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

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

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

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

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

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

32000 Aurora Road
Solon, Ohio 44139
440.715.1300
(Address including zip code, and telephone number, including area code, of registrant s principal executive offices)

Joseph G. Kaveski
Chief Executive Officer
Energy Focus, Inc.
32000 Aurora Road
Solon, Ohio 44139
440.715.1300
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copy to:

Gerald W. Cowden, Esq.
Thomas J. Talcott, Esq.
Cowden & Humphrey Co. LPA
4600 Euclid Avenue, Suite 400
Cleveland, Ohio 44103
216.241.2880

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

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

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

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

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

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

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

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

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

Preliminary Prospectus Subject To Completion, Dated October 1, 2009

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

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

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

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

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

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

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

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

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

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

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

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

The date of this prospectus is October 6, 2009.

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ABOUT THIS PROSPECTUS

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

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

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

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

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

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QUESTIONS AND ANSWERS ABOUT THE RIGHTS OFFERING

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

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

Q: What is a rights offering?

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

Q: Why are you undertaking the rights offering?

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

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

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

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

Q: What is a right?

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

Q: What is a basic subscription right?

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

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

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Q: What is an over-subscription right?

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

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

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

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

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

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

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

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

A: No.

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

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

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

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

Q: How do I exercise my basic subscription rights?

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

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

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

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

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

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

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

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

Q: When will the rights offering expire?

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

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Q: What will happen in the second subscription period?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q: Is exercising my subscription rights risky?

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

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

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

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

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

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

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

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

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

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

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

By Mail:	By Hand:
Energy Focus, Inc. c/o BNY Mellon Shareowner Services Attn: Corporate Action Dept. P.O. Box 3301 South Hackensack, NJ 07606 By Overnight Courier: Energy Focus, Inc. c/o BNY Mellon Shareowner Services Attn: Corporate Action Dept. 480 Washington Blvd., 27th Floor Jersey City, NJ 07310	Energy Focus, Inc. c/o BNY Mellon Shareowner Services Attn: Corporate Action Dept. 480 Washington Blvd., 27th Floor Jersey City, NJ 07310
Facsimile Transmission: (Eligible Institutions Only) (201) 680-4626	To confirm receipts of facsimiles only: (201) 680-4860

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

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

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

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PROSPECTUS SUMMARY

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

About Energy Focus, Inc.

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

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

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

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

$2 billion in loans for renewable energy projects,

$4.5 billion toward smart-grid applications,

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

$4.5 billion to make federal buildings more energy efficient.

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

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

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

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

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

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

Key features of our products:

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

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

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

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

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

Key benefits of our technology include:

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

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

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

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

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

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

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

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

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

Intellectual Property. We have a policy of protecting our intellectual property through patents, license agreements, trademark registrations, confidential disclosure agreements, and trade secrets, as management deems appropriate. Our intellectual property portfolio consists of 67 issued United States and foreign patents, various pending United States patent applications, and various pending Patent Cooperation Treaty, or PCT, patent applications filed with the World Intellectual Property Organization that serves as the basis of national patent filings in countries of interest. A total of 26 applications are pending. Our issued patents expire at various times between January 2013 and June 2029. Generally, the term of patent protection is 20 years from the earliest effective filing date of the patent application. There can be

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

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

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

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

- We have a broad and intimate understanding of lighting technologies.

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

- We have a core competence in solutions sales, including deal structuring and financing.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Principal Executive Offices

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

The Rights Offering

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

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

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

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

No Recommendation

Neither we nor our board of directors makes any recommendation to you about whether you should exercise any rights. You are urged to consult your own financial advisors in order to make an independent investment decision about whether to exercise your rights. Please see the section of this prospectus entitled Risk Factors for a discussion of some of the risks involved in investing in our securities.

Minimum Condition

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

Maximum Offering Size

In no event, will we raise more than $3.5 million in this offering.

No Revocation

If you exercise any of your basic subscription or over-subscription rights, you will not be permitted to revoke or change the exercise or request a refund of monies paid.

United States Federal Income Tax Considerations

A shareholder should not recognize income, gain, or loss for United States federal income tax purposes in connection with the receipt or exercise of subscription rights in the rights offering. You should consult your own tax advisor as to the particular consequences to you of the rights offering. For a detailed discussion, see Material United States Federal Income Tax Considerations.

Extension, Termination, and Cancellation

Extension. Our board of directors may extend the expiration date for exercising your subscription rights for up to an additional thirty trading days in their sole discretion. If we extend the expiration date, you will have at least ten trading days during which to exercise your rights. Any extension of this offering will be followed as promptly as practicable by an announcement, and in no event later than 9:00 a.m., New York City time, on the next business day following the previously scheduled expiration date.

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

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

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

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RISK FACTORS

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

Risks Related to the Rights Offering

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

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

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

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

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

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

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

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

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

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

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

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

- price and volume fluctuations in the overall stock market from time to time, including increased volatility due to the worldwide credit and economic crisis;

- significant volatility in the market price and trading volume of our securities, including increased volatility due to the worldwide credit and economic crisis;

- actual or anticipated changes or fluctuations in our operating results;

- material announcements by us regarding business performance, financings, mergers and acquisitions, or other transactions;

- general economic conditions and trends;

- competitive factors; or

- departures of key personnel.

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

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

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

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

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

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

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

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

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

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

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

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

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

There is no market for the subscription rights.

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

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

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

Risks Related to Our Company

Going Concern/Liquidity Risk.

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

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

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

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

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

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

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

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

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

Global Economic Risk.

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

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

Risks we face in conducting business internationally include the following:

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

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

Competitive Risk.

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

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

Technological Risk.

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

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

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Supplier Risk.

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

Third-Party Risk.

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

Credit Risk.

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

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Intellectual Property Risk.

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

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

Key Employee Risk.

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

Risk of Losing Governmental Funding for Research.

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

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Litigation Risk.

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

Foreign Risk.

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

Risks Related to Our Common Stock

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

We are subject to significant competition.

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

USE OF PROCEEDS

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

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

CAPITALIZATION

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

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

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

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

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DILUTION

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

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

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

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

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SELECTED CONSOLIDATED FINANCIAL DATA

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

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(IN THOUSANDS EXCEPT PER SHARE DATA)

	FISCAL YEAR ENDED DECEMBER 31,					SIX MONTHS ENDED JUNE 30,	
	2008	2007	2006	2005	2004	2009	2008
OPERATING SUMMARY							
Net sales	$22,950	$22,898	$27,036	$28,337	$29,731	$6,620	$12,453
Gross profit	5,503	6,282	7,785	10,626	11,511	1,117	3,687
As a percentage of net sales	24%	27.4%	28.8%	37.5%	38.7%	16.9%	29.6%
Net research and development expenses	2,188	2,907	2,341	2,190	1,188	483	593
As a percentage of net sales	9.5%	12.7%	8.7%	7.7%	4%	7.3%	4.8%
Sales and marketing expenses	8,551	9,789	9,774	9,595	8,595	3,530	5,590
As a percentage of net sales	37.3%	42.8%	36.2%	33.9%	28.9%	53.3%	44.9%
General and administrative expenses	5,080	4,651	4,956	3,135	2,459	2,426	2,552
As a percentage of net sales	22.1%	20.3%	18.3%	11.1%	8.3%	36.7%	20.5%
Loss on impairment	4,305					165	
As a percentage of net sales	18.8%	%	%	%	%	2.5%	%
Restructure expenses		456	734	3,120			