

ENERGY FOCUS, INC/DE  
Form DEF 14A  
April 30, 2009

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION  
Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934

Filed by the Registrant   
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only (As Permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

ENERGY FOCUS, INC.  
(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than Registrant)

Payment of Filing Fee (Check the appropriate box):

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(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

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ENERGY FOCUS, INC.  
32000 AURORA ROAD  
SOLON, OHIO 44139

April 30, 2009

Dear Shareholder:

This year's annual meeting of shareholders will be held on June 24, 2009 at 1:00 P.M., local time, at the principal executive offices of Energy Focus, Inc., 32000 Aurora Road, Solon, Ohio 44139. You are cordially invited to attend.

The Notice of Annual Meeting of Shareholders and a Proxy Statement, which describe the formal business to be conducted at the meeting, have been made a part of this invitation.

After reading the Proxy Statement, please promptly mark, date, sign and return the enclosed proxy in the pre-paid envelope to ensure that your shares will be represented. **YOUR SHARES CANNOT BE VOTED UNLESS YOU DATE, SIGN AND RETURN THE ENCLOSED PROXY OR ATTEND THE ANNUAL MEETING IN PERSON.** Regardless of the number of shares you own, your careful consideration of, and vote on, the matters before our shareholders are important.

The Proxy Statement and related proxy form, as well as a copy of the Company's 2008 Annual Report on Form 10-K, are being sent on or about May 11, 2009.

The Board of Directors and management look forward to seeing you at the annual meeting.

Very truly yours,

/s/ Joseph G. Kaveski  
Joseph G. Kaveski  
Chief Executive Officer

ENERGY FOCUS, INC.  
32000 AURORA ROAD  
SOLON, OHIO 44139

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD JUNE 24, 2009

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TO THE SHAREHOLDERS:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Energy Focus, Inc. (the "Company") will be held on June 24, 2009, at 1:00 P.M., local time, at the principal executive offices of Energy Focus, Inc., 32000 Aurora Road, Solon, Ohio, for the following purposes:

1. To elect nine directors to serve for the ensuing year or until their successors are elected and qualified, the nominees for which are as follows: John M. Davenport, J. James Finnerty, David Gelbaum, Laurence V. Goddard, Michael A. Kasper, Joseph G. Kaveski, Paul von Paumgarten, David N. Ruckert, and Phillip E. Wolfson;
2. To ratify the appointment of Plante & Moran, PLLC as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2009; and
3. To consider and act upon any other matters that may properly come before the meeting or any adjournment thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

Only shareholders of record at the close of business on April 27, 2009 are entitled to notice of and to vote at the Annual Meeting and any adjournments or postponements thereof.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Nicholas G. Berchtold  
Nicholas G. Berchtold  
Vice President of Finance, Chief Financial Officer,  
and Secretary

Solon, Ohio  
April 30, 2009

IMPORTANT: Please mark, date, sign and promptly mail the enclosed proxy card at your earliest convenience in the accompanying postage-paid envelope to ensure that your shares are represented at the meeting. If you attend the meeting, you may choose to vote in person even if you have previously sent in your proxy card.

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PROXY STATEMENT FOR ANNUAL MEETING OF SHAREHOLDERS

ENERGY FOCUS, INC.  
32000 AURORA ROAD  
SOLON, OHIO 44139

INFORMATION CONCERNING SOLICITATION AND VOTING OF PROXIES

General

The enclosed proxy is solicited on behalf of the Board of Directors of Energy Focus, Inc., a Delaware corporation (“Energy Focus” or the “Company”), for use at the Annual Meeting of Shareholders (the “Annual Meeting”) to be held on June 24, 2009 at 1:00 P.M., local time, or at any adjournments or postponements thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting of Shareholders. The Annual Meeting will be held at the principal executive offices of Energy Focus, Inc., 32000 Aurora Road, Solon, Ohio.

This Proxy Statement and the accompanying form of proxy are first being mailed to shareholders on or about May 11, 2009. The cost of soliciting these proxies will be borne by the Company. Regular employees and directors of the Company may solicit proxies in person, by telephone, or by mail. No additional compensation will be given to employees or directors for such solicitation. The Company will request brokers and nominees who hold stock in their names to furnish proxy material to beneficial owners of the shares and will reimburse such brokers and nominees for their reasonable expenses incurred in forwarding solicitation material to such beneficial owners.

Revocability of Proxies

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use either by delivering to Energy Focus, Inc., 32000 Aurora Road, Solon, Ohio, Attention: Nicholas G. Berchtold, a written notice of revocation or a duly executed proxy bearing a later date, or by attending the Annual Meeting and voting in person. If a proxy is properly signed and not revoked, the shares it represents will be voted in accordance with the instructions of the shareholder.

Record Date and Share Ownership

Only shareholders of record at the close of business on April 27, 2009 (the “Record Date”), will be entitled to notice of and to vote at the Annual Meeting and any adjournments or postponements thereof. The Company had 14,834,920 shares of Common Stock, par value \$.0001 per share (“Common Stock”), issued and outstanding as of that date.

Voting

Each share of Common Stock held as of the Record Date entitles its holder to one vote on matters to be acted upon at the Annual Meeting, including the election of directors. Votes cast by proxy or in person at the Annual Meeting will be tabulated by the Inspectors of Election. Representatives of Cowden & Humphrey Co. LPA will act as the Inspectors of Election. The Inspectors of Election will also determine whether or not a quorum is present. Except with respect to the election of directors and except in certain other specific circumstances, the affirmative vote of a majority of shares represented and voting at a duly held meeting at which a quorum is present (which shares voting affirmatively also constitute at least a majority of the required quorum) is required under Delaware law for approval of proposals presented to shareholders. Withholding authority to vote on one or more nominees for election as directors will have the practical effect of voting against the election of such nominees for director, because withheld votes will be treated as votes cast under Delaware law. If shares are held in street name through a broker, bank or other nominee and beneficial owners do not provide instructions on how to vote, the broker or other nominee may have authority to

vote these shares on certain matters, including the election of directors. When a broker cannot vote on behalf of the beneficial owners pursuant to the rules of the NASDAQ Stock Exchange, the un-voted shares are commonly referred to as "broker non-votes." Broker non-votes on one or more matters are not considered votes cast for voting purposes (although broker non-votes are counted for purposes of establishing a quorum).

The shares represented by the proxies received, properly marked, dated, signed and not revoked will be voted at the Annual Meeting. Where such proxies specify a choice with respect to any matter to be acted upon, the shares will be voted in accordance with the specifications made. Any proxy in the enclosed form which is returned but is not marked will be voted FOR the election of the nine nominees for director listed in this Proxy Statement, FOR the ratification of appointment of the Company's independent registered accounting firm for 2009, and as the proxy holders deem advisable on other matters that may properly come before the meeting. If a broker indicates on the enclosed proxy or its substitute that it does not have discretionary authority as to certain shares to vote on a particular matter ("broker non-votes"), those shares will not be considered as voting with respect to that matter. Under Delaware law, a non-vote will have no effect on the outcome of any of the matters referred to in this Proxy Statement.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be held on June 24, 2009: This Proxy Statement and our Annual Report on Form 10-K for the year ending December 31, 2008, are available on our website at <https://www.proxydocs.com/eoi>.



## PROPOSAL NO. 1: ELECTION OF DIRECTORS

## Nominees

Unless otherwise instructed, the proxy holders will vote the proxies received by them for the nominees named below, regardless of whether any other names are placed in nomination by anyone other than one of the proxy holders. If the candidacy of any one or more of such nominees should, for any reason, be withdrawn, the proxy holders will vote in favor of the remainder of those nominated and for such substituted nominees, if any, as shall be designated by the Board of Directors, taking into account any recommendations of the Nominating and Corporate Governance Committee, or the number of directors to be elected at this time may be reduced by the Board of Directors. The Board of Directors has no reason to believe that any of the persons named will be unable or unwilling to serve as a nominee or as a director if elected.

If a quorum is present and voting, the nominees receiving the highest number of votes will be elected as directors at the Annual Meeting to serve until the next annual meeting or until their respective successors are duly elected or appointed.

The Company's Bylaws provide that the number of directors of the Company shall be no less than five and no more than nine, with the exact number within such range to be fixed by the Board of Directors. The Board of Directors has fixed the current number at nine. The Nominating and Corporate Governance Committee has recommended, and the Board of Directors has designated, the nine nominees listed below. Biographical information concerning each nominee is set forth below:

Name	Age	Director Since	Background
John M. Davenport	63	2005	Mr. Davenport joined the Board of Directors in July 2005. Mr. Davenport joined the Company in November 1999 as Vice President and Chief Technology Officer and was appointed Chief Operating Officer in July 2003 and President in July 2005. He also served as Chief Executive Officer from July 2005 until May 2008. Prior to joining Energy Focus, Mr. Davenport served as President of Unison Fiber Optic Lighting Systems, LLC, from 1998 to 1999. Mr. Davenport began his career at GE Lighting in 1972 as a research physicist and thereafter served 25 years in various capacities including GE Lighting's research and development manager and as development manager for high performance LED projects. He is a recognized expert in light sources, lighting systems and lighting applications, with special emphasis in low wattage discharge lamps, electronic ballast technology and distributed lighting systems using fiber optics.
J. James Finnerty	57	2008	Mr. Finnerty is currently a Managing Director of Terra Nova Capital, a New York City-based boutique investment bank, where he focuses on raising capital for emerging growth companies in the energy, technology, life sciences, and specialty consumer sectors. Mr.

Finnerty's career has spanned more than 30 years in the institutional money management community having worked for Kidder Peabody, Hambrecht and Quist, Deutsche Bank and Merriman, Curhan, and Ford. Mr. Finnerty has focused his efforts in the Boston institutional financial marketplace where he successfully covered all the major accounts including Fidelity, Putnam, Wellington, etc. He has been involved in countless financings including Adobe, Pixar, Genzyme, Amazon, Starbucks, and The North Face to name a few. Mr. Finnerty has a Master's in Business Administration from Cornell University and a Bachelor of Arts in Economics from Boston College. Mr. Finnerty is NASD Series 7 and 63 licensed.

David Gelbaum	60	2009	<p>Mr. Gelbaum has been a private investor since 2002. From 1972 until 2002, he developed quantitative models for stock price returns and derivative securities for TGS Management, and from 1972 until 1989 he worked at Oakley &amp; Sutton in a similar capacity. Mr. Gelbaum has been a strong supporter of the environment and outdoor education and in 2006 was named the 9th Most Influential Person in Southern California by the Los Angeles Times Magazine for his work in protecting the environment in Southern California. Now, with his wife, Monica, Mr. Gelbaum is a trustee in the Quercus Trust. Almost all of the Quercus Trust's investments are in the Cleantech space. In addition to holding approximately 20% of Energy Focus' common stock, the Trust includes in its holdings other alternate energy names such as Applied Solar Modules, Axion Power, EntechSolar, and ThermoEnergy. In addition to these public holdings, the fund has interests in a number of privately held companies in the Cleantech space. Currently, Mr. Gelbaum serves as Chairman of the Board of Directors for EntechSolar.</p>
Laurence V. Goddard	56	2008	<p>Mr. Goddard is a director and the President of the Parkland Group, Inc. which he founded in 1989 to provide specialized turnaround and business improvement services. Mr. Goddard's experience includes business performance and profitability improvement, turnarounds, workouts and management support. Mr. Goddard has extensive experience in manufacturing businesses of all types, as well as distribution, retail, service and construction businesses. From 1982 to 1990, Mr. Goddard was the President and CEO of WACO International, a national manufacturer and distributor of construction equipment and supplies located in Cleveland, Ohio. At WACO, Mr. Goddard led the acquisition of eight companies which resulted in the growth of revenues from \$8 million to over \$100 million. Mr. Goddard has also held roles at Price Waterhouse in Canada. He is a Canadian Chartered Accountant (inactive), a Chartered Business Valuator (inactive) a Certified Turnaround Professional, and was a director/chairman of the Nominating and Governance Committee and member of the Audit Committee of Oglebay Norton from 2004 to February 2008.</p>
Michael A. Kasper	59	2004	<p>Mr. Kasper is a former executive with Procter &amp; Gamble and Optical Coating Laboratory (now JDS Uniphase) spanning 29 years in industry. His primary background</p>

was in Operations Management as a Manufacturing Plant Manager and Director of Operations with P&G. He was Vice President and General Manager of the Applied Photonics Division at OCLI and served as Senior Vice President of Human Resources following the merger with JDSU. He was also President & CEO for United Way of Sonoma-Mendocino Lake for three years and currently is Principal of Complete Executives, consulting on executive development. Mr. Kasper is an honors graduate of Lafayette College with a Bachelor's of Science in Mechanical Engineering.

Joseph G. Kaveski

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2008

Mr. Kaveski joined the Company in April 2008 as Vice President for Business Development and Global Marketing. On May 6, 2008 the Company's Board of Directors appointed him as Chief Executive Officer. Prior to joining Energy Focus, Mr. Kaveski led his own strategic engineering consulting business, TGL Company, Leawood, Kansas. As a consultant, he worked with Energy Focus on strategic planning initiatives from September 2007 to April 2008. From November 2004 through February 2006, Mr. Kaveski was Vice President of Energy Management Services and Strategic Projects and a member of the senior management team at Johnson Controls, Inc., Milwaukee, Wisconsin, a global leader in automotive experience, building efficiency and power solutions.

Paul von Paumgarten	61	2008	<p>Mr. von Paumgarten joined the Board in October 2004, and was appointed Lead Director in October 2008. From 1982 up to the present he has held various positions at Johnson Controls, Inc., most recently serving as Director, Energy &amp; Environment since October 1999. Prior to that, he was Director of Performance Contracts at Johnson Controls, Inc. Mr. von Paumgarten also was instrumental in the formation of LEED™ (Leadership in Energy and Environmental Design), the energy efficiency qualification program of the United States Green Building Council. This is a qualification program for sustainable design developed by an industry coalition representing many segments of the building industry. Mr. von Paumgarten serves as treasurer for LEED™.</p>
David N. Ruckert	71	1987	<p>Mr. Ruckert joined the Company in November 1987 as President, Chief Operating Officer, and a director. He served as Chief Executive Officer of the Company from October 1988 to July 2006 and served as Secretary of the Company from February 1990 to February 1994. He retired as CEO in June 2005 and as President in September, 2005. From June 1985 to October 1987, he was Executive Vice President of Greybridge, a toy company which he co-founded that was later acquired by Worlds of Wonder in 1987. Prior to that time, he was Executive Vice President of Atari from October 1982 to June 1984 and was a Manager/Vice President of Bristol-Myers Company in New York from October 1966 to October 1982.</p>
Philip E. Wolfson	64	1986	<p>Dr. Wolfson joined the Board in January 1986. Since 1998, Dr. Wolfson has served as Chief Executive Officer of Phytos, Inc., an herbal medicine development company. He has been Assistant Clinical Professor at the University of California School of Medicine in San Francisco since 1986 and has maintained a private practice in psychiatric medicine since 1982. Dr. Wolfson also served as a director and a consultant to NTI from 1989 to 1992.</p>

## Corporate Governance

### Director Independence

The Board of Directors has determined each of the following directors to be an “Independent Director” as that term is defined by applicable listing standards of The NASDAQ Stock Market and SEC rules:

J. James Finnerty  
David Gelbaum

Laurence V. Goddard  
Michael A. Kasper  
Paul von Paumgarten  
David N. Ruckert  
Philip E. Wolfson

In this proxy statement these seven directors are referred to individually as an “Independent Director” and collectively as the “Independent Directors.”

#### Board Meetings and Committees; Annual Meeting Attendance

The Board of Directors held a total of six meetings during the fiscal year ended December 31, 2008. All directors attended at least 75% of the aggregate number of meetings of the Board of Directors and of the committees on which such directors’ serve. In 2008, Mr. Kaveski and Mr. Davenport represented the Board at the annual meeting. The Board of Directors has appointed a Compensation Committee, an Audit and Finance Committee, and a Nominating and Corporate Governance Committee. The Board has determined that each director who serves on these committees is an Independent Director. The Board has approved a charter for the Compensation Committee, the Audit and Finance Committee, and the Nomination and Corporate Governance Committee, and has adopted Corporate Governance Guidelines for itself.

The Compensation Committee of the Board of Directors, which currently consists of Messrs. Wolfson (Chairman), Kasper, and von Paumgarten, held nine meetings in 2008. The Compensation Committee's primary functions are to discharge the responsibilities of the Board of Directors relating to compensation of the Company's executive officers and to produce a report on executive compensation for inclusion in the Company's annual proxy statement. Other specific duties and responsibilities of the Compensation Committee are to: review and recommend to the Board corporate goals and objectives relevant to compensation of the Chief Executive Officer, evaluate his performance in light of such goals and objectives and set his compensation level based on this evaluation; develop and monitor compensation arrangements for executive officers of the Company, including review and approval of individual compensation; recommend to the Board guidelines for the review of the performance and establishment of compensation and benefit policies for all other employees; make recommendations regarding compensation plans and policies; administer the Company's stock option plans and other compensation plans; and make recommendations to the Board regarding compensation of the Board of Directors.

The Audit and Finance Committee of the Board of Directors, which currently consists of Messrs. Ruckert (Chairman), Goddard, and Finnerty, held six meetings in 2008. The Audit and Finance Committee's primary functions are to assist the Board of Directors in its oversight of the integrity of the Company's financial statements and other financial information, the Company's compliance with legal and regulatory requirements, the qualifications, independence and performance of the Company's independent auditors and the performance of the Company's internal audit function. Other specific duties and responsibilities of the Audit and Finance Committee are to: appoint, compensate, evaluate and, when appropriate, replace the Company's independent auditors; review and pre-approve audit and permissible non-audit services; review the scope of the annual audit; monitor the independent auditors' relationship with the Company; and meet with the independent auditors and management to discuss and review the Company's financial statements, internal controls, and auditing, accounting and financial reporting processes.

The Nominating and Corporate Governance Committee of the Board of Directors, which currently consists of Messrs. Kasper (Chairman), von Paumgarten, and Wolfson held two meeting in 2008. The Nominating and Corporate Governance Committee's primary functions are to seek, evaluate and recommend nominees for election to the Board of Directors and to oversee matters of corporate governance. Other specific duties and responsibilities of the Nominating and Corporate Governance Committee are to: determine the composition of the committees of the Board; make recommendations regarding candidates for director proposed by shareholders; consider and plan for executive officer succession as well as review management development and succession programs; review on an annual basis the performance of the Board and of management; and consider and make recommendations on matters related to the practices, policies and procedures of the Board.

The Company does not have a policy regarding attendance by the Directors at the Company's Annual Meeting. Only Messrs. Kaveski and Davenport were present at the last meeting held September 30, 2008.

#### Compensation Committee

The Company has a standing Compensation Committee of the Board of Directors, currently consisting of Messrs. Wolfson (Chairman), Kasper, and von Paumgarten. The Board has approved a charter for the Compensation Committee. A copy of this charter can be found on the Company's website at <http://www.efoi.com>.

The Compensation Committee reviews and recommends to the Board corporate goals and objectives relevant to compensation of the Chief Executive Officer, evaluates his performance in light of such goals and objectives and sets his compensation level based on this evaluation; develops and monitors compensation arrangements for executive officers of the Company, including review and approval of individual compensation; recommends to the Board guidelines for the review of the performance and establishment of compensation and benefit policies for all other employees; makes recommendations regarding compensation plans and policies; administers the Company's stock

option plans and other compensation plans; and makes recommendations to the Board regarding compensation of the Board of Directors. The authority of the Compensation Committee may be delegated to a subcommittee of the Compensation Committee, consisting of one or more directors. The Chief Executive Officer may provide recommendations regarding compensation of other executive officers. The Compensation Committee is empowered to retain consultants for advice on compensation matters.

No director currently serving on the Compensation Committee is or has been an officer or employee of the Company or any of the Company's subsidiaries. No interlocking relationships exist between our Board of Directors or Compensation Committee and the board of directors or compensation committee of any other entity, nor has any interlocking relationship existed in the past.



#### Audit Committee

The Company's Audit and Finance Committee acts as the standing audit committee of the Board of Directors, and currently consists of Messrs. Ruckert (Chairman), Goddard, and Finnerty. The Board of Directors has determined that Messr. Goddard is an "audit committee financial expert," as defined by the Securities and Exchange Commission (the "SEC") rules, and that each Committee member is an Independent Director. The Board has approved a charter for the Audit and Finance Committee. A copy of this charter can be found on the Company's website at <http://www.efoi.com>.

#### Nominating and Corporate Governance Committee

The Company's Nominating and Corporate Governance Committee serves as the standing nominating committee of the Board of Directors, currently consisting of Messrs. Kasper (Chairman), von Paumgarten, and Wolfson. The Board has approved a charter for the Nominating and Corporate Governance Committee. A copy of this charter can be found on the Company's website at <http://www.efoi.com>.

The Board of Directors sets the size of the Board and nominates directors for election at each annual meeting of shareholders and elects new directors to fill vacancies when they arise. The Nominating and Corporate Governance Committee has the responsibility to identify, evaluate, recruit and recommend qualified candidates to the Board of Directors for nomination or election. The Board of Directors has as an objective that its membership be composed of experienced and dedicated individuals with diversity of backgrounds, perspectives and skills. The Nominating and Corporate Governance Committee will select candidates for director based on their character, judgment, diversity of experience, business acumen, and ability to act on behalf of all shareholders. The Nominating and Corporate Governance Committee believes that nominees for director should have experience, such as experience in management or accounting and finance, or industry and technology knowledge, that may be useful to the Company and the Board, high personal and professional ethics, and the willingness and ability to devote sufficient time to effectively carry out his or her duties as a director. During 2008 and the first quarter of 2009, the following individuals were elected to the Company's Board of Directors: Messrs. Finnerty, Gelbaum, and Goddard as independent directors. The Nominating and Corporate Governance Committee believes it appropriate for at least one, and, preferably, multiple, members of the Board to meet the criteria for an "audit committee financial expert" as defined by SEC rules, and for a majority of the members of the Board to meet the definition of "Independent Director" under the rules of The NASDAQ Stock Market. The Nominating and Corporate Governance Committee also believes it appropriate for certain key members of the Company's management to participate as members of the Board. During 2008, the following member of management was elected to the Company's Board of Directors: Messr. Kaveski.

Prior to each annual meeting of shareholders, the Nominating and Corporate Governance Committee identifies nominees first by evaluating the current directors whose terms will expire at the annual meeting and who are willing to continue in service. These candidates are evaluated based on the criteria described above, including as demonstrated by the candidate's prior service as a director, and the needs of the Board with respect to the particular talents and experience of its directors. In the event that a director does not wish to continue in service, the Nominating and Corporate Governance Committee determines not to re-nominate the director, or a vacancy is created on the Board as a result of a resignation, an increase in the size of the board or other event, the Committee will consider various candidates for Board membership, including those suggested by the Committee members, by other Board members, by any executive search firm engaged by the Committee and by shareholders. A shareholder who wishes to suggest a prospective nominee for the Board should notify the Secretary of the Company or any member of the Committee in writing, with any supporting material the shareholder considers appropriate, at the following address: Energy Focus, Inc., 32000 Aurora Road, Solon, Ohio 44139.

#### Required Vote

The nine nominees receiving the highest number of votes at the Annual Meeting will be elected as directors of the Company.

Recommendation of the Board of Directors

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE NOMINEES LISTED ABOVE.

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REPORT OF THE AUDIT AND FINANCE COMMITTEE

The Audit and Finance Committee oversees the Company's financial reporting process on behalf of the Board of Directors and is responsible for providing independent, objective oversight of the Company's accounting functions and internal controls. It is not the duty of the Audit and Finance Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Management is responsible for the financial statements and the reporting process, including the system of internal controls. The independent auditors are responsible in their report for expressing an opinion on the conformity of those financial statements with generally accepted accounting principles.

The Audit and Finance Committee reviewed and has discussed the audited financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 with the Company's management and its independent auditors. The Audit and Finance Committee met privately with the independent auditors and discussed issues deemed significant by the auditors, including those required by the Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards), as amended. In addition, the Audit and Finance Committee has received the written disclosures and the letter from the independent auditors required by the Independence Standards Board Standard No. 1 (Independence Discussions with the Audit Committee) and discussed with the independent auditors their independence from the Company.

Based upon the reviews and discussions outlined above, the Audit and Finance Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, for filing with the Securities and Exchange Commission.

The foregoing report has been furnished by the Audit and Finance Committee of the Board of Directors of Energy Focus, Inc.

AUDIT AND FINANCE COMMITTEE

David N. Ruckert, Chairman

J. James Finnerty

Laurence V. Goddard

## SECURITY OWNERSHIP OF PRINCIPAL SHAREHOLDERS AND MANAGEMENT

The following table sets forth certain information with respect to beneficial ownership of the Company's Common Stock as of April 30, 2009 as to (i) each person known by the Company to own beneficially more than five percent of the outstanding shares of Common Stock, (ii) each of the Company's directors and nominees, (iii) the Company's Chief Executive Officer and each of the Company's "Named Executive Officers", and (iv) all executive officers and directors of the Company as a group. Unless otherwise specified, the address for each officer and director is 32000 Aurora Road, Solon, OH 44139.

The table should be read with the understanding that more than one person may be the beneficial owner or possess certain attributes of beneficial ownership with respect to the same securities.

Name and Address	Shares Beneficially Owned (1)	
	Number	Percent of Outstanding Common Stock (2)
<b>5% Shareholders</b>		
The Quercus Trust 2309 Santiago Drive Newport Beach, California 92660	4,245,541(3)	19.9%
Stiassni Capital Partners, L.P. 2400 Palos Verdes Drive West Rancho Palos Verdes, California 90275	1,262,702(4)	8.5%
Diker GP, LLC 745 Fifth Avenue New York, New York 10151	996,166(5)	6.7%
<b>Directors and Named Executive Officers</b>		
Nicholas G. Berchtold	27,606	*
Roger R. Buelow	80,928	*
John M. Davenport	456,094	3.1%
J. James Finnerty	55,885	*
David Gelbaum (3)	3,333	*
Laurence V. Goddard	9,583	*
Eric W. Hilliard	83,857	*
Michal A. Kasper	44,500	*
Joseph G. Kaveski	44,792	*
Paul von Paumgarten	38,500	*
David N. Ruckert	309,531	2.1%
Phillip E. Wolfson	102,631	*
<b>All directors and executive officers as a group</b>	<b>1,257,240</b>	<b>8.5%</b>

\*Less than one percent

(1) The persons named in the table have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them, subject to community property laws, where applicable unless otherwise indicated.

(2) Based on 14,834,920 shares outstanding as of April 30, 2009. In addition, shares issuable pursuant to options and warrants which may be exercised through June 30, 2009 are deemed to be issued and outstanding and have been treated as outstanding in calculating the percentage ownership of those individuals possessing such interest, but not for any other individuals. Thus, the number of shares to be outstanding for the purposes for this table may vary depending on the individuals' particular circumstances.

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- (3) The co-trustees of The Quercus Trust are David and Monica Chavez Gelbaum. As noted above, Mr. Gelbaum is a member of The Company's Board of Directors. The Quercus Trust has filed with the Securities and Exchange Commission a Schedule 13D/A dated March 3, 2009 which reports the beneficial ownership in the aggregate of 4,245,541 shares. As reported in that Schedule, The Quercus Trust and its co-trustees entities have shared voting power for 4,245,451 shares and shared dispositive power for 4,245,541 shares. The 3,333 beneficial shares owned by Mr. Gelbaum as a member of the Board of Directors are not included in the 4,245,541 shares beneficially owned by The Quercus Trust. The Quercus Trust is one of the 19 investors that participated in our March 14, 2008 private placement of shares of common stock and common share warrants. The terms of the warrant issued to each investor in that private placement, including The Quercus Trust, provide that the number of shares that may be acquired by any investor upon exercise of a warrant is limited to the extent necessary to ensure that, following the exercise, the total number of shares of common stock owned by the investor and persons who are beneficial owners through the investor does not exceed 19.99% of the total number of the Company's outstanding shares. Because of the 19.99% limit in The Trust's warrant, the table lists that percentage ownership for The Trust. Prior to that private placement, the Company amended its Rights Agreement dated October 25, 2006, with Mellon Shareowner Services, LLC, as Rights Agent, to permit The Quercus Trust, and persons who are beneficial owners through The Trust, to own up to 20% of our common stock without triggering the rights under the Rights Agreement. The general limit in the Agreement is 15%.
- (4) Stiassni Capital Partners, L.P. has filed with the Securities and Exchange Commission a Schedule 13G dated December 31, 2008, which reports beneficial ownership in the aggregate of 1,262,702 shares. As reported in that Schedule, Stiassni Capital Partners, L.P. and its affiliated entities have shared voting power for 1,262,702 shares and shared dispositive power for 1,262,702 shares.
- (5) Diker GP, LLC has filed with the Securities and Exchange Commission a Schedule 13G dated February 17, 2009, which reports beneficial ownership in the aggregate of 996,166 shares. As reported in that Schedule, Diker Group, LLC and its affiliated entities have shared voting power for 996,166 shares and shared dispositive power for 996,166 shares.

EXECUTIVE COMPENSATION AND OTHER MATTERS

Compensation Discussion and Analysis

The Compensation Committee of our Board of Directors has the responsibility for administering our executive compensation program. The Committee reviews and, as appropriate, makes recommendations to the full Board regarding the base salaries and annual cash bonuses for executive officers, and administers our 2008 Incentive Stock Plan, including the grant of stock options. Where appropriate, we have also entered into employment agreements with certain executive officers.

**Compensation Philosophy and Objectives.** Our principal executive compensation policy, which is endorsed by the Committee, is to provide a compensation program that will attract, motivate and retain persons of high quality and will support a long-standing internal culture of loyalty and dedication to the interests of the Company and our shareholders. In administering the executive compensation program, the Committee is mindful of the following principles and guidelines, which are supported by the full Board:

- Base salaries for executive officers should be competitive.
- A sufficient portion of annual compensation should be at risk in order to align the interests of executives with those of our shareholders.
  - The variable part of annual compensation should reflect both individual and corporate performance.
- As a person's level of responsibility increases, a greater portion of total compensation should be at risk and include more stock-based compensation to provide executives long-term incentives and help to align further the interests of executives and shareholders in the enhancement of shareholder value.

Our executive officers' compensation currently has three primary components: base salary, annual cash bonuses, and stock-based awards granted pursuant to our 2008 Incentive Stock Plan. In addition, executive officers receive certain benefits that are specifically provided for in their employment agreements or are generally available to all salaried employees. We do not have any defined benefit pension plans, non-qualified deferred compensation arrangements, or supplemental retirement plans for our executive officers.

For each executive officer, the Committee determines the appropriate level for each compensation component based in part, but not exclusively, on its view of competitive market factors, internal equity and consistency, and other considerations deemed relevant, such as rewarding extraordinary performance. Our Chief Executive Officer provides the Committee with recommendations for executive officers other than himself, which the Committee reviews and approves as submitted or with revisions, if any. The Committee has not adopted any formal or informal policies or guidelines for allocating compensation between long-term and currently paid compensation, between cash and non-cash compensation, or among different forms of non-cash compensation, and has not sought to formally benchmark our compensation against that of our peers.

In 2008, no executive officer received an annual base salary increase except for Mr. Kaveski, who in May 2008 received an increase of approximately 42.8% to \$250,000 annually upon his appointment as our Chief Executive Officer by our Board of Directors.

**Base Salary.** Base salaries for executive officers are based on a review of salaries for similar positions requiring similar qualifications in similar industries. In determining executive officer salaries, the Compensation Committee has approved the use by management of information from salary surveys.

The Committee determines levels of the executive officers' base salaries so as to be competitive with amounts paid to executives performing similar functions in comparable-size, non-durable manufacturing companies. The amount of each executive's annual increase in base salary, if any, is based on a number of largely subjective factors, including changes in the individual's duties and responsibilities, the personal performance of such executive officer, the

performance of the Company, cost-of-living increases, and such other factors as the Committee deems appropriate, including the individual's overall mix between fixed and variable compensation and between cash and stock-based compensation.

The Chief Executive Officer annually assesses the performance of all other executive officers and recommends salary increases to the Compensation Committee based on a number of factors such as performance evaluations, comparative data and other relevant factors. The Compensation Committee then reviews the Chief Executive Officer's recommendations, considers the performance and condition of the Company, and approves the increases for any other officer of the company.



**Bonus Equity Incentive Plan.** For fiscal year 2009, the Compensation Committee has approved a stock option incentive plan for executives and key sales employees. Awards under this plan are contingent upon the Company's attainment of operating profits and cash utilization targets set by the Compensation Committee in consultation with the Chief Executive Officer.

**Bonus Incentive Plan.** The Compensation Committee administers an incentive plan to provide additional compensation to executives who meet established performance goals. In consultation with the Chief Executive Officer, the Compensation Committee annually determines the total amount of cash bonuses available for executive officers and certain other management employees. The target bonuses for executive officers are set by the Compensation Committee. Awards are weighted so that higher awards are received when the Company's performance reaches maximum targets, smaller awards are received when the Company's performance reaches minimum targets and no awards are made when the Company does not meet minimum performance targets. After the total eligible bonus pool is determined, annual incentives are paid to executive officers based on their individual performance as determined by the Chief Executive Officer.

For the fiscal year 2008, awards under this bonus plan were contingent upon the Company's attainment of operating profit and cash utilization targets set by the Compensation Committee in consultation with the Chief Executive Officer. The Company's performance in 2008 was not on target and no bonuses were paid under this bonus incentive plan. Consistent with the Company's objective of aligning compensation with performance, the Compensation Committee anticipates that future bonus payments will continue to be based on specific targets and performance.

**Discretionary Bonuses.** In addition to bonuses under the incentive plan, each of our executive officers is eligible to receive annual cash bonuses based on determinations made by the Committee in its discretion. Except in the case of Mr. Davenport, the Company has not historically adopted a formal or informal annual bonus plan with preset criteria and targets. Rather, the determination to pay a cash bonus, if any, is made after the year-end based on the Committee's subjective judgment with respect to the past performance of the individual or on the individual's attainment of quantified performance goals during the year. The bonus may be based on the specific accomplishments of the individual or on the overall success of the Company, or both.

For 2009, the Committee has not currently adopted a discretionary bonus plan, but has the right to establish a new plan as it deems appropriate.

In the case of Mr. Davenport, his employment agreement provides for an objective annual cash bonus based on our planned operating income levels. Mr. Davenport's bonus for 2009 will be determined in the same manner as the other executive officers, with a target bonus ranging from 25% to 50% of base salary.

**Stock Options.** The Compensation Committee believes that employee equity ownership provides significant motivation to executive officers to maximize value for the Company's shareholders and, therefore, periodically grants stock options under the Company's 2008 Stock Incentive Plan at the then current market price. The Compensation Committee administers the Company's 2008 Stock Incentive Plan. Stock options will only have value if the Company's stock price increases over the exercise price.

The Compensation Committee grants options to executive officers after consideration of recommendations from the Chief Executive Officer. Recommendations for options are based upon the relative position, responsibilities, and previous and expected contributions of each officer, previous option grants to such officers and customary levels of option grants for the respective position in other comparable companies. Options generally vest over a four-year period at a rate of 25% per year.

In 2001, executive officers were granted options under a Time Accelerated Restricted Stock Award Plan (“TARSAP”) within the 1994 Stock Option Plan with a seven year vesting period. While these options are now fully vested, none were exercisable as a result of the Company not achieving stated objectives.

During 2008, the Committee administered various incentive stock plans, including our 2008 Incentive Stock Plan, to provide stock-based incentives to our key employees, including executive officers. As of March 31, 2009, our 2008 Incentive Stock Plan is our only plan under which new options may be granted. Grants of stock options are based on each individual’s position within the Company, level of responsibility, past performance, and expectation of future performance. In determining the number of stock-based awards to be granted to each executive officer, the Committee also considers the number of stock-based awards made in prior years to the executive officer. The Committee also may grant stock options in connection with promotions and new hires.

Under Mr. Davenport’s employment agreement, certain grants of stock-based awards to him were to be made on or soon after the date that earnings for the preceding calendar year were released up through calendar year 2007. For calendar year 2008, Mr. Davenport was not entitled to any employment agreement-based stock option bonus. On May 6, 2008 the Committee discretionarily granted 100,000 shares to Mr. Davenport under the 2004 Incentive Stock Plan. In conjunction with this stock option grant, Mr. Davenport voluntarily forfeited 141,000 of 200,000 shares granted on June 28, 2005.

Our stock-based compensation policies have been impacted by the implementation of FAS 123(R). Generally, FAS 123(R) requires all stock-based payments to employees, including grants of employee stock options, to be expensed based on their fair values over the vesting period.

Section 162(m). Section 162(m) of the Internal Revenue Code and related Treasury Department regulations limits the Company's ability to deduct certain compensation in excess of \$1,000,000 paid to the Company's Chief Executive Officer and each of the four other most highly compensated executive officers. The Company's 2008 Stock Incentive Plan is structured to permit awards under the plan to qualify as performance-based compensation and to maximize the tax deductibility of the awards so long as the options are granted by a committee whose members are non-employee directors. The Company expects that the Compensation Committee will be comprised of non-employee directors, and that, to the extent the Compensation Committee is not so constituted for any period of time, the options granted during such period will not be likely to result in compensation exceeding \$1,000,000 in any year. The Compensation Committee does not believe that other components of the Company's compensation will be likely to exceed \$1,000,000 for any executive officer in the foreseeable future and therefore has concluded that no further action with respect to qualifying such compensation for deductibility is necessary at this time. In the future, the Compensation Committee will continue to evaluate the advisability of qualifying its executive compensation for deductibility of such compensation. The Compensation Committee's policy is to qualify its executive compensation for deductibility under applicable tax laws as practicable.

#### Performance Graph

The following graph compares the cumulative total shareholder return of the Company's Common Stock against the cumulative total return of the Russell 2000 Value Index, and a self-determined Peer Group for the period of the five fiscal years commencing December 31, 2003 and ending December 31, 2008. The graph and table assume that \$100 was invested on December 31, 2003 in each of the Energy Focus, Inc. Common Stock, the Russell 2000 Value Index, and the self-determined Peer Group, and that all dividends were reinvested. The six companies in the self-determined Peer Group are: Cooper Industries, LTD., Pentair, Inc., Lime Energy Co., Nexxus Lighting, Inc., LSI Industries, Inc., and Orion Energy Systems, Inc. Cumulative total shareholder return for Energy Focus, Inc. Common Stock, the Russell 2000 Value Index, and the self-determined Peer Group are based upon the Energy Focus, Inc. fiscal year. The comparisons in the table are required by the SEC and are not intended to forecast or be indicative of possible future performance of the Company's Common Stock.

## Summary Compensation Table

The following table sets forth information about compensation of our Chief Executive Officer, our President, our Vice President of Finance and Chief Financial Officer, and our other two highest paid executive officers (our "Named Executive Officers"):

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Non-qualified Deferred Compensation (\$)	All Other Compensation (\$)	Total (\$)
Joseph G. Kaveski Chief Executive Officer (April 7, 2008 to present)	2008	176,919	—	20,134	—	—	44,585	241,638
	2007	—	—	—	—	—	49,000	49,000
John M. Davenport President	2008	250,000	—	211,908	—	—	540	462,448
	2007	250,000	—	277,928	—	—	880	528,808
	2006	250,000	—	294,039	—	—	773	544,812
Nicholas G. Berchtold Chief Financial Officer	2008	175,000	—	35,860	—	—	540	211,400
	2007	68,317	—	8,912	—	—	108	77,337
Eric W. Hilliard Chief Operating Officer	2008	190,000	—	104,227	—	—	540	294,767
	2007	180,000	—	90,517	—	—	612	271,129
	2006	28,846	—	—	—	—	—	28,846