

ENERGY FOCUS, INC/DE
Form DEF 14A
June 26, 2014

UNITED STATES

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 Pursuant to §240.14a-12

ENERGY FOCUS, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

ENERGY FOCUS, INC.

32000 AURORA ROAD, SUITE B

SOLON, OHIO 44139

June 26, 2014

Dear Stockholder:

This year's Annual Meeting of Stockholders will be held on Tuesday, July 15, 2014, at 1:00 P.M., local time, at the principal executive offices of Energy Focus, Inc., 32000 Aurora Road, Suite B, Solon, Ohio 44139. You are cordially invited to attend.

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

Your vote is important. Whether or not you plan to attend the annual meeting, I hope that you will vote as soon as possible. Please review the instructions on each of your voting options described in the Proxy Statement and the Notice of Internet Availability of Proxy Materials you received in the mail.

Please also note that if you hold your shares in "street name" through a bank or broker, that custodian cannot vote your shares on the election of directors without your specific instructions.

The Proxy Statement and related proxy form are first being made available on or about June 26, 2014.

Thank you for your ongoing support of, and continued interest in, Energy Focus.

Very truly yours,

James Tu
Executive Chairman

ENERGY FOCUS, INC.

32000 AURORA ROAD, SUITE B

SOLON, OHIO 44139

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD JULY 15, 2014

TO THE STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders (the “Annual Meeting”) of Energy Focus, Inc. (the “Company”) will be held on Tuesday, July 15, 2014, at 1:00 P.M., local time, at the principal executive offices of Energy Focus, Inc., 32000 Aurora Road, Suite B, Solon, Ohio, for the following purposes:

1. To elect seven directors to serve for the ensuing year or until their successors are elected and qualified, the nominees for which are as follows: Simon Cheng, William Cohen, John M. Davenport, Xin He, Michael R. Ramelot, Thomas W. Swidarski, and James Tu;
2. To vote on a proposal to approve the Company’s 2014 Stock Incentive Plan;
3. To vote on a proposal to approve a discretionary amendment to the certificate of incorporation to effect a reverse stock split of the Company’s common stock; and
4. 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 stockholders of record at the close of business on May 16, 2014 are entitled to notice of and to vote at the Annual Meeting and any adjournments or postponements thereof.

Most stockholders have a choice of voting over the Internet, by telephone or by using a traditional proxy card. Please refer to the attached proxy materials or the information forwarded by your bank, broker or other holder of record to see which voting methods are available to you.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be held on TUESDAY, JULY 15, 2014:

This proxy statement and our annual report on Form 10-K, as amended, are available at:
<http://www.proxyvote.com>.

BY ORDER OF
THE BOARD
OF
DIRECTORS

Frank Lamanna
Chief Financial
Officer and
Secretary
Solon, Ohio

June 26, 2014

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PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS

ENERGY FOCUS, INC.

32000 AURORA ROAD, SUITE B

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 Stockholders (the “Annual Meeting”) to be held on Tuesday, July 15, 2014, 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 Stockholders. The Annual Meeting will be held at the principal executive offices of Energy Focus, Inc., 32000 Aurora Road, Suite B, Solon, Ohio.

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, by mail, or by email. No additional compensation will be given to employees or directors for such solicitation. The Company will request brokers and nominees who hold shares of Common Stock, par value \$.0001 per share, of Energy Focus (“Common Stock”) in their names to furnish proxy material to the beneficial owners of such 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., Attention: Frank Lamanna, 32000 Aurora Road, Suite B, Solon, Ohio 44139, 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 stockholder. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to revoke your proxy or vote at the Annual Meeting, you must follow the instructions provided to you by the record holder and/or obtain from the record holder a proxy issued in your name. Attendance at

the Annual Meeting will not, by itself, revoke a proxy.

Record Date and Share Ownership

Only stockholders of record at the close of business on May 16, 2014 (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 78,154,330 shares of Common Stock issued and outstanding as of the Record Date.

Voting

Each share of Common Stock held as of the Record Date entitles its holder to one vote on each matter to be acted upon at the Annual Meeting, including the election of directors. The presence at the Annual Meeting, either in person or by proxy, of the holders of a majority of the aggregate number of shares of Common Stock outstanding on the Record Date will represent a quorum permitting the conduct of business at the meeting. Proxies received by the Company marked as abstentions or broker non-votes will be included in the calculation of the number of shares considered to be present at the Annual Meeting. The seven nominees receiving the greatest number of votes “for” election will be elected as directors. If you do not vote for a particular director nominee, or if you indicate “withhold authority” for a particular nominee on your proxy form, your vote will not count either for or against the nominee. If your shares are held in “street” name by a broker or nominee indicating on a proxy that it does not have authority to vote on this proposal or any other proposal will result in a “broker non-vote,” which will not count as a vote for or against any of the nominees. The affirmative vote of a majority of votes cast is required for approval and adoption of the Company’s 2014 Stock Incentive Plan. Abstentions and broker non-votes will not be considered votes cast on the proposal and will not have a positive or negative effect on the outcome of this proposal. The affirmative vote of a majority of all of the shares of Common Stock issued and outstanding and entitled to vote at the Annual Meeting is required for approval of the discretionary amendment to the certificate of incorporation to effect a reverse stock split of the Common Stock. Abstentions and broker non-votes will have the same effect as a vote against the proposal.

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 seven nominees for director listed in this Proxy Statement, **FOR** the approval of the discretionary amendment to the certificate of incorporation to effect a reverse stock split of the common Stock, and **FOR** the approval of the Company's 2014 Stock Incentive Plan.

PROPOSAL NO. 1: ELECTION OF DIRECTORS

Nominees

Unless otherwise instructed, the proxy holders will vote the proxies received by them for the seven 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. Please note that if the candidacy of one or more nominees should be withdrawn, the Board may reduce the number of directors to be elected at this time. 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 in person or by proxy at the Annual Meeting, the seven 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 eight. If the seven nominees listed below are elected, there will be one vacancy on the Board of Directors. The Directors may fill the vacancy at their discretion. The Company believes it is desirable to have the vacancy available to be filled by the Directors if a person who could make a valuable contribution as a Director becomes available during the year. The Board of Directors has recommended and nominated the seven nominees listed below. Jennifer Cheng, J. James Finnerty and Jiangang Luo, who have served as directors since 2012, 2008, and 2013, respectively, have elected not to stand for re-election. The Board has nominated William Cohen and Xin He to fill two of the vacant seats.

Biographical information concerning each nominee is set forth below:

Name **Age** **Director Since** **Background**

Simon Cheng	40	2012	<p>Mr. Cheng has been Supply Chain Director of the Company since December 2013, in charge of the Company’s procurement and supply chain operations. From June 2013 to December 2013, he was the Company’s brand manager. Previously, he served as the Managing Director of Communal International Ltd., a group assisting clean energy companies gain market access and improve supply chain efficiencies in Asia from March 2012 to June 2013. He is a Board Director of ZW Group, a real estate and shopping center developer in China, and was the Market/Project Manager from October 2007 to March 2012. Mr. Cheng received a Bachelor’s degree in Business Administration from New York University. Mr. Cheng is the brother of Jennifer Cheng.</p>
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William Cohen	60n/a	<p>Mr. Cohen has served as the Chief Executive Officer of Dillon Yarn Corporation since February 2011, and President from October 1996 to February 2011. Dillon Yarn Corporation manufactures and globally distributes filament yarns, fabrics, flake, chip, staple fiber and non-woven fabric to many segments of the textile industry, including medical, technical, industrial, automotive, home furnishing and apparel. Mr. Cohen is also Chairman and Chief Executive Officer of Atlas Oral Health Care LLC, Chairman and Chief Executive Officer of GAWI, LLC d/b/a Arctic Ease, a Partner in Fabricated Metals and Commodore Factors, and President of Morristown Helicopter Services Inc. He is a member of the Tel Aviv University Board of Governors and Chairman Emeritus of American Friends of Tel Aviv University. Mr. Cohen attended C.W. Post of Long Island University. He is also a commercial helicopter and airplane pilot.</p>
John M. Davenport	692005	<p>Mr. Davenport served as the President of the Company from May 2008 to July 2012, and remains an employee serving as the Company's Chief Scientist. He joined the Company in November 1999 as Vice President and Chief Technology Officer, served as the Chief Operating Officer from July 2003 to July 2005, and the 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. Mr. Davenport received a Master's degree in Physics and a Bachelor of Science degree in Physics from John Carroll University.</p>
Xin He	41n/a	<p>Mr. He has served as Deputy Chief Financial Officer of AMC Entertainment Holdings, Inc. since May 2012, a publicly traded company principally involved in the theatrical exhibition business owning and operating theatres primarily located in the United States. From December 2010 to May 2012, he served as Financial Controller of Xinyuan Real Estate Co., a publicly traded developer of large scale, high quality residential real estate projects. From August 2009 to December 2010, Mr. He served as Chief Financial Officer of China International Transportation Holding Group, a shipping and logistics company. Previously, Mr. He served as an auditor at Ernst & Young, LLP, and held various role at a textile trading corporation. Mr. He obtained a Master of Science in Taxation from Central University of Finance and Economics in Beijing, and a Master of Science in Accounting from Seton Hall University. He is a Certified Public Accountant.</p>
Michael R. Ramelot	692013	<p>Mr. Ramelot has been a consultant since 2002 on many projects, including project leader on BlackLine system implementations to enhance the financial close process of several multi-million dollar companies; project leader on due diligence, accounting valuations and appraisals related to acquisitions; researched and prepared position papers for companies on complex accounting issues; prepared various Securities and Exchange Commission ("SEC") filings; and assessed and implemented compliance with Section 404 of Sarbanes-Oxley at several companies. Prior to becoming a consultant, Mr. Ramelot served as the Chief Financial Officer of Compro Packaging LLC from 1991 to 1996 and President and Chief Financial Officer from 1996 to 2005. Mr. Ramelot received a Master's degree in Business Administration from the University of Santa Clara and a Bachelor of Science degree in accounting from St. Mary's College. He is a Certified Public Accountant.</p>

Thomas W. Swidarski 552014
Mr. Swidarski has served as the non-executive chairman of Asurint, a privately held company in the background verification industry since January 2014. He also serves on the Board of Directors of Altra Industrial Motion Corp., a publically traded \$700 million leading global designer, producer and marketer of a wide range of electromechanical power transmission products. Mr. Swidarski previously served as the Chief Executive Officer and President of Diebold Incorporated, a \$3 billion global leader in designing, manufacturing and distributing self service ATMs in over 100 countries, from December 2005 to January 2013. Prior to becoming Chief Executive Officer and President, Mr. Swidarski served in various capacities including Chief Operating Officer, Senior Vice President of Financial Self-Service Group, and held various strategic development and marketing positions at Diebold since joining the company in 1996. He holds a Master's degree in Business Administration from Cleveland State University and a Bachelor of Arts degree in marketing from the University of Dayton.

James Tu 452012
Mr. Tu has served as the Executive Chairman and Chief Executive Officer of the Company since May 2013. He served as the non-Executive Chairman of the Board from December 2012 to April 2013. He is also the Founder, Chief Executive Officer and Chief Investment Officer of 5 Elements Global Advisors, an investment advisory and management company focusing on investing in clean energy companies. Additionally, he is Co-Founder and Managing Partner of Communal International Ltd., a British Virgin Islands company dedicated to assisting clean energy solutions companies maximize their technology and product potential and gain access to global marketing, distribution licensing, manufacturing and financing resources. Previously, he served as the Director of Investment Management of Gerstein Fisher & Associates, and an equity analyst at Dolphin Asset Management Corp. Mr. Tu received a Master's degree in Business Administration in finance from Baruch College and a Bachelor of Science degree in electrical engineering from Tsinghua University.

n/a – date is not applicable.

Vote Required and Board of Directors Recommendation

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

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

Corporate Governance

Director Independence

The Board of Directors has determined that each of the following current directors and director nominees is independent within the meaning of the listing standards of The NASDAQ Stock Market:

Jennifer Cheng
William Cohen
J. James Finnerty
Xin He
Jiangang Luo
Michael R. Ramelot
Thomas W. Swidarski

In this Proxy Statement these seven directors and director nominees are referred to individually as an “Independent Director” and collectively as the “Independent Directors.” The shares of the Company’s Common Stock are traded on the OTCQB Marketplace and the Board has selected the independence requirements in the listing standards of the NASDAQ Stock Market as the applicable standard for assessing the independence of its directors.

Board Meetings and Committees; Annual Meeting Attendance

The Board of Directors held a total of nine meetings during the fiscal year ended December 31, 2013, including six regular meetings and three special meetings. 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 addition, the Board acted numerous times by written consent as permitted under Delaware law. The Board of Directors has established a Compensation Committee and an Audit and Finance 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, and the Audit and Finance Committee, and has adopted Corporate Governance Guidelines. In October 2013, the Board dissolved the Nominating and Corporate Governance Committee, which did not meet in 2013, and the full Board has assumed the responsibilities of that committee.

The Company does not have a policy regarding attendance by the directors at the Company's Annual Meeting. Mr. Tu, Mr. Cheng, Mr. Davenport, Mr. Finnerty, Mr. Luo and Mr. Ramelot were present at the last Annual Meeting held September 26, 2013.

Compensation Committee

The Company has a standing Compensation Committee of the Board of Directors, currently consisting of Mr. Finnerty, as chairman, Ms. Cheng and Mr. Ramelot. Mr. Finnerty and Ms. Cheng are not standing for re-election to the Board of Directors at the Annual Meeting. It is expected that the Board will appoint Mr. Swidarski as chairman of the Compensation Committee and appoint Mr. Cohen and Mr. He to replace Ms. Cheng and Mr. Ramelot as members of the Compensation Committee. The Compensation Committee held five meetings in 2013. 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.energyfocusinc.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 recommends to the Board compensation arrangements for other executive officers of the Company, reviews and recommends to the Board incentive compensation plans and equity-based plans, and administers such plans; reviews and recommends to the Board all other employee benefit plans for the Company; and reviews 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. During 2013, the Compensation Committee retained Findley Davies to provide consulting services in connection with Mr. Tu's compensation program, which included providing a market analysis for base salary, variable and long term compensation.

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 and Finance Committee

The Company's Audit and Finance Committee acts as the standing audit committee of the Board of Directors. The Audit and Finance Committee of the Board of Directors, which currently consists of Mr. Ramelot as chairman, Mr. Finnerty and Mr. Luo, held four meetings in 2013. Mr. Finnerty and Mr. Luo are not standing for re-election to the Board of Directors at the Company's Annual Meeting. It is expected that the Board will appoint Mr. Swidarski and Mr. He to fill the vacancies after the Annual Meeting. The Board of Directors has determined that Mr. Ramelot and Mr. He are "audit committee financial experts," as defined under the rules of the SEC, and that each Audit and Finance Committee member is independent within the meaning of the listing standards of The NASDAQ Stock Market. 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.energyfocusinc.com>.

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 registered public

accounting firm. Other specific duties and responsibilities of the Audit and Finance Committee are to: appoint, compensate, evaluate and, when appropriate, replace the Company's independent registered public accounting firm; review and pre-approve audit and permissible non-audit services; review the scope of the annual audit; monitor the independent registered public accounting firm's relationship with the Company; and meet with the independent registered public accounting firm and management to discuss and review the Company's financial statements, internal controls, and auditing, accounting and financial reporting processes.

Director Nominations

The Board of Directors sets the size of the Board and nominates directors for election at each annual meeting and elects new directors to fill vacancies when they arise. 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 Board selects candidates for directors based on their character, judgment, diversity of experience, business acumen, and ability to act on behalf of all stockholders. They believe 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. The Board of Directors believes it appropriate for a majority of the members of the Board to meet the definition of "Independent Director" under the rules of the NASDAQ Stock Market.

In the event that a director does not wish to continue in service, a vacancy is created on the Board as a result of a resignation, the Board increases the size of the Board or certain other events affecting the composition of the Board, the Board will consider various candidates for Board membership, including those suggested by other Board members, by any executive search firm engaged by the Board, and by stockholders. Mr. Swidarski, who joined the Board in May 2014, and Mr. He, who is a nominee for election, were identified as candidates for director by Mr. Tu. Mr. Cohen, who is a nominee for election at the Annual Meeting, is a stockholder of the Company. A stockholder who wishes to suggest a prospective nominee for the Board should notify the Secretary of the Company or any member of the Board in writing, with any supporting material the stockholder considers appropriate, at the following address: Energy Focus, Inc., 32000 Aurora Road, Suite B, Solon, Ohio 44139.

PROPOSAL NO. 2: APPROVAL OF THE 2014 STOCK INCENTIVE PLAN

On May 6, 2014, the Board of Directors, upon the recommendation of the Compensation Committee, approved the Energy Focus, Inc. 2014 Stock Incentive Plan (the “2014 Plan”), subject to stockholder approval.

Background

As of March 31, 2014, the Company had outstanding 4,533,372 options to purchase Common Stock with a weighted average exercise price of \$1.03 and a weighted average remaining term of 8.2 years, 319,591 shares of restricted stock and 12,195 restricted stock units granted under the Energy Focus, Inc. 2008 Incentive Stock Plan (the “2008 Plan”) and 2004 Stock Incentive Plan (the “2004 Plan” and, together with the 2004 Plan, the “Prior Plans”).

The Company currently has the ability under the 2008 Plan to award stock options, restricted stock awards, stock units and stock appreciation rights and, as of March 31, 2014, had a total of 732,733 shares available for future awards. Based on the current average annual rate at which the Company has issued stock options and restricted stock awards to participants under the 2008 Plan, we estimate that the shares available for future awards under the 2008 Plan will be insufficient to support future awards beginning with grants anticipated for 2015.

The Compensation Committee and the Board believe that our provision of equity compensation has been a key factor in aligning the interests of our employees, officers and directors with those of our stockholders by providing an incentive to increase stockholder value. Moreover, equity awards have been, and will continue to be, an important factor contributing to our ability to provide incentive-based compensation, compete for and retain talented executives and other personnel.

In recommending the number of shares issuable under the 2014 Plan, the Compensation Committee considered the important role that equity compensation has played over the past several years in providing flexibility in the manner in which employees have been compensated and its ability to incentivize achievement of the Company’s goals. Due to the Company’s cash position, the Company has used its equity award program to attract and retain its Chief Executive Officer and other employees who have been central to its efforts to restructure the organization to focus on growing its LED lighting retrofit business. Given the management changes that have occurred over the past few years, we anticipate that we will continue to utilize equity awards as a significant element of the compensation packages to our management team.

The 2014 Plan would make 6,000,000 shares available for new awards. Shares subject to awards that are outstanding under the Prior Plans will not become available for future grants under the 2014 Plan if they are cancelled, forfeited or expire prior to being exercised and any shares that remain available for grant under the Prior Plans as of the effective date of the 2014 Plan will not become part of the pool of shares available under the 2014 Plan. The awards outstanding under the Prior Plans include options that have a weighted average exercise price of \$1.03 as of March 31, 2014, which exceeds the current market price for the Company's Common Stock of \$0.57 as of June 23, 2014. As of March 31, 2014, approximately 1.5 million of these option shares had an exercise price that was at or above the June 23rd market price.

The Compensation Committee also considered historical amounts of equity awards the Company has granted over the past three years. The following table sets forth the number of stock options and time-based restricted shares or units granted by the Company in the years ended December 31, 2013, 2012 and 2011. In addition, the table provides the weighted average number of shares of Common Stock outstanding in the year indicated.

<i>Fiscal Year</i>	<i>Number of Stock Options Granted</i>	<i>Number of Time-Based Restricted Stock Awards Granted</i>	<i>Weighted Average Shares of Common Stock Outstanding</i>
2013	2,079,500	51,219	47,792,000
2012	120,000	--	41,322,000
2011	1,040,000	--	24,669,000

If our stockholders approve the 2014 Plan, we believe that, based on our past practices, the shares authorized for issuance under the 2014 Plan will support awards for the next three to four years. In addition, following stockholder approval, no further awards will be made under the Prior Plans.

We also are seeking stockholder approval of the 2014 Plan so that compensation attributable to grants under the 2014 Plan may qualify for an exemption from the \$1 million deduction limit under Section 162(m) of the Internal Revenue

Code of 1986, as amended (the “Code”). See “Overview of the 2014 Plan – Performance – Based Compensation Awards” herein.

Overview of the 2014 Plan

The purpose of the 2014 Plan is to enhance stockholder value by linking the compensation of our officers, non-employee directors and key employees to increases in the price of our Common Stock and the achievement of other performance objectives, and to encourage ownership in our Common Stock by key personnel whose long-term employment is considered essential to our continued progress and success. The 2014 Plan is also intended to assist us in recruiting new directors and employees and to motivate, retain and encourage such directors and employees to act in the stockholders’ interest and share in our success.

The 2014 Plan is an “omnibus” plan that provides for several different kinds of awards, including stock options, stock appreciation rights (“SARs”), stock awards and other stock-based awards. The 2014 Plan generally permits the same types of awards as could be granted under the 2008 Plan, but also specifically provides for performance-based cash awards and permits more flexible terms than the 2008 Plan, which will provide us with greater discretion in structuring award programs. The 2014 Plan does not have an “evergreen” feature, so that any increase in the number of authorized shares other than as specifically set forth in the 2014 Plan will require stockholder approval.

The following summary of the material terms of the 2014 Plan is qualified in its entirety by reference to the full text of the 2014 Plan, a copy of which is attached as [Appendix A](#) to this Proxy Statement.

Shares Authorized for Issuance under the 2014 Plan; Share Counting Procedure

A maximum of 6,000,000 shares are proposed to be available for awards under the 2014 Plan.

Shares (i) delivered (or withheld upon settlement) under the 2014 Plan, in payment of the exercise price of a stock option or in payment of tax withholding obligations with respect to stock options or SARs, and (ii) subject to a SAR under the 2014 Plan that are not issued in connection with a stock settlement on exercise of the SAR, will not be added back to the total shares available under the 2014 Plan. Similarly, shares reacquired by us using cash proceeds from the exercise of stock options under the 2014 Plan will not be added back to the total shares available under the 2014 Plan. The limitation described above with respect to shares delivered or withheld in payment of tax withholding obligations does not apply to shares underlying awards other than stock options and SARs.

The maximum number of shares underlying incentive stock options (within the meaning of Section 422 of the Code) that may be granted under the 2014 Plan is 1,000,000.

Limitations on Individual Awards

The 2014 Plan also contains limitations on the size of awards that can be provided to an individual participant, as follows:

The maximum number of shares underlying stock options or SARs that can be granted to an employee in any calendar year is 1,500,000.

The maximum number of shares underlying stock awards and other stock-based awards granted to an employee in any 12 month period that are intended to qualify for the exemption from the \$1 million deduction limit under Section 162(m) of the Code is 800,000.

The maximum dollar amount of a dollar-denominated award granted to a participant in any 12 month period that is intended to qualify for the exemption under Section 162(m) of the Code is \$750,000.

Eligible Participants

All of our non-employee directors and officers, as well as other key employees selected by the Board or Board committee administering the 2014 Plan, are eligible to receive awards under the 2014 Plan. Consultants who provide bona fide services to us also are eligible to participate in the 2014 Plan, provided that the consultants' services are not in connection with the offer and sale of our securities in a capital-raising transaction and the consultants do not directly or

indirectly promote or maintain a market in our securities. Incentive stock options may only be granted to our employees and employees of our “subsidiaries” (as defined in the 2014 Plan).

Administration

The 2014 Plan will be administered by the Board or a committee designated by our Board, that satisfies applicable independence requirements of the principal U.S. national securities exchange on which the shares are traded. It is expected that the 2014 Plan will be administered by our Compensation Committee. The administrator has the authority, among other things, to determine the employees, directors and consultants to whom awards may be granted, determine the number of shares subject to each award, determine the type and the terms of any award to be granted, approve forms of award agreements, interpret the terms of the 2014 Plan and awards granted under the Plan, adopt rules and regulations relating to the 2014 Plan and amend awards, subject to limitations set forth in the 2014 Plan, including a limitation generally prohibiting an amendment that materially impairs any outstanding award without the written agreement of the participant. The administrator may delegate day-to-day administration of the 2014 Plan to one or more individuals.

To the extent that the administrator determines it desirable that an award to a person who is, or may in the future be, a “covered employee” (as defined under Section 162(m) of the Code) should qualify as “qualified performance-based compensation” within the meaning of Section 162(m), the award will be made by a committee consisting of at least two “outside directors” as defined for purposes of Section 162(m) (which, if it so qualifies, may be the administrator). In addition, in order to meet the requirements imposed under Section 16 of the Securities Exchange Act of 1934, as amended, awards granted to officers and directors under the 2014 Plan may only be made by the entire Board or a committee of “non-employee directors,” as defined under Section 16 of the Exchange Act (which, if it so qualifies, may be the administrator).

Term

The 2014 Plan will become effective upon approval by the Company’s stockholders, and will terminate ten years after such approval.

Types of Awards

Stock Options and Stock Appreciation Rights

The 2014 Plan authorizes the grant of stock options (which may be either incentive stock options within the meaning of Section 422 of the Code, which are eligible for special tax treatment, or nonqualified stock options) and SARs. The aggregate fair market value of shares, determined as of the date of grant, for which any employee may be granted incentive stock options that are exercisable for the first time in any calendar year may not exceed \$100,000. To the extent that an incentive stock option exceeds the \$100,000 threshold, or otherwise does not comply with the applicable conditions of Section 422 of the Code, the stock option will be treated as a non-qualified stock option.

The term of a stock option granted under the 2014 Plan cannot be longer than 10 years from the date of grant, and the exercise price per share underlying the option may not be less than the fair market value of a share of our Common Stock on the date of grant. The administrator will determine the acceptable forms of consideration for exercise of the option, which may include cash, check or wire transfer; shares of our Common Stock held for at least six months; our withholding of shares otherwise issuable upon exercise of the stock option; a broker assisted sale and remittance program acceptable to the administrator that complies with applicable law; and such other consideration as is permitted by applicable law; or any combination of the foregoing. Re-pricing of options (i.e., reducing the exercise price or cancelling an option in exchange for cash, another award or an option with a lower exercise price) is not permitted under the 2014 Plan without approval of our stockholders.

The 2014 Plan permits the grant of SARs related to a stock option or other award, which is commonly referred to as a “tandem SAR.” An SAR may be granted in tandem with a stock option either at the time of the stock option grant or thereafter during the term of the stock option. The 2014 Plan also permits the grant of SARs separate and apart from the grant of another award, which is commonly referred to as a “freestanding SAR.” Tandem SARs typically may be exercised upon surrender of a related stock option to the extent of an equivalent number of shares of Common Stock. SARs entitle the grantee, upon exercise of SARs, to receive a payment equal to the excess of the fair market value (on the date of exercise) of the designated number of shares of Common Stock underlying the SAR over the fair market value of such shares of Common Stock on the date the SAR was granted or, in the case of a SAR granted in tandem with a stock option, on the date the stock option was granted. Payments by us in respect of a SAR may be made in shares of our Common Stock, in cash, or partly in cash and partly in shares of Common Stock, as the administrator may determine. The term of SARs

granted under the 2014 Plan cannot be longer than ten years from the date of grant, and otherwise will be subject to the same terms and conditions applicable to stock options.

Stock Awards and Other Stock-Based Awards

Under the 2014 Plan, the administrator may grant participants stock awards, which may involve the award of shares or the award of stock units representing an amount equivalent in value to the fair market value of a share, payable in cash, property or shares. The administrator may also grant participants any other type of equity-based or equity-related award, including the grant or offer for sale of unrestricted shares of Common Stock, as well as cash-based bonuses subject to the attainment of one or more of the performance criteria described below under “Qualified Performance-Based Compensation.” Stock awards and other stock-based awards are subject to terms and conditions determined by the administrator and set forth in an award agreement, which may include conditions on vesting, achievement of performance conditions and other provisions consistent with the 2014 Plan as may be determined by the administrator.

Qualified Performance-Based Compensation

The administrator may specify that all or a portion of an award is intended to satisfy the requirements for “qualified performance-based compensation” under Section 162(m) of the Code. Section 162(m) of the Code generally limits to \$1 million the deductibility for federal income tax purposes of annual compensation paid by a publicly held company to its chief executive officer and other specified executive officers, as described under “Code Section 162(m)” below. “Qualified performance-based compensation” is specifically excluded from this deduction limit.

The 2014 Plan permits the administrator to impose objective performance criteria to be met with respect to stock awards and other stock-based awards so that the grants are considered “qualified performance-based compensation.” If an award (other than a stock option or SAR) is intended to qualify as “qualified performance-based compensation” under Section 162(m) of the Code, the performance criteria must be based on one or more business criteria which apply to the individual, business unit or corporation as a whole, such as stock price, market share, sales, earnings per share, return on equity, or costs.

The administrator will (within the first quarter of the performance period, but in no event more than 90 days into that period) establish the specific performance criteria (including thresholds for payment and whether to exclude certain extraordinary, non-recurring, or similar items) and amounts to be paid if the performance criteria is met (subject to the right of the administrator to exercise discretion to reduce payment amounts following the conclusion of the

performance period).

Dividends

The administrator may provide for payment of dividends or dividend equivalents on the shares of Common Stock subject to an award, other than stock options and SARs, prior to vesting. However, dividends and dividend equivalents will not be paid on any stock award or stock-based award that vests upon the achievement of performance goals prior to the date the performance goals are satisfied and the award is earned, and then shall be payable only with respect to the number of shares or stock units actually earned under the award. Dividends or dividend equivalent payments may be paid in cash, shares or stock units, or may be credited to a participant's account and settled in cash, shares or a combination of cash or shares upon vesting of the underlying award. The administrator may, in its discretion, provide that payment of dividend equivalents is subject to specified conditions and contingencies.

Transferability

Unless determined otherwise by the administrator, awards are not transferable, other than by beneficiary designation, will or the laws of descent and distribution. The administrator may make an award transferable by a participant only if the participant does not receive consideration for the transfer.

Termination of Board Membership or Employment

The administrator may specify the effect of termination of service as a director or termination of employment on an award at the time of grant, subject to the administrator's right to modify the award terms after the date of grant in accordance with the terms of the 2014 Plan. In the absence of such specification, the following provisions apply.

Stock Options and SARs

Non-vested stock options held by non-employee directors will be forfeited upon the termination from Board membership of the director.

Vested stock options held by a non-employee director whose membership on the Board terminates will remain exercisable for the lesser of one year from the termination or the remaining term of the option.

Upon termination of an employee or termination from membership on the Board by a non-employee director due to death or disability, any unvested stock options will vest, and all stock options held by the employee or non-employee director on the date of such termination will remain exercisable for the lesser of one year after such termination or the remaining term of the stock option.

Upon termination of employment due to retirement, vested stock options will remain outstanding for the lesser of one year or the remaining term of the stock option.

Any other termination of employment, other than termination for cause, will result in immediate cancellation of all unvested stock options; vested stock options will remain exercisable for the lesser of 90 days after such termination or the remaining term of the stock option.

Upon termination for "cause" (as defined in the 2014 Plan, subject to a different definition that may be included in a participant's award agreement, employment agreement or severance agreement), all outstanding stock options will be immediately cancelled.

Stock and Other Stock-Based Awards

Unless otherwise provided in an award agreement, unvested stock awards or other stock-based awards will fully vest upon termination from Board membership of a non-employee director or termination of employment of an employee

due to disability or death; in the case of stock awards or other stock-based awards that vest upon the achievement of performance goals, the vested amount will be based upon the target award.

Upon any other termination of employment or termination from membership on the Board by a non-employee director, all outstanding unvested stock awards and other stock-based awards will be cancelled.

Change of Control

In the event of a change of control of the Company (as defined in the 2014 Plan), unless the administrator has determined otherwise with respect to a particular award:

All outstanding unvested stock options and SARs become fully vested and exercisable if not assumed, or substituted with a new award, by the successor to the Company. If assumed or substituted by the successor to the Company, such unvested stock options and SARs will become fully exercisable and vested if a participant's employment is terminated (other than a termination for cause) within two years following a change of control.

If an employee's employment is terminated within two years after a change of control for any reason other than death, retirement, disability or termination for cause, each outstanding stock option or SAR that is vested following such termination will remain exercisable until the earlier of the third anniversary of termination or the expiration of the term of the stock option or SAR.

All restrictions and conditions on outstanding unvested stock awards, stock unit awards, and other stock-based awards that are not assumed or substituted with a new award by the successor to the Company will lapse and such awards shall become fully vested, and any such awards that are performance-based will be deemed fully earned at the target amount. All stock awards, stock unit award and other stock-based awards shall be settled or paid within thirty days of vesting. If assumed or substituted by the successor to the Company, any stock awards, stock unit awards and other stock-based awards shall become fully vested if a participant's employment is terminated (other than a termination for cause) within two years following a change of control, and any performance based award shall be deemed fully earned at the target amount.

Amendment and Termination of 2014 Plan

The administrator may at any time amend, alter or discontinue the 2014 Plan or any award made under the plan, subject to approval by our stockholders to the extent required by applicable law. Unless approved by our stockholders, the administrator may not increase the maximum aggregate number of shares of Common Stock that may be subject to awards granted under the 2014 Plan, reduce the minimum exercise price for stock options or SARs, or reprice (i.e., reduce the exercise price or cancel in exchange for cash, another award or an option or SAR with a lower exercise price) outstanding stock options or SARs, as prohibited by the 2014 Plan. As noted above, an amendment to an award under the 2014 Plan may not, without the written agreement of the participant, materially impair the award.

Capitalization Adjustments

Upon the occurrence of an event that affects our capital structure (such as a stock dividend, stock split, reverse stock split or recapitalization), an extraordinary cash dividend or a merger, consolidation, acquisition of property or shares, reorganization, liquidation or similar event affecting us, our Board or the administrator may make such substitutions or adjustments as it deems appropriate and equitable, including with respect to (i) the number of shares issuable under the 2014 Plan, (ii) the number and kind of shares covered by each outstanding award, (iii) the price per share subject to each such outstanding award, (iv) individual limits with regard to stock options and SARs, (v) individual limits with regard to stock awards, other stock-based awards and dollar-denominated awards intended to qualify for the exemption under Section 162(m) of the Code, and (vi) the performance criteria listed under "Qualified Performance-Based Compensation" above.

Deferred Compensation

Unless the administrator determines otherwise, it is intended that no award granted under the 2014 Plan will be "deferred compensation" for purposes of Section 409A of the Code. If the administrator determines that an award is subject to Section 409A, the terms and conditions governing that award, including rules for elective or mandatory deferral of delivery of cash or shares of Common Stock and rules relating to treatment of awards in the event of a

change of control, will be set forth in the applicable award agreement and will be required to comply with Code Section 409A.

Conversion Awards

The 2014 Plan permits the administrator to authorize conversion or substitution under the 2014 Plan of all stock options, SARs or other stock awards held by awardees of any entity acquired by us. These conversion awards will not be subject to several limitations in the 2014 Plan, including limitations on shares authorized for issuance under the 2014 Plan, limitations on individual awards under the 2014 Plan, and minimum exercise price of stock options.

Grants Under the Plan

As of the date of this proxy statement, no awards have been granted under the 2014 Plan and none will be granted unless and until the 2014 Plan is approved by our stockholders. Grants under the 2014 Plan are discretionary, so it is not possible to predict the number of shares of Common Stock that will be awarded or who will receive awards under the 2014 Plan. The closing price of a share of our Common Stock, as reported on the OTCQB Marketplace on June 23, 2014, was \$0.57.

Tax Matters

The following is a general summary of the United States federal income tax consequences to us and participants in the 2014 Plan. The following is only a general description intended for the information of stockholders and not as tax guidance for participants as consequences may vary depending on the types of awards granted, the identity of the participants and the method of payment or settlement. This summary is based on the federal tax laws in effect as of the date

of this proxy statement. In addition, this summary assumes that all awards are exempt from, or comply with, the rules under Section 409A of the Internal Revenue Code regarding nonqualified deferred compensation. Changes to these laws could alter the tax consequences described below. In addition, this summary does not address the effects of other federal taxes (including possible “golden parachute” excise taxes) or taxes imposed under state, local or foreign tax laws.

Incentive Stock Options

A participant will not recognize income upon the grant of an incentive stock option. A participant will recognize income upon the sale of the stock acquired under an incentive stock option at a profit (if sales proceeds exceed the exercise price). The type of income will depend on when the participant sells the stock. If a participant sells the stock more than two years after the option was granted and more than one year after the option was exercised, then all of the profit will be long-term capital gain and we will not be entitled to a tax deduction (although, for alternative minimum tax purposes, a participant must include the excess of the fair market value of the stock over the exercise price in alternative minimum taxable income for the year of exercise). If a participant sells the stock prior to satisfying these waiting periods, then the participant will have engaged in a “disqualifying disposition” and will recognize ordinary income at the time of the disposition equal to the difference between the fair market value of the shares on the date of exercise (or the amount realized on the disposition, if less) and the exercise price; we will be entitled to a tax deduction equal to that amount. The gain, if any, in excess of the amount recognized as ordinary income will be long-term or short-term capital gain, depending upon the length of time a participant holds shares prior to the disposition.

Nonqualified Stock Options

A participant will not recognize income upon the grant of a nonqualified stock option. A participant will recognize income upon the exercise of a nonqualified stock option equal to the fair market value of the stock on the day the participant exercised the option less the exercise price. Upon sale of the stock, the participant will have short-term or long-term capital gain or loss, depending on the length of time the participant held the shares, equal to the difference between the sales proceeds and the value of the stock on the day the option was exercised.

SARs

The grant of a SAR will result in no tax consequences for the participant or us. A participant generally will recognize ordinary income upon the exercise of a SAR equal to the amount of the cash and the fair market value of any stock received less the exercise price, and we will be entitled to a tax deduction in that amount. Upon the sale of any stock received, the participant will have short-term or long-term capital gain or loss, depending on the length of time the

participant held the shares, equal to the difference between the sales proceeds and the value of the stock on the day the SAR was exercised.

Stock Awards and Other Stock-Based Awards

As a general rule, a participant will recognize ordinary income at the time of delivery of shares of Common Stock or payment of cash under the 2014 Plan. Future appreciation on shares of Common Stock held beyond the ordinary income recognition event will be taxable as long-term or short-term capital gain, depending on the length of time the participant held the shares, when the shares are sold. We, as a general rule, will be entitled to a tax deduction that corresponds in time and amount to the ordinary income recognized by the participant. However, if shares of Common Stock, when delivered, are subject to substantial risk of forfeiture by reason of any employment or performance related condition, ordinary income taxation and our tax deduction will be delayed until the risk of forfeiture lapses, unless the participant makes a special election to accelerate taxation under Section 83(b) of the Code.

Code Section 162(m)

Section 162(m) of the Code generally disallows a tax deduction to public companies for compensation in excess of \$1,000,000 paid to a company's chief executive officer or any of its other four most highly paid executive officers (not including the chief financial officer). Performance-based compensation is specifically exempt from the deduction limit if it otherwise meets the requirements of Section 162(m). Stock options and SARs granted under the 2014 Plan are intended to qualify as "qualified performance-based compensation." Other awards will be "qualified performance-based compensation" if they are so designated and if their grant, vesting or settlement is subject to the performance criteria set forth in the 2014 Plan. Stock awards and other stock-based awards that vest solely upon the passage of time do not qualify as "qualified performance-based compensation."

Code Section 409A

To the extent that any award under the 2014 Plan is or may be considered to constitute deferred compensation subject to Code Section 409A, the Company intends that the terms and administration of such award shall comply with the provisions of such section, applicable Internal Revenue Service guidance and good faith reasonable interpretations thereof.

Vote Required and Board of Directors' Recommendation

The affirmative vote of a majority of the votes cast at the Annual Meeting, at which a quorum representing a majority of all outstanding shares of Common Stock of the Company is present, either in person or by proxy, is required for approval of this proposal.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE **FOR** THE APPROVAL OF THE ENERGY FOCUS, INC. 2014 STOCK INCENTIVE PLAN.

PROPOSAL NO. 3: APPROVAL OF DISCRETIONARY AMENDMENT TO THE CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT OF THE COMMON STOCK

Our Board of Directors has adopted a resolution approving and recommending to the Company's stockholders for their approval a proposal to amend our certificate of incorporation to effect a reverse split of our outstanding shares of Common Stock within a range of one share of Common Stock for every seven shares of Common Stock to one share of Common Stock for every fifteen shares of Common Stock, with the exact reverse ratio to be set within this range as determined by the Board in its sole discretion prior to the effective time of the reverse stock split. The amendment to the certificate of incorporation would also reduce the number of authorized shares of Common Stock by the same ratio selected by the Board for the reverse stock split.

If the stockholders approve this Proposal No. 3, the Board will have the authority to decide, at any time within one year after stockholder approval is obtained, whether to implement the reverse stock split and the precise ratio of the reverse stock split. If the Board decides to implement the reverse stock split, the reverse stock split will become effective upon the filing of the amendment to our certificate of incorporation with the Secretary of State of the State of Delaware (the "Reverse Split Amendment").

The Board reserves the right, even after stockholder approval, to abandon the proposed Reverse Split Amendment if the Board determines that it is not in the best interests of the Company and our stockholders. If the Reverse Split Amendment is not implemented by the Board within one year after stockholder approval is obtained, the proposal will be deemed abandoned, without any further effect.

The form of the proposed Reverse Split Amendment to accomplish the reverse stock split is attached to this Proxy Statement as Appendix B.

Background and Reasons for the Reverse Stock Split

The primary objectives of the Board for the reverse stock split are to (i) raise the per share trading price of our Common Stock to a level that would meet the minimum required to obtain listing of our Common Stock on a national securities exchange and that would be more attractive to investors and (ii) otherwise improve the marketability of the Common Stock.

The Common Stock is currently available for trading in the over-the-counter market and is quoted on the OTCQB Marketplace under the symbol "EFOI." As of June 23, 2014, the last reported closing price of our Common Stock was

\$0.57. We are considering potentially seeking the listing of our Common Stock on the NASDAQ Capital Market or another national securities exchange. We anticipate that to secure the listing of the Common Stock we may need to implement a reverse stock split so that the trading price of our Common Stock exceeds the minimum required by applicable initial listing requirements. In order to qualify for listing on the NASDAQ Capital Market, our stockholder's equity must be at least \$5 million and the closing price of our Common Stock must be at least \$3.00 (or in some circumstances, an initial bid price of \$4.00) per share and, following initial listing, maintenance of a continued price of at least \$1.00 per share is required. We cannot provide any assurance that following the reverse stock split our minimum bid price would be or remain over the minimum bid price requirement of any such stock exchange or that we will otherwise qualify for such a listing.

The Board also believes the anticipated increase in the trading price of our Common Stock resulting from the reverse stock split could make our Common Stock more attractive to a broader range of institutional and other investors, as we have been advised that the current market price of our Common Stock may affect its acceptability to certain institutional investors, professional investors and other members of the investing public. Many brokerage houses and institutional investors have internal policies and practices that either prohibit them from investing in low-priced stocks or tend to discourage individual brokers from recommending low-priced stocks to their customers. In addition, some of those policies and practices may function to make the processing of trades in low-priced stocks economically unattractive to brokers. The Board believes that the reverse stock split may make our Common Stock a more attractive and cost effective investment for many investors, which may enhance the liquidity of the holders of our Common Stock. Accordingly, our Board believes that approval of the reverse stock split is advisable and the best interests of the Company and our stockholders.

Board Discretion to Implement the Reverse Stock Split

The Board believes that having the discretion to determine the exact reverse split ratio within the specified range of one-for-seven to one-for-fifteen provides the flexibility to react to market conditions and act in the best interests of the Company and our stockholders. The Company believes that giving the Board the authority, but not the requirement, to execute a reverse stock split as well as the availability of a range of reverse split ratios will provide it with the flexibility to implement the reverse stock split, if it does at all, in a manner designed to achieve the desired results of the reverse stock split. In determining whether to implement the reverse stock split and the precise reverse stock split ratio, if any, the Board may consider, among other things, factors such as:

the initial listing requirements of various stock exchanges;

the historical trading price and trading volume of our Common Stock;

the number of shares of Common Stock outstanding;

the then-prevailing trading price and trading volume of our Common Stock and the anticipated impact of the reverse stock split on the trading market for our Common Stock;

the impact on the Company's capitalization, including the number of authorized but unissued common shares resulting from the ratio

the anticipated impact of a particular ratio on our ability to reduce administrative and transactional costs;

projections for our financial condition and results of operations over various time horizons;

potential acquisition or financing opportunities; and

prevailing general market and economic conditions.

In determining the reverse split ratio, the Board would seek to set the ratio at a level that is in the best interests of the Company and our stockholders at the time of the reverse stock split.

Principal Effects of the Reverse Stock Split*Effect on Issued and Outstanding Common Stock*

After the effective date of the reverse stock split, each stockholder will own a reduced number of shares of Common Stock. As of the Record Date, 78,154,330 shares of Common Stock were issued and outstanding. Depending on the ratio for the reverse stock split determined by our Board, a minimum of seven and a maximum of fifteen shares of existing Common Stock will be combined into one new share of Common Stock and the number of shares authorized for issuance will be proportionately reduced. The table below shows, as of the Record Date, the number of outstanding shares of Common Stock (excluding treasury shares) that would result from the listed hypothetical reverse stock split ratios (without giving effect to the treatment of fractional shares):

Reverse Stock Split Ratio	Approximate Number of Outstanding Shares of Common Stock Following the Reverse Stock Split
1-for-7	11,164,904
1-for-8	9,769,291
1-for-9	8,683,814
1-for-10	7,815,433
1-for-11	7,104,939
1-for-12	6,512,861
1-for-13	6,011,872
1-for-14	5,582,452
1-for-15	5,210,289

The actual number of shares issued after giving effect to the reverse stock split, if implemented, will depend on the reverse stock split ratio that is ultimately determined by our Board.

The reverse stock split will affect all holders of our Common Stock uniformly and will not affect any stockholder's percentage ownership interest in the Company, except that, as described below in "Fractional Shares," record holders of Common Stock otherwise entitled to a fractional share as a result of the reverse stock split will receive a cash payment in lieu of such fractional share. In addition, the reverse stock split will not affect any stockholder's proportionate voting power (subject to the treatment of fractional shares).

Effect on Authorized Shares of Common Stock

In connection with the reverse stock split, the Company will reduce the number of authorized shares of Common Stock under our certificate of incorporation in proportion to the reverse ratio determined by the Board. Our certificate of incorporation currently authorizes us to issue a maximum of 150,000,000 shares of Common Stock, \$0.0001 par value per share, and 2,000,000 shares of preferred stock, \$0.0001 par value per share. Depending on the reverse ratio chosen by the Board, if any, the certificate of incorporation will be amended to reduce the number of authorized shares of Common Stock and preferred stock, as set forth in the Reverse Split Amendment.

Effect on Employee Plans, Options, Restricted Stock Awards and Units, Warrants, and Convertible or Exchangeable Securities

Based upon the reverse stock split ratio determined by the Board, proportionate adjustments are generally required to be made to the per share exercise price and the number of shares issuable upon the exercise or conversion of all outstanding options, restricted stock units, warrants, convertible or exchangeable securities entitling the holders to purchase, exchange for, or convert into, shares of Common Stock. This would result in approximately the same aggregate price being required to be paid under such options, restricted stock units, warrants, convertible or exchangeable securities upon exercise, and approximately the same value of shares of Common Stock being delivered upon such exercise, exchange or conversion, immediately following the reverse stock split as was the case immediately preceding the reverse stock split. The number of shares subject to vesting under restricted stock awards will be similarly adjusted, subject to our treatment of fractional shares. The number of shares reserved for issuance pursuant to these securities and our 2014 Plan (if such plan is approved) or our 2008 Incentive Stock Plan (if the 2014 Plan is not approved) and our 2013 Employee Stock Purchase Plan will be adjusted proportionately based upon the reverse stock split ratio determined by the Board, subject to our treatment of fractional shares.

Par Value of Common Stock and Accounting Matters

The reverse stock split will not affect the par value of our Common Stock, which will remain at \$0.0001 per share. As a result, as of the effective time of the reverse stock split, the stated capital attributable to our Common Stock on the Company's balance sheet (which consists of the par value per share of our Common Stock multiplied by the aggregate

number of the issued shares of Common Stock) will be reduced proportionately based on the reverse stock split ratio selected by the Board, and the additional paid-in-capital account (which consists of the difference between the Company's stated capital and the aggregate amount paid to us upon the issuance of all currently issued shares of Common Stock) will be credited with the amount by which the stated capital is reduced. The per-share net income or loss and net book value of our Common Stock will be increased as a result of the reverse stock split because there will be fewer shares of Common Stock outstanding.

Not a Going Private Transaction

The Board does not intend for this transaction to be the first step in a series of plans or proposals of a "going private transaction" within the meaning of Rule 13e-3 of the Exchange Act.

No Appraisal Rights

Under Delaware law, holders of our Common Stock will not be entitled to dissenters' rights or appraisal rights with respect to the reverse stock split.

Risks Associated with Reverse Stock Split

A primary objective of the proposed reverse stock split is to combine the issued and outstanding shares of Common Stock into a smaller number of shares so that the shares of Common Stock will trade at a higher price per share than recent trading prices. Although the Company expects that the reverse stock split would result in an increase in the market price of our Common Stock, the reverse stock split may not increase the market price of our Common Stock in proportion to the reduction in the number of issued shares of Common Stock or result in the permanent increase in the market price, which is dependent upon many factors, including the Company's performance, prospects and other factors detailed from time to time in the Company's reports filed with the SEC. If the reverse stock split is accomplished and the market price of our Common Stock declines, the percentage decline as an absolute number and as a percentage of the Company's overall market capitalization may be greater than would occur in the absence of a reverse stock split. The history of similar reverse splits for companies in similar circumstances is varied. We cannot predict the effect of any reverse stock split upon the market price over an extended period.

Although the Board believes that the potential advantages of a reverse stock split outweigh any disadvantages that might result, the following are some of the possible disadvantages of a reverse stock split:

There can be no assurance that the market price per share of Common Stock after the reverse stock split will increase in proportion to the reduction in the number of shares of Common Stock outstanding before the reverse stock split.

The total market capitalization of our Common Stock after the proposed reverse stock split may be lower than the total market capitalization before the proposed reverse stock split and, in the future, the market price of our Common Stock following the reverse stock split may not exceed or remain higher than the market price prior to the proposed reverse stock split.

The reduced number of outstanding shares of Common Stock resulting from a reverse stock split could adversely affect the liquidity of our Common Stock. Although the Board believes that a higher stock price may help generate investor interest, there can be no assurance that the reverse stock split will result in a per share price that will attract institutional investors or investment funds or that such share price will satisfy the investing guidelines of institutional investors or investment funds. As a result, the trading liquidity of our Common Stock may not necessarily improve.

A reverse stock split may leave certain stockholders with one or more "odd lots," which are stock holdings in amounts of fewer than 100 shares of Common Stock. A purchase or sale of an odd lot may result in incrementally higher trading costs through certain brokers, particularly "full service" brokers. Therefore, those stockholders who own less than 100 shares following the reverse stock split may be required to pay higher transaction costs if they sell their shares of Common Stock.

Implementation of the Reverse Stock Split

Effective Time

If this proposal is approved at the Annual Meeting and the Board elects, in its sole discretion, at any time during the one year following stockholder approval to implement the reverse stock split, the reverse stock split will become effective upon the filing (the “Effective Time”) of the Reverse Split Amendment with the Secretary of State of the State of Delaware. The exact timing of the filing of the certificate of amendment that will effect the reverse stock split will be determined by our Board based on its evaluation as to when such action will be the most advantageous to the Company and our stockholders. At the Effective Time, shares of Common Stock issued and outstanding immediately prior thereto will be combined and converted, automatically and without any action on the part of the stockholders, into new shares of Common Stock in accordance with the reverse split ratio determined by the Board. As soon as practical after the Effective Time, the stockholders will be notified that a reverse stock split has been effected.

Our Board reserves the right, notwithstanding stockholder approval and without further action by the stockholders, to elect not to proceed with the reverse stock split, as permitted under Section 242(c) of the Delaware General Corporation Law, if, at any time prior to filing the amendment to the Company’s certificate of incorporation, our Board, in its sole discretion, determines that it is no longer in our best interest and the best interests of our stockholders to proceed with the reverse stock split. If a certificate of amendment effecting the reverse stock split has not been filed with the Secretary of

State of the State of Delaware within one year after approval by the stockholders, our Board will abandon the reverse stock split.

After the Effective Time, we will continue to be subject to periodic reporting and other requirements of the Exchange Act. The Common Stock will continue to be traded in the over-the-counter market and quoted on the OTCQB Marketplace, unless or until we list our Common Stock on the NASDAQ Capital Market or another national securities exchange.

Fractional Shares

We do not currently intend to issue fractional shares in connection with the reverse stock split. Therefore, we will not issue certificates representing fractional shares. Instead, stockholders will receive a cash payment in an amount equal to such fraction multiplied by the average of the high and low trading prices of the Company's stock on the OTCQB Marketplace during regular trading hours for the five trading days immediately preceding the Effective Time, which amount is hereby determined to equal the fair market value of the Common Stock at the Effective Time.

Exchange of Stock Certificates

Stockholders holding shares of our Common Stock in certificated form will be sent a transmittal letter by our transfer agent after the Effective Time. The letter of transmittal will contain instructions on how a stockholder should surrender his, her or its certificate(s) representing shares of our Common Stock (the "Old Certificates") to the transfer agent in exchange for certificates representing the appropriate number of whole shares of post-reverse stock split Common Stock (the "New Certificates"). No New Certificates will be issued to a stockholder until such stockholder has surrendered all Old Certificates, together with a properly completed and executed letter of transmittal, to the transfer agent. No stockholder will be required to pay a transfer or other fee to exchange his, her or its Old Certificates. Stockholders will then receive a New Certificate(s) representing the number of whole shares of Common Stock that they are entitled to as a result of the reverse stock split, subject to the treatment of fractional shares described above. Until surrendered, we will deem outstanding Old Certificates held by stockholders to be cancelled and only to represent the number of whole shares of post-reverse stock split Common Stock to which these stockholders are entitled, subject to the treatment of fractional shares. Any Old Certificates submitted for exchange, whether because of a sale, transfer or other disposition of stock, will automatically be exchanged for New Certificates. If an Old Certificate has a restrictive legend on the back of the Old Certificate(s), the New Certificate will be issued with the same restrictive legends that are on the back of the Old Certificate(s). **STOCKHOLDERS SHOULD NOT DESTROY ANY STOCK CERTIFICATES AND SHOULD NOT SUBMIT ANY STOCK CERTIFICATES UNTIL REQUESTED TO DO SO.**

Beneficial Holders of Common Stock

Upon the implementation of the reverse stock split, it is expected that shares held by stockholders through a bank, broker, custodian or other nominee will generally be treated in the same manner as registered stockholders whose shares are registered in their names. Banks, brokers, custodians or other nominees will be instructed to effect the Reverse Stock Split for their beneficial holders holding our Common Stock in street name. However, these banks, brokers, custodians or other nominees may have different procedures than registered stockholders for processing the reverse stock split and treatment of fractional share interests. Stockholders who hold shares of our Common Stock with a bank, broker, custodian or other nominee and who have any questions in this regard are encouraged to contact their banks, brokers, custodians or other nominees.

Certain Federal Income Tax Consequences of the Reverse Stock Split

The following discussion summarizes certain material U.S. federal income tax consequences relating to the participation in the reverse stock split by holders of our Common Stock. This discussion is based on the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), final, temporary and proposed U.S. Treasury regulations promulgated thereunder, published administrative positions of the IRS, and reported judicial decisions, all as in effect as of the date hereof. All of these authorities may be subject to differing interpretations or repealed, revoked or modified, possibly with retroactive effect, which could materially alter the tax consequences set forth herein.

This information is for general information only. It is not intended as tax advice to any person and is not a comprehensive description of the tax consequences that may be relevant to each stockholder's own particular circumstances. For example, it does not address special rules applicable to certain persons such as stockholders who are subject to the alternative minimum tax under the Code; nor does the discussion address any consequences arising under the

laws of any state, locality, or foreign jurisdiction. No ruling from the IRS has been or will be obtained with respect to the U.S. federal income tax consequences of the reverse stock split. There can be no assurance that the IRS will not take a contrary position to the tax consequences described herein or that such position will not be sustained by a court.

All stockholders should consult their own tax advisors with respect to the U.S. federal, state, local and non-U.S. tax consequences of the reverse stock split.

U.S. Holders

Based on the assumption that the reverse stock split will constitute a tax-free reorganization within the meaning of Section 368(a)(1)(E) of the Code (i.e., a deemed exchange of existing shares for newly-issued shares), and subject to the limitations and qualifications set forth in this discussion and the discussion below regarding the treatment of cash paid in lieu of fractional shares, the following U.S. federal income tax consequences will result from the reverse stock split:

a stockholder will not recognize gain or loss on the deemed exchange of shares pursuant to the reverse stock split;

the aggregate tax basis of the shares deemed received by a stockholder in the reverse stock split will be equal to the aggregate tax basis of the shares deemed surrendered in exchange therefor; and

the holding period of the shares received by a stockholder in the reverse stock split will include the holding period of the shares deemed surrendered therefor.

A U.S. holder that receives cash in lieu of a fractional share of Common Stock in the reverse stock split generally will be treated as having received such fractional share and then as having received such cash in redemption of such fractional share interest. A U.S. holder generally will recognize gain or loss measured by the difference between the amount of cash received and the portion of the basis of the pre-reverse stock split Common Stock allocable to such fractional interest. Such gain or loss generally will constitute capital gain or loss and will be long-term capital gain or loss if the U.S. holder's holding period in our Common Stock surrendered in the reverse stock split was greater than one year as of the date of the exchange.