

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018

OR

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

Commission file number 001-36583

ENERGY FOCUS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

94-3021850

(I.R.S. Employer Identification No.)

32000 Aurora Road, Suite B, Solon, OH

(Address of principal executive offices)

44139

(Zip Code)

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

None

(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of outstanding shares of the registrant's Common Stock, \$0.0001 par value, as of August 3, 2018 was 12,047,272.

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PART I - FINANCIAL INFORMATION

Forward-looking statements

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

This Quarterly Report on Form 10-Q (“Quarterly Report”) includes statements that express our opinions, expectations, beliefs, plans, objectives, assumptions or projections regarding future events or future results and therefore are, or may be deemed to be, “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements can generally be identified by the use of forward-looking terminology, including the terms “believes,” “estimates,” “anticipates,” “expects,” “feels,” “seeks,” “forecasts,” “projects,” “intends,” “plans,” “may,” “will,” “should,” “could” or “would” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Quarterly Report and include statements regarding our intentions, beliefs, or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies, capital expenditures, and the industry in which we operate.

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

We believe that important factors that could cause our actual results to differ materially from forward-looking statements include, but are not limited to, the risks and uncertainties outlined under “Risk Factors” under Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017 and Part II, Item 1A of this Quarterly Report and other matters described in this Quarterly Report generally. Some of these factors include:

- our history of operating losses and our ability to generate sufficient cash from operations or receive sufficient financing, on acceptable terms, to continue our operations;
- our reliance on a limited number of customers, in particular our historical sales of products for the U.S. Navy, for a significant portion of our revenue, and our ability to maintain or grow such sales levels;
- the entrance of new competitors in our target markets;
- general economic conditions in the United States and in other markets in which we operate or secure products;
- our ability to implement and manage our growth plans to increase sales and control expenses;
- our ability to increase demand in our targeted markets and to manage sales cycles that are difficult to predict and may span several quarters;
- the timing of large customer orders and significant expenses, and fluctuations between demand and capacity, as we invest in growth opportunities;
- our dependence on military maritime customers and on the levels of government funding available to such customers, as well as the funding resources of our other customers in the public sector and commercial markets;
- market acceptance of LED lighting technology;
- our ability to respond to new lighting technologies and market trends, and fulfill our warranty obligations with safe and reliable products;
- any delays we may encounter in making new products available or fulfilling customer specifications;
- our ability to compete effectively against companies with greater resources, lower cost structures, or more rapid development efforts;
- our ability to protect our intellectual property rights and other confidential information, and manage infringement claims by others;
- the impact of any type of legal inquiry, claim, or dispute;

- *our reliance on a limited number of third-party suppliers, our ability to obtain critical components and finished products from such suppliers on acceptable terms, and the impact of our fluctuating demand on the stability of such suppliers;*
- *our ability to timely and efficiently transport products from our third-party suppliers to our facility by ocean marine channels;*
- *our ability to successfully scale our network of sales representatives, agents, and distributors to match the sales reach of larger, established competitors;*
- *any flaws or defects in our products or in the manner in which they are used or installed;*
- *our compliance with government contracting laws and regulations, through both direct and indirect sale channels, as well as other laws, such as those relating to the environment and health and safety;*
- *risks inherent in international markets, such as economic and political uncertainty, changing regulatory and tax requirements and currency fluctuations, including tariffs and other potential barriers to international trade;*
- *our ability to attract and retain qualified personnel, and to do so in a timely manner; and*
- *our ability to maintain effective internal controls and otherwise comply with our obligations as a public company.*

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

Energy Focus® is our registered trademark. We may also refer to trademarks of other corporations and organizations in this document.

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,619	\$ 10,761
Trade accounts receivable, less allowances of \$31 and \$42, respectively	3,369	3,595
Inventories, net	5,739	5,718
Prepaid and other current assets	1,042	596
Assets held for sale	—	225
Total current assets	18,769	20,895
Property and equipment, net	847	1,097
Other assets	147	159
Total assets	\$ 19,763	\$ 22,151
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 3,021	\$ 1,630
Accrued liabilities	197	130
Accrued payroll and related benefits	393	394
Accrued sales commissions	167	124
Accrued restructuring	93	170
Accrued warranty reserve	196	174
Deferred revenue	12	5
Total current liabilities	4,079	2,627
Other liabilities	176	232
Total liabilities	4,255	2,859
STOCKHOLDERS' EQUITY		
<i>Preferred stock, par value \$0.0001 per share:</i>		
Authorized: 2,000,000 shares in 2018 and 2017		
Issued and outstanding: no shares in 2018 and 2017	—	—
<i>Common stock, par value \$0.0001 per share:</i>		
Authorized: 30,000,000 shares in 2018 and 2017		
Issued and outstanding: 12,047,272 at June 30, 2018 and 11,868,896 at December 31, 2017	1	1
Additional paid-in capital	127,906	127,493
Accumulated other comprehensive income	(1)	2
Accumulated deficit	(112,398)	(108,204)
Total stockholders' equity	15,508	19,292
Total liabilities and stockholders' equity	\$ 19,763	\$ 22,151

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

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net sales	\$ 5,172	\$ 6,011	\$ 9,831	\$ 10,117
Cost of sales	3,876	4,510	7,719	8,055
Gross profit	1,296	1,501	2,112	2,062
Operating expenses:				
Product development	673	763	1,302	1,534
Selling, general, and administrative	2,421	2,778	5,068	6,409
Restructuring	3	1,060	(47)	1,734
Total operating expenses	3,097	4,601	6,323	9,677
Loss from operations	(1,801)	(3,100)	(4,211)	(7,615)
Other expenses (income):				
Interest expense	1	—	2	—
Other (income) expense	2	14	(19)	21
Loss from operations before income taxes	(1,804)	(3,114)	(4,194)	(7,636)
Provision for income taxes	—	—	—	—
Net loss	\$ (1,804)	\$ (3,114)	\$ (4,194)	\$ (7,636)
Net loss per share - basic and diluted	\$ (0.15)	\$ (0.26)	\$ (0.35)	\$ (0.65)
Weighted average shares used in computing net loss per share:				
Basic and diluted	11,949	11,791	11,925	11,755

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

ENERGY FOCUS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net loss	\$ (1,804)	\$ (3,114)	\$ (4,194)	\$ (7,636)
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(4)	(3)	(3)	2
Comprehensive loss	<u>\$ (1,808)</u>	<u>\$ (3,117)</u>	<u>\$ (4,197)</u>	<u>\$ (7,634)</u>

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

ENERGY FOCUS, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2017	11,869	\$ 1	\$ 127,493	\$ 2	\$ (108,204)	\$ 19,292
Issuance of common stock under employee stock option and stock purchase plans	193		22			22
Common stock withheld in lieu of income tax withholding on vesting of restricted stock units	(15)		(39)			(39)
Stock-based compensation			430			430
Foreign currency translation adjustment				(3)		(3)
Net loss from continuing operations for the six months ended June 30, 2018					(4,194)	(4,194)
Balance at June 30, 2018	12,047	\$ 1	\$ 127,906	\$ (1)	\$ (112,398)	\$ 15,508

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

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

	Six months ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net loss	\$ (4,194)	\$ (7,636)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	294	348
Stock-based compensation	430	433
Stock-based compensation reversal	—	(270)
Provision for doubtful accounts receivable	(11)	1
Provision for slow-moving and obsolete inventories and valuation reserves	(409)	(271)
Provision for warranties	15	44
(Gain) loss on dispositions of property and equipment	(15)	104
Changes in operating assets and liabilities:		
Accounts Receivable	237	2,180
Inventories	388	1,839
Prepaid and other assets	(435)	(122)
Accounts payable	1,471	(175)
Accrued and other liabilities	(79)	359
Deferred revenue	8	18
Total adjustments	1,894	4,488
Net cash used in operating activities	(2,300)	(3,148)
Cash flows from investing activities:		
Acquisitions of property and equipment	(57)	(115)
Proceeds from the sale of property and equipment	240	72
Net cash provided by (used in) investing activities	183	(43)
Cash flows from financing activities:		
Proceeds from exercises of stock options and employee stock purchase plan purchases	21	105
Common stock withheld to satisfy income tax withholding on vesting of restricted stock units	(39)	(49)
Net cash (used in) provided by financing activities	(18)	56
Effect of exchange rate changes on cash	(7)	(7)
Net decrease in cash and cash equivalents	(2,142)	(3,142)
Cash and cash equivalents, beginning of period	10,761	16,629
Cash and cash equivalents, end of period	\$ 8,619	\$ 13,487
Classification of cash and cash equivalents:		
Cash and cash equivalents	\$ 8,277	\$ 13,145
Restricted cash held	\$ 342	\$ 342
Cash and cash equivalents, end of period	\$ 8,619	\$ 13,487

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

ENERGY FOCUS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(Unaudited)

NOTE 1. NATURE OF OPERATIONS

Energy Focus, Inc. and its subsidiary engage in the design, development, manufacturing, marketing, and sale of energy-efficient lighting systems. We operate in a single industry segment, developing and selling our energy-efficient light-emitting diode (“LED”) lighting products into the general commercial, industrial and military maritime markets. Our mission is to enable our customers to run their facilities with greater energy efficiency, productivity, and wellness through advanced LED retrofit solutions. Our goal is to be the retrofit technology and market leader for the most demanding applications where performance, quality, and health really matter. We specialize in LED lighting retrofit by replacing fluorescent lamps in institutional buildings and high-intensity discharge (“HID”) lighting in low-bay and high-bay applications with our innovative, high-quality commercial and military tubular LED (“TLED”) and other LED products.

Product development is a key focus for us. Our product development teams, including our teams located in our Solon, Ohio headquarters, at our San Jose, California technology center, and at our product development center in Taipei, Taiwan, are dedicated to developing and designing leading-edge technology LED lighting products.

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

Basis of presentation

The condensed consolidated financial statements (“financial statements”) include the accounts of the Company and its subsidiary Energy Focus Europe, Ltd. located in the United Kingdom, which is not active. Unless indicated otherwise, the information in the accompanying financial statements and Notes to the condensed consolidated financial statements relates to our continuing operations.

We have prepared the accompanying financial data for the three and six months ended June 30, 2018 and 2017 pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) have been condensed or omitted pursuant to such rules and regulations. The accompanying financial data and information should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2017 (“2017 Annual Report”). The Condensed Consolidated Balance Sheet as of December 31, 2017 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

In the opinion of management, the accompanying financial statements contain all normal and recurring adjustments necessary to present fairly our Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017, Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2018 and 2017, Condensed Consolidated Statements of Comprehensive Loss for the three and six months ended June 30, 2018 and 2017, Condensed Consolidated Statements of Changes in Stockholders’ Equity for the six months ended June 30, 2018, and Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017.

Use of estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management’s best knowledge of current events and actions that may impact us in the future, actual results may vary from the estimates. Estimates include, but are not limited to, the establishment of reserves for accounts receivable, sales returns, inventory obsolescence and warranty claims; the useful lives of property and equipment; valuation allowance for net deferred taxes; the cost and offsetting income related to subleased property; and stock-based compensation. In addition, estimates and

ENERGY FOCUS, INC.
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June 30, 2018
(Unaudited)

assumptions associated with the determination of the fair value of financial instruments and evaluation of long-lived assets for impairment requires considerable judgment. Actual results could differ from those estimates and such differences could be material.

Reclassifications

Certain amounts related to warranty accruals and settlements were reclassified to conform to current period reporting presentation with no impact on financial position, loss from operations, or cash used in operations.

Certain risks and concentrations

We have certain customers whose net sales individually represented 10 percent or more of our total net sales, or whose net trade accounts receivable balance individually represented 10 percent or more of our total net trade accounts receivable, as follows:

For the three months ended June 30, 2018, sales to our primary distributor for the U.S. Navy, a global healthcare system located in Northeast Ohio and a regional commercial lighting retrofit company located in Texas accounted for approximately 29 percent, 15 percent and 11 percent of net sales respectively. When sales to our primary distributor for the U.S. Navy are combined with sales to a shipbuilder for the U.S. Navy, sales of products for the U.S. Navy comprised approximately 33 percent of net sales for the same period. For the three months ended June 30, 2017, sales to the global healthcare system located in Northeast Ohio and our primary distributor for the U.S. Navy each individually accounted for approximately 11 percent of net sales for the period. When sales to our primary distributor for the U.S. Navy are combined with sales to a shipbuilder for the U.S. Navy, sales of products for the U.S. Navy comprised approximately 12 percent of net sales.

For the six months ended June 30, 2018, sales to our primary distributor for the U.S. Navy and a global healthcare system located in Northeast Ohio accounted for approximately 37 percent and 12 percent, respectively. When sales to our primary distributor for the U.S. Navy are combined with sales to a shipbuilder for the U.S. Navy, sales of products for the U.S. Navy comprised approximately 41 percent of net sales for the same period. For the six months ended June 30, 2017, sales to a global healthcare system located in Northeast Ohio and our primary distributor for the U.S. Navy accounted for approximately 15 percent and 12 percent, respectively. When sales to our primary distributor for the U.S. Navy are combined with sales to a shipbuilder for the U.S. Navy, sales of products for the U.S. Navy comprised approximately 17 percent of net sales.

Our primary distributor for the U.S. Navy, the global healthcare system located in Northeast Ohio and a regional commercial lighting retrofit company located in Texas accounted for approximately 30 percent, 17 percent, and 12 percent of net trade accounts receivable, respectively, at June 30, 2018. At December 31, 2017, our primary distributor for the U.S. Navy, the global healthcare system located in Northeast Ohio, and a regional commercial lighting retrofit company located in Texas accounted for approximately 39 percent, 21 percent, and 17 percent of net trade accounts receivable, respectively.

Recent accounting pronouncements

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which significantly changes the accounting for credit losses on instruments within its scope. The new guidance introduces an approach based on expected losses to estimate credit losses on certain financial instruments, including trade receivables, and requires an entity to recognize an allowance based on its estimate of expected credit losses rather than incurred losses. This standard will be effective for interim and annual periods beginning after December 15, 2019, and will generally require adoption on a modified retrospective basis. We are in the process of evaluating the impact of the standard.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which supersedes the current lease accounting requirements. This standard requires a lessee to record on the balance sheet the assets and liabilities for the rights and obligations created by leases with lease terms of more than 12 months. In addition, this standard requires lessees to disclose certain key information about lease transactions. Upon implementation, an entity's lease payment obligations will be recognized at their estimated

ENERGY FOCUS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(Unaudited)

present value along with a corresponding right-of-use asset. Lease expense recognition will be generally consistent with current practice. This standard will be effective for interim and annual periods beginning after December 15, 2018, and will require adoption on a modified retrospective basis. We are in the process of evaluating the impact of the standard.

Update to significant accounting policies

Revenue

On January 1, 2018, we adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended by subsequently issued additional guidance (together, "ASC 606") using the modified retrospective method. The adoption of ASC 606 did not have a material impact on our consolidated financial position or results of operations, as our revenue arrangements generally consist of a single performance obligation to transfer promised goods at a fixed price.

Net sales include revenues from sales of products and shipping and handling charges, net of estimates for product returns. Revenue is measured at the amount of consideration we expect to receive in exchange for the transferred products. We recognize revenue at the point in time when we transfer the promised products to the customer and the customer obtains control over the products. We recognize revenue for shipping and handling charges at the time the goods are shipped to the customer, and the costs of outbound freight are included in cost of sales, as we have elected the practical expedient included in ASC 606. We provide for product returns based on historical return rates. While we incur costs for sales commissions to our sales employees and outside agents, we recognize commission costs concurrent with the related revenue, as the amortization period is less than one year and we have elected the practical expedient included in ASC 606. We do not incur incremental costs to obtain contracts with our customers. Our product warranties are assurance-type warranties, which promise the customer that the products are as specified in the contract. Therefore, the product warranties are not a separate performance obligation and are accounted for as described below. Sales taxes assessed by governmental authorities are accounted for on a net basis and are excluded from net sales.

The following table provides a disaggregation of product net sales for the periods presented:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net sales:				
Commercial	\$ 2,972	\$ 5,178	5,177	8,257
Military maritime	2,200	833	4,654	1,860
Total net sales	\$ 5,172	\$ 6,011	\$ 9,831	\$ 10,117

Accounts Receivable

Our trade accounts receivable consists of amounts billed to and currently due from customers. Credit is extended to customers based upon an evaluation of the customer's financial condition and the amounts due are stated at their estimated net realizable value. We maintain an allowance for doubtful accounts receivable to provide for the estimated amount of receivables that will not be collected. The allowance is based on an assessment of customer creditworthiness and historical payment experience, the age of outstanding receivables, and performance guarantees to the extent applicable. Past due amounts are written off when our internal collection efforts have been unsuccessful. Our standard payment terms with customers are net 30 days, and we do not generally offer extended payment terms to our customers. Accordingly, we do not adjust trade accounts receivable for the effects of financing, as we expect the period between the transfer of product to the customer and the receipt of payment from the customer to be in line with our standard payment terms.

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June 30, 2018
(Unaudited)

There have been no other material changes to our significant accounting policies, as compared to those described in our 2017 Annual Report.

Geographic information

Approximately 98 percent of our long-lived fixed assets are located in the United States, with the remainder located in our product development center in Taiwan. Net sales attributable to customers outside the United States accounted for approximately five percent and one percent of our net sales for the three months ended June 30, 2018 and 2017, respectively. Net sales attributable to customers outside the United States accounted for approximately three percent and one percent of our total net sales for the six months ended June 30, 2018 and 2017, respectively. The geographic location of our net sales is derived from the destination to which we ship the product.

Net loss per share

Basic loss per share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the period, excluding the effects of any potentially dilutive securities. Diluted loss per share gives effect to all dilutive potential common shares outstanding during the period. Dilutive potential common shares consist of incremental shares upon the exercise of stock options or release of restricted stock units unless the effect would be anti-dilutive.

As a result of the net loss we incurred for the three and six months ended June 30, 2018, approximately 87 thousand and 83 thousand potentially dilutive equity awards, respectively, were excluded from the net loss per share calculation, as their inclusion would have been anti-dilutive. As a result of the net loss we incurred for the three and six months ended June 30, 2017, approximately 64 thousand and 99 thousand potentially dilutive equity awards, respectively, were excluded from the net loss per share calculation for this same reason. Therefore, for the three and six months ended June 30, 2018 and 2017, the basic weighted average shares outstanding were used in calculating diluted loss per share.

The following is a reconciliation of the numerator and denominator of the basic and diluted net loss per share computations for the periods presented below (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net loss	\$ (1,804)	\$ (3,114)	\$ (4,194)	\$ (7,636)
Denominator:				
Basic weighted average common shares outstanding	11,949	11,791	11,925	11,755
Potential common shares from equity awards and warrants	—	—	—	—
Diluted weighted average shares	11,949	11,791	11,925	11,755

ENERGY FOCUS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(Unaudited)

Product warranties

Through March 31, 2016, we warranted finished goods against defects in material and workmanship under normal use and service for periods generally between one and five years. Beginning April 1, 2016, we warrant our commercial LED tubes, globes, and troffer luminaires for a period of ten years. Warranty settlement costs consist of actual amounts expensed for warranty, which are largely a result of the cost of replacement products provided to our customers. A liability for the estimated future costs under product warranties is maintained for products outstanding under warranty based on the actual claims incurred to date and the estimated nature, frequency, and costs of future claims. These estimates are inherently uncertain and changes to our historical or projected experience may cause material changes to our warranty reserves in the future. We continuously review the assumptions related to the adequacy of our warranty reserve, including product failure rates, and make adjustments to the existing warranty liability when there are changes to these estimates or the underlying replacement product costs, or the warranty period expires. Extending the warranty did not have a material impact on our condensed consolidated financial statements in 2017 or for the three and six months ended June 30, 2018. The following table summarizes warranty activity for the periods presented (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Balance at beginning of period	\$ 141	\$ 258	\$ 174	\$ 331
Warranty accruals for current period sales	7	31	15	44
Adjustments to existing warranties	55	(16)	54	(66)
In kind settlements made during the period	(7)	(94)	(47)	(130)
Accrued warranty reserve	\$ 196	\$ 179	\$ 196	\$ 179

NOTE 3. RESTRUCTURING

During the first quarter of 2017, we announced a restructuring initiative with a goal of significantly reducing annual operating costs from 2016 levels. The initiative included an organizational consolidation of management and oversight functions in order to streamline and better align the organization into more focused, efficient, and cost effective reporting relationships, and involved headcount reductions and office closures. This initiative was designed to return the Company to profitability and mitigate the substantial doubt that existed at December 31, 2016 about our ability to continue as a going concern. For additional information regarding the restructuring actions taken in the 2017, please refer to Note 3., "Restructuring," included under Item 8 of our 2017 Annual Report.

During the six months ended June 30, 2018, we recorded net restructuring credits totaling approximately \$50 thousand, primarily related to the revision of our initial estimates of the cost for the remaining lease obligation for our former Arlington, Virginia office. Restructuring adjustments recorded during the three months ended June 30, 2018 related to the accretion of the remaining lease obligations for the former New York, New York and Arlington, Virginia offices.

For the three months ended June 30, 2017, we recorded restructuring charges totaling approximately \$1.1 million, consisting of approximately \$0.9 million in facilities costs related to the remaining lease obligations for the former New York and Arlington offices, \$0.1 million in severance and related benefits, and \$0.1 million in other restructuring costs primarily related to fixed asset and prepaid expenses write-offs. For the six months ended June 30, 2017, we recorded restructuring charges totaling approximately \$1.7 million, consisting of approximately \$0.7 million in severance and related benefits, \$0.9 million in facilities costs related to the termination of the Rochester, Minnesota lease obligation and the remaining lease obligations for the former New York and Arlington offices, and \$0.1 million in other restructuring costs primarily related to fixed asset and prepaid expenses write-offs.

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Our restructuring liabilities consist of one-time termination costs for severance and benefits to former employees and estimated ongoing costs related to long-term operating lease obligations. The recorded value of the termination severance and benefits to employees approximates fair value, as the remaining obligation is based on the arrangements made with the former employees, and these obligations will be completely satisfied in less than 12 months. The recorded value of the ongoing lease obligations is based on the remaining lease term and payment amount, net of estimated sublease income, discounted to present value. Changes in subsequent periods resulting from a revision to either the timing or the amount of estimated cash flows over the future period are measured using the credit adjusted, risk-free rate that was used to measure the restructuring liabilities initially. We expect to incur insignificant additional costs over the remaining life of our lease obligations, but we do not anticipate further major restructuring activities in the near future. The following is a reconciliation of the beginning and ending balances of our restructuring liability:

	Severance and Related Benefits	Facilities	Total
Balance at January 1, 2018	\$ 62	\$ 340	\$ 402
Accretion of lease obligations	—	6	6
Adjustment of lease obligations	—	(56)	(56)
Payments	(62)	(6)	(68)
Balance at March 31, 2018	<u>\$ —</u>	<u>\$ 284</u>	<u>\$ 284</u>
Accretion of lease obligations	—	3	3
Payments	—	(25)	(25)
Balance at June 30, 2018	<u>\$ —</u>	<u>\$ 262</u>	<u>\$ 262</u>

While substantial doubt about our ability to continue as a going concern continued to exist at June 30, 2018, we had \$8.6 million in cash and no debt obligations at the end of the quarter. In addition, the restructuring actions taken in 2017 resulted in a decrease in total operating expenses, including restructuring charges, of approximately \$3.4 million in the first half of 2018 compared to the first half of 2017. Consequently, considering both quantitative and qualitative information, we continue to believe that the combination of our restructuring actions, current financial position, liquid resources, obligations due or anticipated within the next year, executive reorganization, and implementation of our sales channel strategy will return us to break-even levels in 2019 and effectively mitigates the substantial doubt about our ability to continue as a going concern.

NOTE 4. INVENTORIES

Inventories are stated at the lower of standard cost (which approximates actual cost determined using the first-in, first-out cost method) or net realizable value, and consist of the following (in thousands):

	June 30, 2018	December 31, 2017
Raw materials	\$ 3,003	\$ 3,316
Finished goods	6,523	6,598
Reserves for excess, obsolete, and slow moving inventories and valuation reserves	\$ (3,787)	\$ (4,196)
Inventories, net	<u>\$ 5,739</u>	<u>\$ 5,718</u>

NOTE 5. PROPERTY AND EQUIPMENT AND ASSETS HELD FOR SALE

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the related assets and consist of the following (in thousands):

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	June 30, 2018	December 31, 2017
Equipment (useful life 3 to 15 years)	\$ 1,582	\$ 1,557
Tooling (useful life 2 to 5 years)	371	371
Vehicles (useful life 5 years)	47	47
Furniture and fixtures (useful life 5 years)	137	137
Computer software (useful life 3 years)	1,043	1,043
Leasehold improvements (the shorter of useful life or lease life)	211	201
Projects in progress	62	55
Property and equipment at cost	3,453	3,411
Less: accumulated depreciation	(2,606)	(2,314)
Property and equipment, net	\$ 847	\$ 1,097

Depreciation expense was \$0.1 million and \$0.2 million the three months ended June 30, 2018 and 2017, respectively. Depreciation expense was \$0.3 million for each of the six months ended June 30, 2018 and 2017.

During the first quarter of 2018, we completed the sale of the equipment that we previously classified as held for sale. We received net proceeds from the sale of \$0.2 million and recognized a gain on the sale of approximately \$15 thousand. The gain on the sale is classified on our Condensed Consolidated Statements of Operations under the caption, "Other (income) expense."

NOTE 6. INCOME TAXES

As a result of the operating loss incurred during each of the three and six months ended June 30, 2018 and 2017, and after the application of the annual limitation set forth under Section 382 of the Internal Revenue Code ("IRC"), it was not necessary to record a provision for U.S. federal income tax or various states income taxes.

At June 30, 2018 and December 31, 2017, we had a full valuation allowance recorded against our deferred tax assets. The valuation allowance was recorded due to uncertainties related to our ability to realize the deferred tax assets, primarily consisting of certain net operating loss carry-forwards. The valuation allowance is based on management's estimates of taxable income by jurisdiction and the periods over which the deferred tax assets will be recoverable.

At December 31, 2017, we had a net operating loss carry-forward of approximately \$91.8 million for U.S. federal, state, and local income tax purposes. However, due to changes in our capital structure, approximately \$37.3 million of the net operating loss carry-forward is available to offset future taxable income, and after the application of the limitations found under Section 382 of the IRC, we expect to have approximately \$37.3 million of this amount available for use in 2018. If not used, these carry-forwards will begin to expire in 2021 for federal and have begun to expire for state and local purposes. For a full discussion of the estimated restrictions on our utilization of net operating loss carry-forwards, please refer to Note 11, "Income Taxes," included under Item 8 of our 2017 Annual Report.

NOTE 7. STOCKHOLDERS' EQUITY

Stock-based compensation

Stock-based compensation expense is attributable to stock options and restricted stock unit awards. For all stock-based awards, we recognize expense using a straight-line amortization method.

The following table summarizes stock-based compensation expense and the impact it had on operations for the periods presented (in thousands):

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	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Cost of sales	\$ 10	\$ 12	\$ 19	\$ 30
Product development	30	16	55	29
Selling, general, and administrative	195	198	356	374
Total stock-based compensation	<u>\$ 235</u>	<u>\$ 226</u>	<u>\$ 430</u>	<u>\$ 433</u>

The table above excludes approximately \$0.3 million in stock-based compensation expense from prior periods that was reversed and included as a reduction to restructuring expenses due to the workforce reduction associated with our restructuring actions in the first quarter of 2017.

Total unearned stock-based compensation was \$1.3 million at June 30, 2018, compared to \$1.1 million at June 30, 2017. These costs will be charged to expense and amortized on a straight-line basis in future periods. The weighted average period over which the unearned compensation at June 30, 2018 is expected to be recognized is approximately 2.1 years.

Stock options

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

	Six months ended June 30,	
	2018	2017
Fair value of options issued	\$ 1.74	\$ 2.72
Exercise price	\$ 2.46	\$ 3.63
Expected life of options (in years)	5.8	5.8
Risk-free interest rate	2.3%	2.1%
Expected volatility	84.3%	91.9%
Dividend yield	0.0%	0.0%

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A summary of option activity under all plans for the six months ended June 30, 2018 is presented as follows:

	Number of Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (in years)
Balance at December 31, 2017	248,512	\$ 5.76	
Granted	25,035	2.46	
Exercised	—	—	
Canceled/forfeited	(21,428)	9.94	
Expired	(10,000)	20.00	
Balance at June 30, 2018	<u>242,119</u>	<u>\$ 4.46</u>	<u>7.8</u>
Vested and expected to vest at June 30, 2018	<u>226,357</u>	<u>\$ 4.56</u>	<u>7.8</u>
Exercisable at June 30, 2018	<u>139,578</u>	<u>\$ 5.45</u>	<u>7.1</u>

Restricted stock units

A summary of restricted stock unit activity under all plans for the six months ended June 30, 2018 is presented as follows:

	Restricted Stock Units	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (in years)
Balance at December 31, 2017	306,142	\$ 3.37	
Granted	503,183	2.44	
Released	(180,293)	3.18	
Canceled/forfeited	(24,120)	3.51	
Balance at June 30, 2018	<u>604,912</u>	<u>\$ 2.65</u>	<u>2.7</u>

NOTE 8. COMMITMENTS AND CONTINGENCIES

We may be the subject of threatened or pending legal actions and contingencies in the normal course of conducting our business. We provide for costs related to these matters when a loss is probable and the amount can be reasonably estimated. The effect of the outcome of these matters on our future results of operations and liquidity cannot be predicted because any such effect depends on future results of operations and the amount or timing of the resolution of such matters. For certain types of claims, we maintain insurance coverage for personal injury and property damage, product liability and other liability coverages in amounts and with deductibles that we believe are prudent, but there can be no assurance that these coverages will be applicable or adequate to cover adverse outcomes of claims or legal proceedings against us.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements and related notes thereto, included under Item 1 of this Quarterly Report, as well as the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" included under Item 7 of our 2017 Annual Report.

Overview

Energy Focus, Inc. and its subsidiary engage in the design, development, manufacturing, marketing, and sale of energy-efficient lighting systems. We operate in a single industry segment, developing and selling our energy-efficient light-emitting diode ("LED") lighting products into the general commercial, industrial, and military maritime markets. Our mission is to enable our customers to run their facilities with greater energy efficiency, productivity, and wellness through advanced LED retrofit solutions. Our goal is to be the retrofit technology and market leader for the most demanding applications where performance, quality, and health really matter. We specialize in LED lighting retrofit by replacing fluorescent lamps in general purpose and high-intensity discharge ("HID") lighting in low-bay and high-bay applications with our innovative, high-quality commercial and military tubular LED ("TLED") and other LED products.

Net sales decreased by 2.8 percent for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017. For the six months ended June 30, 2018, net sales of our commercial products decreased by 37.3 percent, while sales to our military maritime market more than doubled, compared to the six months ended June 30, 2017. Despite the decline in our commercial sales compared to the first six months of 2017, we continued to expand sales through the national agency channel strategy we implemented in the middle of 2017, with agency sales increasing 5.9 percent during the second quarter of 2018 compared to the first quarter of 2018. In connection with this national strategy, we continue to achieve increased penetration in the Southeast and Western regions, where the total sales for these regions increased 90.7 percent during the first six months of 2018 compared to the first six months of 2017. The sale cycles for our commercial target markets typically span several months and our financial results reflect continued fluctuations in the timing, pace, and size of commercial projects. The ramp of the agency channel is subject to these same conditions, as well as the cycle of training and educating sales agents and their corresponding end customers. The sale cycles for the military maritime market is dependent on many factors, including the availability of government funding, the timing and fulfillment of U.S. Navy awards, new ship construction and the timing of vessel maintenance schedules.

The restructuring actions taken in 2017 resulted in a decrease in operating expenses of approximately \$1.9 million in the first six months of 2018 over the first six months of 2017. At June 30, 2018, we had \$8.6 million in cash and no debt. As a result of our first quarter 2017 restructuring initiatives, we have reduced our operating expenses to be more commensurate with our sales volumes, however, we continue to incur losses and have a substantial accumulated deficit, raising substantial doubt about our ability to continue as a going concern at June 30, 2018. We continue to believe that the combination of our restructuring actions, current financial position, liquid resources, obligations due or anticipated within the next year, executive reorganization, and implementation of our sales channel strategy will return us to profitability in 2019 and effectively mitigates substantial doubt about our ability to continue as a going concern.

Results of operations

The following table sets forth items in our Condensed Consolidated Statements of Operations as a percentage of net sales for the periods indicated:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	74.9	75.0	78.5	79.6
Gross profit	25.1	25.0	21.5	20.4
Operating expenses:				
Product development	13.0	12.7	13.2	15.2
Selling, general, and administrative	46.8	46.2	51.6	63.3
Restructuring	0.1	17.6	(0.5)	17.1
Total operating expenses	59.9	76.5	64.3	95.6
Loss from operations	(34.8)	(51.5)	(42.8)	(75.2)
Other expenses (income):				
Interest expense	—	—	—	—
Other (income) expense	—	0.2	(0.2)	0.2
Loss from operations before income taxes	(34.8)	(51.7)	(42.6)	(75.4)
Provision for income taxes	—	—	—	—
Net loss	(34.8)%	(51.7)%	(42.6)%	(75.4)%

Net sales

A further breakdown of our net sales is presented in the following table (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Commercial products	\$ 2,972	\$ 5,178	\$ 5,177	\$ 8,257
Military maritime products	2,200	833	4,654	1,860
Total net sales	<u>\$ 5,172</u>	<u>\$ 6,011</u>	<u>\$ 9,831</u>	<u>\$ 10,117</u>

Net sales of \$5.2 million for the second quarter of 2018 decreased 14.0 percent compared to the second quarter of 2017 principally due to lower commercial product sales, partially offset by an increase in military product sales. Net sales of our commercial products decreased 42.6 percent compared to the second quarter of 2017, reflecting fluctuations in the timing, pace, and size of commercial projects. Net sales of our military maritime products increased 164.1 percent, primarily due to increased sales of our military globe, berth light, flood light and fixture product lines.

Net sales of \$9.8 million for the first six months of 2018 decreased 2.8 percent compared to the second quarter of 2017 principally due to lower commercial product sales, partially offset by an increase in military product sales. Net sales of our commercial products decreased 37.3 percent compared to the second quarter of 2017, reflecting fluctuations in the timing, pace, and size of commercial projects. Net sales of our military maritime products increased 150.2 percent, primarily due to increased sales of our military globe, berth light, flood light and fixture product lines.

Gross profit

Gross profit was \$1.3 million, or 25.1 percent of net sales, for the second quarter of 2018, compared to \$1.5 million, or 25.0 percent of net sales, for the second quarter of 2017. As a result of current manufacturing and sales volumes, the second quarter 2018 gross margin includes unfavorable manufacturing variances and absorption of \$0.3 million, or 5.6 percent of net sales, while the second quarter 2017 gross margin included unfavorable manufacturing variances and absorption of \$0.1 million, or 2.3 percent of net sales.

Gross profit was \$2.1 million, or 21.5 percent of net sales, for the first six months of 2018 compared to \$2.1 million, or 20.4 percent of net sales, for the first six months of 2017. As a result of current manufacturing and sales volumes, gross margin for the first six months of 2018 included unfavorable manufacturing variances and absorption of \$0.6 million, or 5.7 percent of net sales, partially offset by net favorable excess inventory reserve adjustments of \$0.4 million, or 4.0 percent of net sales, for items sold during the first six months of 2018 that were previously reserved for as excess inventory. For the first six months of 2017, gross margin included unfavorable manufacturing variances and absorption of \$0.4 million, or 4.4 percent of net sales, partially offset by net favorable excess inventory reserve adjustments of \$0.2 million, or 1.8 percent of net sales.

Operating expenses

Product development

Product development expenses include salaries and related expenses, contractor and consulting fees, legal fees, supplies and materials, as well as overhead, such as depreciation and facility costs. Product development costs are expensed as they are incurred.

Product development expenses were \$0.7 million for the second quarter of 2018, a \$0.1 million decrease compared to \$0.8 million for the second quarter of 2017. The decrease was primarily a result of lower product testing expenses and legal fees due to the timing of new product introductions and new product patent activities.

Product development expenses were \$1.3 million for the first six months of 2018, a \$0.2 million decrease compared to \$1.5 million for the first six months of 2017. The decrease was primarily a result of lower product testing expenses and legal fees due to the timing of new product introductions and new product patent activities, as well as lower rent, utilities depreciation and office expenses as a result of the February 2017 restructuring initiatives.

Selling, general, and administrative

Selling, general, and administrative expenses were \$2.4 million for the second quarter of 2018, compared to \$2.8 million for the second quarter of 2017. The primary drivers of the lower expenses were decreases of \$0.1 million in each of the following categories: salaries and related benefits, consultants and legal expenses. The lower expenses were partially offset by increased sales commissions of \$0.1 million, as a result of the Company's transition to the sales agency model.

Selling, general, and administrative expenses were \$5.1 million for the first six months of 2018, compared to \$6.4 million for the first six months of 2017. The \$1.3 million decrease in selling, general, and administrative expenses is the direct result of our February 2017 restructuring initiatives to reduce operating expenses. The primary drivers of the lower expenses were decreases in salaries and related benefits of \$0.5 million, consulting expenses of \$0.3 million, trade show and other marketing expenses of \$0.2 million, and decreases of \$0.1 million in each of the following categories: travel and related expenses, rent expense, and legal expense. The lower expenses were partially offset by increased sales commissions of \$0.1 million, as a result of the Company's transition to the sales agency model.

Restructuring

In the first quarter of 2017, we announced a restructuring initiative with a goal of significantly reducing annual operating costs from 2016 levels. The initiative included an organizational consolidation of management and oversight functions in order to streamline and better align the organization into more focused, efficient, and cost effective reporting relationships, and involved headcount reductions and office closures. This initiative was designed to return the Company to profitability and mitigate the substantial doubt that existed at December 31, 2016 about our ability to continue as a going concern. For additional information regarding the restructuring actions taken in the 2017, please refer to Note 3, "Restructuring," included under Item 8 of our 2017 Annual Report.

For the three months ended June 30, 2017, we recorded restructuring charges totaling approximately \$1.1 million, consisting of approximately \$0.9 million in costs related to facilities lease obligations, \$0.1 million in severance and related benefits, and \$0.1 million in other restructuring costs. Restructuring expenses for the three months ended June 30, 2018 consisted of insignificant accretion and other adjustments related to the facilities lease obligations.

For the six months ended June 30, 2017, we recorded restructuring charges totaling approximately \$1.7 million, consisting of approximately \$0.7 million in severance and related benefits, \$0.9 million in costs related to facilities lease obligations, and \$0.1 million in other restructuring costs. Restructuring expenses for the three and six months ended June 30, 2018 consisted of insignificant accretion and other adjustments related to the facilities lease obligations.

While substantial doubt about our ability to continue as a going concern continued to exist at June 30, 2018, we had \$8.6 million in cash and no debt obligations at the end of the quarter. In addition, the restructuring actions taken in 2017 resulted in a decrease in total operating expenses of \$3.4 million during in the six months ended June 30, 2018 compared to the six months ended June 30, 2017. Consequently, considering both quantitative and qualitative information, we continue to believe that the combination of our restructuring actions, current financial position, liquid resources, obligations due or anticipated within the next year, executive reorganization, and implementation of our sales channel strategy will return us to break-even levels in 2019 and effectively mitigates the substantial doubt about our ability to continue as a going concern.

Other income and expenses

Other expense was \$2 thousand for the second quarter of 2018, compared to \$14 thousand for the second quarter of 2017. Other income was \$19 thousand for the six months ended June 30, 2018 compared to other expense of \$21 thousand for the same period of 2017.

Provision for (benefit from) income taxes

Due to the operating losses incurred during the three and six months ended June 30, 2018 and 2017, and after application of the annual limitation set forth under Section 382 of the IRC, it was not necessary to record a provision for U.S. federal income tax or various states income taxes.

Net loss

For three months ended June 30, 2018, our net loss was \$1.8 million, compared to \$3.1 million for the three months ended June 30, 2017. The reduction in net loss was principally due to our restructuring initiatives, resulting in lower overall operating expenses of \$1.5 million, including a reduction of \$1.1 million in restructuring expenses.

For the six months ended June 30, 2018, our net loss was \$4.2 million, compared to \$7.6 million for the six months ended June 30, 2017. The reduction in net loss was principally due to our restructuring initiatives, resulting in lower overall operating expenses of \$3.4 million, including a reduction of \$1.8 million in restructuring expenses.

Financial condition

While we had cash and cash equivalents of \$8.6 million at June 30, 2018 and no debt, we have historically incurred substantial losses, and as of June 30, 2018, we had an accumulated deficit of \$112.4 million. Additionally, our sales have been concentrated in a few major customers and for the six months ended June 30, 2018, two customers accounted for approximately 37 percent and 12 percent of net sales.

In order for us to operate our business profitably, we will need to continue to develop new technologies into sustainable product lines that allow us to effectively compete to expand our customer base, execute our marketing and sales plans for our energy-efficient LED lighting products, and continue to improve our supply chain and organizational structure. The restructuring and cost cutting initiatives implemented during 2017 were designed to allow us to effectively execute this strategy.

There is a risk that our efforts may not be as successful as we envision, as we focus on expanding our customer base and growing net sales from commercial customers in our targeted vertical markets. Additionally, while we remain dedicated to serving the U.S. Navy, new competition may prevent us from securing sales at our historic levels. If our operations do not achieve, or we experience an unanticipated delay in achieving, our intended level of profitability, we may require additional funding.

We terminated our revolving credit facility effective December 31, 2015, and are not actively pursuing securing a new line of credit at this time. There can be no assurance that we will generate sufficient cash flows to sustain and grow our operations or, if necessary, obtain funding on acceptable terms or in a timely fashion or at all. As such, we may continue to review and pursue selected external funding sources to execute these objectives including, but not limited to, the following:

- obtain financing from traditional or non-traditional investment capital organizations or individuals; and
- obtain funding from the sale of our common stock or other equity or debt instruments.

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

- additional equity financing may not be available to us on satisfactory terms and any equity that we are able to issue could lead to dilution of stockholder value for current stockholders;
- loans or other debt instruments may have terms and/or conditions, such as interest rate, restrictive covenants and unfavorable control or revocation provisions or would restrict our growth opportunities; and
- the current environment in capital markets combined with our capital constraints may prevent us from being able to obtain adequate debt financing.

If we fail to generate cash to grow our business, we would need to delay or scale back our business plan and further reduce our operating costs or headcount, each of which could have a material adverse effect on our business, future prospects, and financial condition.

Liquidity and capital resources

Cash and cash equivalents

At June 30, 2018, our cash and cash equivalents balance was approximately \$8.6 million, compared to approximately \$10.8 million at December 31, 2017. The balance at June 30, 2018 and December 31, 2017 included restricted cash of \$0.3 million for a letter of credit requirement under a lease obligation.

The following summarizes cash flows from operating, investing, and financing activities, as reflected in the Condensed Consolidated Statements of Cash Flows (in thousands):

	Six months ended	
	June 30,	
	2018	2017
Net cash used in operating activities	\$ (2,300)	\$ (3,148)
Net cash provided by (used in) investing activities	\$ 183	\$ (43)
Net cash (used in) provided by financing activities	\$ (18)	\$ 56

Net cash used in operating activities

Net cash used in operating activities was \$2.3 million for the six months ended June 30, 2018, and resulted primarily from the net loss incurred of \$4.2 million, adjusted for non-cash items, including: depreciation, stock-based compensation, and provisions for inventory and warranty reserves, and working capital changes. During the six months ended June 30, 2018, we generated cash of \$1.5 million through an increase in accounts payable, due to our payment terms with our vendors; \$0.4 million through reduction in our inventory, due to the volume and timing of inventory receipts; and \$0.2 million through the collection of accounts receivable, due to the timing and volume of our shipments in December 2017 compared to June 2018. Partially offsetting these increases in cash, was an increase in prepaid and other assets of \$0.4 million, related to deposits paid to our contract manufacturers on inventory to be shipped in subsequent quarters.

Net cash used in operating activities was \$3.1 million for the six months ended June 30, 2017, and resulted from the net loss incurred of \$7.6 million, adjusted for non-cash items, including: depreciation, stock-based compensation, and provisions for inventory and warranty reserves, and working capital changes. In the first half of 2017, trade accounts receivable decreased \$2.2 million due to the timing and volume of our shipments in December 2016 compared to June 2017. In addition, during the first half of 2017, inventory balances decreased, as we sold product on-hand, while trade accounts payable, principally related to inventory purchases, remained relatively flat, as we received inventory on orders that were placed with our contract manufacturers during the first quarter of 2017.

Net cash provided by (used in) investing activities

Net cash provided by investing activities was \$183 thousand for the six months ended June 30, 2018, and resulted primarily from the sale of certain equipment previously classified as held for sale, partially offset by purchases of computer equipment, equipment to support production operations, and leasehold improvements. Net cash used in investing activities was \$43 thousand for the six months ended June 30, 2017, and resulted primarily from acquisitions of software and equipment to support our production operations.

Net cash (used in) provided by financing activities

Net cash used in financing activities during the six months ended June 30, 2018 was \$18 thousand, resulting from issuing and immediately repurchasing our stock for employee tax withholding related to restricted stock unit vesting during the period. Net cash provided by financing activities during the six months ended June 30, 2017 was \$56 thousand, resulting from the proceeds received for the exercise of stock options and employee stock purchase plan purchases, partially offset by the effect of issuing and immediately repurchasing our stock for employee tax withholding related to restricted stock unit vesting.

Contractual obligations

There have been no material changes to our contractual obligations as compared to those included in our 2017 Annual Report.

Critical accounting policies

Revenue

On January 1, 2018, we adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended by subsequently issued additional guidance (together, "ASC 606") using the modified retrospective method. The adoption of ASC 606 did not have a material impact on our consolidated financial position or results of operations, as our revenue arrangements generally consist of a single performance obligation to transfer promised goods at a fixed price.

Net sales include revenues from sales of products and shipping and handling charges, net of estimates for product returns. Revenue is measured at the amount of consideration we expect to receive in exchange for the transferred products. We recognize revenue at the point in time when we transfer the promised products to the customer and the customer obtains control over the products. We recognize revenue for shipping and handling charges at the time the goods are shipped to the customer, and the costs of outbound freight are included in cost of sales, as we have elected the practical expedient included in ASC 606. We provide for product returns based on historical return rates. While we incur costs for sales commissions to our sales employees and outside agents, we recognize commission costs concurrent with the related revenue, as the amortization period is less than one year and we have elected the practical expedient included in ASC 606. We do not incur incremental costs to obtain contracts with our customers. Our product warranties are assurance-type warranties, which promise the customer that the products are as specified in the contract. Therefore, the product warranties are not a separate performance obligation and are accounted for as described above. Sales taxes assessed by governmental authorities are accounted for on a net basis and are excluded from net sales.

The following table provides a disaggregation of product net sales for the periods presented:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net sales:				
Commercial	\$ 2,972	\$ 5,178	\$ 5,177	\$ 8,257
Military maritime	2,200	833	4,654	1,860
Total net sales	\$ 5,172	\$ 6,011	\$ 9,831	\$ 10,117

Accounts Receivable

Our trade accounts receivable consists of amounts billed to and currently due from customers. Credit is extended to customers based upon an evaluation of the customer's financial condition and the amounts due are stated at their estimated net realizable value. We maintain an allowance for doubtful accounts receivable to provide for the estimated amount of receivables that will not be collected. The allowance is based on an assessment of customer creditworthiness and historical payment experience, the age of outstanding receivables, and performance guarantees to the extent applicable. Past due amounts are written off when our internal collection efforts have been unsuccessful. Our standard payment terms with customers are net 30 days, and we do not generally offer extended payment terms to our customers. Accordingly, we do not adjust trade accounts receivable for the effects of financing, as we expect the period between the transfer of product to the customer and the receipt of payment from the customer to be in line with our standard payment terms.

There have been no other material changes to our critical accounting policies as compared to those included in our 2017 Annual Report.

Certain risks and concentrations

We had certain customers whose net sales individually represented 10 percent or more of our total net sales, or whose net trade accounts receivable balance individually represented 10 percent or more of our total net trade accounts receivable, as follows:

For the three months ended June 30, 2018, sales to our primary distributor for the U.S. Navy, a global healthcare system located in Northeast Ohio and a regional commercial lighting retrofit company located in Texas accounted for approximately 29 percent, 15 percent and 11 percent of net sales respectively. When sales to our primary distributor for the U.S. Navy are combined with sales to a shipbuilder for the U.S. Navy, sales of products for the U.S. Navy comprised approximately 33 percent of net sales for the same period. For the three months ended June 30, 2017, sales to the global healthcare system located in Northeast Ohio and our primary distributor for the U.S. Navy each individually accounted for approximately 11 percent of net sales for the period. When sales to our primary distributor for the U.S. Navy are combined with sales to a shipbuilder for the U.S. Navy, sales of products for the U.S. Navy comprised approximately 12 percent of net sales.

For the six months ended June 30, 2018, sales to a global healthcare system located in Northeast Ohio and our primary distributor for the U.S. Navy accounted for approximately 37 percent and 12 percent, respectively. When sales to our primary distributor for the U.S. Navy are combined with sales to a shipbuilder for the U.S. Navy, sales of products for the U.S. Navy comprised approximately 41 percent of net sales for the same period. For the six months ended June 30, 2017, sales to a global healthcare system located in Northeast Ohio and our primary distributor for the U.S. Navy accounted for approximately 15 percent and 12 percent, respectively. When sales to our primary distributor for the U.S. Navy are combined with sales to a shipbuilder for the U.S. Navy, sales of products for the U.S. Navy comprised approximately 17 percent of net sales.

Our primary distributor for the U.S. Navy, the global healthcare system located in Northeast Ohio and regional commercial lighting retrofit companies located in Texas accounted for approximately 30 percent, 17 percent, and 12 percent of net trade accounts receivable, respectively, at June 30, 2018. At December 31, 2017, our primary distributor for the U.S. Navy, the global healthcare system located in Northeast Ohio, and a regional commercial lighting retrofit company located in Texas accounted for approximately 39 percent, 21 percent, and 17 percent of net trade accounts receivable, respectively.

Recent accounting pronouncements

For information on recent accounting pronouncements, please refer to Note 2, "Basis of Presentation and Summary of Significant Accounting Policies," included under Part I, Item 1 of this Quarterly Report.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures

We maintain “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Our disclosure controls and procedures have been designed to meet reasonable assurance standards. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. Any design of disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that, subject to the limitations noted above, our disclosure controls and procedures were effective as of June 30, 2018.

(b) Changes in internal control over financial reporting

There has been no material change in our internal control over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act) during the three months ended June 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1A. RISK FACTORS

There have been no material changes to our risk factors, as compared to those described in our 2017 Annual Report.

ITEM 6. EXHIBITS

The information required by this Item is set forth on the Exhibit Index that follows the signature page of this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ENERGY FOCUS, INC.

Date: August 8, 2018

By: /s/ Theodore L. Tewksbury III
Theodore L. Tewksbury III
Chairman, Chief Executive Officer and President

By: /s/ Jerry Turin
Jerry Turin
Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description of Documents
3.1	<u>Certificate of Incorporation of Energy Focus, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed on November 13, 2013).</u>
3.2	<u>Certificate of Amendment to the Certificate of Incorporation of Energy Focus, Inc. filed with the Secretary of State of the State of Delaware on July 16, 2014 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on July 16, 2014).</u>
3.3	<u>Certificate of Amendment to the Certificate of Incorporation of Energy Focus, Inc. filed with the Secretary of State of the State of Delaware on July 24, 2015 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on July 27, 2015).</u>
10.1	<u>Chief Financial Officer Offer Letter and Change in Control Participation Agreement dated May 18, 2018 between Jerry Turin and Energy Focus, Inc. (filed with this Report).</u>
10.2	<u>Separation Agreement and Release dated May 22, 2018 between Michael H. Port and Energy Focus, Inc. (filed with this Report).</u>
31.1	<u>Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
*101	The following financial information from our Quarterly Report for the quarter ended September 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at September 30, 2017 and December 31, 2016, (ii) Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2017 and 2016, (iii) Condensed Consolidated Statements of Comprehensive Loss for the three and nine months ended September 30, 2017 and 2016, (iv) Condensed Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2017, (v) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016, and (vi) the Notes to Condensed Consolidated Financial Statements.
*	Pursuant to Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.



May 18, 2018

Jerry Turin
890 Whispering Pines Drive
Scotts Valley, CA 95066

Dear Jerry,

It is with great enthusiasm that we extend to you this formal offer of employment for the position of Chief Financial Officer (CFO) with Energy Focus, Inc., based in San Jose, California. Upon acceptance of this offer we anticipate a start date of May 29, 2018. In this position, you report directly to Dr. Ted Tewksbury, Chairman, CEO and President. This offer is contingent upon successful completion of numbered items 10 and 11 below and approval by the Company's Board of Directors.

Our offer for employment includes:

1. **Base salary** – Your starting annualized salary will be \$300,000. We pay on a bi-weekly basis which computes to \$11,538.46 per pay period. All salary payments are paid one week in arrears and are contingent on your ongoing active employment status.
2. **Performance Bonus** – You will be eligible to earn an annual discretionary bonus. This bonus is based upon the Company's financial performance and your individual performance. Payment of the bonus is contingent upon your continued employment with the Company at the time bonus is paid and will be paid in accordance with the Bonus Plan approved by the Board of Directors. The current bonus target for the CFO position is 50% of your annual base salary. Your bonus payout for 2018 will be guaranteed to be a minimum of 25% of your salary.
3. **Equity Awards** – A recommendation will be made to the Board of Directors requesting the grant of Stock Options and RSUs having a total grant date value of approximately 75% of your salary. This grant will be recommended as a combination of RSUs and Options, consisting of 50% of such value in RSUs (with the number of units calculated using the 30-day average closing price of the Company's stock for the period ending on the last trading day prior to the grant date) and a grant of non-qualified stock options for a number of shares equal to the RSU award amount times 1.5.

You are eligible to receive annual equity awards under the Company's Equity Award Policy. The Policy, designed to provide incentive compensation to employees to drive long range growth, allows the company's Board of Directors to issue executive award grants on an annual basis. The issuance of annual awards is not guaranteed and may be modified or discontinued at any time by the Company's Board of Directors. The current annual award target for the CFO position is 50% of your annual base salary.

4. **Change in Control Plan** – You will participate in the Company's Change in Control Plan pursuant to the Participant Agreement entered into contemporaneously herewith and attached hereto as Appendix A.
5. **Benefits** – You are entitled to participate in the standard benefits program, which the company offers to its eligible employees. A summary of the programs currently in place is set forth below. The specific terms of each benefit apply.
 - A. **Medical, Dental, Vision benefits** – You and your eligible dependents will be eligible for company medical, dental and vision benefit programs effective with your first day of employment. The company pays full medical, dental, and vision benefits for the HSA plan, there is no payroll deduction towards

- the cost of these premiums. The company also offers a PPO plan where the employee cost is available to be paid through payroll deduction.
- B. **Life Insurance benefits** – You will be eligible for \$50,000 of group term life insurance at no cost to you effective with your first day of employment. Additional voluntary life insurance is available for you and your dependents at your own cost.
 - C. **STD/LTD benefits** – You will be eligible for both short-term and long-term disability benefits at no cost to you effective with your first day of employment.
 - D. **Company 401(k)** – You will be eligible to participate in the company's 401(k) program on the first of the month following three months of employment.
 - E. **Employee Stock Purchase Plan** – You will be eligible to participate in the company's stock purchase plan. Note this plan allows you to purchase the Company's stock at a 15% discount through payroll deduction. Entrance dates are January 1 and July 1 every year.
 - F. **Vacation/Holidays** – In addition to the company's 10 paid holidays and 3 annual Personal Days, we are pleased to offer you paid time off (PTO) hours that will start accruing on your first day of employment. We offer you three weeks of PTO. You will accrue 120 hours or 15 days of PTO over 12 months. PTO hours accrue every two weeks on your pay date. You will be eligible for a third week of PTO at your 1st employment anniversary date.
6. **Expenses** – Energy Focus will reimburse you for all company approved business travel and entertainment expenses within the guidelines of the company's Travel and Entertainment Expense Policy. All T/E expenses must be submitted via expense reports including receipts.
 7. **New Hire Documentation**– As part of the hiring process, you will be required to complete certain Federal, State and company documentation. In compliance with federal law, all persons hired will be required to verify identity and eligibility to work in the United States and to complete the required employment eligibility verification document form upon hire.
 8. **Company Handbook/Confidentiality Agreement** – Due to the large amount of intellectual property and other company propriety factors as well as company rules and standards, we require you to sign several agreements upon joining the company that confirm your commitment to confidentiality, code of conduct and ethical behavior.
 9. **At Will Employment** – The employment relationship between you and the Company shall be "at will"; terminable by either party at any time for any or no reason.
 10. **Pre-Employment Drug Screen** – The offer of employment contained in this letter is contingent upon you successfully completing and passing a pre-employment drug screen. Please be sure to bring with you a valid driver's license when going to your pre-employment drug test. The testing locations and other testing information will be given to you after your acceptance of the employment offer and you will be required to take the test prior to your first day.
 11. **Background Check** – Prior to or immediately following your start date a background screening will be completed. A release statement will be provided to you for completion and submission to me in order to facilitate the screen.



Jerry, we believe that this is an excellent career opportunity and an ideal time to be joining Energy Focus. We believe that you are an outstanding fit to help us take the company to the next level and we look forward to having you on our team. If you have any questions, please don't hesitate to call me. Please note that this offer letter is set to expire on May 21, 2018.

Best regards,

/s/ Dr. Ted Tewksbury

Dr. Ted Tewksbury
Chairman, CEO & President
Energy Focus, Inc.

Accepted by Jerry Turin (Sign and Date below)

/s/ Jerry Turin May 19, 2018

32000 Aurora Road, Solon, OH 44139 • www.energyfocus.com • 800.327.7877



Appendix A

ENERGY FOCUS, INC. CHANGE IN CONTROL BENEFIT PLAN PARTICIPATION AGREEMENT

Name: Jerry Turin

Section 1. ELIGIBILITY.

You have been designated as eligible to participate in the Energy Focus, Inc. Change in Control Benefit Plan (the “Plan”), a copy of which is attached as EXHIBIT A to this Participation Agreement (the “Agreement”). Capitalized terms not explicitly defined in this Agreement but defined in the Plan shall have the same definitions as in the Plan.

Section 1. SEVERANCE BENEFITS.

Subject to the terms of the Plan, if you are terminated in an Involuntary Termination, and meet all the other eligibility requirements set forth in the Plan, including, without limitation, executing the required Release within the applicable time period set forth therein and provided that such Release becomes effective in accordance with its terms, you will receive the severance benefits set forth in this Section 2. Notwithstanding the schedule for provision of severance benefits as set forth below, the provision of any severance benefits under this Section 2 is subject to any delay in payment that may be required under Section 5 of the Plan.

(a) Base Compensation Severance Benefit. You will be entitled to receive a single lump sum cash payment equal to one times the sum of (a) your Annual Base Salary plus (b) your Target Bonus (the “Base Compensation Severance Benefit”). The Base Compensation Severance Benefit will be payable to you within 10 business days following the effective date of your Release.

(b) Target Bonus Severance Benefit. You will be entitled to receive a single lump sum cash payment equal to a pro-rata portion of your Target Bonus, with such pro-rata portion calculated with reference to the number of days in the calendar year that precedes the date of the Involuntary Termination divided by the number of days in the calendar year that includes the date of the Involuntary Termination. (the “Target Bonus Severance Benefit”). The Target Bonus Severance Benefit will be payable to you within 10 business days following the effective date of your Release.

(c) Accelerated Vesting of Stock Awards.

(1) Effective as of the effective date of your Release, to the extent not previously vested and notwithstanding anything to the contrary set forth in an applicable award agreement or the applicable Equity Plan under which such award was granted, the restrictions and conditions applicable to any equity awards of the Company held by you (the “Awards”), shall lapse and such Awards shall immediately be fully



vested upon a Change in Control and any performance-based Award shall be deemed fully earned at the target amount as of the date on which the Change of Control occurs (collectively, the “Vested Awards”). Unless determined otherwise by the Plan Administrator in accordance with the terms of the applicable Equity Plan (such as to provide for a cash-out of vested options) or as otherwise set forth in the Plan, (ii) all Vested Awards that are stock unit awards or other stock-based awards shall be settled or paid within thirty (30) days of vesting hereunder, and (iii) all Vested Awards that are options and stock appreciation rights shall remain exercisable until the earlier of the third anniversary of such Change in Control (or any later date until which it would remain exercisable under such circumstances by its terms) or the expiration of its original term. Notwithstanding the foregoing, this Section 2(c) shall not apply to stock awards issued under or held in any Qualified Plan.

(d) Payment of Continued Group Health Plan Benefits.

(1) If you timely elect continued group health plan continuation coverage under COBRA the Company shall pay the full amount of your COBRA premiums, or shall provide coverage under any self-funded plan, on behalf of you for your continued coverage under the Company’s group health plans, including coverage for your eligible dependents, for twelve (12) months following your Involuntary Termination (the “COBRA Payment Period”). The appropriate COBRA Payment Period will be determined by your position at the time of your Involuntary Termination but prior to any reduction for which you exercise your right to resign for Good Reason. Upon the conclusion of such period of insurance premium payments made by the Company, or the provision of coverage under a self-funded group health plan, you will be responsible for the entire payment of premiums (or payment for the cost of coverage) required under COBRA for the duration of your eligible COBRA coverage period. For purposes of this Section, (i) references to COBRA shall be deemed to refer also to analogous provisions of state law and (ii) any applicable insurance premiums that are paid by the Company shall not include any amounts payable by you under an Internal Revenue Code Section 125 health care reimbursement plan, which amounts, if any, are your sole responsibility.

(2) Notwithstanding the foregoing, if at any time the Company determines, in its sole discretion, that it cannot provide the COBRA premium benefits without potentially incurring financial costs or penalties under applicable law (including, without limitation, Section 2716 of the Public Health Service Act), then in lieu of paying COBRA premiums on your behalf, the Company will instead pay you on the last day of each remaining month of the COBRA Payment Period a fully taxable cash payment equal to the COBRA premium for that month, subject to applicable tax withholding (such amount, the “Special Severance Payment”), such Special Severance Payment to be made without regard to your election of COBRA coverage or payment of COBRA premiums and without regard to your continued eligibility for COBRA coverage during the COBRA Payment Period. Such Special Severance Payment shall end upon expiration of the COBRA Payment Period.



Section 2. DEFINITIONS.

(a) "Equity Plan" means the Company's 2004 Stock Incentive Plan, 2008 Incentive Stock Plan, 2014 Stock Incentive Plan, as each may be amended, or any successor or other equity incentive plan adopted by the Company which govern your stock awards, as applicable.

(b) "Qualified Plan" means a plan sponsored by the Company or an Affiliate that is intended to be qualified under Section 401(a) of the Internal Revenue Code.

Section 3. ACKNOWLEDGEMENTS.

As a condition to participation in the Plan, you hereby acknowledge each of the following:

(a) This Agreement and the Plan supersedes any severance benefit plan, policy or practice previously maintained by the Company that may have been applicable to you, including any individually negotiated employment agreement with the Company as it may have been amended from time to time (as so amended, the "Employment Agreement").

(b) The severance benefits that may be provided to you under this Agreement may reduce the severance benefits that would otherwise be provided to you under your Employment Agreement, or otherwise, as further specified in Section 2(c) of the Plan. For the avoidance of doubt, in no event shall you be entitled to receive Duplicative Benefits.

To accept the terms of this Agreement and participate in the Plan, please sign and date this Agreement in the space provided below.

Energy Focus, Inc.

By: /s/ Dr. Theodore L. Tewksbury

Name: Dr. Theodore L. Tewksbury

Title: Chief Executive Officer

/s/ Jerry Turin May 19, 2018

Jerry Turin Date

SEPARATION AGREEMENT AND RELEASE

This Separation Agreement and Release (the "Agreement") is entered into by Michael H. Port ("Employee") and Energy Focus, Inc. ("Energy Focus" or the "Company"). Employee and Energy Focus are collectively referred to in this Agreement as the "Parties."

In consideration of the promises and agreements contained herein and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, and intending to be legally bound, Energy Focus and Employee hereby agree as follows:

1. Employee Resignation and Separation from Employment. Employee hereby tenders his resignation (a) as Chief Financial Officer and Secretary and from all offices of any entity that is a subsidiary of, or is otherwise related to or affiliated with, the Company, effective as of May 29, 2018, and (b) as an employee of the Company, effective August 15, 2018 (the "Separation Date"). Energy Focus hereby accepts Employee's resignation, and the parties agree that Employee's employment with Energy Focus will end on the Separation Date.

2. Accrued Unused Vacation Days. Regardless of whether Employee signs this Agreement, Employee will be paid for actual accrued unused PTO time through the Separation Date, which the Parties estimate will be 176.83 hours and which is equivalent to \$21,677.58. Such payout will be made subject to applicable taxes and withholdings. Energy Focus will pay Employee this amount on the first regular paydate after the Separation Date.

3. Severance Pay and Other Consideration. Subject to, and in consideration of Employee's execution and non-revocation of this Agreement, and provided that Employee is not in material breach of any of the terms of this Agreement, Energy Focus will provide Employee the following pay and benefits:

(a) Energy Focus will pay Employee separation pay equal to twelve (12) months of pay at Employee's regular base salary of \$21,250 per month. These payments amount to a total sum of a total of \$255,000, less deductions and withholdings as required by applicable law, and will be made in equal periodic installments corresponding to Energy Focus's regular biweekly payroll dates (the "Severance Pay Period"). These payments will not begin until after the Separation Date and after the seven (7) day revocation period described below has expired without any revocation having been made, but the first bi-weekly payment will include make-up payments, without interest, for any bi-weekly pay periods between the Separation Date and the first severance payment.

(b) Employee agrees that he will not receive any bonus or cash incentive payment for calendar year 2018.

(c) If Employee and his dependents were enrolled in the Company's health plan on the Separation Date, Employee's and such dependents' benefits will continue for twelve (12) months from the Separation Date under the federal law known as COBRA for medical, dental and vision benefits; and all other benefits will cease on the Separation Date.



(d) All outstanding and vested stock options that are vested as of the Separation Date shall remain exercisable for one year following the Separation Date and otherwise as provided under the applicable award agreement and plan but in no event later than the last day of the option term. With respect to the restricted stock units granted to Employee on February 26, 2018, 7,500 of such units shall vest in full as of the Separation Date. With respect to Employee's unvested options and the remainder of his unvested restricted stock units, the portion of any such awards that would otherwise vest within twelve (12) months following the Separation Date shall vest and become exercisable or be settled in shares of common stock, as applicable, as of the Separation Date.

(e) Within two (2) weeks after the Separation Date, Employee will file a final expense report with all supporting documentation covering any last expenses incurred on behalf of the Company. Thereafter, the Company will either (i) reimburse Employee for any pending, reasonable business-related credit card charges for which Employee has not already been reimbursed, or (ii) pay such charge directly to the card-issuing bank. Such reimbursement will be made no later than thirty (30) days after the final expense reimbursement request has been submitted to the Company. Employee hereby authorizes the Company to deduct from monies to be paid to Employee under this Agreement any balance remaining on Employee's Company credit card account after such (i) reimbursement or (ii) direct payment. Only those expenses incurred by Employee prior to the Separation Date shall be eligible for reimbursement.

(f) Up to an aggregate of \$10,000 for any executive coaching or outplacement services provided to the Employee during the Severance Pay Period shall be paid directly to the provider of these services upon receipt of an invoice of services rendered.

Employee acknowledges that the payment(s) and other consideration provided in this Section 3 are solely in exchange for the promises in this Agreement, and that in the absence of this Agreement, Employee would not otherwise be entitled to this consideration.

4. No Other Payments. Other than the payments described in this Agreement, Employee acknowledges and agrees that Employee has not earned, and is not eligible for any other monies, bonuses or other compensation from Energy Focus; provided, however, that Employee remains eligible to receive such benefits as Employee may otherwise be entitled under the qualified retirement plans of Energy Focus, subject to the terms of such plans and the applicable law. The Parties agree that any Employer contributions or matching for any retirement plan contributions shall cease as of the Separation Date, except that any contributions that have accrued through the Separation Date but have not yet been contributed to such plans shall be contributed in accordance with the plan terms.

5. Release.

(a) **Scope of Release.** Employee, both individually and for anyone claiming on Employee's behalf, releases and discharges Energy Focus, Inc., its predecessors, successors and affiliated entities, and all of their respective directors, trustees, officers, agents, and employees (collectively, the "Released Parties") from liability for all claims, demands, rights, actions, causes of actions, obligations, suits and controversies, known or unknown, (collectively, "Claims") arising prior to and up to and including the date Employee signs this Agreement. This release includes, but is not limited to: (i) all Claims arising out of or in any way related to Employee's employment or separation from employment with Energy Focus, including but not limited to any Claim sounding in tort or contract (express or implied), any Claim for

promissory estoppel, emotional distress, pain and suffering, punitive damages, attorneys fees, benefits, wages or any other compensation, wrongful discharge, any violation of public policy, any Claim of discrimination, harassment or retaliation on any basis including, but not limited to age, race, religion, sex, national origin or disability, whether arising under common law or under any federal, state or local law, including, but not limited to, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act (including as amended by the Older Workers Benefit Protection Act), Ohio Revised Code chapters 4111, 4112, and 4113, the Americans with Disabilities Act, the Family and Medical Leave Act, the New York Executive Law, the New York State Human Rights Law, the New York City Human Rights Law, the New York Labor Law, the New York Equal Pay Law, the New York Civil Rights Law, the New York Rights of Persons With Disabilities Law, the New York Equal Rights Law, the New York City Administrative Code, and any other law relating to employment, and any Claims growing out of any legal restriction on an employer's right to discharge its employees; and (ii) any and all Claims of any sort arising from events or circumstances occurring prior to and up to and including the date of Employee signs this Agreement.

(b) **Limitation.**

(i) The foregoing release does not waive rights or claims that may arise after the date this Agreement is executed or that cannot be waived as a matter of law. The foregoing release does not waive any rights that Employee may have to continue health or other benefits at Employee's expense, pursuant to COBRA or applicable state law. Nothing in any part of this Agreement is intended to, or shall, interfere with Employee's right to file or otherwise participate in a charge, investigation, or proceeding conducted by the Equal Employment Opportunity Commission or other federal, state, or local government agency.

(ii) Employee shall not, however, be entitled to any relief, recovery, or monies in connection with any such matter brought against any of the Released Parties, regardless of who filed or initiated any such charge, investigation, or proceeding. Employee agrees that Employee will neither seek nor accept, from any source whatsoever, any further benefit, payment, or other consideration relating to any rights or Claims that have been released in this Agreement. The prohibitions on further recovery in this paragraph 5(b)(ii) shall not apply to any monetary award from a government-administered whistleblower award program for providing information directly to a government agency.

6. Will Not Seek Re-Employment. Employee understands and agrees that the employment relationship with Energy Focus will end as of the Separation Date, and Employee agrees not to seek re-employment with Energy Focus at any time in the future. If Employee should become re-employed by Energy Focus in the future, this section shall be sufficient grounds to terminate such employment.

7. Return of Property. Employee will be provided with access to all files and systems that are provided to Energy Focus's Controller until the Separation Date. Employee acknowledges that before the Separation Date, or within two days thereafter, Employee will return to Energy Focus any and all Energy Focus property in Employee's possession. Such property includes, but is not limited to Energy Focus keys, credit cards, records, files, lists and/or any other materials prepared by Employee or any other Energy Focus employee which relate in any way to Energy Focus. Employee shall also, by the same deadline, provide to the Chief Executive Officer a list of passwords or access codes to Employee's work computer and any internal systems or external subscriptions paid for by Energy Focus to which Employee has password-restricted access.

8. No Admission of Liability. The Parties agree that: (a) this Agreement is a means of amicably resolving any differences relating to Employee's employment and separation from employment; (b) this Agreement is not intended to be, and should not be construed as, an admission of liability on the part of Energy Focus or Employee; and (c) this Agreement was proposed and entered into solely for the purpose of amicably resolving all issues arising out of Employee's employment and separation from employment.

9. Nondisclosure of the Company's Confidential Information.

(a) Definitions.

(i) "Company Business" is the development, production and sale of commercial lighting products.

(ii) "Confidential Information" shall mean nonpublic information or material (1) that is proprietary to the Company or its customers, is confidential, or is a trade secret, regardless of whether it is specifically designated or labeled as confidential by and of the Company, or (2) that Employee creates, discovers, develops in whole or in part, or of which Employee obtains knowledge of or access to, as a result of Employee's relationship with the Company. Confidential Information generally includes, but is not limited to, designs, works of authorship, mask works, formulas, ideas, concepts, techniques, inventions, devices, improvements, know-how, methods, processes, drawings, specifications, models, data, documentation, diagrams, flow charts, research, developments, procedures, software in various stages of development, source code, object code, marketing techniques and materials, business, marketing, development and product plans, financial information, customer information, strategic information, and other confidential business or technical information. Confidential Information does not include information which (x) is or becomes publicly available (other than by disclosure or other wrongful act by the Employee), or (y) was known to the Employee before the Employee began employment with the Company.

(b) Obligation to Protect Confidential Information. Employee recognizes and acknowledges that Confidential Information includes valuable, special and unique assets of the Company. Subject to the exceptions described below, (i) Employee shall forever protect and maintain the confidentiality of Confidential Information; and (ii) Employee shall never, directly or indirectly, use, publish, post, copy, duplicate, or disclose Confidential Information, or encourage, aid, or abet such activity, except as required in the course of Employee's job duties at the Company and, then only to individuals who have a need to know based on such individual's job responsibilities at the Company.

(c) Exceptions to Section 9(b). The restrictions in Section 9(b) do not apply to any of the following situations, so long as the Employee takes all reasonable steps to ensure that the scope of disclosure does not exceed the permitted scope and that such disclosure does not extend beyond the parameters of what is permitted:

(i) Employee may respond to a lawful and valid subpoena or other legal process or court order that seeks the disclosure of Confidential Information but: (1) shall give the Company's Chief Executive Officer or Chief Financial Officer the earliest possible notice of the receipt thereof; (2) shall, as much in advance of the return date as possible, make available to the Company's Chief Executive Officer or Chief Financial Officer the documents and other information sought; and (3) shall assist the Company's legal counsel, at the Company's expense, in resisting or otherwise responding to such subpoena or process.



(ii) Employee may disclose Confidential Information to a government agency as part of a report, complaint, or investigation without providing notice to the Company.

(iii) Employee shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that is made (1) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (2) solely for the purpose of reporting or investigating a suspected violation of law. In addition, Employee shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. Furthermore, in the event Employee files a lawsuit for retaliation by the Company for reporting a suspected violation of law, Employee may disclose the trade secret to Employee's attorney and use the trade secret information in the court proceeding, if Employee files any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to court order.

10. Non-Disparagement.

(a) Employee will not make any statements or disclose any untrue information concerning Energy Focus, its directors, officers, management, staff, employees, representatives, or agents (collectively, "Energy Focus or its management"), which are likely to disparage Energy Focus or its management, which are likely to damage the reputation or business prospects of Energy Focus or its management, or which are likely to interfere in any way with the business relations Energy Focus has with its customers (including potential customers), suppliers, vendors, employees, investors, or shareholders. Energy Focus acknowledges that nothing in this Paragraph shall limit Employee from testifying in or otherwise cooperating with any federal, state, or civil action, investigation or inquiry.

(b) Energy Focus's executive officers and directors will not make any statements or disclose any untrue information concerning Employee, which are likely to disparage or damage the Employee's reputation or stature in the business community. Employee acknowledges that nothing in this Paragraph shall limit Energy Focus or any of its employees or directors from testifying in or otherwise cooperating with any federal, state, or civil action, investigation or inquiry; or from releasing truthful information or making truthful statements.

11. Non-Solicitation. Employee agrees that, for a period of one (1) year after the Separation Date, Employee will not personally, and will not instruct or directly or indirectly assist any other individual or entity to, persuade or encourage, or attempt to persuade or encourage, (a) any producer, manufacturer, licensor, supplier, vendor or any other person providing goods or services to Energy Focus not to conduct business with Energy Focus or to reduce the amount of business it conducts with Energy Focus; (b) any customer or potential customer not to conduct business with Energy Focus or to reduce the amount of business it conducts with Energy Focus; or (c) any employee of Energy Focus to leave Energy Focus's employ. For the purposes hereof, "customer" shall include any prospective customer to whom Energy Focus made a presentation (or similar offering of services) within a period of ninety (90) days immediately preceding the Separation Date. These restrictions shall be in addition to the restrictions described in the Confidentiality Agreement, including but not limited to Sections G and H, which remain in full force and effect.

12. Non-Competition.

(a) For a period of one (1) year after the Separation Date, Employee shall not: (i) directly or indirectly act in concert or conspire with any person employed by the Company in order to engage in or prepare to engage in or to have a financial or other interest in any business or any activity that he knows (or reasonably should have known) to be directly competitive either with Company Business as then being carried on or with any business, activity, product or service which was under active development while Employee was employed by the Company if such development was actively pursued or considered during the two (2) year period preceding the Separation Date; or (ii) serve as an employee, agent, partner, shareholder, director, or consultant for, or in any other capacity participate, engage, or have a financial or other interest in any business or any activity that he knows (or reasonably should have known) to be directly competitive either with the Company Business as then being carried on or with any business, activity, product or service which was under active development while Employee was employed by the Company if such development was actively pursued or considered during the two (2) year period preceding the Separation Date (*provided, however, that notwithstanding anything to the contrary contained in this Agreement, Employee may own up to two percent (2%) of the outstanding shares of the capital stock of a company whose securities are registered under Section 12 of the Securities Exchange Act of 1934*).

(b) In the event Employee violates any provision of this Section 12 as to which there is a specific time period during which he is prohibited from taking certain actions or from engaging in certain activities as set forth in such provision, such violation shall toll the running of such time period from the date of such violation until such violation shall cease. The foregoing shall in no way limit the Company's rights under Section 15 of this Agreement.

(c) Employee has carefully considered the nature and extent of the restrictions upon him and the rights and remedies conferred upon the Company under this Section 12 and this Agreement, and hereby acknowledges and agrees that the same are reasonable in time and territory, are designed to eliminate competition which otherwise would be unfair to the Company, do not stifle the inherent skill and experience of Employee, would not operate as a bar to Employee's sole means of support, are fully required to protect the legitimate interests of the Company and do not confer a benefit upon the Company disproportionate to the detriment to Employee. Employee further acknowledges that his obligations in this Section 12 are made in consideration of, and are adequately supported by the payments by the Company to Employee described herein.

13. Disclosure. From the date of this Agreement through the end of the applicable restricted period, Employee will communicate the contents of Sections 9, 10, 11 and 12 of this Agreement to any person, firm, association, or corporation which he intends to be employed by, associated in business with, or represent.

14. Attorney's Fees. Both parties agree to bear their own attorney's fees and related expenses, if any, in connection with this matter.

15. Choice of Law and Availability of Injunctive Relief. This Agreement shall in all respects be interpreted, enforced under, and governed by the laws of the State of Ohio. Notwithstanding the choice or conflict of law rules of any court or competent jurisdiction, the laws of the State of Ohio should be used to interpret and enforce this Agreement. Any litigated dispute over this Agreement or any of the matters addressed in this Agreement shall be brought and maintained solely in the Court of Common Pleas for Cuyahoga County, Ohio or in the United States District Court for the Northern District of Ohio. In addition, in connection with any such court action, Employee acknowledges and agrees that the remedy at law

available to the Company for breach by Executive of any of his obligations under Sections 9, 10, 11 and 12 of this Agreement would be inadequate and that damages flowing from such a breach would not readily be susceptible to being measured in monetary terms. Accordingly, Employee acknowledges, consents and agrees that, in addition to any other rights or remedies which the Company may have at law, in equity or under this Agreement, the Company shall be entitled to immediate injunctive relief and may obtain a temporary order restraining any threatened or further breach of any provisions in Sections 9, 10, 11 and 12 of this Agreement, without the necessity of proof of actual damage.

16. Modifications. No provisions of this Agreement may be modified, amended, or terminated, except in a writing signed by Employee and by the Chief Executive Officer of Energy Focus.

17. Entire Agreement. The only pay, benefit or other consideration for signing this Agreement is described herein. In exchange for signing this Agreement, Employee is being provided consideration to which Employee would not otherwise be entitled. This Agreement constitutes the complete and final agreement between the Parties, and supersedes any and all prior representations or agreements, whether written or oral; except that the Agreement of Confidentiality (or Agreement of Confidentiality with Non-Compete) previously signed by Employee related to employment and the agreements evidencing equity awards that have vested as of the date hereof or will vest on the Separation Date remain in full force and effect. No other representations, promises or agreements of any kind have been made by any person or entity to induce Employee to sign this Agreement. Notwithstanding the foregoing, this Agreement will not affect Employee's rights to indemnification or defense as a former officer and employee of Energy Focus or any of its affiliates under any articles of incorporation, codes of regulations, other charter documents, insurance policies, or other laws to the extent any are applicable.

18. Cooperation. After the Separation Date, Employee agrees to cooperate with the Company, including its representatives and attorneys, to provide information or testimony that may relate to the Company or to matters within the Employee's knowledge, if called upon by the Company to do so, for purposes related to any lawsuits, proceedings, administrative actions, public filings, or to provide other factual information in preparation or anticipation of any such matter, or to assist with other internal or external Company matters. Employee shall not receive compensation for providing such cooperation, but if such cooperation is requested by the Company, Employee shall be entitled to reimbursement from the Company for reasonable out-of-pocket expenses that are necessarily and reasonably incurred as a result of providing such cooperation, including for example, airfare, hotel, and related travel expenses, if travel is requested. If Employee is asked by any person other than the Company (or its representatives or attorneys) to provide information or testimony related to any matter connected to his employment or the Company, Employee agrees to provide advance notice to the Company and to take all reasonable steps to ensure that the Company has an opportunity to respond and/or to participate in such proceedings, except that Employee need not provide advance notice to the Company before participating in any whistleblower investigation/proceeding before a government agency. If Employee is providing testimony for any reason whatsoever, Employee agrees that he shall give only truthful testimony and shall provide only truthful information, to the best of his knowledge.

19. Severability. If for any reason any term or provision set forth herein, or part thereof, containing a restriction on Employee's activities after the Separation Date is invalid or unenforceable because it is held to cover an area or to be for a length of time or otherwise have a scope that is unreasonable or is otherwise construed to be too broad, such term or provision, or part thereof, shall be reformed and/or modified to

provide for a restriction having the maximum enforceable area, time period and/or other scope (not greater than those contained herein) as shall be valid and enforceable under applicable law. Otherwise, if any part, term, or provision of this Agreement be determined by any court of competent jurisdiction to be illegal, invalid or unenforceable, the validity of the remaining parts, terms or provisions shall not be affected thereby and the illegal, invalid, or unenforceable part, term, or provision shall be deemed not to be a part of this Agreement; except, however, that if any portion of the Release in Section 5 is determined by a judicial order invalid or unenforceable, then the Company shall have seven days to decide whether (a) to invalidate this entire Agreement, in which case the entire Agreement will be void and Employee will have to pay back all money that he already received under Section 3(a) of this Agreement; or (b) to waive its right to invalidate the Agreement and instead, to keep the Agreement valid and fully enforceable, subject to the changes needed to remove or modify the portion of the Release that was judicially determined to be invalid or unenforceable.

20. Time to Consider/Advised To Consult Counsel. Employee is being given a period of at least twenty-one (21) calendar days to consider the terms and conditions of this Agreement before executing it. The Parties agree that any modifications made to this Agreement, material or otherwise, will not restart and/or affect the running of this 21 day period. Employee is advised to consult with an attorney of Employee's choice prior to executing this Agreement. Employee acknowledges that Employee has carefully read this Agreement, understands the content and effect of this Agreement, and intends to be bound by it.

21. Time to Revoke/Effective Date. This Agreement shall become effective seven (7) days after Employee has signed it. Prior to the expiration of the 7-day period, Employee has the right to revoke this Agreement by delivering written notice of cancellation to the Chairman, Chief Executive Officer and President, Energy Focus, Inc., 32000 Aurora Road, Suite B, Solon, Ohio 44139, in a manner such that the revocation is received before the 7-day period ends. If Employee does not revoke this Agreement with the 7-day revocation period, this Agreement shall become effective upon the expiration of the revocation period.

22. Other Representations. Employee represents and warrants that (a) if Employee has incurred any workplace injury at Energy Focus, Employee has previously reported such injury in writing, and Employee is unaware of any facts that could give rise to any workers compensation claim that has not already been filed, (b) Employee has reported, and has been paid for, all time worked through the date Employee signed this Agreement, with the possible exception of time worked during the last pay period and through the Separation Date, which may not yet have been paid but will be paid to Employee as described above, and (c) Employee has been provided all leave that Employee requested, and Employee is unaware of any facts that would give rise to any claim under the Family Medical Leave Act or any other state or local leave law. If Employee disagrees with any of the representations in this section, Employee has fully explained all applicable details in writing next to Employee's signature at the end of this Agreement, attaching additional pages if necessary.

23. Counterparts. This Agreement may be executed in counterparts, all of which taken together shall constitute an instrument enforceable and binding upon the undersigned parties.

EMPLOYEE ACKNOWLEDGES THAT EMPLOYEE HAS CAREFULLY READ THIS AGREEMENT AND UNDERSTANDS THE CONTENT AND CONSEQUENCES OF SIGNING THIS AGREEMENT.



EMPLOYEE FURTHER ACKNOWLEDGES THAT EMPLOYEE EXECUTES THIS AGREEMENT KNOWINGLY AND VOLUNTARILY WITH THE INTENT TO BE LEGALLY BOUND BY IT.

Having agreed to the foregoing terms of this Agreement, the Parties have executed it on the date indicated below.

ENERGY FOCUS, INC.

EMPLOYEE

By: /s/ Theodore L. Tewksbury III /s/ Michael H. Port
Name: Theodore L. Tewksbury III Signature

Chairman, Chief Executive Officer and President Michael H. Port
Title Print Name

May 22, 2018 June 4, 2018
Date Date

CERTIFICATION

I, Theodore L. Tewksbury III, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Energy Focus, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Theodore L. Tewksbury III
Theodore L. Tewksbury III

Chairman, Chief Executive Officer and President

Date: August 8, 2018

CERTIFICATION

I, Jerry Turin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Energy Focus, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Jerry Turin
Jerry Turin
Chief Financial Officer
Date: August 8, 2018

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Energy Focus, Inc. (the "Company") for the quarterly period ended June 30, 2018 (the "Report"), I, Theodore L. Tewksbury III, Chairman, Chief Executive Officer and President of the Company and I, Jerry Turin, Chief Financial Officer of the Company, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, that to the best of my knowledge:

- (i) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Theodore L. Tewksbury III

Theodore L. Tewksbury III
Chairman, Chief Executive Officer and President
Date: August 8, 2018

/s/ Jerry Turin

Jerry Turin
Chief Financial Officer
Date: August 8, 2018

A signed original of this written statement required by Section 906 has been provided to Energy Focus, Inc. and will be retained by Energy Focus, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

