UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q

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

For the quarterly period ended June 30, 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 August 6, 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 the 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, particularly in light of supply chain constraints and other long-term impacts of the coronavirus ("COVID-19") pandemic;*
- *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.

Energy Focus®, Intellitube®, RedCap®, and EnFocus™ are our registered trademarks. We may also refer to trademarks of other corporations and organizations in this document.

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

	June 30, 2024 (Unaudited)	December 31, 2023
ASSETS		
Current assets:		
Cash	$ 1,105	$ 2,030
Trade accounts receivable, less allowances of $9 and $20, respectively	651	1,570
Trade accounts receivable - related party	—	202
Inventories, net	3,791	4,439
Prepayments to vendors	452	792
Prepaid and other current assets	219	156
Total current assets	6,218	9,189
Property and equipment, net	89	112
Operating lease, right-of-use asset	769	899
Total assets	$ 7,076	$ 10,200
LIABILITIES		
Current liabilities:		
Accounts payable	$ 1,378	$ 1,624
Accounts payable - related party	735	2,146
Accrued liabilities	140	110
Accrued legal and professional fees	55	64
Accrued payroll and related benefits	190	199
Accrued sales commissions	24	62
Accrued warranty reserve	117	150
Operating lease liabilities	245	223
Advanced capital contribution	—	450
Promissory notes payable, net of discounts and loan origination fees	—	1,323
Total current liabilities	2,884	6,351

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

	June 30, 2024 (Unaudited)	December 31, 2023
Operating lease liabilities, net of current portion	670	798
Total liabilities	3,554	7,149
STOCKHOLDERS' EQUITY		
Preferred stock, par value $0.0001 per share:		
Authorized: 5,000,000 shares (3,300,000 designated as Series A Convertible Preferred Stock) at June 30, 2024 and December 31, 2023		
Issued and outstanding: 876,447 at June 30, 2024 and December 31, 2023	—	—
Common stock, par value $0.0001 per share:		
Authorized: 50,000,000 shares at June 30, 2024 and December 31, 2023		
Issued and outstanding: 5,260,741 at June 30, 2024 and 4,348,690 at December 31, 2023	1	—
Additional paid-in capital	157,811	156,369
Accumulated other comprehensive loss	(3)	(3)
Accumulated deficit	(154,287)	(153,315)
Total stockholders' equity	3,522	3,051
Total liabilities and stockholders' equity	$ 7,076	$ 10,200

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

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

	Three months ended June 30,		Six months ended June 30,	
	2024	**2023**	**2024**	**2023**
Net sales	$ 1,553	$ 1,055	$ 2,386	$ 1,985
Cost of sales	1,427	876	2,140	1,789
Gross profit	126	179	246	196
Operating expenses:				
Product development	140	147	268	301
Selling, general, and administrative	543	1,132	1,134	2,198
Total operating expenses	683	1,279	1,402	2,499
Loss from operations	(557)	(1,100)	(1,156)	(2,303)
Other expenses (income):				
Interest expense, net	—	69	5	192
Gain on debt extinguishment	—	—	(187)	—
Other income	(4)	(16)	(4)	(16)
Other expenses	1	14	2	21
Net loss	$ (554)	$ (1,167)	$ (972)	$ (2,500)
Net loss per common share - basic and diluted				
Net loss	$ (0.12)	$ (0.42)	$ (0.21)	$ (0.98)
Weighted average shares of common stock outstanding:				
Basic and diluted	4,785	2,766	4,609	2,539

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)
(Unaudited)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares*	Amount				
ance at January 1, 2024	876	—	4,349	$ —	156,369	(3) $	(153,315)	3,051
ssuance of common stock	—	—	283	—	450	—	—	450
onversion of advanced capital contribution to common stock	—	—	94	—	141	—	—	141
tock-based compensation	—	—	—	—	1	—	—	1
let loss for the three months ended March 31, 2024	—	—	—	—	—	—	(418)	(418)
ance at March 31, 2024	876	—	4,726	$ —	156,961	(3) $	(153,733)	3,225
ssuance of common stock	—	—	535	1	850	—	—	851
let loss for the three months ended June 30, 2024	—	—	—	—	—	—	(554)	(554)
ance at June 30, 2024	876	—	5,261	$ 1	157,811	(3) $	(154,287)	3,522

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares*	Amount				
Balance at January 1, 2023	876	$ —	1,407	$ 1	$ 148,545	$ (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)
Balance at March 31, 2023	876	$ —	2,749	$ 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)
Balance at June 30, 2023	876	$ —	3,496	$ —	$ 154,624	$ (3)	$ (151,522)	$ 3,099

*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 June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Cash flows from operating activities:				
Net loss	$ (554)	$ (1,167)	$ (972)	$ (2,500)
Adjustments to reconcile net loss to net cash used in operating activities:				
Gain on debt extinguishment	—	—	(187)	—
Depreciation	11	8	19	16
Stock-based compensation	—	23	1	49
Provision for doubtful accounts receivable	(12)	21	(76)	50
Provision for slow-moving and obsolete inventories	158	(107)	225	(130)
Provision for warranties	1	3	(33)	(37)
Amortization of loan discounts and origination fees	—	47	5	109
Changes in operating assets and liabilities (sources / (uses) of cash):				
Accounts receivable	(243)	93	1,197	(403)
Inventories	448	(259)	423	303
Prepayments to vendors	(87)	—	15	(23)
Prepaid and other assets	(16)	454	(59)	460
Accounts payable	140	884	79	857
Accounts payable - related party	(576)	—	(1,411)	—
Accrued and other liabilities	1	(174)	(26)	(130)
Operating lease - ROU and liabilities	11	22	24	44
Total adjustments	(164)	1,015	196	1,165
Net cash used in operating activities	(718)	(152)	(776)	(1,335)

(continued on next page)

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

	Three months ended June 30,		Six months ended June 30,	
	2024	**2023**	**2024**	**2023**
Cash flows from financing activities (sources / (uses) of cash):				
Issuance of common stock	851	1,304	851	4,329
Costs related to reverse stock-split	—	(16)	—	(16)
Payments on the 2022 Streeterville Note	—	—	(1,000)	(500)
Net payments on proceeds from the credit line borrowings - Credit Facilities	—	(121)	—	(1,214)
Net cash provided by (used in) financing activities	851	1,167	(149)	2,599
Net increase (decrease) in cash	133	1,015	(925)	1,264
Cash, beginning of period	972	301	2,030	52
Cash, end of period	$ 1,105	$ 1,316	$ 1,105	$ 1,316
Supplemental information:				
Cash paid in year for interest	—	10	5	70

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

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 Consolidated Financial Statements relates to our operations.

We have prepared the accompanying financial data for the three and six months ended June 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 June 30, 2024 and December 31, 2023, Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2024 and 2023, Condensed Consolidated Statements of Changes in Stockholders’ Equity for the three and six months ended June 30, 2024 and 2023, and Condensed Consolidated Statements of Cash Flows for the three and six months ended June 30, 2024 and 2023.

Going Concern and Nasdaq Continued Listing Requirements Compliance

Due to our financial performance as of June 30, 2024 and December 31, 2023, including net losses of $ 1.0 million for the six months ended June 30, 2024 and $4.3 million for the twelve months ended December 31, 2023, and total cash used in operating activities of $0.8 million for the six months ended June 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 June 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 balancing the development and implementation of an inventory reduction plan. Disruptions in global logistics networks are also impacting our lead times and ability to efficiently and cost-effectively transport products from our third-party suppliers to our facility. 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 the estimates. Estimates include, but are not limited to, the establishment of reserves for accounts receivable, sales returns, inventory obsolescence and warranty claims, the useful lives of property and equipment, valuation allowance for net deferred taxes, and stock-based compensation. The Company began using estimates for its calculation of allowance for doubtful accounts receivable under Accounting Standards Codification ("ASC") 326, *Measurement of Credit Losses on Financial Instruments* ("CECL"), commencing in 2023. 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 June 30,		Six months ended June 30,	
	2024	**2023**	**2024**	**2023**
Net sales:				
Commercial	$ 355	$ 442	$ 654	$ 763
MMM products	1,198	613	1,732	1,222
Total net sales	$ 1,553	$ 1,055	$ 2,386	$ 1,985

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.

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:

	June 30, 2024	December 31, 2023	January 01, 2023
Gross Accounts Receivable	$ 660	$ 1,590	$ 471
Less: Allowance for Doubtful Accounts	$ (9)	$ (20)	$ (28)
Net Accounts Receivable	$ 651	$ 1,570	$ 443

Activity related to our reserve for credit losses for the three and six months ended June 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)
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)

Geographic information

All of our long-lived fixed assets are located in the United States. For the three months ended June 30, 2024 and 2023, approximately 100% sales were attributable to customers in the United States. For the six months ended June 30, 2024 and 2023, approximately 100% 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.

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

	Three months ended June 30,		Six months ended June 30,	
	2024	**2023**	**2024**	**2023**
Numerator:				
Net loss	$ (554)	$ (1,167)	$ (972)	$ (2,500)
Denominator:				
Basic and diluted weighted average shares of common stock outstanding	4,785	2,766	4,609	2,539

As a result of the net loss we incurred for the three and six months ended June 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 June 30,		Six months ended June 30,	
	2024	**2023**	**2024**	**2023**
Balance at beginning of period	$ 116	$ 143	$ 150	$ 183
Warranty accruals for current period sales	1	3	2	2
Adjustments to existing warranty reserves	—	—	(35)	(39)
Accrued warranty reserve at end of period	$ 117	$ 146	$ 117	$ 146

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.

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 June 30, 2024, two customers accounted for an aggregate of approximately 54% net sales. For the three months ended June 30, 2023, three customers accounted for approximately 42% net sales, with sales to our primary shipbuilders for the U.S. Navy accounting for approximately 26% of net sales, and sales to our primary distributor for the U.S. Navy accounting for approximately 16% of net sales.

- For the six months ended June 30, 2024, two customers accounted for an aggregate of approximately 40% net sales. For the six months ended June 30, 2023, two customers accounted for approximately 34% net sales, with sales to our primary shipbuilders for the U.S. Navy accounting for approximately 23% of net sales, and sales to our primary distributor for the U.S. Navy accounting for approximately 11% of net sales.

- At June 30, 2024, three 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 $0.5 million and $0.8 million at June 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 (the latter, a related party, see Note 10 “Related Party Transactions” regarding this related party) accounted for more than 10% of our total expenditures for the three and six months ended June 30, 2024. No suppliers accounted for more than 10% of our total expenditures for the three and six months ended June 30, 2023.
- At June 30, 2024, two offshore suppliers accounted for approximately 32% and 40% (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.

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):

	June 30, 2024	December 31, 2023
Raw materials	$ 3,250	$ 2,189
Finished goods	3,230	4,803
Reduction due to future permanent markdowns	(2,464)	—
Reserves for excess, obsolete, and slow-moving inventories	(225)	(2,553)
Inventories, net	$ 3,791	$ 4,439

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

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Beginning balance	$ (2,619)	$ (2,507)	$ (2,553)	$ (2,527)
Accrual	(70)	70	(225)	14
Reduction due to sold inventory	—	37	89	113
Reduction due to future permanent markdowns	2,464	—	2,464	—
Reserves for excess, obsolete, and slow-moving inventories	$ (225)	$ (2,400)	$ (225)	$ (2,400)

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):

	June 30, 2024	December 31, 2023
Equipment (useful life 3 to 15 years)	$ 1,061	$ 1,061
Tooling (useful life 2 to 5 years)	215	190
Vehicles (useful life 5 years)	41	41
Leasehold improvements (the shorter of useful life or lease life)	141	141
Projects in progress	—	28
Property and equipment at cost	1,458	1,461
Less: accumulated depreciation	(1,369)	(1,349)
Property and equipment, net	$ 89	$ 112

Depreciation expense was $11 thousand and $8 thousand for the three months ended June 30, 2024 and 2023, respectively. For the six months ended June 30, 2024 and 2023, depreciation expense was $19 thousand and $16 thousand, respectively.

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. In accordance with ASC 842, *Leases* ("ASC 842"), the related lease liability was remeasured and the right-of-use asset was adjusted at the time of 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 3.0 years.

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

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Operating lease cost (income)				
Lease cost	$ 113	$ 115	$ 210	$ 232
Total lease cost, net	$ 113	$ 115	$ 210	$ 232

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

	June 30, 2024	December 31, 2023
Operating Leases		
Operating lease right-of-use assets	$ 769	$ 899
Operating lease liabilities	$ 915	$ 1,021

Future minimum lease payments required under operating leases for each of the 12-month rolling periods below in effect at June 30, 2024 are as follows (in thousands):

	Operating Leases
July 2024 to June 2025	$ 378
July 2025 to June 2026	386
July 2026 to June 2027	393
Total future undiscounted lease payments	1,157
Less imputed interest	242
Total lease obligations	$ 915

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

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Supplemental cash flow information				
Cash paid, net, for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	$ 93	$ 94	$ 187	$ 189

NOTE 6. DEBT

Debt consisted of the following (in thousands):

	June 30, 2024	December 31, 2023
Streeterville notes, net	$ —	$ 1,323
Advanced capital contribution	—	450
Total	$ —	$ 1,773

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 Crossroads Amendment provided that the Company makes payments to reduce the outstanding obligations under the Inventory Facility of $750 thousand by January 20, 2023 and $ 250 thousand by February 15, 2023. The Company also agreed to make monthly payments of approximately $40 thousand towards the remaining outstanding obligations under the Inventory Facility, and to reduce the maximum amount that may be available to the Company under the Inventory Facility from $3.5 million to $500 thousand, subject to the borrowing base as set forth in the Inventory Loan Agreement.

Pursuant to the Crossroads Amendment, Crossroads and the Company also agreed to extend the Inventory Facility's current term through December 31, 2023, while eliminating the minimum borrowing amount and unused line fees and reducing the monthly service fee to a lower, fixed amount. The Company also agreed to a slightly increased interest rate, which was more than offset by the reduction in the monthly service fees. Pursuant to the Crossroads Amendment, the interest rate on borrowings under the Inventory Facility per annum was a rate equal to (i) the Three-Month LIBOR rate plus 5.5% or (ii) at Crossroads' discretion, an alternative reference rate, SOFR (Secured Overnight Financing Rate), plus 6.00%. 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. The Receivables Facility was secured by substantially all of the present and future assets of the Company and was subject to an intercreditor agreement with Crossroads, which intercreditor agreement was also terminated.

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.

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 six months ended June 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 June 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 and June 30, 2024, we had a net operating loss carry-forward of approximately $ 138.7 million and $141.0 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 2023 and 2022, respectively, will be subject to the new limitations under the Tax Act. If not utilized, the carry-forwards generated prior to December 31, 2017 of $0.9 million will begin to expire at the end of 2024 for federal 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 form of the certificate of amendment ("Certificate of Amendment") to the Certificate of Incorporation and authorized our board of directors to amend the Certificate of Incorporation to effect 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 Certificate of Amendment to our Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on June 15, 2023, with the reverse stock split becoming effective on June 16, 2023 (the "Effective Time"). At the Effective Time, every seven shares of common stock issued and outstanding automatically combined into one validly issued, fully paid and non-assessable share of common stock. No fractional shares were issued as a result of the reverse stock split. The fractional shares were settled in cash in an amount not material to the Company. 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.

Our outstanding shares of restricted stock and shares underlying our options and warrants entitling the holders to purchase shares of common stock have been adjusted as a result of the reverse stock split, as required by the terms of these securities. Also, the number of shares reserved for issuance under our existing 2020 Stock Incentive Plan, as amended, and our 2013 Employee Stock Purchase Plan were reduced proportionately based on the Split Ratio. Preferred shares outstanding were not affected by the reverse stock split and as such, those shares have not been adjusted.

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 six months ended June 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.

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.

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 June 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 six months ended June 30, 2024 and the year ended December 31, 2023, no warrants were exercised.

As of June 30, 2024 and December 31, 2023, we had the following outstanding Warrants:

	As of June 30, 2024	As of December 31, 2023		
	Number of Underlying Shares		Exercise Price	Expiration
June 2022 Warrants	384,615	384,615	$9.10	December 16, 2026
December 2021 Warrants	182,630	182,630	$24.64	June 7, 2027
January 2020 Investor Warrants	26,819	26,819	$23.59	January 13, 2025
January 2020 Placement Agent Warrants	5,954	5,954	$34.96	January 13, 2025
	600,018	600,018		

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 June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Cost of sales	$ —	$ 1	$ —	$ 1
Product development	—	3	—	7
Selling, general, and administrative	—	19	1	41
Total stock-based compensation	$ —	$ 23	$ 1	$ 49

Total unearned stock-based compensation was $ 54 thousand at June 30, 2024, compared to $ 130 thousand at June 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 June 30, 2024 is expected to be recognized is approximately 2.3 years.

Stock options

For the three months and six months ended June 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 plans for the six months ended June 30, 2024 is presented as follows:

	Number of Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (in years)
Balance at December 31, 2023	30,575	$ 5.60	
Granted	—	—	
Canceled/forfeited	—	—	
Expired	(9)	53.33	
Balance at June 30, 2024	30,566	$ 5.58	8.2
Vested and expected to vest at June 30, 2024	27,170	$ 5.70	8.2
Exercisable at June 30, 2024	13,149	$ 6.57	8.0

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 June 30, 2024 and December 31,2023, the outstanding restricted stock is zero.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

As of June 30, 2024, we had approximately $ 1.1 million in outstanding purchase commitments for inventory, $1.1 million of which is expected to ship in the third quarter of 2024 and $35 thousand of which is expected to ship in the fourth quarter of 2024. We have 32% of the outstanding purchase commitments ($353 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 three and six months ended June 30, 2024.

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, EnFocus™, our unique dimmable/color-tunable lighting and powerline control platform that we launched in 2020, and the second generation of EnFocus™ powerline control switches and circadian lighting system. The Company have enhanced the performance of our RedCap® product 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 year 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 June 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 June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	91.9	83.0	89.7	90.1
Gross profit	8.1	17.0	10.3	9.9
Operating expenses:				
Product development	9.0	13.9	11.2	15.2
Selling, general, and administrative	35.0	107.3	47.5	110.7
Total operating expenses	44.0	121.2	58.7	125.9
Loss from operations	(35.9)	(104.2)	(48.4)	(116.0)
Other expenses (income):				
Interest expense, net	—	6.5	0.2	9.7
Gain on debt extinguishment	—	—	(7.8)	—
Other income	(0.3)	(1.5)	(0.2)	(0.8)
Other expenses	0.1	1.3	0.1	1.1
Net loss	(35.7)%	(110.5)%	(40.7)%	(126.0)%

Net sales

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

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Commercial	$ 355	$ 442	$ 654	$ 763
MMM products	1,198	613	1,732	1,222
Total net sales	$ 1,553	$ 1,055	$ 2,386	$ 1,985

Net sales of $1.6 million for the second quarter of 2024 increased $0.5 million, or 47%, compared to second quarter of 2023 net sales of $1.1 million, primarily driven by an increase in MMM sales of $0.6 million, or 95%, partially offset by a decrease in commercial sales of $0.1 million, or 20%. The net sales increase in the second quarter 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.

Net sales of $2.4 million for the first six months of 2024 increased $0.4 million, or 20%, compared to the same period in 2023, primarily driven by a 42% increase in MMM sales, partially offset by a 14% decrease in commercial sales. The net sales increase for the first six 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 8% of net sales, for the second quarter of 2024. This compares with gross profit of 17% of net sales, in the second quarter of 2023. The period-over-period decrease in gross profit was driven mainly by an 8% of net sales decrease in fixed costs such as subscription fee for production, a 4% of net sales decrease in variable costs such as material cost and freight in expense, and a 20% of net sales unfavorable change in the inventory reserves.

Gross profit was 10% of net sales, for the first six months of 2024 compared to 9% of net sales, for the first six months of 2023. The year-over-year increase in gross profit was driven mainly by a 5% of net sales decrease in fixed costs such as subscription fee and rent expense for production, an 11% of net sales decrease in variable costs such as material cost and freight in expense, and a 16% 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 $140 thousand for the second quarter of 2024, down 5% from the second quarter of 2023. The $7 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 $268 thousand for the first six months of 2024, a $33 thousand decrease compared to $301 thousand for the first six 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 $0.5 million for the second quarter of 2024, down 52% as compared to $1.1 million in the second quarter of 2023. The decrease is comprised of a combination of a $0.3 million decrease in payroll and payroll-related expenses, a reduction in accounting and consultants fees of $0.2 million, and a reduction of $60 thousand in director fees.

Selling, general and administrative expenses were $1.1 million for the first six months of 2024, compared to $2.2 million for the first six months of 2023. The decrease is primarily due to (i) decreases in payroll and payroll related expenses of $0.5 million due to reduced headcount; (ii) a reduction in accounting and consultants expenses of $0.3 million; and (iii) a reduction of $0.1 million in director fees.

Other Expense (Income)

Interest expense

There was no interest expense for the second quarter of 2024, compared to interest expense of $69 thousand for the second 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 second quarter of 2024 compared to $10 thousand in the second quarter of 2023.

Interest expense was $5 thousand for the first six months of 2024, compared to interest expense of $192 thousand for the first six months of 2023. The decrease in interest expense is primarily related to interest attributable to the 2022 Streeterville Note. There was no actual cash interest paid for the six months ended June 30, 2024 compared to $70 thousand in the first six months of 2023.

Gain on debt extinguishment

We recognized $187 thousand of gain on debt extinguishment for the first six months of 2024, which was related to the early termination of the 2022 Streeterville Note. There was no such gain recognized for the first six months of 2023.

Other income and expenses

Other expenses were $1 thousand for the second quarter of 2024, compared to other expenses of $14 thousand for the second quarter of 2023. Other expenses were $2 thousand for the six months ended June 30, 2024, compared to other expenses of $21 thousand for the six months ended June 30, 2023. Other expenses are mainly comprised of bank and collateral management fees.

Other income for the second quarter and first six months of 2024 of $4 thousand, compared to other income of $16 thousand for the second quarter and the first months of 2023. Other income are related to the reversal of credit balances recorded from online retail sales.

Provision for income taxes

Due to the operating losses incurred during the three and six months ended June 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 June 30, 2024, our net loss of $0.6 million decreased 53% from the net loss for the three months ended June 30, 2023 of $1.2 million. The decrease is primarily due to a decrease in operating expenses in the second quarter of 2024 from the second quarter of 2023.

For the six months ended June 30, 2024, our net loss of $1.0 million decreased 61% over the net loss for the six months ended June 30, 2023 of $2.5 million. The decrease is primarily due to a decrease in operating expenses in the first six months of 2024 from the first six months of 2023.

Financial condition

At June 30, 2024, we had $1.1 million in cash and no outstanding debt. We have historically incurred substantial losses, and as of June 30, 2024, we had an accumulated deficit of $154.3 million. Additionally, our sales have been concentrated among a few major customers and for the six months ended June 30, 2024, two customers accounted for approximately 40% of net sales.

In 2024 and 2023, 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 that occurred during 2024 and 2023:

- 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 into 2024 to manage fixed costs.
- We continued to seek additional external funding alternatives and sources to support our growth strategies, plans and initiatives .

During 2023 and into 2024, we 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. We also plan to continue to develop advanced lighting and lighting control applications built upon the EnFocus™ platform that aim to serve the commercial markets. 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 June 30, 2024, our cash balance was approximately $1.1 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):

	Six months ended June 30,	
	2024	**2023**
Net cash used in operating activities	$ (776)	$ (1,335)
Net cash used in investing activities	$ —	$ —
Net cash provided by (used in) financing activities	$ (149)	$ 2,599

Net cash used in operating activities

The substantial decrease in cash used in operating activity in the first six months of year 2024 comparing against the same period last year was primarily related to:

- efforts to collect accounts receivable led to increase in cash flow from accounts receivable during the first six months of year 2024 compared to the first six months of year 2023; offset by
- higher accounts payable as of December 31, 2023 and efforts to manage inventory levels, reflecting more purchase activities in the fourth quarter of year 2023, led to higher cash outflows in the six months of year 2024.

Net cash used in operating activities was $0.8 million for the six months ended June 30, 2024. The net loss for the six months ended June 30, 2024 was $1.0 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 six months ended June 30, 2024, we generated $1.2 million from collection of accounts receivable, $0.4 million from inventory and $0.1 million from accounts payable. We used $1.4 million from accounts payable to related party due to timing of inventory receipts and payments.

Net cash used in operating activities was $1.3 million for the six months ended June 30, 2023. The net loss for the six months ended June 30, 2023 was $2.5 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 six months ended June 30, 2023, we generated $0.3 million from inventory, and $0.5 million from changes in prepaid and other assets, mainly from the receipt of $445 thousand in Employee Retention Tax Credit funds, and $0.9 million from accounts payable due to the timing of inventory receipts and payments. During the six months ended June 30, 2023, we used $0.4 million through the timing of collection of accounts receivable.

Net cash used in investing activities

For the six months ended June 30, 2024 and 2023 , the Company did not have any activities in connection with investing activities.

Net cash provided by (used in) financing activities

Net cash used in financing activities during the six months ended June 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 six months ended June 30, 2023 was $2.6 million, primarily related to $4.3 million of net proceeds from the issuance of common stock, offset by net payments on the Credit Facilities of $1.2 million and the 2022 Streeterville Note of $0.5 million.

Contractual and other obligations

As of June 30, 2024, we had approximately $1.1 million in outstanding purchase commitments for inventory, $1.1 million of which is expected to ship in the third quarter of 2024 and $35 thousand of which is expected to ship in the fourth quarter of 2024. We have 32% 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 June 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 June 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 June 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

Exhibit Number	Description of Documents
31.1+	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1+	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS -	XBRL Instance Document
101.SCH -	XBRL Taxonomy Extension Schema Document
101.CAL -	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF -	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB -	XBRL Taxonomy Extension Label Linkbase Document
101.PRE -	XBRL Taxonomy Extension Presentation Linkbase Document
104 -	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

\+ Filed herewith.

SIGNATURES

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

			ENERGY FOCUS, INC.
Date:	August 13, 2024	By:	/s/ Chiao Chieh Jay Huang
			Chiao Chieh Jay Huang
			Chief Executive Officer
			(Principal Executive Officer and Principal Financial Officer)

EXHIBIT 31.1

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
Date: August 13, 2024

EXHIBIT 32.1

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

In connection with the Quarterly Report on Form 10-Q of Energy Focus, Inc. (the “Company”) for the quarterly period ended June 30, 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
Date: August 13, 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.