ENERGY FOCUS, INC/DE
Form 10-Q
November 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q

(Mark one)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2007

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____________ to _____________

Commission file number 0-24230

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

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

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

44139
(Zip Code)
(Registrant's telephone number, including area code): **(440) 715-1300**

FIBERSTARS, INC.
(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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One)
Large Accelerated Filer o Accelerated Filer x Non-Accelerated Filer o

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

The number of outstanding shares of the registrant's Common Stock, $0.0001 par value, as of October 31, 2007 was 11,590,125.

TABLE OF CONTENTS

Part I - FINANCIAL INFORMATION

Item 1	Financial Statements:		
	a.	Condensed Consolidated Balance Sheets at September 30, 2007 (unaudited) and December 31, 2006	3
	b.	Condensed Consolidated Statements of Operations for the Three Months and Nine Months Ended September 30, 2007 and 2006 (unaudited)	4
	c.	Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three Months and Nine Months Ended September 30, 2007 and 2006 (unaudited)	5
	d.	Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2007 and 2006 (unaudited)	6
	e.	Notes to Condensed Consolidated Financial Statements (unaudited)	7
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations		14
Item 3	Quantitative and Qualitative Disclosures About Market Risk		19
Item 4	Controls and Procedures		19
	Part II - OTHER INFORMATION		
Item 1	Legal Proceedings		20
Item 1A	Risk Factors		20
Item 5	Other Information		28
Item 6	Exhibits		28
	Signatures		29
	Exhibit Index		30

Item 1. Financial Statements

ENERGY FOCUS, INC.
CONDENSED
CONSOLIDATED BALANCE SHEETS
(amounts in thousands)

	September 30, 2007 (unaudited)		December 31, 2006	
ASSETS				
Current assets:				
Cash and cash equivalents	$	3,681	$	3,705
Short-term investments		6,855		12,263
Accounts receivable trade, net		3,801		6,185
Inventories, net		7,954		7,708
Prepaid and other current assets		367		324
Total current assets		22,658		30,185
Fixed assets, net		5,325		5,978
Goodwill, net		4,328		4,247
Other assets		193		182
Total assets	$	32,504	$	40,592
LIABILITIES				
Current liabilities:				
Accounts payable	$	2,002	$	4,202
Accrued liabilities		2,012		1,671
Credit line borrowings		1,149		1,124
Current portion of long-term bank borrowings		821		778
Total current liabilities		5,984		7,775
Deferred tax liabilities		195		75
Long-term bank borrowings		1,454		1,862
Total liabilities		7,633		9,712
SHAREHOLDERS' EQUITY				
Common stock		1		1
Additional paid-in capital		55,168		53,841
Accumulated other comprehensive income		916		601
Accumulated deficit		(31,214)		(23,563)
Total shareholders' equity		24,871		30,880
Total liabilities and shareholders' equity	$	32,504	$	40,592

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	**2006**	**2007**	**2006**
Net sales	$ 5,745	$ 6,808	$ 17,458	$ 19,845
Cost of sales	3,757	4,772	11,720	13,879
Gross profit	1,988	2,036	5,738	5,966
Operating expenses:				
Research and development	805	630	1,963	1,521
Sales and marketing	2,390	2,280	7,338	7,132
General and administrative	1,668	1,303	3,813	3,918
Restructure expense	308	98	397	734
Total operating expenses	5,171	4,311	13,511	13,305
Loss from operations	(3,183)	(2,275)	(7,773)	(7,339)
Other income (expense):				
Other income/(expense)	35	12	77	39
Interest income/ (expense)	51	171	190	331
Loss before income taxes	(3,097)	(2,092)	(7,506)	(6,969)
Benefit from (provision for) income taxes	(78)	(33)	(145)	103
Net loss	$ (3,175)	$ (2,125)	$ (7,651)	$ (6,866)
Net loss per share - basic and diluted	$ (0.28)	$ (0.19)	$ (0.67)	$ (0.60)
Shares used in computing net loss per share - basic and diluted	11,501	11,371	11,467	11,362

The accompanying notes are an integral part of these financial statements

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	**2006**	**2007**	**2006**
Net loss	$ (3,175)	$ (2,125)	$ (7,651)	$ (6,866)
Other comprehensive income (loss)				
Foreign currency translation adjustments	223	41	325	217
Net unrealized gain (loss) on securities	(1)	(67)	(10)	79
Comprehensive loss	$ (2,953)	$ (2,151)	$ (7,336)	$ (6,570)

The accompanying notes are an integral part of these financial statements

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

	Nine Months Ended September 30,	
	2007	**2006**
Cash flows from operating activities:		
Net loss	$ (7,651)	$ (6,866)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	932	782
Stock-based compensation	697	752
Unrealized gain (loss) from marketable securities	(10)	79
Provision for doubtful accounts receivable	369	175
Deferred taxes	120	–
Changes in assets and liabilities:		
Accounts receivable	2,091	894
Inventories	(127)	109
Prepaid and other current assets	(40)	248
Other assets	(3)	56
Accounts payable	(2,221)	201
Accrued liabilities	184	(2,066)
Total adjustments	1,992	1,230
Net cash used in operating activities	(5,659)	(5,636)
Cash flows from investing activities:		
Purchase of short-term investments	(37,090)	(91,506)
Sale of short-term investments	42,626	94,933
Acquisition of fixed assets	(244)	(3,222)
Net cash provided by investing activities	5,292	205
Cash flows from financing activities:		
Cash proceeds from exercise of stock options	630	565
Proceeds from credit line borrowings	76	1,222
Proceeds from long-term bank borrowings	160	1,653
Payments of credit line borrowings	(61)	(54)
Payments of long-term bank borrowings	(554)	(271)
Collection of loan made to shareholder	–	62
Net cash provided by financing activities	251	3,177
Effect of exchange rate changes on cash	92	19
Net decrease in cash and cash equivalents	(24)	(2,235)
Cash and cash equivalents, beginning of period	3,705	5,554
Cash and cash equivalents, end of period	$ 3,681	$ 3,319

The accompanying notes are an integral part of these financial statements

6

ENERGY FOCUS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007
(Unaudited)

1. Summary of Significant Accounting Policies

Interim Financial Statements (unaudited)

Although unaudited, the interim financial statements in this report reflect all adjustments, consisting only of all normal recurring adjustments, which are, in the opinion of management, necessary for a fair statement of financial position, results of operations and cash flows for the interim periods covered and of the financial condition of Energy Focus, Inc. (the "Company") at the interim balance sheet date. The results of operations for the interim periods presented are not necessarily indicative of the results expected for the entire year.

Year-end Balance Sheet

The year-end balance sheet information was derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles. These financial statements should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended December 31, 2006, contained in the Company's 2006 Annual Report on Form 10-K.

Short-term Investments

The Company's short-term investments are classified as available-for-sale, which are stated at estimated fair value. The Company has determined its short-term investments are available to support current operations and, accordingly, has classified such short-term investments as current assets without regard for contractual maturities. These short-term investments are invested through a major financial institution. The unrealized gains or losses on these short-term investments are included in accumulated other comprehensive income as a separate component of shareholders' equity until realized.

Short-term investments at September 30, 2007 were as follows *(in thousands):*

	Cost	Net unrealized gain	Estimated Fair Value
Money Market Fund	$ 5,157	$ —	$ 5,157
Commercial Paper	1,639	59	1,698
Total	$ 6,796	$ 59	$ 6,855

The short-term investments maturing over the next year total $6,855,000.

The increase in net unrealized holding losses on securities available for sale in the amount of $1,000 has been charged to other comprehensive income for the quarter ended September 30, 2007. The cost of securities sold is based on the specific identification method.

Proceeds from the sale of available securities during 2007 were $42,626,000. Gross gains of $156,000 were realized on the sales of available-for-sale securities during 2007. These gains on interest bearing securities are included as part

of interest income/ (expense) in the Consolidated Statements of Operations.

Foreign Currency Translation

The Company's international subsidiaries use their local currency as their functional currency. For those subsidiaries, assets and liabilities are translated at exchange rates in effect at the balance sheet date, and income and expense accounts are translated at average exchange rates during the year. Resulting translation adjustments are recorded to a separate component of shareholders' equity.

Earnings per Share

Basic earnings per share (“EPS”) are computed by dividing income available to shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by giving effect to all dilutive potential common shares that were outstanding during the period. Dilutive potential common shares consist of incremental shares upon exercise of stock options and warrants.

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	**2006**	**2007**	**2006**
Numerator - net loss	$ (3,175)	$ (2,125)	$ (7,651)	$ (6,866)
Denominator - basic and diluted weighted average shares outstanding	11,501	11,371	11,467	11,362
Basic and diluted net loss per share	$ (0.28)	$ (0.19)	$ (0.67)	$ (0.60)

At September 30, 2007, options and warrants to purchase 1,629,000 shares of common stock were outstanding, but were not included in the calculation of diluted EPS because their inclusion would have been antidilutive. Options and warrants to purchase 1,495,000 shares of common stock were outstanding at September 30, 2006, but were not included in the calculation of diluted EPS because their inclusion would have been antidilutive.

Stock- Based Compensation

The Company’s stock-based compensation plans are described in detail in the Annual Report on Form 10-K for the year ended December 31, 2006.

For the three month and nine month periods ended September 30, 2007, the Company recorded stock based compensation expense of $202,000 and $697,000, respectively, compared to $238,000 and $752,000 for same periods ended September 30, 2006. Total unearned compensation of $1,592,000 remains at September 30, 2007 compared to $1,959,000 at December 31, 2006. These costs will be charged to expense and amortized on a straight line basis in future periods through 2011. The remaining weighted average life of the outstanding options is approximately 1.2 years.

The fair value of each stock option is estimated on the date of grant using the Black-Scholes option pricing model. Estimates utilized in the calculation include the expected life of option, risk-free interest rate, and volatility and are further comparatively detailed below. During the quarter ended September 30, 2007 the Company granted additional stock options in the normal course of business to purchase 25,000 shares of common stock at an exercise price of $6.05 per share vesting over four years with a contractual life of ten years. The fair value of these options is $2.852. The future unearned compensation is $68,000. The fair value of all stock options outstanding was determined using the following weighted average assumptions:

	Nine months ended September 30,	
	2007	**2006**
Expected life of option	4.00 years	4.00 years

Risk free interest rate	4.3%	5.2%
Expected volatility	68.5%	60.3%

8

Product Warranties

The Company warrants finished goods against defects in material and workmanship under normal use and service for periods of one to three years for illuminators and fiber. Settlement costs consist of actual amounts expensed for warranty services which are largely a result of third party service calls, and the costs of replacement products. A liability for the estimated future costs under product warranties is maintained for products outstanding under warranty (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Balance at the beginning of the period	$ 212	$ 320	$ 230	$ 393
Accruals for warranties issued during the period	112	124	281	219
Settlements made during the period (in cash or in kind)	(112)	(124)	(299)	(292)
Balance at the end of the period	$ 212	$ 320	$ 212	$ 320

Reclassifications

Certain prior year information has been reclassified to conform to the current year presentation.

2. Inventories

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

	September 30, 2007	December 31, 2006
Raw materials	$ 6,538	$ 6,354
Inventory reserve	(369)	(899)
Finished goods	1,785	2,253
	$ 7,954	$ 7,708

3. Bank Borrowings

The Company’s bank line of credit in the United States is based on an agreement with Silicon Valley Bank dated August 15, 2005. It was amended on September 25, 2006, August 15, 2007 and again on October 31, 2007. This most recent amendment is retroactive to September 30, 2007 and has extended the credit agreement through December 31, 2007. This credit facility is for $5,000,000. The interest rate was 8.25% at September 30, 2007 and 8.75% at December 31, 2006. The rate is the same for both the term-loan and line of credit in both periods and has a minimum tangible net worth covenant which the Company must meet going forward. On December 31, 2005 this agreement was amended and restated to include an additional $3,000,000 term-loan line of credit for equipment purchases. This agreement calls for repayment of principal in equal amounts over 4 years from the date of purchase of the equipment and has an interest rate of prime plus 0.5% if the quick ratio is greater than 1.5 and prime plus 1.5% if the quick ratio is at or below 1.5. Borrowings under the Silicon Valley Agreement are collateralized by the Company’s assets and intellectual property. Specific borrowings under the revolver are tied to accounts receivable and inventory balances, and the Company is required to comply with certain covenants with respect to effective net worth and financial ratios.

The Company had borrowings under the revolving line of credit of $1,000,000 at September 30, 2007 and at December 31, 2006. The $1,000,000 revolving line of credit is a current liability. The Company had total borrowings of $1,904,000 under the term-loan portion of the agreement as of September 30, 2007, and $2,261,000 as of December 31, 2006. The Company pays an unused line fee of 0.25% against any unused daily balance during the year.

On October 15, 2007, it was determined that both Silicon Valley Bank and the Company had incorrectly calculated the tangible net worth covenant for 2007. Upon recalculating the tangible net worth covenant, it was determined that the Company had failed to satisfy the tangible net worth covenant for the months of April, 2007 through August, 2007. However, the Company has entered into a fourth amendment to the agreement which waives all non-compliance with the covenant, amends and re-states the covenant, and extends the maturity date of the line of credit through December 31, 2007. As of September 30, 2007 the Company was in compliance with the revised tangible net worth covenant.

Through a U.K. subsidiary, the Company maintains a bank overdraft facility of $510,000 (in UK pounds sterling, based on the exchange rate at September 30, 2007) under an agreement with Lloyds Bank Plc. There were no borrowings against this facility as of September 30, 2007 or December 31, 2006. The facility is renewed annually on January 1. The rate on the facility was 8.00% at September 30, 2007 and 7.25% at December 31, 2006.

Through a German subsidiary, the Company maintains a credit facility under an agreement with Sparkasse Neumarkt Bank. This credit facility was put in place to finance the building of new offices in Berching, Germany, which are owned and occupied by the Company's German subsidiary. As of September 30, 2007 the Company had borrowings of $371,000 (in Euros, based on the exchange rate at September 30, 2007) and $379,000 as of December 31, 2006 (in Euros, based on the exchange rate at December 31, 2006) against this credit facility. The interest rate was 5.35% at September 30, 2007 and December 31, 2006. In addition, the Company's German subsidiary has a revolving line of credit for $213,000 (in Euros, based on the exchange rate at September 30, 2007) with Sparkasse Neumarkt Bank. As of September 30, 2007 there were borrowings against this facility of $149,000 compared to $124,000 at December 31, 2006. The revolving facility is renewed annually on January 1. Interest rates on this line of credit were 10.50% at September 30, 2007 and 9.75% at December 31, 2006. The $149,000 revolving line of credit is a current liability.

Future maturities of remaining borrowings are (in thousands):

Through September 30,	**U.S.A.**	**Germany**	**Total**
2008	$ 769	$ 52	$ 821
2009	716	55	771
2010	392	58	450
2011	27	61	88
2012	—	64	64
2013 and Thereafter	—	81	81
Total Commitment	$ 1,904	$ 371	$ 2,275

4. Comprehensive Operations

Comprehensive income (loss) is defined as net income (loss) plus sales, expenses, gains and losses that, under generally accepted accounting principles, are included in comprehensive income (loss) but excluded from net income (loss). A separate statement of comprehensive income (loss) has been presented with this report.

5. Segments and Geographic Information

The Company operates in a single industry segment that manufactures, markets, and sells energy efficient lighting products. The Company has two primary product lines: the pool and spa lighting product line and the commercial lighting product line, each of which markets and sells fiber optic lighting products. The Company markets its products for worldwide distribution primarily through independent sales representatives, distributors and swimming pool

builders in North America, Europe and the Far East.

A summary of sales by geographic area is as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
U.S. Domestic	$ 3,336	$ 4,487	$ 11,115	$ 13,862
Other Countries	2,409	2,321	6,343	5,983
	$ 5,745	$ 6,808	$ 17,458	$ 19,845

Geographic sales are categorized based on the location of the customer to whom the sales are made. A summary of sales by product line is as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Pool and Spa Lighting	$ 2,519	$ 2,847	$ 8,621	$ 10,006
Commercial Lighting	3,226	3,961	8,837	9,839
	$ 5,745	$ 6,808	$ 17,458	$ 19,845

A summary of long-lived geographic assets (fixed assets and goodwill) is as follows (in thousands):

	September 30, 2007	December 31, 2006
United States Domestic	$ 7,768	$ 8,406
Germany	1,748	1,674
Other Countries	137	145
	$ 9,653	$ 10,225

6. Recent pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, “Fair Value Measurements”. This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This standard is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adoption of the standard on its financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159 “The Fair Value Option for Financial Assets and Financial Liabilities” ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS No. 159 on its consolidated financial position and results of operations.

7. Recently adopted standards:

In July, 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”), an interpretation of Statement of Financial Accounting Standard No. 109, “Accounting for Income Taxes” ("SFAS 109")

regarding accounting for income tax uncertainties effective for fiscal years beginning after December 15, 2006. FIN 48 applies to all tax positions related to income taxes subject to SFAS 109 on Accounting for Income Taxes. The impact of adopting the positions of this interpretation did not have a material impact on the Company's overall financial position or results of operations.

8. Goodwill

Goodwill represents the excess of acquisition cost over the fair value of tangible and identified intangible net assets of the businesses acquired. The Company has $4,328,000 in goodwill on its consolidated balance sheet as of September 30, 2007 and $4,247,000 at December 31, 2006. Goodwill is not amortized, but is subjected to an annual impairment test. When events or changes in circumstances indicate that assets may be impaired, an evaluation is performed comparing the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a write-down to market value or discounted cash flow is required. During the period ending September 30, 2007, no instances or events required any valuation or update.

9. Income Taxes

A full valuation allowance is recorded against the Company's U.S. and German deferred tax assets as management cannot conclude, based on available objective evidence, when the gross value of its deferred tax assets will be realized. The Company accrues foreign tax expenses or benefits as these are incurred. Deferred tax liabilities were $195,000 at September 30, 2007 and $75,000 at December 31, 2006 relating to differences in the timing of the recording of expenses for book and tax purposes.

10. Commitments and Contingencies

On February 21, 2007, a lawsuit was filed in The United States District Court, Eastern District of Missouri alleging that laminar flow products in the Company's pool and spa line have infringed upon certain United States patents owned by Robert L. Kuykendal, Ronald S. Deichmann, and David R. Usher and licensed to Splash Technologies, Incorporated. The lawsuit sought to halt such alleged infringement and an accounting related to products sold. The plaintiffs never served their complaint on the Company, as required by the federal court rules of procedure, even after the Court ordered them to do so. As a result, the Court dismissed their complaint against the Company on July 25, 2007.

11. Related Party Transactions

The Company entered into a consulting agreement with Jeffrey H. Brite, a member of its Board of Directors, effective November 1, 2004. This agreement ended upon the effective date of Jeffrey H. Brite's resignation as a member of the Board of Directors effective March 7, 2007. As a consultant under this agreement, Mr. Brite assisted the Company's President and Vice President of Sales in identifying, contacting and making introductions to key building project personnel in a position to facilitate the purchase of the Company's products. In return, the Company compensated Mr. Brite with the award of an option for the acquisition of up to 40,000 shares of its common stock at a per share exercise price of $7.23 and with annual aggregate cash payments of $50,000 paid in quarterly installments during each of the years 2005, 2006 and 2007. There were no payments in the third quarter of 2007 to Mr. Brite. Payments total $13,960 for the nine months ending September 30, 2007. Payments in the third quarter of 2006 and for the nine months ending September 30, 2006 totaled $15,500 and $46,500, respectively.

Gensler Architecture, Design & Planning, P.C., a New York Professional Corporation ("Gensler") provides contract services to the Company in the areas of fixture design and marketing targeted at expanding the market for the Company's EFO™ products. Mr. Jeffrey Brite, an employee of Gensler, was a member of the Company's Board of Directors through March 7, 2007. The Company entered into a three year consulting agreement with Gensler effective December 15, 2004. Gensler has agreed to assist the Company's marketing group with matters of structure, procedure and practices as they relate to the design, real estate and procurement communities, and to advise the Company on strategies to enhance its visibility and image within the design and construction community as a manufacturer of preferred technology. In return, the Company compensated Gensler with a one-time cash payment in 2005 of $60,750 for services delivered in advance of the completion of the negotiation of the Consulting Agreement. A $50,000 annual

cash payment was to be paid in quarterly installments of $12,500 in arrears for each of the calendar years 2005, 2006 and 2007, and a one-time option award to acquire up to 75,000 shares of the Company's common stock at a per share exercise price of $6.57. Although there were no payments in the third quarter of 2007 to Gensler, the Company accrued expense of $12,500. Payments total $25,000 for the nine months ending September 30, 2007. Payments in the third quarter of 2006 and for the nine months ending September 30, 2006 totaled $12,500 and $37,500, respectively.

Effective February 3, 2006 the Company entered into a consulting agreement with David Ruckert, a member of its Board of Directors, which provided for nine months of assistance with marketing of the Company's EFO Products, at a cost of $10,000 per month. In addition, Mr. Ruckert was to be granted options to purchase 32,000 shares of the Company's common stock, if an amendment to the 2004 Plan, authorizing additional shares, was approved by shareholders at the 2006 annual meeting. Such shares were granted following the shareholder approval of the amendment of the 2004 Plan. On November 30, 2006, the Company entered into an amendment of the consulting agreement. Pursuant to the terms of the amendment, the term was extended for a period of up to an additional 12 months, at the same monthly compensation. The agreement may be terminated by the Company upon 30 days notice. Under this agreement the Company paid Mr. Ruckert $13,000 and $79,000 in the quarter and the nine months ending September 30, 2007, respectively. Payments in 2006 to Mr. Ruckert were $13,000 and $82,000 in the quarter and nine months ending September 30, 2006, respectively.

12. Restructuring

In June 2005, the Company announced its plans to close its Fremont office and consolidate most of its operations in Solon, Ohio, where the Company already had a local sales office and a manufacturing facility. The Company recognized restructuring charges of $98,000 in the third quarter of 2006 and $734,000 for the nine months ending September 30, 2006, respectively. During the second quarter of 2007, the Company initiated further restructuring efforts designed to consolidate manufacturing operations and streamline sales operations and administration for improved efficiency. The Company charged $308,000 and $397,000 to restructuring in the three months and nine months ended September 30, 2007, respectively.

13. Reorganization

On May 8, 2007, Energy Focus, Inc., a wholly owned subsidiary of Fiberstars, Inc. was merged into Fiberstars, Inc. As a result of this merger, the name of Fiberstars, Inc. was changed to Energy Focus, Inc.

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Condensed Consolidated Financial Statements and related notes included elsewhere in this report and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2006.

When used in this discussion, the words "expects," "anticipates," "estimates," "plan," and similar expressions are intended to identify forward-looking statements. These statements, which include statements as to our expected sales and gross profit margins, expected operating expenses and capital expenditure levels, our sales and marketing expenses, our general and administrative expenses, the adequacy of capital resources and necessity to raise additional funds, our critical accounting policies, expected restructuring costs related to our consolidation in Solon, Ohio, expected benefits from our consolidation and statements regarding pending litigation are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, those risks discussed below under "Risk Factors" and those discussed in our Annual Report on Form 10-K, as well as our ability to manage expenses, our ability to reduce manufacturing overhead and general and administrative expenses as a percentage of sales, our ability to collect on doubtful accounts receivable, our ability to increase cash balances in future quarters, the cost of enforcing or defending intellectual property, unforeseen adverse competitive, economic or other factors that may impact our cash position, risks associated with raising additional funds, and risks associated with our pending litigation. These forward-looking statements speak only as of the date hereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

RESULTS OF OPERATIONS

Net sales decreased 16% to $5,745,000 for the quarter ended September 30, 2007, as compared to the same quarter a year ago. The decrease was primarily a result of zero government EFO sales made during the third quarter of 2007 versus $670,000 made during the same quarter of the prior year. Additionally, commercial lighting sales decreased $735,000 compared to the third quarter of 2006. Further, pool sales declined $328,000 due to the ongoing slowdown in housing starts. Finally, sales from Europe were down slightly versus the same quarter of last year. EFO sales were $2,035,000 in the third quarter of 2007 compared to $1,346,000 in the third quarter of 2006. Through September 30, 2007 adjusted EFO sales were $4,932,000 compared to $2,547,000 through September 30, 2006. EFO sales in 2007 include sales from EFO fiber optic lighting, EFO LED, EFO Controls, and EFO Government products, whereas sales in 2006 include EFO fiber optic only. Year-to-date EFO sales were corrected to properly reflect first quarter 2007 Controls sales not previously classified as EFO sales. We expect overall sales to be flat for fiscal 2007 with higher EFO sales offsetting lower sales in the traditional fiber optic lines, pool lighting and traditional commercial. However, the market for our products is highly dependent upon general economic conditions.

On March 31, 2006, we announced that we had received funding from the U. S. Defense Advanced Research Project Agency ("DARPA") for $2,100,000 to develop and install our high efficiency distributed lighting systems as a "commercial" product on three US Navy ships. This project resulted in revenue being recognized on a percentage-of-completion basis as milestones are completed between 2006 and 2007. No revenue was recognized in the third quarter of 2007, compared to $850,000 being recognized in the same period in 2006. Revenue of $105,000 has been recognized in the first nine months of 2007 for the completion of milestones compared to $1,399,000 being recognized in the same period in 2006.

During the first quarter of 2007, $234,000 of revenue was recognized on a percentage-of-completion basis for milestones completed as a subcontractor to the University of Delaware for continuing research on Very High Efficiency Solar Cells. There was no revenue recognized in the second or third quarters of 2007.

Gross profit was $1,988,000 in the third quarter of fiscal 2007, a 2% decrease compared to the same period in the prior year. The gross profit margin as a percentage of sales increased from 30% for the third quarter of fiscal 2006 to 35% for the third quarter of 2007. We expect gross profit margins for the full 2007 year to continue to improve compared to 2006, assuming general economic conditions remain consistent.

Research and development expenses were $805,000 in the third quarter of fiscal 2007, an increase of $175,000 compared with the third quarter of fiscal 2006. Gross expenses for research and development in the third quarter of 2007 increased by 21% due to increased salaries and wages, increased project related expense and increased legal fees related to intellectual property. Our research and development expenses are reduced by payment reimbursements received from the government for achieving milestones under a development contract with the Department of Energy ("DOE") that was signed in 2005 for a total of $1,500,000. Through September 30, 2007 net research and development expenses are $1,963,000 compared to $1,521,000 through September 30, 2006. The gross and net research and development spending along with credits from government contracts is shown in the following table:

	Three months ended September 30,		Nine months ended September 30,	
	2007	**2006**	**2007**	**2006**
Gross expenses for research and development	$ 997	$ 827	$ 2,531	$ 2,658
Deduct: credits from DARPA & DOE contracts	(192)	(197)	(568)	(1,137)
Net research and development expense	$ 805	$ 630	$ 1,963	$ 1,521

We expect research and development expense to increase for the full year 2007 compared to 2006 as a result of reduced payment reimbursements.

14

Sales and marketing expenses increased by 5% to $2,390,000 in the third quarter of fiscal 2007 as compared to $2,280,000 for the same period in fiscal 2006. Sales and marketing expenses increased by 3% to $7,338,000 in the first nine months of 2007 as compared to the same period in 2006. This was due to increased sales and marketing efforts associated with the EFO product line. We expect sales and marketing expenses to be comparable to 2006 spending for the full year.

General and administrative expenses were $1,668,000 in the third quarter of fiscal 2007, an increase of $365,000 or 28% from 2006. Expenses increased in the third quarter of 2007 compared to the same quarter in the prior year as a result of additional provision for uncollectible accounts receivable. We recorded $342,000 in provision for uncollectible accounts receivable in the third quarter of 2007 compared to $130,000 in the third quarter of 2006. General and administrative expenses were $3,813,000 for the first nine months of 2007 compared to $3,918,000 for the same period in 2006. The decrease was due to the impact of expenses recognized in 2006 for implementation of FAS123R and Sarbanes Oxley. We expect general and administrative expenses to decrease in 2007 as compared to 2006.

We recorded a net loss of $3,175,000 in the third quarter of fiscal 2007 as compared to a net loss of $2,125,000 in the third quarter of fiscal 2006. The increased loss in the third quarter of 2007 compared to the same period in 2006 was due to the lower pool and Europe sales, reductions in research and development credits, increased sales and marketing expense, increased provision for uncollectible accounts receivable and restructuring charges. Net losses for the nine months ending September 30, 2007 were $7,651,000 compared to losses of $6,866,000 for the first nine months of 2006. The net losses in the nine months ending September 30, 2007 increased compared to the losses for the same period in 2006 due to lower pool and Europe sales and reduced research and development credits.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents

At September 30, 2007, our cash and cash equivalents were $3,681,000 as compared to $3,705,000 at December 31, 2006, a net cash decrease of $24,000 during the first nine months of 2007. This compares to a net cash decrease of $2,235,000 for the same period in 2006. We also had $6,855,000 of short-term securities at September 30, 2007 as compared to $12,263,000 in short-term securities at December 31, 2006, a decrease of $5,408,000.

Due to seasonality in the sales of our pool lighting products, our cash balances tend to decrease in the first half of the year and increase in the second half of the year. Cash provided through accounts receivable was $2,091,000 in the first nine months of 2007 due largely to the seasonal nature of collections in the sales and payment of Pool and Spa Lighting products and our efforts to accelerate collection of accounts receivable. This is subject to the condition that the market for our products is highly dependent upon general economic conditions.

Cash was used in the nine month period ended September 30, 2007 to pay accounts payable and fund inventory additions.

Cash provided by or used in Investing Activities

Investing activities provided cash of $5,292,000 during the first nine months of 2007, compared to $205,000 for the same period of 2006. During both periods, cash was used for the acquisition of fixed assets. Fixed asset purchases from Advanced Lighting Technologies, Inc. were $1,325,000 in the first nine months of 2006 due to additional fixed assets required in order to move forward with EFO products and future research and development efforts. The sale of short-term securities in 2007 provided cash to fund fixed asset purchases and operations.

Cash Provided by Financing Activities

Financing activities contributed $251,000 to cash during the first nine months of 2007. This net contribution was due primarily to the exercise of warrants and employee stock options for $630,000. For the same period in 2006, financing activities from the exercise of warrants and employee stock options were $565,000. $615,000 of cash was used to pay short and long-term borrowings in the nine month period ended September 30, 2007.

Our bank line of credit in the United States is based on an agreement with Silicon Valley Bank dated August 15, 2005. It was amended on September 25, 2006, August 15, 2007 and again on October 31, 2007. This most recent amendment is retroactive to September 30, 2007 and has extended the credit agreement through December 31, 2007. This credit facility is for $5,000,000. The interest rate was 8.25% at September 30, 2007 and 8.75% at December 31, 2006. The rate is the same for both the term-loan and line of credit in both periods and has a minimum tangible net worth covenant which we must meet going forward. On December 31, 2005 this agreement was amended and restated to include an additional $3,000,000 term-loan line of credit for equipment purchases. This agreement calls for repayment of principal in equal amounts over 4 years from the date of purchase of the equipment and has an interest rate of prime plus 0.5% if the quick ratio is greater than 1.5 and prime plus 1.5% if the quick ratio is at or below 1.5. Borrowings under the Silicon Valley Agreement are collateralized by our assets and intellectual property. Specific borrowings under the revolver are tied to accounts receivable and inventory balances, and we are required to comply with certain covenants with respect to effective net worth and financial ratios. We had borrowings under the revolving line of credit of $1,000,000 at September 30, 2007 and at December 31, 2006. The $1,000,000 revolving line of credit is a current liability. We had total borrowings of $1,904,000 under the term-loan portion of the agreement as of September 30, 2007, and $2,261,000 as of December 31, 2006. We pay an unused line fee of 0.25% against any unused daily balance during the year.

On October 15, 2007, it was determined that both Silicon Valley Bank and the Company had incorrectly calculated the tangible net worth covenant for 2007. Upon recalculating the tangible net worth covenant, it was determined that we had failed to satisfy the tangible net worth covenant for the months of April, 2007 through August, 2007. However, we have entered into a fourth amendment to the agreement which waives all non-compliance with the covenant, amends and re-states the covenant, and extends the maturity date of the line of credit through December 31, 2007. As of September 30, 2007 we were in compliance with the revised tangible net worth covenant.

Through our U.K. subsidiary we maintain a bank overdraft facility of $510,000 (in UK pounds sterling, based on the exchange rate at September 30, 2007) under an agreement with Lloyds Bank Plc. There were no borrowings against this facility as of September 30, 2007 or December 31, 2006. The facility is renewed annually on January 1. The interest rate on the facility was 8.00% at September 30, 2007 and 7.25% at December 31, 2006.

Through our German subsidiary, we maintain a credit facility under an agreement with Sparkasse Neumarkt Bank. This credit facility was put in place to finance the building of new offices in Berching, Germany, which are owned and occupied by our German subsidiary. As of September 30, 2007 we had borrowings of $371,000 (in Euros, based on the exchange rate at September 30, 2007) and $379,000 as of December 31, 2006 (in Euros, based on the exchange rate at December 31, 2006) against this credit facility. The interest rate was 5.35% at September 30, 2007 and December 31, 2006. In addition, our German subsidiary has a revolving line of credit for $213,000 (in Euros, based on

the exchange rate at September 30, 2007) with Sparkasse Neumarkt Bank. As of September 30, 2007 there were borrowings against this facility of $149,000 compared to $124,000 at December 31, 2006. The revolving facility is renewed annually on January 1. Interest rates on this line of credit were 10.50% at September 30, 2007 and 9.75% at December 31, 2006. The $149,000 revolving line of credit is a current liability.

Future maturities of remaining borrowings are (in thousands):

Through September 30,	U.S.A.	Germany	Total
2008	$ 769	$ 52	$ 821
2009	716	55	771
2010	392	58	450
2011	27	61	88
2012	—	64	64
2013 and Thereafter	—	81	81
Total Commitment	$ 1,904	$ 371	$ 2,275

We believe that our existing cash balances and funds available to us through our bank lines of credit, together with funds that we anticipate to generate from our operations, should be sufficient to finance our currently anticipated working capital requirements and capital expenditure requirements. However, this statement is strongly linked to the success of on-going operational, working capital and cost-cutting initiatives underway at our Company. Further, sudden increases in product demand requiring a significant increase in manufacturing capability, on-going poor revenue performance, and/or unforeseen other adverse competitive, economic or political factors would further negatively impact our cash position, and would thereby affect our ability to maintain on-going operations without additional funding. We may, therefore, be required to raise additional funds through public or private financing, strategic relationships or other arrangements. There can be no assurance that such funding, if needed, will be available on terms acceptable to us, or at all. Furthermore, any additional equity financing may be dilutive to shareholders, and debt financing, if available, may involve restrictive covenants. Strategic arrangements, if necessary to raise additional funds, may require that we relinquish rights to certain of our technologies or products. Failure to generate sufficient revenues or to raise capital when needed could have an adverse impact on our business, operating results and financial condition, as well as our ability to achieve intended business objectives.

CRITICAL ACCOUNTING POLICIES

The preparation of our financial statements requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies and the reported amounts of revenue and expenses in the financial statements. Material differences may result in the amount and timing of revenue and expenses if different judgments or different estimates were utilized. Critical accounting policies, judgments and estimates which we believe have the most significant impact on our financial statements include allowances for doubtful accounts, returns, warranties, valuation of inventories, and stock based compensation. For the detailed discussion of the application of policies critical to our business operations, see our Annual Report on Form 10-K for the year ended December 31, 2006.

RECENTLY ADOPTED STANDARDS

In July, 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), an interpretation of Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes" ("SFAS 109") regarding accounting for income tax uncertainties effective for fiscal years beginning after December 15, 2006. FIN 48 applies to all tax positions related to income taxes subject to SFAS 109 on Accounting for Income Taxes. The impact of adopting the positions of this interpretation did not have a material impact on the Company's overall financial position or results of operations.

RECENT PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, "Fair Value Measurements". This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This standard is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adoption of the standard on its financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS No. 159 on its consolidated financial position and results of operations.

RESTRUCTURING

In June 2005, the Company announced its plans to close its Fremont office and consolidate most of its operations in Solon, Ohio, where we already had a local sales office and a manufacturing facility. We recognized restructuring charges of $98,000 in the third quarter of 2006 and $734,000 for the nine months ending September 30, 2006, respectively. During the second quarter of 2007, we initiated further restructuring efforts designed to consolidate manufacturing operations and streamline sales operations and administration for improved efficiency. This restructuring includes product line rationalizations, workforce reductions, and organizational realignments. We charged $308,000 and $397,000 to restructuring in the three months and nine months ended September 30, 2007, respectively.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of September 30, 2007, we had $843,000 in cash held in foreign currencies based on the exchange rates at September 30, 2007. The balances for cash held overseas in foreign currencies are subject to exchange rate risk. We have a policy of maintaining cash balances in local currencies unless an amount of cash is occasionally transferred in order to repay inter-company debts.

As of September 30, 2007, we had borrowings of $149,000 (in Euros, based on the exchange rate at September 30, 2007) against a credit facility secured by real property owned by our German subsidiary. As of December 31, 2006, we had $124,000 (in Euros, based on the exchange rate at December 31, 2006) borrowed against this credit facility.

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 recognized 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, and management believes they 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 to ensure that material information relating to us, including our consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which this Quarterly Report on Form 10-Q was being prepared.

(b) Changes in internal control over financial reporting.

There were significant changes made to the financial organization during the third quarter with the consolidation of the Chief Financial Officer and Controller positions into one position held by the current Chief Financial Officer. Even though internal controls have not been materially affected by this consolidation, we are carefully reviewing our internal control environment as a result of this change. While nominal issues may exist within the segregation of duties arena, we expect no material deficiencies in our internal control environment over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) as a result of this consolidation.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On February 21, 2007, a lawsuit was filed in The United States District Court, Eastern District of Missouri alleging that laminar flow products in the Company's pool and spa line have infringed upon certain United States patents owned by Robert L. Kuykendal, Ronald S. Deichmann, and David R. Usher and licensed to Splash Technologies, Incorporated. The lawsuit sought to halt such alleged infringement and an accounting related to products sold. The plaintiffs never served their complaint on the Company, as required by the federal court rules of procedure, even after the Court ordered them to do so. As a result, the Court dismissed their complaint against the Company on July 25, 2007.

Item 1A. Risk Factors

The U.S. housing market has been in decline in 2007 which may lead to a general economic decline and reduced sales of our products.

It has been reported that housing permits continue to be down in many of our key markets. In the past this has been a key indicator of swimming pool sales as many of our sales in this market are to new home buyers. This could cause a steeper decline in pool lighting sales than previously anticipated. In addition, the declining housing market could cause a general economic downturn which would lead to slower purchases of our other products, leading to continued pool sales declining for the remainder of 2007.

We have recently changed our name and the focus of our business and may be unsuccessful or experience difficulties in implementing this change. If this occurs, we may not be able to achieve operating profitability.

In connection with the reorganization and restructuring of Fiberstars, we changed our name to Energy Focus Inc. and we intend to shift the primary focus of our business from our pool lighting and traditional commercial products to products using our EFO technology. While we intend to continue designing and manufacturing pool and spa products, we plan to allocate significant resources to the development, marketing and distribution of our EFO system in the accent lighting market. We have a limited operating history in this market, and our shift in focus may affect our ability to accurately forecast sales, establish adequate reserves, estimate amounts of warranty and returns and other similar expenses. Our ability to achieve and maintain profitability depends on our ability to successfully implement our new business strategy.

Our operating results are subject to fluctuations caused by many factors that could result in decreased revenue and a decline in the price of our common stock.

Our quarterly operating results can vary significantly depending upon a number of factors which may include, but are not limited to the lighting market's acceptance of, and demand for, our products; the level and seasonality of orders and the delivery of new products; the continued availability of our current manufacturing channels and raw material suppliers; the continued availability of our distributors or the availability of replacement distribution channels; fluctuations in our sales volumes and mix of low and high margin products; product development and marketing expenditures, which are made well in advance of potential resulting revenue; increased expenses in research and development if we are not able to meet certain milestones in our Defense Advanced Research Project Agency, or DARPA, contracts; the seasonality of the construction industry, which results in a substantial portion of our historical quarterly sales in the last month of each of the third and fourth quarters of the year; the inability to make any significant adjustment in our operating expenses if sales fall below our expectations since a significant portion of our expenses are relatively fixed; and the impact of natural disasters, terrorist acts and other unforeseeable catastrophic events.

Although we attempt to control our expense levels, these levels are based, in part, on anticipated revenue. Therefore, we may not be able to control spending in a timely manner to compensate for any unexpected revenue shortfall.

Period-to-period comparisons of our operating results should not be relied upon as an indication of future performance. The results may be below the expectations of market analysts or investors, which would likely cause our share price to decline.

Our future success is highly dependent on the successful adoption of EFO systems by the lighting market, which is traditionally slow in adopting new technologies.

EFO is a relatively new and unproven type of lighting that may not achieve acceptance by lighting designers or other consumers of lighting products. Our potential retail customers are widespread and independent, and their decisions are influenced by a variety of factors which are often unique to each customer. These customers have multiple choices in lighting designs and products, including incandescent and fluorescent technologies, and may be averse to adopting new technology or incurring the costs of utilizing new technologies. In addition, these alternative lighting products are manufactured by large, established companies with significantly greater resources than us for developing energy efficient lighting. As a result, even if potential customers choose to adopt new lighting technologies, our products still may not be utilized. Even if some customers utilize our products on a limited basis, there is no guarantee that they will expand their use of or continue to utilize our products.

One of our significant markets is large-scale new construction, including retail and grocery stores. Effective lighting by these customers is a critical element in showcasing merchandise and promoting sales. As a result, these customers are reluctant to change current lighting products for fear of losing sales. In order to penetrate these markets, we must persuade this customer base that the adoption of our EFO systems will not negatively impact their business. This process is slow, time-consuming and expensive. If our EFO system is not adopted by this customer base, we may not generate sufficient revenue to offset the cost of bringing our EFO technology into these target markets.

Finally, successful penetration in certain markets or geographic regions does not guarantee that we will be able to achieve successful penetration into the accent lighting market or that our acceptance will be geographically widespread.

Our color spectrum lamp is untested by the retail market and may not be accepted without technological changes, if at all.

Our EFO system offers a new full spectrum lamp for use in retail stores. If our new full color spectrum lamp is not as effective as we anticipate or does not meet the specific needs of this target customer base, we may need to expend additional resources to make technological changes to the spectrum. If our new full color spectrum is not accepted or if we are unable to make the changes necessary for customer acceptance, this could negatively impact sales of our EFO system.

We plan on allocating a significant amount of resources to the research and development of our EFO lighting technology. If our EFO lighting system is not accepted in our target markets, we may not recoup these expenses.

We plan on devoting a substantial portion of our research and development resources to developing new products using our EFO lighting technology and marketing it in our target markets. Because our EFO lighting system is a relatively new product, we do not know if we will be successful in penetrating our target markets. As a result, we may not generate a sufficient amount of revenue from the sales of our EFO lighting systems to offset the costs necessary to bring our EFO lighting systems to market. Our gross margins and operating results will suffer if our EFO lighting systems are not accepted in our target markets.

Our large core fiber manufacturing is centralized in a single facility, which may affect our ability to sufficiently meet product demand in a cost effective or timely manner.

We manufacture our large core fiber through a unique proprietary process and currently have one machine that manufactures this fiber, located at the facility we lease in Solon, Ohio. This large core fiber is used in a majority of our EFO systems. As a result, we are subject to manufacturing delays due to facility shutdown, power loss or labor

difficulties. If our facility were to experience temporary shutdown, or be unable to function at predicted capacity, we may be unable to meet our demand in a cost efficient manner, if at all. Furthermore, our ability to modify our production output for custom orders is limited by our having one machine at a single facility. In addition, our alternative method is not cost effective. In 2005 and 2006 we entered into agreements with Advanced Lighting Technologies, Inc. (“ADLT”) to purchase two coating machines and the supply of certain coatings which will be operated and maintained by a third party. If this machine is not operated or maintained properly we may experience delays in our manufacturing process.

Two of our coating machines are operated by a third party. If the third party does not operate and/or maintain the machines properly, we may experience manufacturing delays.

In 2005 and 2006 we entered into agreements with ADLT to purchase two coating machines and the supply of certain coatings which will be operated and maintained by a third party. If this machine is not operated or maintained properly we may experience delays in our manufacturing process.

If electricity costs decline or if regulatory requirements for energy efficient lighting are repealed, demand for our products may decline.

The principal advantage of our EFO technology over competing lighting technologies is energy efficiency. Factors compelling our target customers to utilize more energy efficient lighting technologies include increasing energy costs and federal and state government regulations requiring lower wattage per square foot such as ASHRAE-IESNA Standard 90.1, which limits electricity consumption for lighting per square foot to 1.9 watts for both new construction and renovations requiring building permits for retail buildings in the United States. If the need for increasingly energy efficient lighting technologies by our target customer base declines, the attractiveness of our technology would also decline.

We depend on a limited number of suppliers from whom we do not have guarantees of adequate supplies, thus increasing the risk that loss of or problems with a single supplier could result in impaired margins, reduced production volumes, strained customer relations and loss of business.

Mitsubishi is the sole supplier of our small diameter stranded fiber, which is used extensively in our fiber pool and spa lighting products, and to a lesser extent, in our EFO systems. We also rely on a third party to operate and maintain our arctube machines to produce EFO lamps. The loss of Mitsubishi as a supplier or ADLT as a third party operator could result in delays in the shipment of products, additional expense associated with redesigning products, impaired margins, reduced production volumes, strained customer relations and loss of business or could otherwise harm our results of operations.

We depend on ADLT for a number of components used in our products as well as future development of new components and also rely on ADLT to operate and maintain our coating machine and provide certain related services.

ADLT supplies us with certain components used in our products. While ADLT has been financially viable, there can be no assurances that this will continue. In addition, ADLT can terminate for convenience its obligations to supply us with components and related services for the coating machine purchased from them upon nine months notice to us. As a result, we have identified alternative suppliers for these components, but there could be an interruption of supply and increased costs if a transition to a new supplier were required. We could lose current or prospective customers as a result of supply interruptions. Increased costs and delays would negatively impact our gross margins and results of operations.

We have experienced negative cash flow from operations and may continue to do so in the future. We may need to raise additional capital in the future, but our ability to do so may be limited.

While we have historically been able to fund cash needs from operations, bank lines of credit or from capital markets transactions, due to competitive, economic or other factors there can be no assurance that we will continue to be able to do so. If our capital resources are insufficient to satisfy our liquidity requirements and overall business objectives, we may seek to sell additional equity securities or obtain debt financing. Adverse business conditions due to a weak economic environment or a weak market for our products have led to and may lead to continued negative cash flow from operations, which may require us to raise additional financing, including equity financing. Any equity financing

may be dilutive to shareholders, and debt financing, if available, will increase expenses and may involve restrictive covenants. We may be required to raise additional capital at times and in amounts which are uncertain, especially under the current capital market conditions. Under these circumstances, if we are unable to acquire additional capital or are required to raise it on terms that are less satisfactory than desired, it may harm our financial condition, which could require us to curtail our operations significantly, sell significant assets, seek arrangements with strategic partners or other parties that may require us to relinquish significant rights to products, technologies or markets, or explore other strategic alternatives including a merger or sale of our company.

We sell products into a marketplace where our competitors often have lower initial product pricing. If we are unable to provide customers with long term cost savings, we may not be able to successfully penetrate our target markets, which could harm our revenue and gross profits.

Customers in our target markets currently use conventional lighting technologies, including incandescent, halogen and fluorescent lighting. The initial cost of using these traditional lighting technologies is relatively low. Historically, we have not been able to price our EFO lighting system to compete with these traditional lighting products. As a result, in order to gain market share, our EFO lighting system must provide our target customers with longer life cycles. This is achieved through reduced maintenance costs, reduced energy costs and providing customers with the desired lighting effect without resulting in damage to or loss of goods. If we are not able to persuade potential customers of the long-term cost savings in using our EFO lighting system, we may not be able to successfully compete in our target markets. Our financial results will suffer if we are not able to penetrate these target markets and gain market share. Additionally, MR-16 halogen lamp pricing is declining, and in order to remain competitive and broaden our market targets to include compact fluorescent lamps and other lamp types, we believe we must continue to reduce EFO costs and pricing.

We operate in markets that are intensely and increasingly competitive. To be successful, we must provide energy saving solutions that offer compelling competitive advantages over conventional lighting technologies.

Competition is increasing in the commercial decorative and accent lighting and pool lighting markets, as well as in the energy efficient lighting markets. A number of companies offer directly competitive products, including color halogen lighting for swimming pools and incandescent and fluorescent lighting for commercial decorative and accent lighting. For example, General Electric recently announced it has developed a more energy-efficient incandescent lamp. We also compete with LED products in water lighting and in neon and other lighted signs. In addition, many of our competitors in the pool and spa market bundle their lighting products with other pool and spa related products, which many customers find to be an attractive alternative. Our competitors include large and well-established companies such as General Electric, Sylvania, Philips, Schott, 3M, Bridgestone, Pentair, Mitsubishi and OSRAM/Siemens.

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

We rely on intellectual property and other proprietary information that may not be protected and that may be expensive to protect.

We currently hold 49 patents in the United States, and three corresponding patents in Japan and one corresponding patent in Australia. We also have 43 patents pending in the United States. There can be no assurance, however, that our issued patents are valid or that any patents applied for will be issued. We have a policy of seeking to protect our key intellectual property through, among other things, the prosecution of patents with respect to certain of our technologies. There are many issued patents and pending patent applications in the field of fiber optic technology, and some of our competitors hold and have applied for patents related to fiber optic and non-fiber optic lighting. We have in the past received communications from third parties asserting rights in our patents or that our technology infringes intellectual property rights held by such third parties. For example, in 2005 we were involved in patent litigation with Pentair with respect to our FX Pool Light product, which was subsequently settled. Litigation to determine the validity of any third-party claims or claims by us against such third party, whether or not determined in our favor, could result in significant expense and divert the efforts of our technical and management personnel, regardless of the outcome of

such litigation. In addition, we do not know whether our competitors will in the future apply for and obtain patents that will prevent, limit or interfere with our ability to make, use, sell or import our products. Although we may seek to resolve any potential future claims or actions, we may not be able to do so on reasonable terms, or at all. If, following a successful third-party action for infringement, we cannot obtain a license or redesign our products, we may have to stop manufacturing and marketing our products and our business would suffer as a result.

Sales of our EFO systems depend on acceptance by multiple decision makers, resulting in lengthy sales cycles. As a result, the flow of EFO revenue is not predictable.

One of our significant markets is large-scale new construction and the length of our sales cycle in this market can be anywhere from nine months to as long as three years. Decisions about lighting products utilized in large-scale new construction are made at multiple levels by our current and potential customers, including merchandising and purchasing personnel, the chief financial officer and the chief executive officer. These decisions are influenced by a number of factors including cost, reliability of the product and reliability of its source. In addition, some of these customers function autonomously and decisions with respect to construction, including lighting, are made by each store, even if part of a large chain. As a result, with respect to such customers, we often must meet with all the decision makers at each store where we want to install our EFO systems. Furthermore, such decisions are made significantly in advance of the utilization of the actual product. As a result, if we are unable to access the multiple decision makers or convince them to adopt our products and utilize them on a widespread basis, we may be unable to successfully penetrate these markets. We may also be required to invest significant time and resources into marketing to these customers before we are able to determine if we will be able to sell such customers our products.

We depend on key employees in a competitive market for skilled personnel, and the loss of the services of any of our key employees could materially affect our business.

Our future success will depend to a large extent on the continued contributions of certain employees, such as our current chief executive officer, chief financial officer, chief operations officer and chief technical officer. These and other key employees would be difficult to replace. Our future success will also depend on our ability to attract and retain qualified technical, sales, marketing and management personnel, for whom competition is intense. The loss of or failure to attract, hire and retain any such persons could delay product development cycles, disrupt our operations or otherwise harm our business or results of operations. In addition, we plan to build a new internal sales force, which may not generate the anticipated net sales and may incur unanticipated expenses.

We are dependent on foreign sources of supply for many of our components and in some cases complete assemblies, which due to distance or political events, may result in untimely deliveries.

In order to control costs, we are continually seeking offshore supply of components and assemblies. We currently import supplies from, or have products assembled in, Mexico, India, China, Taiwan, Japan and some European countries. This results in longer lead times for deliveries, which can mean less responsiveness to sudden changes in market demand for the products involved. Some of the countries where components are sourced may be less stable politically than the United States or may be subject to natural disasters or diseases, and this could lead to an interruption in the delivery of key components. Delays in the delivery of key components could result in delays in product shipments, additional expenses associated with locating alternative component sources or redesigning products, impaired margins, reduced production volumes, strained customer relations and loss of customers, any of which could harm our results of operations. Furthermore, we bear the risk of theft or damage to our products with certain of our offshore partners, particularly with regard to our assembly facilities in Mexico.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential shareholders could lose confidence in our financial reporting which could harm our business and the trading price of our common stock.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement. Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate and report on our internal controls over financial reporting each year. We have prepared for compliance with Section 404 by strengthening, assessing and testing our system of internal controls to provide the basis for our report. However, the continuous process of

strengthening our internal controls and complying with Section 404 is expensive and time consuming, and requires significant management attention. We cannot be certain that these measures will ensure that we will maintain adequate control over our financial processes and reporting. If we or our independent registered public accounting firm discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in our financial statements and harm our stock price. In addition, future non-compliance with Section 404 could subject us to a variety of administrative sanctions, including the suspension or delisting of our common stock from The NASDAQ National Market and the inability of registered broker-dealers to make a market in our common stock, which would further reduce our stock price. Estimates of our annual costs, independent of additional audit fees, required to comply with Section 404 after 2006 on an on-going basis are $300,000 or higher. While we expect these costs to impact our operating expenses, we cannot predict or estimate the amount of future additional costs we may incur or the timing of such costs.

Our components are difficult to manufacture and procure in large quantities and supply may be limited in the short term.

The EFO system includes components that are difficult to manufacture and procure in large quantities in the short term. These components include lamps and optical and electronic components. Furthermore, if these components are in limited supply, our suppliers may allocate their supply to larger customers. If an increase in demand outpaces the projected expansion of our manufacturing capabilities, or if larger quantities are needed in a shorter time frame than anticipated, we may not be able to meet customers' requirements and our ability to market our EFO system may be adversely affected. Our inability to meet customers' requirements may also negatively affect our ability to gain market share and acceptance among lighting designers and other repeat customers of lighting products.

We have historically relied on government funding for our research and development.

Historically, approximately 54% of our EFO research and development efforts have been supported directly by government funding. In 2006, approximately 35% of our EFO research and development funding came from government sources and is contracted for short periods, usually one to two years. If government funding were to continue to be reduced or eliminated, there is no guarantee we would be able to continue to fund our research and development efforts in EFO technology and products at their current levels, if at all. If we are unable to support our EFO research and development efforts, there is no guarantee we would be able to develop enhancements to our current products or develop new products.

Changes to financial accounting standards may affect our results of operations and cause us to change our business practices.

We prepare our financial statements to conform with generally accepted accounting principles, or GAAP, in the United States. Those accounting principles are subject to interpretation by the American Institute of Certified Public Accountants, the Securities and Exchange Commission and various bodies formed to interpret and create appropriate accounting policies. A change in those policies can have a significant effect on our reported results and may affect our reporting of transactions completed before a change is announced. Changes to those rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business. For example, accounting policies affecting many aspects of our business, including rules relating to tax expense, have recently been revised or are under review. The Financial Accounting Standards Board and other agencies have finalized changes to GAAP that required us, starting in our first quarter of 2007, to evaluate our tax provision. We may have significant and ongoing accounting charges resulting from this evaluation, which could increase tax expense.

We currently rely on lighting representatives for a significant portion of our decorative and special effects lighting systems sales, and terms and conditions of sales are subject to change with very little notice.

Most of our decorative and special effects lighting systems are sold through lighting representatives, and we do not have long-term contracts with our distributors. If these distributors significantly change their terms with us or change their historical pattern of ordering products from us, there could be a significant adverse impact on our net sales and operating results.

Our sales are dependent upon new construction levels and are subject to seasonal and general economic trends.

Construction levels are affected by general economic conditions, real estate markets, interest rates and the weather. Sales of commercial lighting products depend significantly upon the level of new building construction and renovation. Sales of our pool and spa lighting products, which currently are available only with newly constructed pools and spas, depend substantially upon the level of new construction of pools. Because of the seasonality of construction, our sales of swimming pool and commercial lighting products, and thus our overall revenues and

income, have tended to be significantly lower in the first and the third quarters of each year. Various economic and other trends may alter these seasonal trends from year to year, and we cannot predict the extent to which these seasonal trends will continue.

If we are not able to timely and successfully develop, manufacture, market and sell our new products, our operating results will decline.

We expect to introduce new products each year in the pool and spa lighting market and the commercial lighting market. We depend on various components and raw materials for use in the manufacturing of our products from sole and foreign suppliers. We may not be able to successfully manage price fluctuations due to market demand or shortages. Significant increases in the costs or sustained interruptions in our receipt of adequate amounts, of necessary components and raw materials could harm our margins, result in manufacturing halts, harm our reputation and relationship with our customers and negatively impact our results of operations. In addition, we could have difficulties manufacturing these new products as a result of our inexperience with them or the costs could be higher than expected and delivery of these products may cause us to incur additional unexpected research and development expenses. Furthermore, in order to competitively price our products and achieve broader market acceptance, we may need to redesign our manufacturing process to produce our products in higher volume and at a reduced cost. Furthermore, any delays in the introduction of these new products could result in lost sales, loss of customer confidence and loss of market share. Also, it is difficult to predict whether the market will accept these new products. If any of these new products fails to meet expectations, our operating results will be adversely affected.

We rely on the largest pool distributor in the United States for a significant portion of our pool and spa lighting products sales.

We sell a significant portion of our pool and spa lighting products through South Central Pools, LLC (“SCP”). SCP accounted for approximately 10%, 11% and 11% of our net sales in 2004, 2005 and 2006, respectively. If SCP ceases to purchase or substantially decreases its volume of purchases, this could significantly reduce the availability of our products to end users, which could negatively impact our net sales and operating results. Furthermore, because SCP is the largest distributor in the United States, we may not be able to increase sales to our other distributors sufficiently to offset the loss resulting from SCP’s reduction or cessation in sales.

The loss of a key sales representative could have a negative impact on our net sales and operating results.

We rely on key sales representatives and outside sales agents for a significant portion of our sales. These sales representatives and outside sales agents have unique relationships with our customers and would be difficult to replace. The loss of a key sales representative or outside sales agent could interfere with our ability to maintain customer relationships and result in declines in our net sales and operating results. In addition, these sales representatives and sales agents carry multiple product lines, including those of our competitors. Generally, a sales representative or sales agent will primarily sell products from one well-established company and supplement these sales with products from smaller companies, such as Energy Focus. As a result, if we lost a key sales representative or sales agent, we may have difficulty replacing the sales representative or sales agent, if at all, which could negatively impact our net sales.

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

Although we continue to consolidate manufacturing in the United States in an attempt to reduce manufacturing expenses, we are dependent upon offshore companies for the manufacturing and final assembly of many of our pool and spa products. To do so, we must advance certain raw materials, inventory and production costs to these off-shore manufacturers. The supply of finished goods from these companies, and the raw materials, inventory and funds that we advance to them may be at risk depending upon the varying degrees of stability of the local political, economic and social environments in which they operate, and the financial strength of the manufacturing companies themselves.

Because we depend on a limited number of significant customers for our net sales, the loss of a significant customer, reduction in order size or the effects of volume discounts granted to significant customers from time to time could harm our operating results.

Our business is currently dependent on a limited number of significant customers, and we anticipate that we will continue to rely on a limited number of customers. For example, in 2006, SCP, our largest pool and spa customer, accounted for approximately 11% of our net sales. We expect these customers to continue to represent a significant portion of our net sales in the future. The loss of any of these significant customers would harm our net sales and operating results. Customer purchase deferrals, cancellations, reduced order volumes or non-renewals from any particular customer could cause our quarterly operating results to fluctuate or decline and harm our business. In addition, volume discounts granted to significant customers from time to time could lead to reduced profit margins, and negatively impact our operating results.

Our components and products could have defects or design or compatibility issues, any of which could be costly to correct and could result in the rejection of our products and damage to our reputation, as well as lost sales, diverted development resources and increased warranty reserves and manufacturing costs.

In the past, we have experienced design defects and product failure. For example, in our EFO systems, we experienced defects related to the power supply in the illuminator. In our pool and spa products, we experienced defects with our circuit sequencing color wheel. We cannot guarantee that we will not experience defects or compatibility issues in components or products in the future. Errors or defects in our products may arise in the future, and, if significant or perceived to be significant, could result in rejection of our products, product returns or recalls, damage to our reputation, lost revenue, diverted development resources and increased customer service and support costs and warranty claims. Errors or defects in our products could also result in product liability claims. We estimate warranty and other returns and accrue reserves for such costs at the time of sale. Any estimates, reserves or accruals may be insufficient to cover sharp increases in product returns, and such returns may harm our operating results. In addition, customers may require design changes in our products in order to suit their needs. Losses, delays or damage to our reputation due to design or defect issues would likely harm our business, financial condition and results of operations.

If we are unable to predict market demand for our products and focus our inventories and development efforts to meet market demand, we could lose sales opportunities and experience a decline in sales.

In order to arrange for the manufacture of sufficient quantities of products and avoid excess inventory we need to accurately predict market demand for each of our products. Significant unanticipated fluctuations in demand could cause problems in our operations. We may not be able to accurately predict market demand in order to properly allocate our manufacturing and distribution resources among our products, especially with respect to the manufacturing of our large core fiber, as we use one machine to manufacture this fiber. As a result, we may experience declines in sales and lose, or fail to gain, market share. Conversely, if we overbuild inventories we run the risk of having inventory write-offs due to obsolescence.

We depend on collaboration with third parties, who are not subject to material contractual commitments, to augment our research and development efforts.

Our research and development efforts include collaboration with third parties. Many of these third parties are not bound by any material contractual commitment leaving them free to end their collaborative efforts at will. Loss of these collaborative efforts could adversely affect our research and development efforts and could have a negative effect on our competitive position in the market. In addition, arrangements for joint development efforts may require us to make royalty payments on sales of resultant products or enter into licensing agreements for the technology developed which could increase our costs and negatively impact our results of operations.

The demand for new construction is affected by general economic conditions.

The United States and international economies are cyclical and therefore difficult to predict. A sustained economic recovery is uncertain. In particular, recent increases in the cost of oil, increases in energy costs, terrorist acts and similar events, continued turmoil in the Middle East or war in general could contribute to a slowdown of the market demand for products that require significant initial capital expenditures, including new residential and commercial buildings. In addition, increases in interest rates may increase financing costs to customers, which in turn may decrease building rates and associated demand for our products. If the economic recovery slows down as a result of the recent economic, political and social turmoil, or if there are further terrorist attacks in the United States or elsewhere, we may experience decreases in the demand for our products, which may harm our operating results.

We are subject to global economic or political conditions, which may disrupt the general economy, reducing demand for our products.

We have significant international activities and customers, and plan to continue these efforts, which subject us to additional business risks, including logistical complexity, political instability and the general economic conditions in those markets. Sales outside the United States accounted for approximately 33% of our net sales in 2004, 33% of our net sales in 2005 and 31% of our net sales in 2006. Because the market for our products tends to be highly dependent upon general economic conditions, declining general economic conditions would likely harm our operating results.

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

In addition, in the Asia/Pacific region generally, we face risks associated with a recurrence of SARS, spreading of Asian bird flu, tensions between countries in that region, such as political tensions between China and Taiwan, the ongoing discussions with North Korea regarding its nuclear weapons program, potentially reduced protection for intellectual property rights, government-fixed foreign exchange rates, relatively uncertain legal products and developing telecommunications infrastructures. In addition, some countries in this region, such as China, have adopted laws, regulations and policies which impose additional restrictions on the ability of foreign companies to conduct business in that country or otherwise place them at a competitive disadvantage in relation to domestic companies.

Item 5. Other Information

On May 8, 2007, Energy Focus, Inc., a wholly-owned subsidiary of Fiberstars, Inc., was merged into Fiberstars, Inc. As a result of this merger, the name of Fiberstars, Inc. was changed to Energy Focus, Inc. Existing certificates for shares of the Company, bearing the name Fiberstars, Inc., will continue to be valid certificates for Energy Focus, Inc., and no action is required by the shareholders as a result of the name change.

Item 6. Exhibits

Exhibit Number	Description of Documents
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1**	Statement of Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2003 (18 U.S.C. §1350).
32.2**	Statement of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2003 (18 U.S.C. §1350).

** In accordance with item 601(b) (32) (ii) of Regulation S-K and SEC Release Nos. 33-8238 and 34-47986, Final Rule: Management’s Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates them by reference.

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: November 9, 2007

By: /s/ John M. Davenport

John M. Davenport
Chief Executive Officer

By: /s/ Nicholas G. Berchtold

Nicholas G. Berchtold
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit Index

Exhibit Number	Description of Documents
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1**	Statement of Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2003 (18 U.S.C. §1350).
32.2**	Statement of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2003 (18 U.S.C. §1350).

** In accordance with item 601(b)(32)(ii) of Regulation S-K and SEC Release Nos. 33-8238 and 34-47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.