

ENERGY FOCUS, INC/DE  
Form 10-Q  
May 15, 2013

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-24230

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

Delaware  
(State or other jurisdiction of incorporation  
or organization)

94-3021850  
(I.R.S. Employer Identification No.)

32000 Aurora Rd., Solon, OH  
(Address of principal executive offices)

44139  
(Zip Code)

(Registrant's telephone number, including area code): (440) 715-1300

None  
(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such

files). Yes  No

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.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

The number of outstanding shares of the registrant’s Common Stock, \$0.0001 par value, as of May 10, 2013 was 44,698,650.

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## Item 1. Financial Statements

ENERGY FOCUS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(amounts in thousands except share and per share data)

	March 31, 2013 (unaudited)	December 31, 2012
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents, includes restricted cash of \$135 and \$252, respectively	\$452	\$1,181
Trade accounts receivable less allowances of \$189 and \$265, respectively	3,864	5,319
Retainage receivable	673	634
Inventories, net	3,113	2,581
Costs in excess of billings	97	99
Prepaid and other current assets	1,069	1,012
<b>Total current assets</b>	<b>9,268</b>	<b>10,826</b>
Property and equipment, net	1,763	1,800
Intangible assets, net	545	608
Collateralized assets	1,000	1,000
Other assets	119	119
<b>Total assets</b>	<b>\$12,695</b>	<b>\$14,353</b>
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable	\$5,430	\$5,879
Accrued liabilities	1,835	2,265
Deferred revenue	300	751
Billings in excess of costs	187	464
Credit line borrowings	1,212	1,590
Current maturities of long-term debt	780	756
<b>Total current liabilities</b>	<b>9,744</b>	<b>11,705</b>
Other liabilities	18	30
Long-term debt	3,528	1,793
<b>Total liabilities</b>	<b>13,290</b>	<b>13,528</b>
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock, par value \$0.0001 per share: Authorized: 2,000,000 shares in 2013 and 2012 Issued and outstanding: no shares in 2013 and 2012	-	-
Common stock, par value \$0.0001 per share: Authorized: 100,000,000 shares in 2013 and 2012 Issued and outstanding: 44,698,650 at March 31, 2013 and December 31, 2012	4	4
Additional paid-in capital	81,031	80,985
Accumulated other comprehensive income	422	460
Accumulated deficit	(82,052)	(80,624)
<b>Total shareholders' equity</b>	<b>(595)</b>	<b>825</b>

Total liabilities and shareholders' equity	\$12,695	\$14,353
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The accompanying notes are an integral part of these financial statements.

ENERGY FOCUS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(amounts in thousands except per share amounts)  
(unaudited)

	Three months ended March 31,	
	2013	2012
Net sales	\$5,333	\$5,302
Cost of sales	4,132	4,517
Gross profit	1,201	785
Operating expenses:		
Research and development	37	46
Sales and marketing	1,303	1,271
General and administrative	1,066	1,154
Total operating expenses	2,406	2,471
Loss from operations	(1,205 )	(1,686 )
Other income (expense):		
Other expense	(94 )	(28 )
Interest income	-	1
Interest expense	(126 )	(151 )
Loss before income taxes	(1,425 )	(1,864 )
Provision for income taxes	(3 )	(3 )
Net loss	\$(1,428 )	\$(1,867 )
Net loss per share - basic and diluted	\$(0.03 )	\$(0.06 )
Shares used in computing net loss per share -basic and diluted	44,699	31,621

The accompanying notes are an integral part of these financial statements.

ENERGY FOCUS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
 (amounts in thousands)  
 (unaudited)

	Three months ended March 31,	
	2013	2012
Net loss	\$(1,428	) \$(1,867
Other comprehensive income:		
Foreign currency translation adjustments	(38	) 28
Comprehensive loss	\$(1,466	) \$(1,839

The accompanying notes are an integral part of these financial statements.



ENERGY FOCUS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (amounts in thousands)  
 (unaudited)

	Three months ended March 31,	
	2013	2012
<b>Cash flows from operating activities:</b>		
Net loss	\$(1,428	) \$(1,867
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Depreciation	162	150
Stock-based compensation	45	58
Provision for doubtful accounts receivable	(29	) 24
Amortization of intangible assets	63	104
Amortization of discounts on long-term borrowings and acquisition related liabilities	44	77
Amortization of loan origination fees	28	28
Deferred revenue	(728	) 216
<b>Changes in assets and liabilities:</b>		
Accounts receivable, inventories, and other assets	753	(1,612
Accounts payable and accrued liabilities	(868	) (2,158
Total adjustments	(530	) (3,113
Net cash used in operating activities	(1,958	) (4,980
<b>Cash flows from investing activities:</b>		
Acquisition of property and equipment	(125	) (12
Net cash used in investing activities	(125	) (12
<b>Cash flows from financing activities:</b>		
Proceeds from issuances of common stock, net	-	4,827
Proceeds from other borrowings	1,750	-
Payments on other borrowings	(12	) (849
Net (payments) proceeds on credit line borrowings	(378	) 603
Net cash provided by financing activities	1,360	4,581
Effect of exchange rate changes on cash	(6	) 8
Net decrease in cash and cash equivalents	(729	) (403
Cash and cash equivalents at beginning of period	1,181	2,136
Cash and cash equivalents at end of period	\$452	\$1,733
<b>Classification of cash and cash equivalents:</b>		
Cash and cash equivalents	\$317	\$1,661
Restricted cash held	135	72
Cash and cash equivalents at end of period	\$452	\$1,733

The accompanying notes are an integral part of these financial statements.



ENERGY FOCUS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2013  
(Unaudited)

NOTE 1. NATURE OF OPERATIONS

Energy Focus, Inc. and its subsidiaries (the “Company”) engage in the design, development, manufacturing, marketing, and installation of energy-efficient lighting systems and solutions where the Company serves two segments:

- solutions segment providing turnkey, high-quality, energy-efficient lighting application alternatives primarily to the existing public-sector building market; and
- products segment providing military, general commercial and industrial lighting and pool lighting offerings, each of which markets and sells energy-efficient lighting systems.

The Company continues to evolve its business strategy to include providing its customers with turnkey, comprehensive energy-efficient lighting solutions, which use, but are not limited to, its patented and proprietary technology. The Company’s products segment includes light-emitting diode (“LED”), fiber optic, high-intensity discharge (“HID”), fluorescent tube and other highly energy-efficient lighting technologies. Typical savings related to current technology of the Company approximates 80% in electricity costs, while providing full-spectrum light closely simulating daylight colors. The Company’s strategy also incorporates continued investment into the research of new and emerging energy sources including LED and solar energy applications.

NOTE 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements include the accounts of the Company and its subsidiaries, Stones River Companies, LLC (“SRC”) in Nashville, Tennessee, and Crescent Lighting Limited (“CLL”) located in the United Kingdom. All significant inter-company balances and transactions have been eliminated.

We have prepared the accompanying financial data for the three months ended March 31, 2013 and 2012 pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles (“GAAP”) in the U.S. have been condensed or omitted pursuant to such rules and regulations. The accompanying financial data and information should be read in conjunction with our 2012 Annual Report on Form 10-K.

In the opinion of management, the accompanying condensed consolidated financial statements contain all normal and recurring adjustments necessary to present fairly our Condensed Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012, Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012, Condensed Consolidated Statements of Operations for the three months ended March 31, 2013 and 2012, and Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012.

The preparation of condensed consolidated financial statements in accordance with GAAP in the U.S. requires management to make estimates and assumptions that affect the amounts reported in our condensed consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management’s best knowledge of

current events and actions that may impact the company in the future, actual results may be different from the estimates. Estimates include, but are not limited to, the establishment of reserves for accounts receivable, sales returns, inventory obsolescence and warranty claims; the useful lives for property, equipment, and intangible assets; revenues recognized on a percentage-of-completion basis; and stock-based compensation. In addition, estimates and assumptions associated with the evaluation of long-lived assets for impairment requires considerable judgment. Actual results could differ from those estimates and such differences could be material.

The Company's independent public accounting firm has issued an opinion in connection with the Company's 2012 Annual Report on Form 10-K raising substantial doubt about the Company's ability to continue as a going concern. The interim financial statements have been prepared assuming the Company will continue to operate as a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The interim financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from uncertainty related to our ability to continue as a going concern.

ENERGY FOCUS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2013  
(Unaudited)

#### Reclassifications

Certain prior year amounts have been reclassified within the Condensed Consolidated Financial Statements (“financial statements”), and related notes thereto, to be consistent with the current year presentation.

#### Recent Accounting Pronouncements

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income under Topic 220, which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component (the respective line items of net income). This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. We adopted this ASU and the impact was not material to our disclosures for the quarter ended March 31, 2013.

#### Update to Significant Accounting Policies

There have been no material changes to our significant accounting policies, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

#### Earnings (Loss) per Share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted loss per share is computed giving effect to all dilutive potential common shares that were outstanding during the period. Dilutive potential common shares consist of incremental shares upon exercise of stock options and warrants, unless the effect would be anti-dilutive.

A reconciliation of basic and diluted loss per share is provided as follows (in thousands, except per share amounts):

	Three months ended March 31,	
	2013	2012
<b>Basic and diluted loss per share:</b>		
Net loss	\$ (1,428 )	\$ (1,867 )
<b>Basic and diluted loss per share:</b>		
Weighted average shares outstanding	44,699	31,621
<b>Basic and diluted net loss per share</b>	<b>\$ (0.03 )</b>	<b>\$ (0.06 )</b>

Options and warrants to purchase approximately 14,177,550 and 15,304,000 shares of common stock, were outstanding at March 31, 2013 and 2012, respectively, but were not included in the calculation of diluted net loss per share because their inclusion would have been anti-dilutive.



ENERGY FOCUS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2013  
(Unaudited)

### Stock-Based Compensation

The Company's stock-based compensation plan is described in detail in its 2012 Annual Report on Form 10-K. The following table summarizes the Company's stock-based compensation (in thousands):

	Three months ended March 31,	
	2013	2012
Research and development	\$ 7	\$ 6
Sales and marketing	8	8
General and administrative	30	44
Total stock-based compensation	\$ 45	\$ 58

Total unearned compensation of \$315 thousand related to stock options remains at March 31, 2013 compared to \$317 thousand at March 31, 2012. These costs will be charged to expense and amortized on a straight line basis in future periods through the third quarter of 2016. The weighted average period over which this unearned compensation is expected to be recognized is approximately 2.2 years.

The fair value of each stock option is estimated on the date of grant using the Black-Scholes option pricing model. Estimates utilized in the calculation include the expected life of the option, risk-free interest rate, and expected volatility, and are further comparatively detailed as follows:

	Three months ended March 31,	
	2013	2012
Fair value of options issued	\$ 0.15	\$ 0.21
Exercise price	\$ 0.23	\$ 0.39
Expected life of option (years)	8.3	6.1
Risk-free interest rate	1.57	1.48
Expected volatility	83.82	58.05
Dividend yield	0	0

Option activity under the Company's stock plans during the three months ended March 31, 2013 was as follows: