

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

**Form 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2024

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-36583

**ENERGY FOCUS, INC.**

(Exact name of registrant as specified in its charter)

Delaware

94-3021850

(State or other jurisdiction of incorporation or organization)

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

32000 Aurora Road, Suite B Solon, OH

(Address of principal executive offices)

44139

(Zip Code)

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

None

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class                        | Trading Symbol(s) | Name of each exchange on which registered |
|--|-------------------|---|
| Common Stock, par value \$0.0001 per share | EFOI              | The Nasdaq Stock Market LLC               |

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

The number of outstanding shares of the registrant's common stock, \$0.0001 par value, as of November 8, 2024 was 5,260,741.

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## PART I - FINANCIAL INFORMATION

### **Forward-looking statements**

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

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

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

We believe that important factors that could cause our actual results to differ materially from forward-looking statements include, but are not limited to, the risks and uncertainties outlined under "Risk Factors" under Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2023 and other matters described in this Quarterly Report and our other filings with the Securities and Exchange Commission generally. Some of these factors include:

- our need for and ability to obtain additional financing in the near term, on acceptable terms or at all, to continue our operations;
- our ability to maintain compliance with the continued listing standards of The Nasdaq Stock Market ("Nasdaq");
- our ability to continue as a going concern for a reasonable period of time;
- our ability to realize synergies with our strategic investor;
- instability in the U.S. and global economies and business interruptions experienced by us, our customers and our suppliers;
- the competitiveness and market acceptance of our light-emitting diode ("LED") lighting and control technologies and products;
- our ability to compete effectively against companies with lower prices or cost structures, greater resources, or more rapid development capabilities, and new competitors in our target markets;
- our ability to extend our product portfolio into new applications and end markets;
- our ability to increase demand in our targeted markets and to manage sales cycles that are difficult to predict and may span several quarters;
- the timing of large customer orders, significant expenses and fluctuations between demand and capacity as we manage inventory and invest in growth opportunities;
- our ability to successfully scale our network of sales representatives, agents, distributors and other channel partners to compete with the sales reach of larger, established competitors;
- our ability to implement plans to increase sales and control expenses;
- our reliance on a limited number of customers for a significant portion of our revenue, and our ability to maintain or grow such sales levels;
- our ability to add new customers to reduce customer concentration;
- our ability to attract and retain a new chief financial officer;
- our ability to manage the size of our workforce while continuing to attract, develop and retain qualified personnel, and to do so in a timely manner;

- our ability to diversify our reliance on a limited number of third-party suppliers and development partners, our ability to manage third-party product development and obtain critical components and finished products on acceptable terms and of acceptable quality despite ongoing global supply chain challenges, and the impact of our fluctuating demand on the stability of such suppliers;
- our ability to timely, efficiently and cost-effectively transport products from our third-party suppliers by ocean marine and other logistics channels despite global supply chain and logistics disruptions;
- the impact of any type of legal inquiry, claim or dispute;
- the macro-economic conditions, including rising interest rates and recessionary trends, in the United States and in other markets in which we operate or secure products, which could affect our ability to obtain raw materials, component parts, freight, energy, labor, and sourced finished goods in a timely and cost-effective manner;
- our dependence on military maritime customers and on the levels and timing of government funding available to such customers, as well as the funding resources of our other customers in the public sector and commercial markets;
- business interruptions resulting from geopolitical actions such as war and terrorism, natural disasters, including earthquakes, typhoons, floods and fires, or from health epidemics or pandemics or other contagious outbreaks;
- our ability to respond to new lighting and control technologies and market trends;
- our ability to fulfill our warranty obligations with safe and reliable products;
- any delays we may encounter in making new products available or fulfilling customer specifications;
- any flaws or defects in our products or in the manner in which they are used or installed;
- our ability to protect our intellectual property rights and other confidential information, and manage infringement claims by others;
- our compliance with government contracting laws and regulations, through both direct and indirect sale channels, as well as other laws, such as those relating to the environment and health and safety;
- risks inherent in international markets, such as economic and political uncertainty, changing regulatory and tax requirements and currency fluctuations, including tariffs and other potential barriers to international trade; and
- our ability to maintain effective internal controls and otherwise comply with our obligations as a public company.

In light of the foregoing, we caution you not to place undue reliance on our forward-looking statements. Any forward-looking statement that we make in this Quarterly Report speaks only as of the date of such statement, and we undertake no obligation to update any forward-looking statement or to publicly announce the results of any revision to any of those statements to reflect future events or developments, except as required by law. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless specifically expressed as such, and should only be viewed as historical data. Furthermore, new risks and uncertainties arise from time to time, and it is impossible for us to predict those events or how they may affect us.

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ITEM 1. FINANCIAL STATEMENTS

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

|   | <b>September 30,<br/>2024</b> | <b>December 31,<br/>2023</b> |  |  |
|---|-------------------------------|------------------------------|--|--|
|   | <b><u>(Unaudited)</u></b>     |                              |  |  |
| <b>ASSETS</b>   |                               |                              |  |  |
| <b>Current assets:</b>  |                               |                              |  |  |
| Cash  | \$ 819                        | \$ 2,030                     |  |  |
| Trade accounts receivable, less allowances of \$12 and \$20, respectively | 745                           | 1,570                        |  |  |
| Trade accounts receivable - related party                                 | —                             | 202                          |  |  |
| Inventories, net  | 3,721                         | 4,439                        |  |  |
| Prepayments to vendors  | 431                           | 792                          |  |  |
| Prepaid and other current assets  | 215                           | 156                          |  |  |
| <b>Total current assets</b>   | <b>5,931</b>                  | <b>9,189</b>                 |  |  |
| Property and equipment, net   | 99                            | 112                          |  |  |
| Operating lease, right-of-use asset                                       | 408                           | 899                          |  |  |
| <b>Total assets</b>   | <b>\$ 6,438</b>               | <b>\$ 10,200</b>             |  |  |
| <b>LIABILITIES</b>  |                               |                              |  |  |
| <b>Current liabilities:</b>   |                               |                              |  |  |
| Accounts payable  | \$ 1,469                      | \$ 1,624                     |  |  |
| Accounts payable -related party   | 898                           | 2,146                        |  |  |
| Accrued liabilities   | 103                           | 110                          |  |  |
| Accrued legal and professional fees                                       | 34                            | 64                           |  |  |
| Accrued payroll and related benefits                                      | 148                           | 199                          |  |  |
| Accrued sales commissions   | 20                            | 62                           |  |  |
| Accrued warranty reserve  | 118                           | 150                          |  |  |
| Operating lease liabilities   | 150                           | 223                          |  |  |
| Advanced capital contribution   | —                             | 450                          |  |  |
| Promissory notes payable, net of discounts and loan origination fees      | —                             | 1,323                        |  |  |
| <b>Total current liabilities</b>  | <b>2,940</b>                  | <b>6,351</b>                 |  |  |

(continued on the next page)

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

|   | <b>September 30,<br/>2024</b> | <b>December 31,<br/>2023</b> |
|---|-------------------------------|------------------------------|
|   | <b>(Unaudited)</b>            |                              |
| Operating lease liabilities, net of current portion   | 291                           | 798                          |
| <b>Total liabilities</b>  | <b>3,231</b>                  | <b>7,149</b>                 |
| <b>STOCKHOLDERS' EQUITY</b>   |                               |                              |
| Preferred stock, par value \$0.0001 per share:  |                               |                              |
| Authorized: 5,000,000 shares (3,300,000 designated as Series A Convertible Preferred Stock) at September 30, 2024 and December 31, 2023 |                               |                              |
| Issued and outstanding: 876,447 at September 30, 2024 and December 31, 2023   | —                             | —                            |
| Common stock, par value \$0.0001 per share:   |                               |                              |
| Authorized: 50,000,000 shares at September 30, 2024 and December 31, 2023   |                               |                              |
| Issued and outstanding: 5,260,741 at September 30, 2024 and 4,348,690 at December 31, 2023  | 1                             | —                            |
| Additional paid-in capital  | 157,812                       | 156,369                      |
| Accumulated other comprehensive loss  | (3)                           | (3)                          |
| Accumulated deficit   | (154,603)                     | (153,315)                    |
| <b>Total stockholders' equity</b>   | <b>3,207</b>                  | <b>3,051</b>                 |
| <b>Total liabilities and stockholders' equity</b>   | <b>\$ 6,438</b>               | <b>\$ 10,200</b>             |

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

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

|   | Three months ended<br>September 30, |                  | Nine months ended<br>September 30, |                   |
|---|-------------------------------------|------------------|------------------------------------|-------------------|
|   | 2024                                | 2023             | 2024                               | 2023              |
| <b>Net sales</b>  | \$ 1,196                            | \$ 1,339         | \$ 3,582                           | \$ 3,324          |
| Cost of sales   | 1,008                               | 1,387            | 3,148                              | 3,176             |
| <b>Gross profit (loss)</b>                                  | 188                                 | (48)             | 434                                | 148               |
| <b>Operating expenses:</b>                                  |                                     |                  |                                    |                   |
| Product development   | 137                                 | 142              | 405                                | 443               |
| Selling, general, and administrative                        | 449                                 | 713              | 1,583                              | 2,911             |
| <b>Total operating expenses</b>                             | 586                                 | 855              | 1,988                              | 3,354             |
| <b>Loss from operations</b>                                 | (398)                               | (903)            | (1,554)                            | (3,206)           |
| <b>Other expenses (income):</b>                             |                                     |                  |                                    |                   |
| Interest expense, net                                       | —                                   | 34               | 5                                  | 226               |
| Other income  | (26)                                | —                | (30)                               | (16)              |
| Gain on debt extinguishment                                 | —                                   | —                | (187)                              | —                 |
| Gain on partial lease termination                           | (63)                                | —                | (63)                               | —                 |
| Other expenses  | 7                                   | 7                | 9                                  | 28                |
| <b>Net loss</b>   | <u>\$ (316)</u>                     | <u>\$ (944)</u>  | <u>\$ (1,288)</u>                  | <u>\$ (3,444)</u> |
| <b>Net loss per common share - basic and diluted</b>        |                                     |                  |                                    |                   |
| Net loss  | <u>\$ (0.06)</u>                    | <u>\$ (0.27)</u> | <u>\$ (0.27)</u>                   | <u>\$ (1.20)</u>  |
| <b>Weighted average shares of common stock outstanding:</b> |                                     |                  |                                    |                   |
| Basic and diluted   | 5,261                               | 3,514            | 4,840                              | 2,868             |

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

**ENERGY FOCUS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
*(in thousands)*  
(Uaudited)

|   | Preferred |        | Common |        | Additional<br>Capital | Other | Accumulated<br>Comprehensive Loss | Accumulated<br>Deficit | Total<br>Stockholders'<br>Equity |
|---|-----------|--------|--------|--------|-----------------------|-------|-----------------------------------|------------------------|----------------------------------|
|   | Stock     | Stock  | Shares | Amount |                       |       |                                   |                        |                                  |
|   | Shares    | Amount | Shares | Amount |                       |       |                                   |                        |                                  |
| <b>Balance at December 31, 2023</b>                         | 876       | —      | 4,319  | \$—    | 156,369               |       | (3) \$                            | (153,315)              | 3,051                            |
| Issuance of common stock                                    | —         | —      | 283    | —      | 450                   | —     | —                                 | —                      | 450                              |
| Conversion of advanced capital contribution to common stock | —         | —      | 94     | —      | 141                   | —     | —                                 | —                      | 141                              |
| Stock-based compensation                                    | —         | —      | —      | —      | 1                     | —     | —                                 | —                      | 1                                |
| Net loss for the three months ended March 31, 2024          | —         | —      | —      | —      | —                     | —     | —                                 | (418)                  | (418)                            |
| <b>Balance at March 31, 2024</b>                            | 876       | —      | 4,726  | \$—    | 156,961               |       | (3) \$                            | (153,783)              | 3,225                            |
| Issuance of common stock                                    | —         | —      | 535    | 1      | 850                   | —     | —                                 | —                      | 851                              |
| Net loss for the three months ended June 30, 2024           | —         | —      | —      | —      | —                     | —     | —                                 | (554)                  | (554)                            |
| <b>Balance at June 30, 2024</b>                             | 876       | —      | 5,261  | \$ 1   | 157,811               |       | (3) \$                            | (154,287)              | 3,522                            |
| Stock-based compensation                                    | —         | —      | —      | —      | 1                     | —     | —                                 | —                      | 1                                |
| Net loss for the three months ended September 30, 2024      | —         | —      | —      | —      | —                     | —     | —                                 | (316)                  | (316)                            |
| <b>Balance at September 30, 2024</b>                        | 876       | —      | 5,261  | \$ 1   | 157,812               |       | (3) \$                            | (154,603)              | 3,207                            |

|   | Preferred |        | Common  |        | Additional<br>Capital | Other | Accumulated<br>Comprehensive<br>Loss | Accumulated<br>Deficit | Total<br>Stockholders'<br>Equity ( Deficit) |
|---|-----------|--------|---------|--------|-----------------------|-------|--------------------------------------|------------------------|---|
|   | Stock     | Stock  | Shares* | Amount |                       |       |                                      |                        |   |
|   | Shares    | Amount | Shares* | Amount |                       |       |                                      |                        |   |
| <b>Balance at December 31, 2022</b>                       | 876       | —      | 1,457   | \$ 1   | 148,515               |       | (3) \$                               | (149,020)              | (477)                                       |
| Issuance of common stock                                  | —         | —      | 285     | 1      | 3,024                 | —     | —                                    | —                      | 3,025                                       |
| Stock issued in exchange transactions                     | —         | —      | 1,057   | —      | 1,716                 | —     | —                                    | —                      | 1,716                                       |
| Stock-based compensation                                  | —         | —      | —       | —      | 26                    | —     | —                                    | —                      | 26  |
| Impact of adoption of ASU 2016-13 - CECL                  | —         | —      | —       | —      | —                     | —     | —                                    | (2)                    | (2)   |
| Net loss for the three months ended March 31, 2023        | —         | —      | —       | —      | —                     | —     | —                                    | (1,333)                | (1,333)                                     |
| <b>Balance at March 31, 2023</b>                          | 876       | —      | 2,794   | \$ 2   | 153,311               |       | (3) \$                               | (150,355)              | 2,955                                       |
| Issuance of common stock                                  | —         | —      | 747     | —      | 1,304                 | —     | —                                    | —                      | 1,304                                       |
| Par value adjustment due to reverse stock split           | —         | —      | —       | (2)    | 2                     | —     | —                                    | —                      | —   |
| Reduction in equity due to costs from reverse stock split | —         | —      | —       | —      | (16)                  | —     | —                                    | —                      | (16)  |
| Stock-based compensation                                  | —         | —      | —       | —      | 23                    | —     | —                                    | —                      | 23  |
| Net loss for the three months ended June 30, 2023         | —         | —      | —       | —      | —                     | —     | —                                    | (1,167)                | (1,167)                                     |
| <b>Balance at June 30, 2023</b>                           | 876       | —      | 3,496   | \$—    | 154,624               |       | (3) \$                               | (151,522)              | 3,099                                       |
| Issuance of common stock and warrants                     | —         | —      | 853     | —      | 1,750                 | —     | —                                    | —                      | 1,750                                       |
| Stock-based compensation                                  | —         | —      | —       | —      | (13)                  | —     | —                                    | —                      | (13)  |
| Net loss for the three months ended September 30, 2023    | —         | —      | —       | —      | —                     | —     | —                                    | (944)                  | (944)                                       |
| <b>Balance at September 30, 2023</b>                      | 876       | —      | 4,319   | \$—    | 156,361               |       | (3) \$                               | (152,456)              | 3,892                                       |

\*Shares outstanding for prior periods have been restated for the 1-for-7 reverse stock split effective June 16, 2023.

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

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

|  | Three months ended |                | Nine months ended |                |
|--|--------------------|----------------|-------------------|----------------|
|  | September 30,      | 2024           | September 30,     | 2024           |
| <b>Cash flows from operating activities:</b>                                       |                    |                |                   |                |
| Net loss   | \$ (316)           | \$ (944)       | \$ (1,288)        | \$ (3,444)     |
| <b>Adjustments to reconcile net loss to net cash used in operating activities:</b> |                    |                |                   |                |
| Other Income   | —                  | (40)           | —                 | (40)           |
| Gain on partial lease termination  | (63)               | —              | (63)              | —              |
| Gain on debt extinguishment  | —                  | —              | (187)             | —              |
| Depreciation   | 9                  | 8              | 28                | 24             |
| Stock-based compensation   | 1                  | (13)           | 2                 | 36             |
| Provision for credit losses and sales return                                       | 6                  | —              | (70)              | 50             |
| Provision for slow-moving and obsolete inventories                                 | 105                | 62             | 330               | (68)           |
| Provision for warranties   | 1                  | —              | (32)              | (37)           |
| Amortization of loan discounts and origination fees                                | —                  | 59             | 5                 | 168            |
| <b>Changes in operating assets and liabilities (sources / (uses) of cash):</b>     |                    |                |                   |                |
| Accounts receivable  | (100)              | (46)           | 1,097             | (449)          |
| Inventories  | (35)               | 340            | 388               | 643            |
| Prepayments to vendors   | 14                 | (117)          | 29                | (140)          |
| Prepaid and other assets   | 4                  | 28             | (55)              | 488            |
| Accounts payable   | 98                 | (459)          | 177               | 398            |
| Accounts payable - related party   | 163                | —              | (1,248)           | —              |
| Accrued and other liabilities  | (104)              | 131            | (130)             | 1              |
| Operating lease - ROU and liabilities  | (50)               | (44)           | (26)              | —              |
| Total adjustments  | 49                 | (91)           | 245               | 1,074          |
| <b>Net cash used in operating activities</b>                                       | <b>(267)</b>       | <b>(1,035)</b> | <b>(1,043)</b>    | <b>(2,370)</b> |
| <b>Cash flows from investing activities:</b>                                       |                    |                |                   |                |
| Acquisitions of property and equipment   | (19)               | (27)           | (19)              | (27)           |
| <b>Net cash used in investing activities</b>                                       | <b>(19)</b>        | <b>(27)</b>    | <b>(19)</b>       | <b>(27)</b>    |

(continued on next page)

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

|  | Three months ended<br>September 30, |                 | Nine months ended<br>September 30, |                 |
|--|-------------------------------------|-----------------|------------------------------------|-----------------|
|  | 2024                                | 2023            | 2024                               | 2023            |
| <b>Cash flows from financing activities (sources / (uses) of cash):</b>      |                                     |                 |                                    |                 |
| Issuance of common stock and warrants  | —                                   | 1,750           | 851                                | 6,079           |
| Costs related to reverse stock-split   | —                                   | —               | —                                  | (16)            |
| Payments on the 2022 Streeterville Note                                      | —                                   | (125)           | (1,000)                            | (625)           |
| Net payments on proceeds from the credit line borrowings - Credit Facilities | —                                   | (188)           | —                                  | (1,402)         |
| <b>Net cash provided by (used in) financing activities</b>                   | <b>—</b>                            | <b>1,437</b>    | <b>(149)</b>                       | <b>4,036</b>    |
| Net (decrease) increase in cash  | (286)                               | 375             | (1,211)                            | 1,639           |
| Cash, beginning of period  | 1,105                               | 1,316           | 2,030                              | 52              |
| Cash, end of period  | <u>\$ 819</u>                       | <u>\$ 1,691</u> | <u>\$ 819</u>                      | <u>\$ 1,691</u> |
| <b>Supplemental information:</b>   |                                     |                 |                                    |                 |
| <b>Cash paid in year for interest</b>  | <b>\$ —</b>                         | <b>\$ 7</b>     | <b>\$ 5</b>                        | <b>\$ 77</b>    |

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

**ENERGY FOCUS, INC.**  
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**NOTE 1. NATURE OF OPERATIONS**

Energy Focus, Inc. (the "Company") engages primarily in the design, development, manufacturing, marketing and sale of energy-efficient lighting systems and controls. We develop, market and sell high quality light-emitting diode ("LED") lighting and controls products in the commercial market and military maritime market ("MMM"). Our mission is to enable our customers to run their facilities with greater energy efficiency; and productivity, and increased human health and wellness through advanced LED retrofit solutions. Our goal is to be the human wellness lighting and LED technology and market leader for the most demanding applications where performance, quality, value, environmental impact and health are considered paramount. We specialize in LED lighting retrofit by replacing fluorescent, high-intensity discharge lighting and other types of lamps in institutional buildings for primarily indoor lighting applications with our innovative, high-quality commercial and military-grade tubular LED ("TLED") products, as well as other LED and lighting control products for commercial applications. We are also evaluating adjacent technologies, including Gallium Nitride ("GaN") based power supplies and additional market opportunities for energy solution products that support sustainability in our existing channels.

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

**Basis of presentation**

The significant accounting policies of our Company, which are summarized below, are consistent with accounting principles generally accepted in the United States ("U.S. GAAP") and reflect practices appropriate to the business in which we operate. Unless indicated otherwise, the information in the Notes to the Condensed Financial Statements relates to our operations.

We have prepared the accompanying financial data for the three and nine months ended September 30, 2024 and 2023 pursuant to the rules and regulations of the United States Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. The accompanying financial data and information should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2023 ("2023 Annual Report"). The Condensed Consolidated Balance Sheet as of December 31, 2023 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

In the opinion of management, the accompanying condensed consolidated financial statements contain all normal and recurring adjustments necessary to present fairly our Condensed Consolidated Balance Sheets as of September 30, 2024 and December 31, 2023, Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2024 and 2023, Condensed Consolidated Statements of Changes in Stockholders' Equity for the three and nine months ended September 30, 2024 and 2023, and Condensed Consolidated Statements of Cash Flows for the three and nine months ended September 30, 2024 and 2023.

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*Going Concern and Nasdaq Continued Listing Requirements Compliance*

Due to our financial performance as of September 30, 2024 and December 31, 2023, including net losses of \$ 1.3 million for the nine months ended September 30, 2024 and \$4.3 million for the twelve months ended December 31, 2023, and total cash used in operating activities of \$1.0 million for the nine months ended September 30, 2024 and \$2.4 million for the twelve months ended December 31, 2023, we determined that substantial doubt about our ability to continue as a going concern continues to exist at September 30, 2024. As a result of restructuring actions and initiatives, we have tailored our operating expenses to be more in line with our expected sales volumes; however, we continue to incur losses and have a substantial accumulated deficit.

Additionally, global supply chain and logistics constraints are impacting our inventory purchasing strategy, as we seek to manage both shortages of available components and longer lead times in obtaining components while pursuing cost-saving measures to enhance profitability. As a result, we will continue to review and pursue selected external funding sources to ensure adequate financial resources to execute across the timelines required to achieve these objectives including, but not limited to, the following:

- obtaining financing from traditional or non-traditional investment capital organizations or individuals;
- obtaining funding from the sale of our common stock or other equity or debt instruments; and
- obtaining debt financing with lending terms that more closely match our business model and capital needs.

There can be no assurance that we will obtain funding on acceptable terms, in a timely fashion, or at all. Obtaining additional funding contains risks, including:

- additional equity financing may not be available to us on satisfactory terms, particularly in light of the current price of our common stock, and any equity we are able to issue could lead to dilution for current stockholders and have rights, preferences and privileges senior to our common stock;
- loans or other debt instruments may have terms or conditions, such as interest rate, restrictive covenants, conversion features, refinancing demands, and control or revocation provisions, which are not acceptable to management or the Company's Board of Directors (the "Board of Directors"); and
- the current environment in the capital markets and volatile interest rates, combined with our capital constraints, may prevent us from being able to obtain adequate debt financing.

Considering both quantitative and qualitative information, we continue to believe that the combination of our plans to ensure adequate external funding, timely re-organizational actions, current financial position, liquid resources, obligations due or anticipated within the next year, development and implementation of an excess inventory reduction plan, plans and initiatives in our research and development, product development and sales and marketing, and development of potential channel partnerships, if adequately executed, could provide us with an ability to finance our operations through the next twelve months and may mitigate the substantial doubt about our ability to continue as a going concern.

*Nasdaq Capital Market Compliance*

As of the date of this Quarterly Report, the Company believes it has maintained compliance with the Minimum Stockholders' Equity Rule, which requires listed companies to maintain stockholders' equity of at least \$2.5 million for continued listing on the Nasdaq Capital Market. To become compliant with the Bid Price Rule, which has a minimum bid price of at least \$1.00 per share as one of its continued listing requirements, the Company effected a 1-for-7 reverse stock split to increase the per share trading price of the common stock, effective June 16, 2023 (See Note 8, "Stockholders' Equity").

However, there can be no assurance that the Company will be able to maintain compliance with the Minimum Stockholders' Equity Rule, Bid Price Rule, or other Nasdaq listing requirements. If the Company fails to maintain compliance with Nasdaq's continued listing standards in accordance with the Panel's decision, the Company's common stock will be subject to delisting from Nasdaq.

**Use of estimates**

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts in our financial statements and accompanying notes. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management's best knowledge of current events and actions that may impact us in the future, actual results may vary from

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the estimates. Estimates include, but are not limited to, the establishment of credit loss allowance for accounts receivable, sales returns, inventory obsolescence and warranty claims, the useful lives of property and equipment, valuation allowance for net deferred taxes, and stock-based compensation. In addition, estimates and assumptions associated with the determination of the fair value of financial instruments and evaluation of long-lived assets for impairment requires considerable judgment. Actual results could differ from those estimates and such differences could be material.

**Revenue**

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

The following table provides a disaggregation of product net sales for the periods presented (in thousands):

|                        | Three months ended |                 | Nine months ended |                 |
|------------------------|--------------------|-----------------|-------------------|-----------------|
|                        | September 30,      |                 | September 30,     |                 |
|                        | 2024               | 2023            | 2024              | 2023            |
| <b>Net sales:</b>      |                    |                 |                   |                 |
| Commercial             | \$ 350             | \$ 498          | \$ 1,004          | \$ 1,261        |
| MMM products           | 846                | 841             | 2,578             | 2,063           |
| <b>Total net sales</b> | <b>\$ 1,196</b>    | <b>\$ 1,339</b> | <b>\$ 3,582</b>   | <b>\$ 3,324</b> |

**Accounts Receivable**

Our trade accounts receivable consists of amounts billed to and currently due from customers. Substantially all of our customers are concentrated in the United States. In the normal course of business, we extend unsecured credit to our customers related to the sale of our products. Credit is extended to customers based on an evaluation of the customer's financial condition and the amounts due are stated at their estimated net realizable value. We maintain allowances for sales returns and credit loss to provide for the estimated number of account receivables that will not be collected. On January 1, 2023, the Company adopted ASC 326. The standard adds to U.S. GAAP an impairment model known as the CECL model, which is based on expected losses rather than incurred losses. This standard only impacts the Company's trade receivables. The Company decided to use the historical loss rate method of valuing its reserve for trade receivables. The reserve for credit losses is reviewed and assessed for adequacy on a quarterly basis. We take into consideration (1) any circumstances of which we are aware of a customer's inability to meet its financial obligations and (2) our judgments as to prevailing economic conditions in the industry and their impact on our customers. If circumstances change, and the financial condition of our customers is adversely affected and they are unable to meet their financial obligations, we may need to take additional allowances, which would result in an increase in our operating expense. We do not generally require collateral from our customers.

Our standard payment terms with customers are net 30 days from the date of shipment, and we do not generally offer extended payment terms to our customers, but exceptions are made in some cases for major customers or with particular orders. Accordingly, we do not adjust trade accounts receivable for the effects of financing, as we expect the period between the transfer of product to the customer and the receipt of payment from the customer to be in line with our standard payment terms.

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Pursuant to ASC 606, *Revenue Recognition*, contract assets and contract liabilities as of the beginning and ending of the reporting periods must be disclosed. Below is the breakout of the Company's contract assets for such periods:

|                                 | <b>September 30, 2024</b> | <b>December 31, 2023</b> | <b>January 01, 2023</b> |
|---------------------------------|---------------------------|--------------------------|-------------------------|
| Gross Accounts Receivable       | \$ 757                    | \$ 1,590                 | \$ 471                  |
| Less: Allowance for Credit Loss | (12)                      | (20)                     | (28)                    |
| <b>Net Accounts Receivable</b>  | <b>\$ 745</b>             | <b>\$ 1,570</b>          | <b>\$ 443</b>           |

Activity related to our reserve for credit losses for the three and nine months ended September 30, 2024 and 2023 was as follows (in thousands):

|   |                |
|---|----------------|
| Allowance for credit loss as of December 31, 2023                                   | \$ (20)        |
| Reduction of reserve for credit losses as of March 31, 2024                         | 11             |
| Allowance for credit loss as of March 31, 2024                                      | \$ (9)         |
| Reduction of reserve for credit losses as of June, 30 2024                          | —              |
| Allowance for credit loss as of June 30, 2024                                       | \$ (9)         |
| Increase in reserve for credit losses as of September, 30 2024                      | (3)            |
| <b>Allowance for credit loss as of September 30, 2024</b>                           | <b>\$ (12)</b> |
| Allowance for credit loss as of December 31, 2022                                   | \$ (26)        |
| Cumulative effect of the implementation of ASC 326                                  | (2)            |
| Allowance for credit loss as of January 1, 2023                                     | \$ (28)        |
| Reserve for credit losses as of March 31, 2023                                      | (12)           |
| Prior year reclassification of sales returns out of allowance for doubtful accounts | (18)           |
| Allowance for credit loss as of March 31, 2023                                      | \$ (58)        |
| Reserve for credit losses as of June 30, 2023                                       | (3)            |
| Prior year reclassification of sales returns out of allowance for doubtful accounts | (18)           |
| Allowance for credit loss as of June 30, 2023                                       | \$ (79)        |
| Reserve for credit losses as of September 30, 2023                                  | 14             |
| Prior year reclassification of sales returns out of allowance for doubtful accounts | (11)           |
| <b>Allowance for credit loss as of September 30, 2023</b>                           | <b>\$ (76)</b> |

#### **Geographic information**

All of our long-lived fixed assets are located in the United States. For the three and nine months ended September 30, 2024 and 2023, approximately 100% of sales were attributable to customers in the United States. The geographic location of our net sales is derived from the destination to which we ship the product.

#### **Net loss per share**

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

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The following table presents a reconciliation of basic and diluted loss per share computations (in thousands):

|   | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |            |
|---|-------------------------------------|----------|------------------------------------|------------|
|   | 2024                                | 2023     | 2024                               | 2023       |
| <b>Numerator:</b>   |                                     |          |                                    |            |
| Net loss  | \$ (316)                            | \$ (944) | \$ (1,288)                         | \$ (3,444) |
| <b>Denominator:</b>   |                                     |          |                                    |            |
| Basic and diluted weighted average shares of common stock outstanding | 5,261                               | 3,514    | 4,840                              | 2,868      |

As a result of the net loss we incurred for the three and nine months ended September 30, 2024 and 2023, convertible securities representing approximately 25 thousand shares of common stock were excluded from the basic loss per share calculation as their inclusion would have been anti-dilutive.

**Product warranties**

We warrant our commercial and MMM LED products and controls for periods generally ranging from five to ten years. One product was sold in 2020 with a twenty year warranty. Warranty settlement costs consist of actual amounts expensed for warranty, which are largely a result of the cost of replacement products or rework services provided to our customers. A liability for the estimated future costs under product warranties is maintained for products under warranty based on the actual claims incurred to date and the estimated nature, frequency, and costs of future claims. These estimates are inherently uncertain and changes to our historical or projected experience may cause material changes to our warranty reserves in the future. We continuously review the assumptions related to the adequacy of our warranty reserve, including product failure rates, and make adjustments to the existing warranty liability when there are changes to these estimates or the underlying replacement product costs, or the warranty period expires.

The following table summarizes warranty activity for the periods presented (in thousands):

|  | Three months ended<br>September 30, |               | Nine months ended<br>September 30, |               |
|--|-------------------------------------|---------------|------------------------------------|---------------|
|  | 2024                                | 2023          | 2024                               | 2023          |
| Balance at beginning of period                   | \$ 117                              | \$ 146        | \$ 150                             | \$ 183        |
| Warranty accruals for current period sales       | 1                                   | 1             | 3                                  | 3             |
| Adjustments to existing warranty reserves        | —                                   | —             | (35)                               | (39)          |
| <b>Accrued warranty reserve at end of period</b> | <b>\$ 118</b>                       | <b>\$ 147</b> | <b>\$ 118</b>                      | <b>\$ 147</b> |

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**Financial Instruments**

*Fair Value Measurements*

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. We classify the inputs used to measure fair value into the following hierarchy:

|         |   |
|---------|---|
| Level 1 | Unadjusted quoted prices in active markets for identical assets or liabilities.   |
| Level 2 | Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability. |
| Level 3 | Unobservable inputs for the asset or liability.   |

The carrying amounts of certain financial instruments including cash, accounts receivable, accounts payable, and accrued liabilities approximate fair value due to their short maturities. Based on borrowing rates currently available to us for loans with similar terms, the carrying value of borrowings under our revolving credit facilities also approximates fair value.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. In determining the appropriate levels, we perform a detailed analysis of the assets and liabilities whose fair value is measured on a recurring basis. We review and reassess the fair value hierarchy classifications on a quarterly basis. Changes from one quarter to the next related to the observability of inputs in a fair value measurement may result in a reclassification between fair value hierarchy levels. There were no reclassifications for all periods presented.

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**Certain risks and concentrations**

We have certain customers whose net sales individually represented 10% or more of our total net sales, or whose net trade accounts receivable balance individually represented 10% or more of our total net trade accounts receivable; we have certain suppliers, which individually represent 10% or more of our total purchases, or whose trade accounts payable balance individually represented 10% or more of our total trade accounts payable balance, as follows:

- For the three months ended September 30, 2024, four customers accounted for an aggregate of approximately 66% net sales, with sales to our primary shipbuilders for the U.S. Navy accounting for approximately 24% of net sales, sales to our primary distributor for the U.S. Navy accounting for approximately 26% of net sales and sales to our primary commercial lighting customer accounting for approximately 16% of net sales. For the three months ended September 30, 2023, two customers accounted for approximately 42% net sales, with sales to our primary distributor for the U.S. Navy and shipbuilders for the U.S. Navy accounting for approximately 42% of net sales.
- For the nine months ended September 30, 2024, three customers accounted for an aggregate of approximately 39% net sales, with sales to our primary distributor for the U.S. Navy accounting for approximately 29% of net sales and sales to our primary commercial lighting customer accounting for approximately 10% of net sales. For the nine months ended September 30, 2023, two customers accounted for approximately 29% net sales, with sales to our primary shipbuilder for the U.S. Navy and a distributor to the Department of Defense.
- At September 30, 2024, four customers accounted for an aggregate of approximately 85% of net trade accounts receivable.
- At December 31, 2023, one distributor for the U.S. Department of Defense accounted for 74% of our net trade accounts receivable.

We require substantial amounts of purchased materials from selected vendors. With specific materials, all of our purchases are from a single vendor. The availability and costs of materials may be subject to change due to, among other things, new laws or regulations, suppliers' allocation to other purchasers, interruptions in production by suppliers, global health issues such as the COVID-19 pandemic, and changes in exchange rates and worldwide price and demand levels. Our inability to obtain adequate supplies of materials for our products at favorable prices could have a material adverse effect on our business, financial position, or results of operations by decreasing our profit margins and by hindering our ability to deliver products to our customers on a timely basis. Additionally, certain vendors require advance deposits prior to the fulfillment of orders. Deposits paid on unfulfilled orders totaled \$0.4 million and \$0.8 million at September 30, 2024 and December 31, 2023, respectively.

We have certain vendors who individually represented 10% or more of our total expenditures, or whose net trade accounts payable balance individually represented 10% or more of our total net trade accounts payable, as follows:

- one supplier (a related party, see Note 10 "Related Party Transactions") accounted for more than 10% of our total expenditures for the three and nine months ended September 30, 2024. One supplier accounted for more than 10% of our total expenditures for the three months ended September 30, 2023.
- At September 30, 2024, two offshore suppliers accounted for approximately 29% and 44% (the latter, a related party, see Note 10 "Related Party Transactions") of our trade accounts payable balance, respectively. At December 31, 2023, two offshore suppliers accounted for approximately 16% and 57% (the latter, a related party, see Note 10 "Related Party Transactions") of our trade accounts payable balance, respectively.

**Recent Accounting Pronouncements Not Yet Adopted**

In November 2023, the Financial Accounting Standards Board ("FASB") issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures" ("ASU 2023-07"), which, among other updates, requires enhanced disclosures about significant segment expenses regularly provided to the chief operating decision maker, as well as the aggregate amount of other segment items included in the reported measure of segment profit or loss. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and for interim periods within fiscal years beginning after December 15, 2024, and requires retrospective adoption. Early adoption is permitted. The Company is evaluating the impact of ASU 2023-07 on its consolidated financial statements and the related disclosures.

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In December 2023, the FASB issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures" ("ASU 2023-09"), which requires enhanced annual disclosures with respect to the rate reconciliation and income taxes paid information. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024, and may be adopted on a prospective or retrospective basis. Early adoption is permitted. The Company is evaluating the impact of ASU 2023-07 on its consolidated financial statements and the related disclosures.

**NOTE 3. INVENTORIES**

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

|  | September 30,<br>2024 | December 31,<br>2023 |
|--|-----------------------|----------------------|
| Raw materials  | \$ 3,831              | \$ 2,189             |
| Finished goods   | 2,684                 | 4,803                |
| Reduction due to future permanent markdowns                | (2,464)               | —                    |
| Reserves for excess, obsolete, and slow-moving inventories | (330)                 | (2,553)              |
| <b>Inventories, net</b>                                    | <b>\$ 3,721</b>       | <b>\$ 4,439</b>      |

The following is a roll-forward of the reserves for excess, obsolete, and slow-moving inventories (in thousands):

|   | Three months ended<br>September 30, |                   | Nine months ended<br>September 30, |                   |
|---|-------------------------------------|-------------------|------------------------------------|-------------------|
|   | 2024                                | 2023              | 2024                               | 2023              |
|   | Beginning balance                   | \$ (225)          | \$ (2,400)                         | \$ (2,553)        |
| Accrual   | (105)                               | (169)             | (330)                              | (155)             |
| Reduction due to sold inventory                                   | —                                   | 109               | 89                                 | 222               |
| Reduction due to future permanent markdowns                       | —                                   | —                 | 2,464                              | —                 |
| <b>Reserves for excess, obsolete, and slow-moving inventories</b> | <b>\$ (330)</b>                     | <b>\$ (2,460)</b> | <b>\$ (330)</b>                    | <b>\$ (2,460)</b> |

**NOTE 4. PROPERTY AND EQUIPMENT**

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

|   | September 30,<br>2024 | December 31,<br>2023 |
|---|-----------------------|----------------------|
| Equipment (useful life 3 to 15 years)                             | \$ 1,061              | \$ 1,061             |
| Tooling (useful life 2 to 5 years)                                | 234                   | 190                  |
| Vehicles (useful life 5 years)                                    | 41                    | 41                   |
| Leasehold improvements (the shorter of useful life or lease life) | 141                   | 141                  |
| Projects in progress  | —                     | 28                   |
| <b>Property and equipment at cost</b>                             | <b>1,477</b>          | <b>1,461</b>         |
| Less: accumulated depreciation                                    | (1,378)               | (1,349)              |
| <b>Property and equipment, net</b>                                | <b>\$ 99</b>          | <b>\$ 112</b>        |

Depreciation expense was \$9 thousand and \$8 thousand for the three months ended September 30, 2024 and 2023, respectively. For the nine months ended September 30, 2024 and 2023, depreciation expense was \$28 thousand and \$24 thousand, respectively.

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**NOTE 5. LEASES**

The Company leases certain equipment, manufacturing, warehouse and office space under non-cancellable operating leases with expirations through 2027 under which it is responsible for related maintenance, taxes and insurance. As of March 25, 2022, the terms of our real estate operating lease have been modified beginning July 1, 2022 and extended through 2027.

Effective July 1, 2024, our warehouse and office lease was amended to reduce the rentable square feet from 62,335 square feet to 29,692 square feet and the rent expenses were decreased in proportion to the reduction in rentable square. The Company recorded this as a lease modification in accordance with ASC 842 Leases ("ASC 842") and recorded a reduction to the right of use asset and lease liability of approximately \$ 395 thousand using an incremental borrowing rate of approximately 13.64%. The Company recognized a gain on the lease modification of \$ 63 thousand which was recorded as other income in the Statement of Operations.

Prior to the lease modification, the present value of the lease obligations for the lease was calculated using an incremental borrowing rate of 16.96%, which was the Company's blended borrowing rates (including interest, annual facility fees, collateral management fees, bank fees and other miscellaneous lender fees) on its revolving lines of credit with Crossroads Financial Group, LLC (as described below in Note 6, "Debt") and Factors Southwest L.L.C. (as described below in Note 6, "Debt"). The weighted average remaining lease term for the operating leases is 2.8 years.

Components of the operating lease costs recognized in net loss were as follows (in thousands):

|                                      | Three months ended September 30, |               | Nine months ended September 30, |               |
|--------------------------------------|----------------------------------|---------------|---------------------------------|---------------|
|                                      | 2024                             | 2023          | 2024                            | 2023          |
| <b>Operating lease cost (income)</b> |                                  |               |                                 |               |
| Lease cost                           | 72                               | 122           | 267                             | 354           |
| <b>Total lease cost, net</b>         | <b>\$ 72</b>                     | <b>\$ 122</b> | <b>\$ 267</b>                   | <b>\$ 354</b> |

Supplemental balance sheet information related to the Company's operating and finance leases as of September 30, 2024 and December 31, 2023 are as follows (in thousands):

|                                     | September 30,<br>2024 |        | December 31,<br>2023 |          |
|-------------------------------------|-----------------------|--------|----------------------|----------|
|                                     |                       |        |                      |          |
| <b>Operating Leases</b>             |                       |        |                      |          |
| Operating lease right-of-use assets |                       | \$ 408 |                      | \$ 899   |
| Operating lease liabilities         |                       | \$ 441 |                      | \$ 1,021 |

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The maturities of lease liabilities under operating leases by years at September 30, 2024 are as follows (in thousands):

|   | <b>Operating Leases</b> |
|---|-------------------------|
| October 2024 to September 2025            | \$ 197                  |
| October 2025 to September 2026            | 185                     |
| October 2026 to September 2027            | 141                     |
| Total future undiscounted lease payments  | 523                     |
| Less: interest                            | 82                      |
| <b>Present Value of Lease Liabilities</b> | <b>\$ 441</b>           |

Supplemental cash flow information related to leases for the three and nine months ended September 30, 2024 and 2023, was as follows (in thousands):

|   | <b>Three months ended September 30, Nine months ended September 30,</b> |             |
|---|---|-------------|
|   | <b>2023</b>   | <b>2022</b> |
| <b>Supplemental cash flow information</b>                                     |   |             |
| Cash paid, net, for amounts included in the measurement of lease liabilities: |   |             |
| Operating cash flows from operating leases                                    | \$ 94   | \$ 97       |
|   | \$ 281  | \$ 286      |

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**NOTE 6. DEBT**

Debt consisted of the following (in thousands):

|                               | <b>September 30, 2024</b> | <b>December 31, 2023</b> |
|-------------------------------|---------------------------|--------------------------|
| Streeterville notes, net      | \$ —                      | \$ 1,323                 |
| Advanced capital contribution | —                         | 450                      |
| <b>Total</b>                  | <b>\$ —</b>               | <b>\$ 1,773</b>          |

**Credit facilities**

On August 11, 2020, we entered into two debt financing arrangements (together, the "Credit Facilities") that allowed for expanded borrowing capacity at a lower blended borrowing cost. We paid off and terminated the Credit Facilities during the year ended December 31, 2023.

*Inventory Facility with Crossroads*

The first arrangement is an inventory financing facility (the "Inventory Facility") pursuant to the Loan and Security Agreement (the "Inventory Loan Agreement") between the Company and Crossroads Financial Group, LLC, a North Carolina limited liability company ("Crossroads").

On January 18, 2023, the Company and Crossroads entered into an amendment to the Inventory Loan Agreement (the "Crossroads Amendment") to restructure and pay down the Inventory Facility.

The Inventory Facility was paid in full on September 24, 2023, using the interest rate of 11.16% per annum, and the Company wrote off the difference of \$40 thousand between the final invoice amount and the carrying value of the debt, which was recorded as interest income during the third quarter of year 2023.

*Receivables Facility with FSW Funding*

The second Credit Facility was a receivables financing facility (the "Receivables Facility") pursuant to the Loan and Security Agreement (the "Receivables Loan Agreement") between the Company and Factors Southwest L.L.C. (d/b/a FSW Funding), an Arizona limited liability company (the "RF Lender").

On February 7, 2023, the Company and the RF Lender agreed to terminate the Receivables Facility. All outstanding amounts under the Receivables Facility had been repaid prior to termination, and there were no prepayment fees in connection with termination.

**Promissory Notes - Related Parties**

In 2022, we entered into short-term unsecured promissory notes (the "2022 Promissory Notes") with Mei-Yun (Gina) Huang, Chiao Chieh (Jay) Huang, and Tingyu Lin. Ms. Gina Huang is a member of the Board of Directors and Mr. Jay Huang is our Chief Executive Officer ("CEO"). All of the 2022 Promissory Notes were exchanged for common stock on January 17, 2023. See Note 8, "Stockholders' Equity."

**Streeterville Notes**

*2022 Streeterville Note*

On April 21, 2022, we entered into a note purchase agreement (the "2022 Streeterville Note Purchase Agreement") with Streeterville Capital, LLC ("Streeterville") pursuant to which we sold and issued to Streeterville a promissory note in the principal amount of approximately \$2.0 million (the "2022 Streeterville Note"). The 2022 Streeterville Note was issued with an original issue discount of \$215 thousand and Streeterville paid a purchase price of approximately \$1.8 million for the 2022 Streeterville Note, from which the Company paid \$ 15 thousand to Streeterville for Streeterville's transaction expenses.

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The 2022 Streeterville Note had an original maturity date of April 21, 2024, and accrued interest at 8% per annum, compounded daily, on the outstanding balance. On January 17, 2023, we agreed with Streeterville to restructure and pay down the 2022 Streeterville Note and extend its maturity date to December 1, 2024 (the "2022 Streeterville Note Amendment"). We agreed to make payments to reduce the outstanding amounts of the 2022 Streeterville Note of \$500 thousand by January 20, 2023 and by \$ 250 thousand by July 14, 2023. Beginning January 1, 2024, we agreed to make twelve monthly repayments of approximately \$117 thousand each. We had the right to prepay any of the scheduled repayments at any time or from time to time without additional penalty or fees.

On March 31, 2023, the Company entered into an Exchange Agreement (the "March 2023 Exchange Agreement") with Streeterville, pursuant to which we agreed to (i) partition from the 2022 Streeterville Note a new Promissory Note (the "March 2023 Partitioned Note") in the original principal amount of \$250 thousand (the "March 2023 Exchange Amount"), (ii) cause the outstanding balance of the 2022 Streeterville Note to be reduced by an amount equal to the March 2023 Exchange Amount, and (iii) exchange (the "March 2023 Exchange") the March 2023 Partitioned Note for 71,715 shares of the Company's common stock.

The March 2023 Exchange was priced at-the-market under the Nasdaq rules and was effected pursuant to one or more exemptions from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"). There were no gross proceeds to the Company in respect of the March 2023 Exchange, provided that \$125 thousand of the March 2023 Exchange Amount was applied toward the \$ 250 thousand payment due on or before July 14, 2023 pursuant to the 2022 Streeterville Note Amendment, and \$125 thousand was credited to satisfy the December 1, 2024 required payment.

The total liability for the 2022 Streeterville Note, net of discount and financing fees, was \$ 1.3 million at December 31, 2023.

On January 18, 2024, the Company and Streeterville entered into a payoff letter (the "Letter") and exchange agreement ("Exchange Agreement") to pay off the 2022 Streeterville Note early. The Letter and Exchange Agreement provided that the Company made payments to reduce the outstanding obligations under the 2022 Streeterville Note of \$1.0 million in cash by January 19, 2024 and exchanges 94,440 shares of common stocks by January 23, 2024 for the remaining amount. On January 23, 2024, the 2022 Streeterville Note was terminated and the Company had no outstanding obligations to Streeterville, upon which the Company recognized a \$187 thousand of gain which was included in gain on debt extinguishment in the Condensed Consolidated Statements of Operations.

#### **Advanced capital contribution**

In October 2023, an unrelated party agreed to subscribe the Company's common stock in the next round of private placement and transferred funds in the amount of \$450 thousand. There is no restriction in use of the funds and the advanced capital contribution bears no interest. The advanced capital contribution was exchanged for common stock on March 28, 2024. See Note 8, "Stockholders' Equity."

#### **NOTE 7. INCOME TAXES**

As a result of the operating loss incurred during each of the three and nine months ended September 30, 2024 and 2023, and after the application of the annual limitation set forth under Section 382 of the Internal Revenue Code of 1986, as amended (the "IRC"), it was not necessary to record a provision for U.S. federal income tax.

At September 30, 2024 and December 31, 2023, we had a full valuation allowance recorded against our deferred tax assets.

The valuation allowance was recorded due to uncertainties related to our ability to realize the deferred tax assets, primarily consisting of certain net operating loss carry-forwards. The valuation allowance is based on management's estimates of taxable income by jurisdiction and the periods over which the deferred tax assets will be recoverable.

At December 31, 2023, we had a net operating loss carry-forward of approximately \$ 138.7 million for federal income tax purposes (\$ 48.0 million for state and local income tax purposes). However, due to changes in our capital structure, approximately \$84.3 million of the \$138.7 million is available to offset future taxable income after the application of the limitations found under Section 382 of the Internal Revenue Code of 1986, as amended. As a result of the Tax Cuts and Jobs Act of 2017 (the "Tax Act"), net operating loss carry-forwards generated in tax years beginning after December 31, 2017 can only offset 80% of taxable income and can be carried forward indefinitely. The \$6.3 million and \$9.2 million in federal net operating losses generated in December 31, 2023 and 2022 will be subject to the new limitations under the Tax Act. If not utilized, the NOLs generated prior to December 31, 2017 of \$0.9 million will begin to expire in 2024 for federal

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purposes and have begun to expire for state and local purposes. For a full discussion of the estimated restrictions on our utilization of net operating loss carry-forwards, please refer to Note 11, "Income Taxes," included under Item 8, "Financial Statements and Supplementary Data," of our 2023 Annual Report.

**NOTE 8. STOCKHOLDERS' EQUITY**

**Common Stock**

**1-for-7 Reverse Stock Split**

At the Company's annual meeting of stockholders held on June 15, 2023, the Company's stockholders approved a reverse stock split of the outstanding shares of the Company's common stock at a ratio ranging from any whole number of at least 1-for-2 and up to 1-for-10, with the exact ratio within the foregoing range to be determined by the board of directors in its sole discretion.

On June 15, 2023, our board of directors determined to set the reverse stock split at 1-for-7 (the "Split Ratio"). The reverse stock split became effective on June 16, 2023 (the "Effective Time"). The \$0.0001 par value per share of common stock and other terms of the common stock were not affected by the reverse stock split. The number of authorized shares of common stock under the Certificate of Incorporation remained unchanged at 50,000,000 shares.

The reverse stock split was effected solely to increase the per share trading price of the common stock to satisfy the Bid Price Rule for continued listing on Nasdaq. The common stock began trading on Nasdaq on a split-adjusted basis at the opening of trading on June 19, 2023.

**Private Placements**

The Company entered the securities purchase agreements with certain investors and issued 912,050 and 2,870,964 (including debt-to-equity exchange noted in Note 6, "Debt") shares of common stock during the nine months ended September 30, 2024 and the year ended December 31, 2023, respectively.

**June 2024 Private Placement**

On June 21, 2024, the Company entered into a securities purchase agreement with Sander Electronics Inc., a shareholder of the Company controlled by Mr. Chiao Chieh (Jay) Huang, CEO of the Company, pursuant to which the Company agreed to issue and sell in a private placement an aggregate of 534,591 shares of the Company's common stock, par value \$ 0.0001 per share, for a purchase price per share of \$ 1.59 (the "June 2024 Private Placement"). Consideration for the transaction included exchange of \$850 thousand.

Aggregate gross proceeds to the Company in respect of the June 2024 Private Placement were approximately \$ 850 thousand. The June 2024 Private Placement closed on June 21, 2024.

**March 2024 Private Placement**

On March 28, 2024, the Company entered into a securities purchase agreement with certain purchaser, pursuant to which the Company agreed to issue and sell in a private placement an aggregate of 283,019 shares of the Company's common stock, par value \$ 0.0001 per share, for a purchase price per share of \$ 1.59 (the "March 2024 Private Placement"). Consideration for the transaction included exchange of \$ 450 thousand in the aggregate of outstanding amounts on previous advanced capital contributions, as described above in Note 6, "Debt".

Aggregate gross proceeds to the Company in respect of the March 2024 Private Placement were approximately \$ 450 thousand. The March 2024 Private Placement was priced at-the-market under the Nasdaq rules.

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**September 2023 Private Placement**

On September 29, 2023, the Company entered into a securities purchase agreement with certain purchasers, pursuant to which the Company agreed to issue and sell in a private placement an aggregate of 853,658 shares of the Company's common stock, par value \$ 0.0001 per share, for a purchase price per share of \$2.05 (the "September 2023 Private Placement").

Aggregate gross proceeds to the Company in respect of the September 2023 Private Placement were approximately \$ 1.75 million. The September 2023 Private Placement closed on September 29, 2023.

**June 2023 Private Placement**

On June 29, 2023, the Company entered into a securities purchase agreement with certain purchasers, pursuant to which the Company agreed to issue and sell in a private placement an aggregate of 746,875 shares of the Company's common stock, par value \$ 0.0001 per share, for a purchase price per share of \$1.76 (the "June 2023 Private Placement"). One of the purchasers was Mr. Huang, the Company's CEO.

Aggregate gross proceeds to the Company in respect of the June 2023 Private Placement were approximately \$ 1.3 million. The June 2023 Private Placement closed on June 29, 2023.

**March 2023 Private Placements**

On March 28, 2023, the Company entered into a securities purchase agreement with Mr. Chiao Chieh (Jay) Huang pursuant to which the Company agreed to issue and sell, in a private placement (the "March 28, 2023 Private Placement"), 15,500 shares of the Company's common stock for a purchase price of \$3.55 per share.

On March 30, 2023, the Company entered into a securities purchase agreement with Mei Yun (Gina) Huang, a member of the Board of Directors, pursuant to which the Company agreed to issue and sell, in a private placement (collectively with the March 28, 2023 Private Placement, the "March 2023 Private Placements"), 71,428 shares of the Company's common stock for a purchase price of \$ 3.50 per share.

Aggregate gross proceeds to the Company in respect of the March 2023 Private Placements were \$ 305 thousand. Each of the March 2023 Private Placements was priced at-the-market under the Nasdaq rules.

**February 2023 Private Placement**

On February 24, 2023, the Company entered into a securities purchase agreement with Mei Yun (Gina) Huang, a member of the Board of Directors, pursuant to which the Company agreed to issue and sell, in a private placement (the "February 2023 Private Placement"), 114,744 shares of the Company's common stock, for a purchase price of \$3.49 per share.

Gross proceeds to the Company in respect of the February 2023 Private Placement were \$ 400 thousand. The February 2023 Private Placement was priced at fair market value under the Nasdaq rules.

**January 2023 Sander Electronics Private Placement**

On January 17, 2023, the Company entered into a securities purchase agreement (the "Sander Purchase Agreement") with certain purchasers associated with Sander Electronics, Inc., pursuant to which the Company agreed to issue and sell in a private placement (the "Sander Private Placement") an aggregate of 778,017 shares of common stock for a purchase price per share of \$ 3.51. Consideration for the transaction included exchange of approximately \$657 thousand in the aggregate of outstanding amounts on previous short-term bridge financings, including the 2022 Promissory Notes issued to Mr. Huang, as described above in Note 6, "Debt".

Aggregate gross proceeds from the Sander Private Placement were approximately \$ 2.1 million. The Sander Private Placement was priced at-the-market under the Nasdaq rules.

**January 2023 Transactions with Mei Yun (Gina) Huang**

On January 5, 2023, the Company entered into a securities purchase agreement with Mei Yun (Gina) Huang, a member of the Board of Directors, pursuant to which the Company agreed to issue and sell, in a private placement, 36,828 shares of the Company's common stock, for a purchase price of \$2.72 per share. On January 10, 2023, the Company entered into a securities purchase agreement with Ms. Huang, pursuant to which the Company agreed to issue and sell, in a private placement, 46,543 shares of the Company's common stock for a purchase price of \$ 3.22 per share.

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Aggregate gross proceeds to the Company in respect of these private placements to Ms. Huang were \$ 250 thousand. Each of the private placements to Ms. Huang was priced at fair market value under the Nasdaq rules.

On January 17, 2023, the Company and Ms. Huang entered into exchange agreements pursuant to which the Company and Ms. Huang agreed to exchange the approximately \$817 thousand aggregate outstanding amounts on previous short-term bridge financings, including the 2022 Promissory Notes issued to Ms. Huang, as described above in Note 6, "Debt", for an aggregate of 207,371 shares of common stock at a price per share of \$ 3.94. The exchanges were priced at fair market value under the Nasdaq rules.

**Preferred Stock**

The Series A Preferred Stock was created by the filing of a Certificate of Designation with the Secretary of State of the State of Delaware on March 29, 2019, which designated 2,000,000 shares of the Company's preferred stock, par value \$ 0.0001 per share, as Series A Preferred Stock (the "Original Series A Certificate of Designation"). On January 15, 2020 with prior stockholder approval, the Company amended the Certificate of Incorporation to increase the number of authorized shares of preferred stock to 5,000,000. The Original Series A Certificate of Designation was also amended on January 15, 2020, to increase the number of shares of preferred stock designated as Series A Preferred Stock to 3,300,000 (the Original Series A Certificate of Designation, as so amended, the "Series A Certificate of Designation").

Pursuant to the Series A Certificate of Designation, each holder of outstanding shares of Series A Preferred Stock is entitled to vote with holders of outstanding shares of common stock, voting together as a single class, with respect to any and all matters presented to the stockholders of the Company for their action or consideration, except as provided by law. In any such vote, each share of Series A Preferred Stock shall entitle its holder to a number of votes equal to 1.582% of the number of shares of common stock into which such share of Series A Preferred Stock is convertible.

The Series A Preferred Stock (a) has a preference upon liquidation equal to \$ 0.67 per share and then participates on an as-converted basis with the common stock with respect to any additional distributions, (b) shall receive any dividends declared and payable on our common stock on an as-converted basis, and (c) is convertible at the option of the holder into shares of our common stock on a 1-for-35 basis.

As of September 30, 2024 and December 31, 2023, there were 876,447 Series A Preferred Stock issued and outstanding which can be convertible into 25 thousand shares of common stock at the option of the holder.

**Warrants**

During the three and nine months ended September 30, 2024 and year ended December 31, 2023, no warrants were exercised.

As of September 30, 2024 and December 31, 2023, we had the following outstanding warrants:

|                                       | As of                       |                   |            |
|---------------------------------------|-----------------------------|-------------------|------------|
|                                       | As of September 30, 2024    | December 31, 2023 | Expiration |
|                                       | Number of Underlying Shares | Exercise Price    |            |
| June 2022 Warrants                    | 384,615                     | 384,615           | \$9.10     |
| December 2021 Warrants                | 182,630                     | 182,630           | \$24.64    |
| January 2020 Investor Warrants        | 26,819                      | 26,819            | \$23.59    |
| January 2020 Placement Agent Warrants | 5,954                       | 5,954             | \$34.96    |
|                                       | <u>600,018</u>              | <u>600,018</u>    |            |

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**Stock-based compensation**

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

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

|                                       | Three months ended |                | Nine months ended |              |
|---------------------------------------|--------------------|----------------|-------------------|--------------|
|                                       | September 30,      |                | September 30,     |              |
|                                       | 2024               | 2023           | 2024              | 2023         |
| Cost of sales                         | \$ —               | \$ —           | \$ —              | \$ 1         |
| Product development                   | —                  | (7)            | —                 | —            |
| Selling, general, and administrative  | 1                  | (6)            | 2                 | 35           |
| <b>Total stock-based compensation</b> | <b>\$ 1</b>        | <b>\$ (13)</b> | <b>\$ 2</b>       | <b>\$ 36</b> |

Total unearned stock-based compensation was \$3 thousand at September 30, 2024, compared to \$69 thousand at September 30, 2023. These costs will be charged to expense and amortized on a straight-line basis in future periods. The weighted average period over which the unearned compensation at September 30, 2024 is expected to be recognized is approximately 2.0 years.

*Stock options*

For the three months and nine months ended September 30, 2024 and 2023, the Company did not grant any stock options.

Options outstanding under all plans have a contractual life of ten years, and vesting periods between one and four years. A summary of option activity under all outstanding stock incentive plans for the nine months ended September 30, 2024 is presented as follows:

|  | Number of Options | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Life (in years) |
|--|-------------------|---|--|
| <b>Balance at December 31, 2023</b>                      | <b>30,575</b>     | <b>\$ 5.60</b>                            |  |
| Granted  | —                 | —   |  |
| Canceled/forfeited                                       | —                 | —   |  |
| Expired  | (9)               | 53.33                                     |  |
| <b>Balance at September 30, 2024</b>                     | <b>30,566</b>     | <b>\$ 5.58</b>                            | <b>8.0</b>   |
| <b>Vested and expected to vest at September 30, 2024</b> | <b>27,802</b>     | <b>\$ 5.68</b>                            | <b>7.9</b>   |
| <b>Exercisable at September 30, 2024</b>                 | <b>14,936</b>     | <b>\$ 6.34</b>                            | <b>7.8</b>   |

*Restricted stock units*

In 2015, we began issuing restricted stock units to certain employees and non-employee Directors under the 2014 Plan with vesting periods ranging from one to four years from the grant date. In 2020, we began issuing restricted stock units to certain employees and non-employee Directors under the 2020 Plan with vesting periods ranging from one to four years. As of September 30, 2024 and December 31, 2023, the outstanding restricted stock is zero.

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**NOTE 9. COMMITMENTS AND CONTINGENCIES**

**Purchase Commitments**

As of September 30, 2024, we had approximately \$ 167 thousand in outstanding purchase commitments for inventory, \$140 thousand of which is expected to ship in the fourth quarter of 2024 and \$28 thousand of which is expected to ship in the first quarter of 2025. We have 30% of the outstanding purchase commitments (\$49 thousand) with a related party.

**NOTE 10. RELATED PARTY TRANSACTIONS**

**Purchase Transactions**

The Company has a purchase agreement for TLED products and spare parts with Sander Electronics, Inc., a shareholder of the Company. Purchases from Sander Electronics, Inc. for the year ended December 31, 2023 totaled \$2.1 million, which remained unpaid as of December 31, 2023. The Company made new purchases for \$179 thousand from Sander Electronics, Inc. during the nine months ended September 30, 2024. As of September 30, 2024 accounts payable to Sander Electronics, Inc. is \$898 thousand.

**Private Placements**

Please refer to Note 8 for further details on Private Placements in 2024 and 2023.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements and related notes thereto included in Part I, Item 1, "Financial Statements" of this Quarterly Report, as well as Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of our Annual Report on Form 10-K for the year ended December 31, 2023 ("2023 Annual Report").

### Overview

Energy Focus, Inc. engages primarily in the design, development, manufacturing, marketing and sale of energy-efficient lighting systems and controls. We develop, market and sell high quality light-emitting diode ("LED") lighting and controls products in the commercial market and military maritime market ("MMM"). Our mission is to enable our customers to run their facilities with greater energy efficiency, productivity, and human health and wellness through advanced LED retrofit solutions. Our goal is to be a market leader for the most demanding applications where performance, quality, value, environmental impact and health are considered paramount. We specialize in energy efficient LED lighting retrofit product, replacing fluorescent, high-intensity discharge lighting and other types of lamps in institutional buildings for primarily indoor lighting applications with our innovative, high-quality commercial and military-grade tubular LED ("TLED") products, as well as other LED and lighting control products for commercial and consumer applications. We are also evaluating adjacent technologies, including Gallium Nitride ("GaN") based power supplies and additional market opportunities for energy solution products that support sustainability in our existing channels.

The LED lighting industry has changed dramatically over the past several years due to increasing competition and price erosion. We have been experiencing these industry forces in both our military and commercial business since 2016, when we once commanded significant price premiums for our flicker-free TLEDs with industry leading warranties. In more recent years, we have focused on redesigning our products for lower costs and consolidated our supply chain for stronger purchasing power in an effort to price our products more competitively while not impacting the performance and quality. Despite these efforts, our legacy products continue to face extreme price competition and a convergence of product functionality in the marketplace, and we have shifted to diversifying our supply chain in an effort to increase value and remain competitive. These trends are not unique to Energy Focus as evidenced by the increasing number of industry peers facing challenges, exiting LED lighting, selling assets and even going out of business.

In addition to continuously pursuing cost reductions, our strategy to combat these trends is to innovate both our technology and product offerings with differentiated products and solutions that offer greater, distinct value. Specific examples of these products we have developed include the RedCap®, our patented emergency backup battery integrated TLED, as well as our robust MMM product offering. The Company has enhanced the performance of our RedCap® product by providing a more user friendly experience. We continue to evaluate our sales strategy and believe our go-to-market strategy that focuses more on direct-sales marketing, selectively expanding our channel partner network to cover territories across the country, and listening to the voice of the customer will lead to better and more impactful product development efforts that we believe will eventually translate into larger addressable markets and greater sales growth for us.

Since 2023, the Company has continued to make significant cost cutting efforts to address operational expenses while maintaining customer satisfaction and delivering goods on-time. Investments into Energy Focus have contributed to the ability of the Company to continue to not only provide quality products and services, but to both expand and rationalize product offerings.

It is our belief that the continued dramatic rightsizing efforts undertaken in 2023 and 2024, along with reorganization of the sales team and ongoing development of innovative, high-value products and an expanded distribution network, will over time result in improved sales and bottom-line performance for the Company.

During 2023, our MMM business continued to face challenges resulting from the delayed availability of government funding and the timing of U.S. Navy awards, with several anticipated projects facing repeated and ongoing delays. This sector also maintains very long sales cycles. The timeline between bid to order can often take at least six months, and many MMM products are built-to-order with resultant lead times before orders become revenue. We continue to pursue opportunities from the U.S. Navy and the government sector to minimize such volatility. Previously in our MMM business, significant efforts undertaken to reduce costs in our product offerings have positioned us to be more competitive along with improved production efficiencies. Such efforts allowed us to continue to win bids and proposals that helped grow our MMM sales pipeline in the second half of 2023. While we continue to aggressively seek to increase sales of our commercial products, the MMM business offers us continued sales opportunities, in addition to validating our product quality and strengthening our brand trust in the marketplace. During 2023, we thoroughly reviewed and adjusted our commercial pricing

position as well as our strategic relationships and partnerships within the commercial LED market space. We believe our new pricing position will give us a greater advantage than previously held against the competition and offer a more attractive entry point for our end customer base.

Meanwhile, we continue to seek additional external funding alternatives and sources to support our growth strategies, plans and initiatives. The strategic investments in 2023 and 2024 by Sander Electronics, Inc. ("Sander"), a shareholder of the Company, contributed meaningful external capital, as well as presented synergistic opportunities to improve and diversify our supply chain and product offerings.

Despite continuing progress on cost reduction throughout 2023 and 2024, the Company's results reflect the challenges due to long and unpredictable sales cycles, unexpected delays in MMM and commercial customer retrofit budgets and project starts, and supply chain issues. There has also been continuing aggressive price competition in the lighting industry. We continue to incur losses and we have a substantial accumulated deficit, which continues to raise substantial doubt about our ability to continue as a going concern at September 30, 2024.

## **Our Business Strategy**

### *Demand-oriented Approach*

In order to deepen our relationships with customers, we are in the process of re-establishing our service model, aiming to provide richer and more targeted customer service. We believe that by increasing opportunities for interaction with our customers, we can better understand their needs, thereby enhancing their loyalty to our brand.

To ensure that EFOI's products, pricing, and customer service lifecycle are better aligned, we are building a comprehensive value model to ensure consistency in the products and services we provide throughout the customer journey. We have begun an in-depth analysis of our current and past top 10 customers over the last five years to identify the core factors that make them loyal customers. By analyzing this data, we hope to reveal the key elements that enhance customer stickiness, providing them with more reasons and value to stay with us. In particular, we are actively focusing on customers with high loyalty to better meet their needs. This is not only an acknowledgment of our products but also a validation of the quality of our service.

### *Supply-oriented Approach*

EFOI is committed to adopting three main sustainable economy strategies: "Green Supply Chain", "Green Product", and "Green Manufacturing", aiming to promote sustainability throughout the entire value chain. The Company is working closely with its supply chain partners to optimize recycling mechanisms and strengthen packaging design, integrating sustainable economy principles into the core of supply chain management.

Guided by the vision of "transcending traditional corporate social responsibility and creating shared value", EFOI's team is focusing on stakeholders, aiming to achieve a "dual profit engine" effect by combining financial performance and Environmental, Social, and Governance (ESG) practices. This strategy not only aligns with the Company's responsibility and sustainability goals but is also expected to enhance overall performance and market competitiveness. EFOI's operational team's new strategy focuses on integrating environmental and economic benefits, aiming to create a win-win situation that benefits the company, society, and the environment.

Under the premise of a similar industrial environment and familiar relationships, our professional skills complement those of our supply chain partners. This foundation of cooperation enables us to more easily achieve common goals of cost reduction, profit sharing, and exploring new business opportunities. This not only strengthens our cooperative relationship but also lays a solid foundation for our joint efforts towards a better future..

### *Financial-oriented Approach*

The Company applies strategic financial management in the below perspective.

#### **Control and Monitoring of Assets and Liabilities**

- Assets: Regularly evaluate all assets, especially inventory, to ensure they remain in optimal condition in terms of value and performance. Minimize or mitigate the impact of inefficient and aging assets, focusing on assets with high efficiency and return.

- Liabilities: Ensure a robust liability structure, optimize the cost of liabilities, and seek lower interest rates and more favorable repayment terms. Regularly review the liability situation to ensure the company's level of liabilities remains within a safe range.

#### Structured Profitability

- Revenue Growth: Develop diversified revenue streams, reduce dependency on single business or market, continuously optimize products and services, and enhance market competitiveness.
- Cost Control: Strictly control operating costs, seek opportunities to reduce costs, and ensure the efficient use of resources to optimize operations.
- Cash Flow Management: Establish a sound accounts receivable and payable management system to ensure timely collection of receivables and reasonable arrangement of payments. Maintain sufficient cash reserves to cope with potential funding shortages.

#### Results of operations

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

|                                      | Three months ended |                | Nine months ended |                 |
|--------------------------------------|--------------------|----------------|-------------------|-----------------|
|                                      | September 30,      |                | September 30,     |                 |
|                                      | 2024               | 2023           | 2024              | 2023            |
| <b>Net sales</b>                     | 100.0 %            | 100.0 %        | 100.0 %           | 100.0 %         |
| Cost of sales                        | 84.3               | 103.6          | 87.9              | 95.5            |
| <b>Gross (loss) profit</b>           | 15.7               | (3.6)          | 12.1              | 4.5             |
| <b>Operating expenses:</b>           |                    |                |                   |                 |
| Product development                  | 11.5               | 10.6           | 11.3              | 13.3            |
| Selling, general, and administrative | 37.5               | 53.2           | 44.2              | 87.6            |
| <b>Total operating expenses</b>      | 49.0               | 63.8           | 55.5              | 100.9           |
| <b>Loss from operations</b>          | (33.3)             | (67.4)         | (43.4)            | (96.4)          |
| <b>Other expenses (income):</b>      |                    |                |                   |                 |
| Interest expense, net                | —                  | 2.5            | 0.1               | 6.8             |
| Loss on extinguishment of debt       | (2.2)              | —              | (0.8)             | (0.5)           |
| Gain on debt extinguishment          | —                  | —              | (5.2)             | —               |
| Gain on partial lease termination    | (5.3)              | —              | (1.8)             | —               |
| Other expenses                       | 0.6                | 0.5            | 0.3               | 0.8             |
| <b>Net loss</b>                      | <b>(26.4)%</b>     | <b>(70.4)%</b> | <b>(36.0)%</b>    | <b>(103.5)%</b> |

## Net sales

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

|                        | Three months ended<br>September 30, |                 | Nine months ended<br>September 30, |                 |
|------------------------|-------------------------------------|-----------------|------------------------------------|-----------------|
|                        | 2024                                | 2023            | 2024                               | 2023            |
| Commercial             | \$ 350                              | \$ 498          | \$ 1,004                           | \$ 1,261        |
| MMM products           | 846                                 | 841             | 2,578                              | 2,063           |
| <b>Total net sales</b> | <b>\$ 1,196</b>                     | <b>\$ 1,339</b> | <b>\$ 3,582</b>                    | <b>\$ 3,324</b> |

Net sales of \$1.2 million for the third quarter of 2024 decreased \$0.1 million, or 11%, compared to third quarter of 2023 net sales of \$1.3 million, primarily driven by a decrease in commercial sales of \$0.1 million, or 30%, that was partially offset by a 1% increase in MMM sales. The net sales decrease in the third quarter was primarily driven by our sales strategy, which led to a decrease in the proportion of commercial sales.

Net sales of \$3.6 million for the first nine months of 2024 increased \$0.3 million, or 8%, compared to the same period in 2023, primarily driven by a 20% decrease in commercial product sales, that was partially offset by an increase in MMM product sales of 25% for the first nine months of 2024, as compared to the same period of 2023. The net sales increase for the first nine months of 2024 was primarily driven by our sales strategy, which led to a decrease in the proportion of commercial sales and a significant increase in the demand and shipments of MMM products for military use, along with market-adjusted pricing.

## Gross Profit

Gross profit was 16% of net sales, for the third quarter of 2024. This compares with gross loss of 4% of net sales, in the third quarter of 2023. The period-over-period decrease in gross profit was driven mainly by an 7% of net sales decrease in fixed costs such as employee benefit and rent expenses for production, a 78% of net sales increase in variable costs such as material cost and freight in expense, and a 4% of net sales unfavorable change in the inventory reserves.

Gross profit was 10% of net sales, for the first nine months of 2024 compared to gross loss of 4% of net sales, for the first nine months of 2023. The year-over-year increase in gross profit was driven mainly by a 6% of net sales decrease in fixed costs such as subscription fee, expenses related to SEC filing and rent expense for production, an 13% of net sales decrease in variable costs such as material cost and freight in expense, and a 11% of net sales unfavorable change in inventory reserves.

## Operating expenses

### Product development

Product development expenses include salaries and related benefit, testing and related cost, travel, supplies, as well as overhead items, such as depreciation and facility costs. Product development costs are expensed as they are incurred.

Product development expenses were \$137 thousand for the third quarter of 2024, down 4% from the third quarter of 2023. The \$5 thousand decrease primarily resulted from lower payroll-related expenses due to reduction in the headcount offset by an increase in traveling expenses and product testing fees. Product development expenses relate to customization of product offerings for key customers.

Product development expenses were \$405 thousand for the first nine months of 2024, a \$38 thousand decrease compared to \$443 thousand for the first nine months of 2023. The decrease is primarily related to payroll expense and decreased headcount, offset by an increase in traveling expense and product testing fee.

### Selling, general and administrative

Selling, general and administrative expenses were \$0.4 million for the third quarter of 2024, down 37% as compared to \$0.7 million in the third quarter of 2023. The decrease is comprised of a combination of a \$0.2 million decrease in payroll and payroll-related expenses, a reduction in accounting and consultants fees of \$70 thousand.

Selling, general and administrative expenses were \$1.6 million for the first nine months of 2024, compared to \$2.9 million for the first nine months of 2023. The decrease is primarily due to (i) decreases in payroll and payroll related expenses of \$0.6 million due to reduced headcount; (ii) a reduction in accounting and consultants expenses of \$0.4 million; and (iii) a reduction of \$0.1 million in director fees.

#### **Other Expense (Income)**

##### *Interest expense*

There was no interest expense for the third quarter of 2024, compared to interest expense of \$34 thousand for the third quarter of 2023. The decrease in interest expense is primarily related to early termination of the 2022 Streeterville Note. There was no actual cash interest paid in the third quarter of 2024 compared to \$7 thousand in the third quarter of 2023.

Interest expense was \$5 thousand for the first nine months of 2024, compared to interest expense of \$226 thousand for the first nine months of 2023. The decrease in interest expense is primarily related to interest attributable to the 2022 Streeterville Note. The actual cash interest paid for the nine months ended September 30, 2024 and 2023 was \$5 thousand and \$77 thousand, respectively.

##### *Gain on debt extinguishment*

We recognized \$187 thousand of gain on debt extinguishment for the three and nine months of 2024, which was related to the early termination of the 2022 Streeterville Note. There was no such gain recognized in the same periods of 2023.

##### *Gain on partial lease termination*

We recognized \$63 thousand of gain on partial lease termination for the three and nine months of 2024, which was related to the early termination of the office lease. There was no such gain recognized in the same periods of 2023.

##### *Other income and expenses*

Other expenses were \$7 thousand for the third quarter of 2024, compared to other expenses of \$7 thousand for the third quarter of 2023. Other expenses were \$9 thousand for the nine months ended September 30, 2024, compared to other expenses of \$28 thousand for the nine months ended September 30, 2023. Other expenses are mainly comprised of bank and collateral management fees.

Other income was \$26 thousand for the third quarter of September 30, 2024, compared to no other incomes for the third quarter of 2023. Other income for the nine months ended September 30, 2024 of \$30 thousand compared to other income of \$16 thousand for the nine months ended September 30, 2023. Other income related to receipts of unclaimed property from vendor for previous payments.

#### **Provision for income taxes**

Due to the operating losses incurred during the three and nine months ended September 30, 2024 and 2023, and after application of the annual limitation set forth under Section 382 of the Internal Revenue Code of 1986, as amended, it was not necessary to record a provision for U.S. federal income tax or various state income taxes as income tax benefits are fully offset by a valuation allowance recorded.

#### **Net loss**

For the three months ended September 30, 2024, our net loss of \$0.3 million decreased 67% from \$0.9 million net loss for the three months ended September 30, 2023. The decrease is primarily due to a decrease in operating expenses and increase in gross profit in the third quarter of 2024 from the third quarter of 2023.

For the nine months ended September 30, 2024, our net loss of \$1.3 million decreased 63% from \$3.4 million net loss for the nine months ended September 30, 2023. The decrease is primarily due to a decrease in operating expenses and increase in gross profit in the first nine months of 2024 from the first nine months of 2023.

## Financial condition

At September 30, 2024, we had \$0.8 million in cash and no outstanding debt. We have historically incurred substantial losses, and as of September 30, 2024, we had an accumulated deficit of \$154.6 million. Additionally, our sales have been concentrated among a few major customers and for the nine months ended September 30, 2024, three customers accounted for approximately 39% of net sales.

We remain committed to building upon the transformation activities started during 2019 that sought to stabilize and regrow our business. These efforts include the following key developments:

- We reinvested in our MMM sales channel and are pursuing existing and new sales opportunities, though the sales cycles for what are frequently made-to-order products are longer than commercial offerings.
- The Company has aggressively re-evaluated operating expenses, and reduced its workforce significantly throughout 2023 and into 2024 to manage fixed costs.
- We continued to seek additional external funding alternatives and sources to support our growth strategies, plans and initiatives.

We continue to closely monitored our cost control efforts to streamline our operations by closely managing all spending done throughout the Company, while carefully investing in new products and strategies that sought to reenergize sales.

We will seek to remain agile as an organization to respond to potential or continuing weakness in the macroeconomic environment and in the meantime seek to expand sales channels and enter new markets that we believe will provide additional growth opportunities. We plan to achieve profitability through developing and launching new, innovative products, our Redcap® emergency battery backup tubular TLEDs, evaluating new growth opportunities such as GaN-based power supply circuitry and other energy solution products, as well as executing on our multi-channel sales strategy that targets key verticals, such as government, healthcare, education and commercial and industrial, complemented by our marketing outreach campaigns and expanding channel partnerships. In addition, we intend to continue to apply rigorous financial discipline in our organizational structure, decision-making, business processes and policies, strategic sourcing activities and supply chain practices to help accelerate our path towards profitability.

## Liquidity and capital resources

### Cash

At September 30, 2024, our cash balance was approximately \$0.8 million, compared to approximately \$2.0 million at December 31, 2023.

The following summarizes cash flows from operating, investing, and financing activities, as reflected in the Condensed Consolidated Statements of Cash Flows included in Part I, Item 1, "Financial Statements," of this Quarterly Report (in thousands):

|   | Nine months ended<br>September 30, |            |
|---|------------------------------------|------------|
|   | 2024                               | 2023       |
| Net cash used in operating activities               | \$ (1,043)                         | \$ (2,370) |
| Net cash used in investing activities               | \$ (19)                            | \$ (27)    |
| Net cash provided by (used in) financing activities | \$ (149)                           | \$ 4,036   |

*Net cash used in operating activities*

Net cash used in operating activities was \$1.0 million for the nine months ended September 30, 2024. The net loss for the nine months ended September 30, 2024 was \$1.3 million and was adjusted for non-cash items, including depreciation and amortization, stock-based compensation, provisions for inventory, warranty, and accounts receivable reserves and working capital changes. During the nine months ended September 30, 2024, we generated cash inflow by reduction of accounts receivable in the amount of \$1.1 million through collection, and better inventory management in reduction of inventory amounting \$0.4 million and \$0.2 million from accounts payable. We paid off approximately \$1.2 million in accounts payable to related party.

Net cash used in operating activities was \$2.4 million for the nine months ended September 30, 2023. The net loss for the nine months ended September 30, 2023 was \$3.4 million and was adjusted for non-cash items, including depreciation and amortization, stock-based compensation, provisions for inventory, warranty, and accounts receivable reserves and working capital changes. During the nine months ended September 30, 2023, we generated \$0.6 million from inventory, \$0.5 million from changes in prepaid and other assets, mainly from the receipt of \$445 thousand in Employee Retention Tax Credit funds, and \$0.4 million from accounts payable due to the timing of inventory receipts and payments. During the nine months ended September 30, 2023, we used \$0.4 million through the timing of collection of accounts receivable.

#### *Net cash used in investing activities*

For the nine months ended September 30, 2023 and 2023, net cash used in investing activities was \$19 thousand and \$27 thousand, respectively, which is primarily from the purchase of tooling.

#### *Net cash provided by (used in) financing activities*

Net cash provided by financing activities during the nine months ended September 30, 2024 was \$0.1 million, primarily related to \$0.9 million of net proceeds from the issuance of common stock, offset by \$1.0 million related to net payments on the 2022 Streeterville Note.

Net cash provided by financing activities during the nine months ended September 30, 2023 was \$4.0 million, primarily related to \$6.1 million of net proceeds from the issuance of common stock, offset by net payments on the Credit Facilities of \$1.4 million and the 2022 Streeterville Note of \$625 thousand.

#### *Contractual and other obligations*

As of September 30, 2024, we had approximately \$0.2 million in outstanding purchase commitments for inventory, which is expected to ship in the fourth quarter of 2024 and \$28 thousand of which is expected to ship in the fourth quarter of 2024. We have 30% of the outstanding purchase commitments with a related party.

There have been no other material changes to our contractual and other obligations as compared to those included in our 2023 Annual Report.

#### **Critical accounting policies**

There have been no material changes to our critical accounting policies as compared to those included in our 2023 Annual Report.

#### **Certain risks and concentrations**

We have certain customers whose net sales individually represented 10% or more of our total net sales, or whose net trade accounts receivable balance individually represented 10% or more of our total net trade accounts receivable; we have certain suppliers, which individually represent 10% or more of our total purchases, or whose trade accounts payable balance individually represented 10% or more of our total trade accounts payable balance. Please refer to Note 2, "Basis of Presentation and Summary of Significant Accounting Policies," included under Part I, Item 1, "Financial Statements," of this Quarterly Report.

#### **Recent accounting pronouncements**

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

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As a "smaller reporting company" as defined by Item 10 of Regulation S-K, the Company is not required to provide information required by this item.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### ***Evaluation of disclosure controls and procedures***

We maintain disclosure controls and procedures, as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to management, including our Chief Executive Officer who also serves as our principal financial officer, as appropriate, to allow for timely decisions regarding required disclosure.

Pursuant to Rule 13a-15(b) under the Exchange Act, our management must evaluate, with the participation of our Chief Executive Officer, the effectiveness of our disclosure controls and procedures, as of September 30, 2024, the end of the period covered by this Quarterly Report. Management, with the participation of our Chief Executive Officer, did evaluate the effectiveness of our disclosure controls and procedures as of the end of period covered by this Quarterly Report. Based on this evaluation, our Chief Executive Officer concluded that our disclosure controls and procedures were effective at a reasonable level as of September 30, 2024.

#### ***Changes in internal control over financial reporting***

During the quarterly period covered by this Quarterly Report, there have not been any changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

From time to time, we may be involved in various claims and legal actions arising in the ordinary course of business. As of September 30, 2024, we were not involved in any material legal proceedings.

### **ITEM 1A. RISK FACTORS**

As a "smaller reporting company" as defined by Item 10 of Regulation S-K, the Company is not required to provide information required by this item.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

### **ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS****EXHIBIT INDEX**

| <b>Exhibit<br/>Number</b> | <b>Description of Documents</b>  |
|---------------------------|--|
| 31.1+                     | <a href="#">Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>  |
| 32.1++                    | <a href="#">Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>  |
| *101                      | The following financial information from our Quarterly Report for the quarter ended September 30, 2024, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at September 30, 2024 and December 31, 2023, (ii) Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2024 and 2023, (iii) Condensed Consolidated Statements of Changes in Stockholders' Equity for the three and nine months ended September 30, 2024 and 2023, (v) Condensed Consolidated Statements of Cash Flows for the three and nine months ended September 30, 2024 and 2023, and (vi) the Notes to Condensed Consolidated Financial Statements. |

\*104 Cover Page Interactive Data File (embedded within the Inline XBRL document)

\* Pursuant to Regulation S-T, this interactive data file is not deemed filed for purposes of Section 11 of the Securities Act, or Section 18 of the Exchange Act, or otherwise subject to the liabilities of these sections.

+ Filed herewith.

++ This exhibit shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section. Such exhibit shall not be deemed incorporated into any filing under the Securities Act or the Exchange Act.

**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 12, 2024

By: /s/ Chiao Chieh Jay Huang

Chiao Chieh Jay Huang

Chief Executive Officer

*(Principal Executive Officer and Principal Financial Officer)*

## CERTIFICATION

I, Chiao Chieh Jay Huang, certify that:

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

/s/ Chiao Chieh Jay Huang

Chiao Chieh Jay Huang

Chief Executive Officer

*(Principal Executive Officer and Principal Financial Officer)*

Date: November 12, 2024

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

In connection with the Quarterly Report on Form 10-Q of Energy Focus, Inc. (the "Company") for the quarterly period ended September 30, 2024 (the "Report"), I, Chiao Chieh Jay Huang, Chief Executive Officer of the Company certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, that to the best of my knowledge:

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

/s/ Chiao Chieh Jay Huang

Chiao Chieh Jay Huang

Chief Executive Officer

*(Principal Executive Officer and Principal Financial Officer)*

Date: November 12, 2024

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