting retrofit market, and

continued development of mainstream lighting products that are not currently available and are differentiated by their performance, energy consumption, longevity, and cost of ownership.

Over the last 12 months, we have made significant progress in our plan to reposition the Company for growth and profitability including:

reestablishing corporate vision, mission and core values,

intensifying our focus on and developing business strategies to pursue TLED global lighting retrofit opportunities, specifically in the fluorescent and HID replacement markets,

realigning our leadership at the corporate level, as well as at individual business unit levels,

divesting non-core businesses by selling our pool lighting product business,

streamlining our operations by closing our Mexican facility and restructuring our product development practices, and improving our global supply chain practices that improved and will continue to improve our gross margins.

Recent Developments

Between December 13, 2012 and October 10, 2013, we sold an aggregate of \$7,645,000 in principal amount of 5% subordinated convertible notes. The notes had a 5% annual interest rate and were convertible into our common stock at the rate of \$0.23 per share (pre-split). The 2012 notes were scheduled to mature on December 31, 2015 and the 2013 notes were scheduled to 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 (pre-split) of common stock. On March 31, 2014, all remaining investors converted the \$6,145,000 outstanding aggregate principal amount of notes into 26,717,393 shares (pre-split) of common stock.

On July 16, 2014, we effected a one-for-ten reverse stock split. Our common stock has been approved for listing on The NASDAQ Capital Market concurrently with this offering. We cannot assure you that our stock will continue to trade at or above the minimum price for such listing.

The Company is in the process of finalizing its results for the second quarter of 2014. Based on information available to date, the Company preliminarily estimates the following:

Sales will be between \$6.3 million to \$6.7 million (unaudited) for the second quarter of 2014, which would represent a sequential growth of 29% to 37% over the first quarter of 2014; and

Results for the second quarter of 2014 will show continued improvement in gross margins.

The Company has provided estimates for its preliminary results described above because its financial closing procedures for the second quarter of 2014 are not yet complete. The Company currently expects that its final results will be approximately as described above. However, the estimates described above are preliminary and represent the most current information available to management. Therefore, it is possible that the Company's actual results may differ materially from these estimates due to the completion of its financial closing procedures, final adjustments and other developments that may arise between now and the time its financial results for the second quarter of 2014 are finalized. Accordingly, you should not place undue reliance on these estimates. The preliminary financial data for the second quarter of 2014 included in this prospectus has been prepared by, and is the responsibility of, the Company's management.

In addition, based on the current expectations of management, the Company currently anticipates that EBITDA (earnings before interest, taxes, depreciation and amortization) will be positive for the second half of 2014. However, it is possible that the Company's actual results for the second half of 2014 may differ materially from the Company's expectations because of developments that may arise between now and the time its financial results are finalized for the 2014 fiscal year.

Summary Risk Factors

Our business is subject to numerous risks described in the section entitled "Risk Factors" and elsewhere in this prospectus. You should carefully consider these risks before making an investment. Some of these risks include:

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

If LED lighting technology fails to gain widespread market acceptance or 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.

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

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

We currently derive a significant portion of our revenue from a few customers and the loss of one of these customers, or a reduction in their demand for our services, could adversely affect our business, financial condition, results of operations and prospects.

If critical components and finished products that we currently purchase from a small number of third-party suppliers become unavailable or increase in cost, or if our suppliers fail to meet our requirements for quality, quantity and timeliness, our revenue and reputation in the marketplace could be harmed, which would damage our business.

A significant portion of our business is dependent upon the existence of government funding, which may not be available into the future and could result in a significant reduction in sales and could cause significant harm to our business.

An active trading market for our common stock may not develop and the market price for our common stock may decline below the offering price of our common stock in this offering.

The NASDAQ Capital Market may not continue to list our common stock for trading on its exchange if we do not comply with its continued listing requirements, which could adversely affect the price of our common stock and its liquidity.

Our Corporate Information

The Company was founded in 1985 as Fiberstars, Inc., a California corporation and reincorporated in Delaware in November 2006. In May 2007, Fiberstars, Inc. merged with and became Energy Focus, Inc., also a Delaware corporation. Our principal executive offices are located at 32000 Aurora Road, Suite B, Solon, Ohio 44139. Our telephone number is 440.715.1300. Our website address is www.energyfocusinc.com. Information on our website is not part of this prospectus.

Securities Offered

Common Stock Offered by Us	2,500,000 shares.
Overallotment Option	<p>We have granted the underwriters an option to purchase up to 375,000 additional shares of our common stock to cover overallotments, if any, exercisable, in whole or in part, for a period of 30 days from the date of this prospectus.</p>
Description of Warrants	<p>The warrants issued to the underwriters will have a per share exercise price of \$ (120% of the public offering price of common stock sold in the offering). The warrants are exercisable immediately and will expire five years from the date of issuance. See “Underwriting.”</p>
Common Stock Outstanding After This Offering	<p>Approximately 10,524,961 shares (approximately 10,899,961 shares if the overallotment option is exercised in full).</p>
Use of Proceeds	<p>We estimate that the net proceeds from this offering, after deducting the underwriting discount and estimated offering expenses payable by us, will be approximately \$11,095,658 based on an assumed public offering price of \$4.90 per share (the last reported sale price of the common stock on July 21, 2014) or \$12,813,721 if the underwriters exercise the overallotment option in full. We intend to use the proceeds of this offering to finance certain capital expenditures and for working capital and other general corporate purposes, which may include, but are not limited to, the purchase of manufacturing equipment and the purchase and implementation of a new enterprise resource planning system, expansion of our sales office presence, retirement of debt and inventory purchases. See “Use of Proceeds.”</p>
Risk Factors	<p>See “Risk Factors” beginning on page 8 for a discussion of risks you should consider before purchasing shares of our common stock.</p>
Market Symbol and Listing	<p>Our common stock is quoted on the OTCQB under the symbol “EFOI.” Our common stock has been approved for listing on The NASDAQ Capital Market under the same symbol concurrently with the closing of this offering.</p>

The number of shares outstanding after this offering is based on shares outstanding as of July 16, 2014, which reflects a one-for-ten reverse stock split effected July 16, 2014 at 5pm EDT. This number does not include:

outstanding options to purchase approximately 439,341 shares of our common stock, of which options to purchase approximately 207,629 shares were exercisable as of July 16, 2014,

outstanding restricted share units for 1,220 shares of our common stock, none of which have vested,

995,049 shares of our common stock issuable upon the exercise of certain outstanding warrants (other than the warrants issued to the underwriters), of which warrants to purchase 895,049 shares were exercisable as of July 16, 2014,

100,000 shares of common stock issuable upon exercise of the warrants issued to the underwriters, and

1,067,285 shares of our common stock issuable pursuant to future awards under our equity incentive and employee stock purchase plans.

Our Board of Directors and our stockholders have approved the Energy Focus, Inc. 2014 Stock Incentive Plan (“2014 Plan”) under which 600,000 shares were authorized and 580,000 shares remain available for equity award grants. No further awards will be made under the prior plans and the unissued remaining shares under such plans are not available for future awards under the 2014 Plan or any other plan.

Summary Consolidated Financial Data

The following table sets forth our summary consolidated financial data for the years ended December 31, 2013 and 2012 and the three months ended March 31, 2014 and 2013. The summary consolidated financial data for the years ended December 31, 2013 and 2012 have been derived from our audited consolidated financial statements incorporated by reference into this prospectus. The summary consolidated financial data for the three months ended March 31, 2014 and 2013 have been derived from our unaudited interim consolidated financial statements incorporated by reference into this prospectus. Historical results are not necessarily indicative of the results to be expected for future periods.

The following summary consolidated financial data should be read in conjunction with, and is qualified in its entirety by reference to, the information contained under the captions “Selected Consolidated Historical Financial Information” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our historical consolidated financial statements and related notes appearing in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (our “2013 Annual Report”) and our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2014.

	Year Ended December 31,		Three Months Ended March 31,	
	2013	2012	2014	2013
	(Audited)		(Unaudited)	
	(in thousands except per share amounts)			
Statements of Operations Data:				
Net sales	\$ 21,533	\$ 23,375	\$ 4,919	\$ 4,458
Gross profit	4,579	3,972	1,422	883
Operating expenses	11,336	9,882	2,495	2,119
Loss from operations	(6,757)	(5,910)	(1,073)	(1,236)
Total other expenses	(190)	(666)	(2,978)	(220)
Net loss from continuing operations	(6,947)	(6,576)	(4,050)	(1,456)
Income (loss) from discontinued operations	4,586	867	(20)	28
Net loss	(2,361)	(5,709)	(4,070)	(1,428)
Net loss per share, basic and diluted ¹ :				
From continuing operations	(1.45)	(1.59)	(0.79)	(0.32)
From discontinued operations	0.96	0.21	-	-
Total loss per share	(0.49)	(1.38)	(0.79)	(0.32)
Basic and diluted weighted average shares outstanding ¹	4,779	4,132	5,173	4,470

December 31, **March 31,**
2013 **2012** **2014**
(Audited) **(Unaudited)**
(in thousands except per share
amounts)

Balance Sheet Data:

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Cash and cash equivalents	\$2,860	\$1,181	\$ 1,960
Trade accounts receivable, net	3,348	5,319	3,170
Inventories, net	2,510	2,581	2,127
Total current assets	10,777	10,826	8,714
Total assets	12,808	14,353	10,443
Total current liabilities	5,819	11,705	5,049
Long-term liabilities	4,065	1,823	269
Total liabilities	9,884	13,528	5,318
Shareholders' equity	2,924	825	5,125

¹Shares and per share amounts have been adjusted for the one-for-ten reverse stock split on July 16, 2014.

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 from continuing operations of \$4.1 million for the quarter ended March 31, 2014 and \$6.9 million, \$6.6 million and \$6.0 million for the years ended December 31, 2013, 2012 and 2011, respectively. As of March 31, 2014, we had cash and cash equivalents of \$2.0 million and an accumulated deficit of \$87.1 million. Although management has addressed 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 LED lighting solutions business, the development of new technologies into sustainable product lines, the continuation of cost containment throughout our organization, and continued improvements in our supply chain performance.

There is a risk that our business may not be as successful as we envision. Our independent registered public accounting firm has issued an opinion in connection with our 2013 Annual Report 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. We currently have a revolving credit facility that provides funding for our operations that will expire on December 31, 2014. We intend to enter into a new arrangement beginning in 2015. Although we are optimistic about obtaining the funding necessary for us to continue as a going concern, there can be no assurances that this objective will be successful or that we will obtain funding on acceptable terms or in a timely fashion or at all. 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 or the exercise of outstanding warrants.

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.

If we fail to raise additional capital, including from sales revenues, loans or other external funding sources, we may be required to change our planned business strategies. If we are unable to obtain adequate financing, we may not be able to successfully develop and market our products and services. As a result, we would need to curtail business operations, which would have a material negative effect on operating results, the value of our outstanding stock is likely to fall, and our business may fail, causing our stockholders to lose their entire investments.

Depressed general economic conditions, including the strength of the construction market, 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. Sales of our lighting products depend significantly upon the level of new building and renovation 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.

Our operating results may fluctuate due to factors that are difficult to forecast and not within our control.

Our past operating results may not be accurate indicators of future performance, and you should not rely on such results to predict our future performance. Our operating results have fluctuated significantly in the past, and could fluctuate in the future. Factors that may contribute to fluctuations include:

changes in aggregate capital spending, cyclical and other economic conditions, or domestic and international demand in the industries we serve;

our ability to effectively manage our working capital;

our ability to satisfy consumer demands in a timely and cost-effective manner;

pricing and availability of labor and materials;

our inability to adjust certain fixed costs and expenses for changes in demand;

seasonal fluctuations in demand and our revenue; and

disruption in component supply from foreign vendors.

If LED lighting technology fails to gain widespread market acceptance or 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 depend on continued market acceptance of our existing LED technology. Although adoption of LED lighting continues to grow, the use of LED lighting products for general illumination is in its early stages, is still limited and faces significant challenges. Potential customers may be reluctant to adopt LED lighting products as an alternative to traditional lighting technology because of its higher initial cost or perceived risks relating to its novelty, reliability, usefulness, light quality and cost-effectiveness when compared to other established lighting sources available in the market. Changes in economic and market conditions may also affect the marketability of some traditional lighting technologies such as declining energy prices in certain regions or countries may favor existing lighting technologies that are less energy efficient, reducing the rate of adoption for LED lighting products in those areas. Even if LED lighting products continue to achieve performance improvements and cost reductions, limited customer awareness of the benefits of LED lighting products, lack of widely accepted standards governing LED lighting products and customer unwillingness to adopt LED lighting products in favor of entrenched solutions could significantly limit the demand for LED lighting products and adversely impact our results of operations. In addition, 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 LEDs 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 unable to manage any future growth effectively, our profitability and liquidity could be adversely affected.

Our ability to achieve our desired growth depends on our execution in functional areas such as product development and management, sales and marketing, and general administration and operations. To manage any future growth, we must continue to improve our product development, distribution, operational and financial processes and systems and expand, train and manage our employee base. If we are unable to manage our growth effectively, our business and results of operations could be adversely affected.

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, established companies with greater resources to devote to research and development, manufacturing and marketing, as well as greater brand recognition.

Moreover, we expect to encounter competition from an even greater number of companies in the general lighting market. Our competitors are expected to include the large, established companies in the general lighting industry, such as General Electric Company, Osram Sylvania, CREE, Inc. 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 will be. Moreover, if one or more of our competitors or suppliers were to merge with one another, the change in the competitive landscape could adversely affect our competitive position. 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.

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. Furthermore, there can be no assurance that we will be successful in obtaining additional patents, or licenses to patents or other intellectual property rights of third parties that we may need to support our business in the future. The inability to obtain certain patents or rights to third-party patents and other intellectual property rights in the future could have a material adverse effect on our business.

Our industry is characterized by vigorous protection and pursuit of intellectual property rights and positions, which may result in protracted and expensive litigation. 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, and may attempt to redesign those products that contain allegedly infringing intellectual property, which may not be possible. 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.

We derive a significant portion of our revenue from a few customers and the loss of one of these customers, or a reduction in their demand for our services, could adversely affect our business, financial condition, results of operations and prospects.

Our customer base is highly concentrated. One or a few customers have represented a substantial portion of our consolidated revenues and gross profits in any one year or over a period of several consecutive years. In 2013, sales to our ten largest customers from continuing operations accounted for approximately 60% of net sales. Customers accounting for greater than 10% of our net sales from continuing operations include Johnson Controls, Inc., which accounted for approximately 14%, the U.S. Navy, which accounted for approximately 13%, and Seiberlich Trane, which accounted for approximately 12%. A limited number of customers may continue to comprise a substantial portion of our revenue for the foreseeable future. We could lose business from a significant customer for a variety of reasons, including:

the consolidation, merger or acquisition of an existing customer, resulting in a change in procurement strategies employed by the surviving entity that could reduce the amount of orders we receive;

our performance on individual relationships with one or more significant customers are impaired due to another reason, which may cause us to lose future business with such customers and, as a result, our ability to generate income would be adversely impacted; and

the strength of our professional reputation.

If critical components and finished products that we currently purchase from a small number of third-party suppliers become unavailable or increase in cost, or if our suppliers fail to meet our requirements for quality, quantity and timeliness, our revenue and reputation in the marketplace could be harmed, which would damage our business.

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 small number of vendors in various locations throughout the world, primarily in the United States, China and Taiwan. While we believe alternative sources for these components and products are available, we have selected these particular suppliers based on their ability to consistently provide the best quality product at the most cost effective price, to meet our specifications, and to deliver within scheduled time frames. If our suppliers fail to perform their obligations in a timely manner or at satisfactory quality levels, we may suffer lost sales, reductions in revenue and damage to our reputation in the market, all of which would adversely affect our business. We may be vulnerable to unanticipated price increases and payment term changes. Significant increases in the prices of sourced components and products could cause our product prices to increase, which may reduce demand for our products or make us more susceptible to competition. Furthermore, in the event that we are unable to pass along increases in operating costs to our customers, margins and profitability may be adversely affected. Accordingly, the loss of all or one of these suppliers could have a material adverse effect on our operations until such

time as an alternative supplier could be found.

Additionally, consolidation in the lighting industry could result in one or more current suppliers being acquired by a competitor, rendering us unable to continue purchasing key components and products at competitive prices. 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.

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.

Although we are building our sales force to sell directly to end clients, we currently 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 generally non-exclusive, meaning they can sell products of our competitors. 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 distributors or sales representatives 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.

For the solutions segment of our business, we generally enter into fixed price contracts. Fixed price contracts require us to perform a contract for a specified price regardless of our actual costs. As a result, the profit that we realize on a contract is dependent on the extent to which we successfully manage our costs. Cost overruns, whether due to inefficiency, inaccurate estimates or other factors, result in lower profit or a loss on a project. A majority of our contracts are based on cost estimates that are subject to a number of assumptions. If our estimates of the risks, revenues or costs prove inaccurate or circumstances change, we may incur a lower profit or a loss on that project.

Additionally, we recognize certain contract revenues, including revenues from our solutions segment, using the percentage-of-completion method. Under this method, percentage-of-completion is determined by relating the actual cost of the work performed to date to the current estimated total cost of the respective contracts. When the estimate on a contract indicates a loss, we record the entire loss during the accounting period in which it is estimable. In the ordinary course of business, at a minimum on a quarterly basis, we prepare updated estimates of the total forecasted revenue, cost and profit or loss for each contract. The cumulative effect of revisions in estimates of the total forecasted revenue and costs during the course of the work is reflected in the accounting period in which the facts that caused the revision become known. To the extent that these revisions result in a reduction in revenue, we recognize a credit or a charge against current earnings, which could be material.

Our business may suffer if we fail to comply with government contracting laws and regulations.

We derive a portion of our revenues from direct and indirect sales to U.S., state, local, and foreign governments and their respective agencies. Such contracts are subject to various procurement laws and regulations, business prerequisites to qualify for such contracts, accounting procedures, intellectual property process, and contract provisions relating to their formation, administration and performance, which may provide for various rights and remedies in favor of the governments that are not typically applicable to or found in commercial contracts. Failure to comply with these laws, regulations or provisions in our government contracts could result in litigation, the imposition of various civil and criminal penalties, termination of contracts, forfeiture of profits, suspension of payments, or suspension from future government contracting. If our government contracts are terminated, if we are suspended from government work, or if our ability to compete for new contracts is adversely affected, our business could suffer due to, among other factors, lost sales, the costs of any government action or penalties, damages to our reputation and the inability to recover our investment in developing and marketing products for government use.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

We have significant U.S. net operating loss and tax credit carryforwards (the “Tax Attributes”). Under federal tax laws, we can carry forward and use our Tax Attributes to reduce our future U.S. taxable income and tax liabilities until such Tax Attributes expire in accordance with the Internal Revenue Code of 1986, as amended (the “IRC”). Section 382 and Section 383 of the IRC provide an annual limitation on our ability to utilize our Tax Attributes, as well as certain built-in-losses, against future U.S. taxable income in the event of a change in ownership, as defined under the IRC. Share issuances in connection with our past financing transactions, this offering or other future changes in our stock ownership, which may be beyond our control, could result in changes in ownership for purposes of the IRC. Such changes in ownership could further limit our ability to use our Tax Attributes. Accordingly, any such occurrences could adversely affect our financial condition, operating results and cash flows.

The cost of compliance with environmental, health and safety laws and regulations could adversely affect our results of operations or financial condition.

We are subject to a broad range of environmental, health, and safety laws and regulations. These laws and regulations impose increasingly stringent environmental, health, and safety protection standards and permitting requirements regarding, among other things, air emissions, wastewater storage, treatment, and discharges, the use and handling of hazardous or toxic materials, waste disposal practices, the remediation of environmental contamination, and working conditions for our employees. Some environmental laws, such as Superfund, the Clean Water Act, and comparable laws in U.S. states and other jurisdictions world-wide, impose joint and several liability for the cost of environmental remediation, natural resource damages, third party claims, and other expenses, without regard to the fault or the legality of the original conduct, on those persons who contributed to the release of a hazardous substance into the environment. We may also be affected by future laws or regulations, including those imposed in response to energy, climate change, geopolitical, or similar concerns. These laws may impact the sourcing of raw materials and the manufacture and distribution of our products and place restrictions and other requirements on the products that we can sell in certain geographical locations.

An inability to obtain bonding could limit the number of solutions segment projects we are able to pursue.

As is customary in the construction business, we are often required to provide surety bonds to secure our performance under construction contracts. Our ability to obtain surety bonds primarily depends upon our capitalization, working capital, past performance, management expertise and other external factors, including the overall capacity of the surety market. Surety companies consider such factors in relation to the amount of our backlog and their underwriting standards, which may change from time to time. The surety industry has undergone significant changes with several companies withdrawing completely from the industry or significantly reducing their bonding commitment. In addition, certain reinsurers of security risk have limited their participation in this market. Therefore, we could be unable to obtain surety bonds when required, which could adversely affect our future results of operations and revenues.

We have international sales and are subject to risks associated with operating in international markets.

For the year ended December 31, 2013, net sales of our products outside of the United States represented 11% of our total net sales from continuing operations. We generally provide technical expertise and limited marketing support, while our independent international distributors generally provide sales staff, local marketing, and product services. We believe our international distributors are better able to service international markets due to their understanding of local market conditions and best business practices. International business operations are subject to inherent risks, including, among others:

difficulty in enforcing agreements and collecting receivables through foreign legal systems,

unexpected changes in regulatory requirements, tariffs, and other trade barriers or restrictions,

potentially adverse tax consequences,

the burdens of compliance with the U.S. Foreign Corrupt Practices Act, similar anti-bribery laws in other countries, and a wide variety of foreign laws,

import and export license requirements and restrictions of the United States and each other country in which we operate,

exposure to different legal standards and reduced protection for intellectual property rights in some countries,

currency fluctuations and restrictions, and

political, social, and economic instability, including war and the threat of war, acts of terrorism, pandemics, boycotts, curtailment of trade or other business restrictions.

If we do not anticipate and effectively manage these risks, these factors may have a material adverse impact on our sales, thus lowering our total revenues.

We may not fully recognize the anticipated revenue reported in our backlog.

The contracts we enter into for our solutions segment can be relatively large and typically range in the amount of \$0.1 million to as much as \$4.0 million. As of March 31, 2014, our solutions segment backlog of uncompleted work was \$1.0 million. We include a project in our backlog when a contract is awarded or a letter of intent is obtained. The revenue projected in our backlog may not be realized or may not result in the revenue or profits expected. If a project included in our backlog is canceled, suspended or the scope of work is reduced, it would result in a reduction to our backlog, which could affect the revenues and profits realized. If a customer should cancel a project, we may be reimbursed for costs expended to date but would have no contractual right to the total projected revenues included in our backlog. Cancellations or delays of significant projects could have a material adverse effect on future revenues, profits and cash flows.

If we are unable to attract or retain qualified personnel, our business and product development efforts could be harmed.

To a large extent, our future success will depend on the continued contributions of certain employees, such as our current Chief Executive Officer, Chief Financial Officer and Chief Operating Officer. We had significant turnover in our management team during 2013 and cannot be certain that these and other key employees will continue in their respective capacities for any period of time, and these employees may 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, but if these individuals are not successful in achieving our expectations, then planned sales may not occur and the anticipated net sales may not be realized.

A significant portion of our business is dependent upon the existence of government funding, which may not be available into the future and could result in a significant reduction in sales and could cause significant harm to our business.

A significant portion of our research and development efforts have been supported directly by government funding and were contracted for short periods, usually one to two years. We anticipate a significant portion of our future product sales will come from the military and maritime markets, specifically the U.S. Navy, which is reliant upon federal funding. Further, a significant portion of net sales generated by Energy Focus LED Solutions, LLC (“EFLS”) are derived from state government funding and supported by federal government funding. U.S. government contracts are conditioned upon the continuing approval by the U.S. Congress of the necessary spending to honor such contracts. We cannot be certain that our U.S. government contracts will not be terminated or suspended in the future due to reductions or eliminations of government funding. If government funding is reduced or eliminated, there is no

guarantee that we would be able to continue to fund our activities in these areas at their current levels, if at all, and grow our product sales. If we are unable to maintain our access to government funding in these areas, there could be a significant impact on our net sales and profits and our ability to compete and develop new products.

We believe that certification and compliance issues are critical to adoption of our lighting systems, and failure to obtain such certification or compliance would harm our business.

We are required to comply with certain legal requirements governing the materials in our products. Although we are not aware of any efforts to amend any existing legal requirements or implement new legal requirements in a manner with which we cannot comply, our net sales might be adversely affected if such an amendment or implementation were to occur.

Moreover, although not legally required to do so, we strive to obtain certification for substantially all our products. In the United States, we seek certification on substantially all of our products from Underwriters Laboratories (UL®) or Intertek Testing Services (ETL®). Where appropriate in jurisdictions outside the United States and Europe, we seek to obtain other similar national or regional certifications for our products. Although we believe that our broad knowledge and experience with electrical codes and safety standards have facilitated certification approvals, we cannot ensure that we will be able to obtain any such certifications for our new products or that, if certification standards are amended, that we will be able to maintain such certifications for our existing products. Moreover, although we are not aware of any effort to amend any existing certification standard or implement a new certification standard in a manner that would render us unable to maintain certification for our existing products or obtain ratification for new products, our net sales might be adversely affected if such an amendment or implementation were to occur.

We incur significant costs as a result of being a public company and our management is required to devote substantial time and financial resources to meet compliance obligations.

As a public company reporting to the Securities and Exchange Commission, we incur significant legal, accounting, investor relations, board compensation and other expenses. We are subject to the reporting requirements of the Securities Exchange Act of 1934, and the Sarbanes-Oxley Act of 2002, including section 404 that requires that we annually evaluate and report on our systems of internal controls. In the future, there may be material weaknesses in our internal controls that would be required to be reported in future Annual Reports on Form 10-K and/or Quarterly Reports on Form 10-Q. A negative reaction by the equity markets to the reporting of a material weakness could cause our stock price to decline.

Failure to effectively estimate employer-sponsored health insurance premiums and incremental costs due to the Affordable Healthcare Act could materially and adversely affect our results of operations, financial position, and cash flows.

In March 2010, the United States federal government enacted comprehensive health care reform legislation, which, among other things, includes guaranteed coverage requirements, eliminates pre-existing condition exclusions and annual and lifetime maximum limits, restricts the extent to which policies can be rescinded, and imposes new taxes on health insurers, self-insured companies, and health care benefits. The legislation imposes implementation effective dates that began in 2010 and extend through 2020, with many of the changes requiring additional guidance from federal agencies and regulations. Possible adverse effects could include increased costs, exposure to expanded liability, and requirements for us to revise the ways in which healthcare and other benefits are provided to employees. We continue to monitor the potential impacts the health care reform legislation will have on our financial results.

We may be subject to legal claims against us or claims by us which could have a significant impact on our resulting financial performance.

At any given time, we may be subject to litigation related to our products, suppliers, customers, employees, stockholders, distributors, sales representatives, sales of our assets, among other things, the disposition of which may have an adverse effect upon our business, financial condition, or results of operation. The outcome of litigation is difficult to assess or quantify. Lawsuits can result in the payment of substantial damages by defendants. If we are required to pay substantial damages and expenses as a result of these or other types of lawsuits our business and results of operations would be adversely affected. Regardless of whether any claims against us are valid or whether we are liable, claims may be expensive to defend and may divert time and money away from our operations. Insurance may not be available at all or in sufficient amounts to cover any liabilities with respect to these or other matters. A judgment or other liability in excess of our insurance coverage for any claims could adversely affect our business and the results of our operations.

Risks Associated with an Investment in Our Common Stock

We could issue additional common stock or may need to request our stockholders to authorize additional shares of common stock, which might dilute the book value and market for our common stock.

We are authorized to issue 15,000,000 shares of common stock, of which 8,024,961 shares were issued and outstanding, as of July 16, 2014. An additional 2,502,895 shares have been reserved for issuance as future awards, upon exercise of outstanding stock options, or settlement of restricted share units pursuant to our equity incentive plans, for purchase under our employee stock purchase plan or for issuance upon exercise of outstanding warrants. If

or when these securities are purchased or exercised for or converted 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 an adverse effect on the trading activity and market price of our common stock. Our Board of Directors has the authority, without action or vote of our stockholders, to issue a sizeable 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, the exercise price of certain of our outstanding warrants is subject to an anti-dilution adjustment if shares of our common stock are offered at a purchase price of \$4.25 or less or \$4.05 or less (depending on the terms of the applicable warrant). In addition, in order to raise capital or acquire businesses in the future, we may need to issue additional securities or promissory notes that are convertible or exchangeable for shares of our common stock. These issuances would dilute stockholders' percentage ownership interest, which would have the effect of reducing influence on matters on which our stockholders vote, and might dilute the book value of our common stock. Stockholders may incur additional and substantial dilution if holders of stock options, whether currently outstanding or subsequently granted, exercise those options, or holders of warrants exercise to purchase shares of our common stock. If an insufficient amount of authorized, but unissued shares of common stock exists to issue in the future in connection with subsequent equity financing or acquisition transactions, we may be required to ask our stockholders to authorize additional shares before undertaking, or as a condition to completing, a financing or acquisition transaction. We cannot be assured that our stockholders would authorize an increase in the number of shares of our common stock.

As a "thinly-traded" stock, large sales can and have placed negative pressure on our common stock price.

Our common stock is generally considered to be "thinly-traded," and is likely to remain so following this offering even though it has been approved for listing on The NASDAQ Capital Market concurrently with the offering. Additionally, we have entered into in the past or may enter into in the future, financing or acquisition transactions resulting in a large number of newly issued shares that become immediately tradable or tradable simultaneously in the future. These factors coupled with a limited number of market makers impairs the liquidity of our stock, not only the number of shares that can be bought and sold, but also the through possible delays in the timing of transactions, and lower prices for our common stock than might otherwise prevail. This could make it difficult or impossible for an investor to sell shares of our common stock within a desired timeframe or to obtain a desired price.

In addition, from time to time, certain of our stockholders may be eligible to sell all, or a portion 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, or under effective resale prospectuses. Any substantial sale of our common stock pursuant to Rule 144 or any resale prospectus may have an adverse effect on the market price of our securities.

We have never paid dividends on our common stock, and we do not anticipate paying any cash dividends in the foreseeable future.

We have never declared or paid dividends on our common stock, nor do we anticipate paying any cash dividends for the foreseeable future. We currently intend to retain future earnings, if any, to finance the operations and expansion of our business. Any future determination to pay cash dividends will be at the discretion of our Board of Directors and will be dependent upon the earnings, financial condition, operating results, capital requirements and other factors as deemed necessary by our Board of Directors. See “Dividend Policy.”

The shares you purchase in this offering will experience immediate and substantial dilution.

The public offering price per share of our common stock will be substantially higher than the net tangible book value per share of our common stock immediately after the offering. At an assumed public offering price of \$4.90 per share (the last reported sale price of the common stock on July 21, 2014), our as adjusted net tangible book value as of March 31, 2014 would have been approximately \$1.57 per share. This represents an immediate increase in net tangible book value of \$0.92 per share to existing stockholders and an immediate dilution in the net tangible book value of \$3.33 per share to purchasers in the shares of common stock offered in this offering. This will result in a 68% dilution for purchasers of stock in this offering.

We have broad discretion to determine how to use the funds raised in this offering, and may use them in ways that may not enhance our operating results or the price of our common stock.

We intend to use a significant portion of the net proceeds from this offering to finance certain capital expenditures and for working capital and other general corporate purposes, which may include, but are not limited to, the purchase of manufacturing equipment and the purchase and implementation of a new enterprise resource planning system, expansion of our sales office presence, retirement of debt and inventory purchases. However, we will have broad discretion in how we use the net proceeds of this offering. We could spend the proceeds from this offering in ways our stockholders may not agree with or that do not yield a favorable return. If we do not invest or apply the proceeds of this offering in ways that improve our operating results, we may fail to achieve expected financial results, which could cause our stock price to decline.

A large number of shares issued in this offering may be sold in the market following this offering, which may depress the market price of our common stock.

Sales of a substantial number of shares of our common stock in the public market following this offering could cause the market price of our common stock to decline. If there are more shares of common stock offered for sale than buyers are willing to purchase, then the market price of our common stock may decline to a market price at which buyers are willing to purchase the offered shares of common stock and sellers remain willing to sell the shares. All of the securities issued in the offering will be freely tradable without restriction or further registration under the Securities Act, as amended.

The holders of approximately 5.1 million shares of common stock have agreed with Roth Capital Partners, LLC to a 90-day “lockup” with respect to these shares. This generally means that they cannot sell these shares during the 90 days following the date of this prospectus. See “Underwriting.” After the 90 day lock-up period, these shares may be sold in accordance with Rule 144 or pursuant to an effective registration statement.

The elimination of monetary liability against our directors under Delaware law and the existence of indemnification rights held by our directors, officers and employees may result in substantial expenditures by the Company and may discourage lawsuits against our directors, officers and employees.

Our Certificate of Incorporation eliminates the personal liability of our directors to our Company and our stockholders for damages for breach of fiduciary duty as a director or officer to the extent permissible under Delaware law. Further, our Bylaws provide that we are obligated to indemnify any of our directors or officers to the fullest extent authorized by Delaware law and, subject to certain conditions, advance the expenses incurred by any director or officer or director in defending any action, suit or proceeding prior to its final disposition. Those indemnification obligations could result in the Company incurring substantial expenditures to cover the cost of settlement or damage awards against our directors or officers, which we may be unable to recoup. These provisions and resultant costs may also discourage us from bringing a lawsuit against any of our current or former directors or officers for breaches of their fiduciary duties, and may similarly discourage the filing of derivative litigation by our stockholders against our directors and officers even though such actions, if successful, might otherwise benefit us or our stockholders.

If equity research analysts do not publish research or reports about our business, or if they issue unfavorable commentary or downgrade our common stock, the market price of our common stock will likely decline.

The trading market for our common stock will rely in part on the research and reports that equity research analysts, over whom we have no control, publish about us and our business. We may never obtain research coverage by securities and industry analysts. If no securities or industry analysts commence coverage of our company, the market price for our common stock could decline. In the event we obtain securities or industry analyst coverage, the market price of our common stock could decline if one or more equity analysts downgrade our common stock or if those analysts issue unfavorable commentary, even if it is inaccurate, or cease publishing reports about us or our business.

An active trading market for our common stock may not develop and the market price for our common stock may decline below the offering price of our common stock in this offering.

Our common stock is quoted on the OTCQB Marketplace, or OTCQB, under the symbol "EFOI". The OTCQB is an electronic quotation system that displays real-time quotes, last-sale prices, and volume information for many OTC securities that are not listed on a national securities exchange. Trading volume for our common stock has been limited and OTCQB quotations for our common stock price may not represent the true market value of our common stock. Our common stock has been approved for listing on The NASDAQ Capital Market under the symbol "EFOI" concurrently with the closing of this offering. The historical trading prices of our common stock on the OTCQB may not be indicative of the price levels at which our common stock will trade following this offering or upon listing of our common stock on The NASDAQ Capital Market, and we cannot predict the extent, if at all, to which the consummation of this offering, the commencement of the trading of our common stock on The NASDAQ Capital Market or investor interest in us generally will lead to the development of an active public trading market or how liquid that public market may become. The offering price for our common stock in this offering will be determined by negotiation between the underwriters and us based upon several factors, and may not be indicative of prices that will prevail in the open market after this offering. Consequently, you may be unable to sell your shares of our common stock at prices equal to or greater than the price you paid for them, if at all.

The NASDAQ Capital Market may not continue to list our common stock for trading on its exchange if we do not comply with its continued listing requirements, which could adversely affect the price of our common stock and its liquidity.

Even if the listing of our common stock on the NASDAQ Capital Market after this offering does result in a more active trading market and increased liquidity, we will have to comply with NASDAQ's continued listing requirements related to, among other things, stockholders' equity, market value, minimum bid price and corporate governance in order to remain listed. Although we expect to meet the continued listing requirements upon completion of this offering, there can be no assurance we will continue to do so in the future. If we do not remain compliant with these continued listing requirements, we could be delisted. If we were delisted, it would be likely to have a negative impact

on our stock price and liquidity. The delisting of our common stock after this offering could also deter broker-dealers from making a market in or otherwise generating interest in or recommending our common stock, and would adversely affect our ability to attract investors in our common stock. Furthermore, our ability to raise additional capital would be impaired. As a result of these factors, the value of the common stock could decline significantly.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act. These forward-looking statements can generally be identified by the use of forward-looking terminology, including the terms “believes,” “estimates,” “anticipates,” “expects,” “feels,” “seeks,” “forecasts,” “projects,” “intends,” “plans,” “may,” “will,” “s” “would” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this prospectus and the documents incorporated by reference herein and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies, capital expenditures and the industry in which we operate.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Although we base these forward-looking statements on assumptions that we believe are reasonable when made, we caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and industry developments may differ materially from statements made in or suggested by the forward-looking statements contained in this prospectus and the documents incorporated by reference herein. In addition, even if our results of operations, financial condition and liquidity, and industry developments are consistent with the forward-looking statements contained in this prospectus and the documents incorporated by reference herein, those results or developments may not be indicative of results or developments in subsequent periods.

We believe that important factors that could cause our actual results to differ materially from forward-looking statements include, but are not limited to, the risks and uncertainties outlined under “Risk Factors” and matters described in this prospectus and the documents incorporated by reference herein generally. Some of these factors include:

our history of operating losses;

our ability to obtain the financing necessary to continue as a “going concern” on satisfactory terms;

general economic conditions, including the strength of the construction industry, both in the United States and in other markets in which we operate;

market acceptance of LED lighting technology;

our ability to respond to new lighting technologies and market trends;

our ability to compete effectively against companies with greater resources;

our ability to protect our intellectual property rights;

our reliance on a limited number of customers for a significant portion of our revenue;

our ability to obtain critical components and finished products from third-party suppliers on acceptable terms;

our dependence on government customers and on the levels of funding available to such customers; and

our ability to meet the initial and continued listing standards of The NASDAQ Capital Market.

In light of the foregoing, we caution you not to place undue reliance on these forward-looking statements. Any forward-looking statement that we make in this prospectus and the documents incorporated by reference herein speaks only as of the date of such statement, and we undertake no obligation to update any forward-looking statement or to publicly announce the results of any revision to any of those statements to reflect future events or developments. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless specifically expressed as such, and should only be viewed as historical data.

USE OF PROCEEDS

We estimate that the net proceeds from the sale of the 2,500,000 shares of common stock we are offering will be approximately \$11,095,658 (assuming a public offering price of \$4.90 per share, which was the last reported sale price of the common stock on July 21, 2014) after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. If the underwriters' overallotment option is exercised in full, we estimate the net proceeds of the additional shares we sell will be approximately \$12,813,721, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

We intend to use the net proceeds of this offering to finance certain capital expenditures and for working capital and other general corporate purposes. We expect these expenditures to include:

\$1,000,000 for the purchase of manufacturing equipment;
\$350,000 for the purchase and implementation of a new enterprise resource plan