ORION ENERGY SYSTEMS, INC.
Form 10-Q/A
August 02, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q/A
(Amendment No.1)

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

For the Quarterly Period Ended December 31, 2009

OR

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

Commission file number 001-33887
Orion Energy Systems, Inc.
(Exact name of Registrant as specified in its charter)

Wisconsin	**39-1847269**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification number)**
2210 Woodland Drive, Manitowoc, Wisconsin	**54220**
(Address of principal executive offices)	**(Zip code)**

Registrant s telephone number, including area code: (920) 892-9340

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes o No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

There were 22,226,610 shares of the Registrant s common stock outstanding on February 5, 2010.

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EXPLANATORY NOTE

As used herein, unless otherwise expressly stated or the context otherwise requires, all references to Orion, we, us, our, Company and similar references are to Orion Energy Systems, Inc. and its consolidated subsidiaries.

As previously disclosed, in this Quarterly Report on Form 10-Q/A, we have restated our previously issued unaudited consolidated financial statements and related disclosures for the quarter ended December 31, 2009 to reclassify our transactions under our Orion Throughput Agreements, or OTAs, as sales-type leases instead of as operating leases.

Our prior method of accounting for OTA transactions as operating leases deferred revenue recognition over the full term of the OTA contracts, only recognizing revenue on a monthly basis as customer payments became due, while the upfront sales, general and administrative expenses related to these OTA contracts were recognized immediately. On June 9, 2011, we concluded that generally accepted accounting principles, or GAAP, required us to reclassify our transactions under our OTAs as sales-type leases instead of as operating leases. We voluntarily submitted our determination of the proper accounting treatment for the OTAs for confirmation with the Office of the Chief Accountant of the Securities and Exchange Commission, which did not object to our conclusion.

This Quarterly Report on Form 10-Q/A for the quarterly period ended December 31, 2009, initially filed with the SEC on February 9, 2010 (Original Filing), is being filed to reflect the financial statement restatement. Generally, for the quarterly and year-to-date periods ended December 31, 2009, this change in accounting treatment and financial statement restatements has resulted in:

No impact to our cash, cash equivalents, short-term investments; or overall cash flow;

Increases in our revenue of $1.5 million (9%), a decrease in our net income of $0.1 million (7%) and a reduction in our earnings per share of $0.01 (25%) for the quarter ended December 31, 2009, and an increase in our revenue of $4.2 million (10%), a decrease in our net loss of $1.1 million (32%) and a reduction in our loss per share of $0.05 (33%) for the nine months ended December 31, 2009; and

Increases in our current assets of $2.5 million (3%), our total assets of $1.4 million (1%), our total liabilities of $0.3 million (1%), and a reduction in our retained deficit of $1.1 million (55%).

For a more detailed description of this financial statement restatement, see Note B, Restatement of Financial Statements to our consolidated financial statements and the section entitled Restatement of Previously Issued Consolidated Financial Statements in Management s Discussion and Analysis of Financial Condition and Results of Operations contained in this Form 10-Q/A.

This Form 10-Q/A only amends and restates Items 1, 2, and 4 of Part I of the Original Filing, in each case, solely as a result of, and to reflect, the restatement, and no other information in the Original Filing is amended hereby. The foregoing items have not been updated to reflect other events occurring after the Original Filing or to modify or update those disclosures affected by subsequent events. In addition, pursuant to the rules of the SEC, Item 6 of Part II of the Original Filing has been amended to contain currently-dated certifications from our Chief Executive Officer and Chief Financial Officer, as required by Section 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of our Chief Executive Officer and Chief Financial Officer are attached to this Form 10-Q/A as Exhibits 31.1, 31.2, 32.1, and 32.2, respectively.

Except for the foregoing amended information, this Form 10-Q/A continues to describe conditions as of the date of the Original Filing, and we have not updated the disclosures contained herein to reflect events that occurred at a later date.

Throughout this Quarterly Report on Form 10-Q/A, all amounts presented from prior periods and prior period comparisons that have been revised are labeled As Restated and reflect the balances and amounts on a restated basis.

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Quarterly Report On Form 10-Q/A
For The Quarter Ended December 31, 2009
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PART I FINANCIAL INFORMATION
Item 1: Financial Statements

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	March 31, 2009	December 31, 2009 (As Restated)
Assets		
Cash and cash equivalents	$ 36,163	$ 31,936
Short-term investments	6,490	1,000
Accounts receivable, net of allowances of $222 and $347	11,572	14,417
Inventories, net	20,232	24,517
Deferred tax assets	548	1,355
Prepaid expenses and other current assets	3,369	2,588
Total current assets	78,374	75,813
Property and equipment, net	22,999	27,182
Patents and licenses, net	1,404	1,509
Deferred tax assets	593	599
Long-term accounts receivable		3,686
Other long-term assets	352	74
Total assets	$ 103,722	$ 108,863
Liabilities and Shareholders Equity		
Accounts payable	$ 7,817	$ 13,010
Accrued expenses	2,315	3,053
Current maturities of long-term debt	815	650
Total current liabilities	10,947	16,713
Long-term debt, less current maturities	3,647	3,372
Other long-term liabilities	433	574
Total liabilities	15,027	20,659
Commitments and contingencies (See Note F)		
Shareholders equity:		
Preferred stock, $0.01 par value: Shares authorized: 30,000,000 shares at March 31, 2009 and December 31, 2009; no shares issued and outstanding at March 31, 2009 and December 31, 2009		
Common stock, no par value: Shares authorized: 200,000,000 at March 31, 2009 and December 31, 2009; shares issued: 28,875,879 and 29,408,301 at March 31, 2009 and December 31, 2009; shares outstanding: 21,528,783 and 21,956,562 at March 31, 2009 and December 31, 2009		
Additional paid-in capital	118,907	121,042
Treasury stock: 7,347,096 and 7,451,739 common shares at March 31, 2009 and December 31, 2009	(31,536)	(31,936)

Accumulated other comprehensive loss		(32)		
Retained earnings (deficit)		1,356		(902)
Total shareholders equity		88,695		88,204
Total liabilities and shareholders equity	$	103,722	$	108,863

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

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ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	2009 (As Restated)	2008	2009 (As Restated)
Product revenue	$ 20,671	$ 18,737	$ 50,840	$ 45,879
Service revenue	1,704	2,090	6,401	4,897
Total revenue	22,375	20,827	57,241	50,776
Cost of product revenue	13,644	11,860	33,724	30,729
Cost of service revenue	1,311	1,568	4,565	3,455
Total cost of revenue	14,955	13,428	38,289	34,184
Gross profit	7,420	7,399	18,952	16,592
Operating expenses:				
General and administrative	2,438	3,051	7,946	9,357
Sales and marketing	2,741	3,063	8,164	9,176
Research and development	347	404	1,138	1,315
Total operating expenses	5,526	6,518	17,248	19,848
Income (loss) from operations	1,894	881	1,704	(3,256)
Other income (expense):				
Interest expense	(33)	(66)	(141)	(192)
Dividend and interest income	325	157	1,492	539
Total other income (expense)	292	91	1,351	347
Income (loss) before income tax	2,186	972	3,055	(2,909)
Income tax expense (benefit)	1,032	218	1,414	(652)
Net income (loss)	$ 1,154	$ 754	$ 1,641	$ (2,257)
Basic net income (loss) per share	$ 0.05	$ 0.03	$ 0.06	$ (0.10)
Weighted-average common shares outstanding	25,203,827	21,792,175	26,398,338	21,709,799
Diluted net income (loss) per share	$ 0.04	$ 0.03	$ 0.06	$ (0.10)
Weighted-average common shares and share equivalents outstanding	26,414,750	22,567,575	28,710,765	21,709,799

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

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ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Nine Months Ended December 31,	
	2008	2009 (As Restated)
Operating activities		
Net income (loss)	$ 1,641	$ (2,257)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	1,337	1,956
Stock-based compensation expense	1,204	1,064
Deferred income tax expense (benefit)	1,340	(813)
Change in allowance for notes and accounts receivable	32	384
Other	78	15
Changes in operating assets and liabilities:		
Accounts receivable	(1,516)	(2,969)
Inventories	(1,804)	(4,285)
Prepaid expenses and other assets and liabilities	(2,473)	(2,752)
Accounts payable	1,442	5,193
Accrued expenses	(1,749)	738
Net cash used in operating activities	(468)	(3,726)
Investing activities		
Purchase of property and equipment	(10,530)	(4,142)
Purchase of property and equipment leased to customers under operating leases	(100)	(1,903)
Purchase of short-term investments	(22,270)	
Sale of short-term investments		5,522
Additions to patents and licenses	(1,090)	(186)
Proceeds from sales of long-term assets	860	6
Gain on sale of long-term investment	(361)	
Net cash used in investing activities	(33,491)	(703)
Financing activities		
Payment of long-term debt	(633)	(640)
Proceeds from long-term debt		200
Repurchase of common stock into treasury	(22,441)	(400)
Excess tax benefits from stock-based compensation	1,453	95
Deferred financing costs and offering costs	7	
Proceeds from issuance of common stock	1,436	947
Net cash provided by (used in) financing activities	(20,178)	202
Net decrease in cash and cash equivalents	(54,137)	(4,227)
Cash and cash equivalents at beginning of period	78,312	36,163

Cash and cash equivalents at end of period	$	24,175	$	31,936
Supplemental cash flow information:				
Cash paid for interest	$	272	$	215
Cash paid for income taxes		121		30
Supplemental disclosure of non-cash investing and financing activities				
Long-term note receivable received on sale of investment	$	298	$	

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

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ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES
UNAUDITED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE A DESCRIPTION OF BUSINESS

Organization

The Company includes Orion Energy Systems, Inc., a Wisconsin corporation, and all consolidated subsidiaries. The Company is a developer, manufacturer and seller of lighting and energy management systems and a seller and integrator of renewable energy technologies. The corporate offices and manufacturing operations are located in Manitowoc, Wisconsin and an operations facility is located in Plymouth, Wisconsin.

NOTE B RESTATEMENT OF FINANCIAL STATEMENTS

The Company accounts for the correction of an error in previously issued financial statements in accordance with the provisions of ASC Topic 250, Accounting Changes and Error Corrections. In accordance with the disclosure provisions of ASC 250, when financial statements are restated to correct an error, an entity is required to disclose that its previously issued financial statements have been restated along with a description of the nature of the error, the effect of the correction on each financial statement line item and any per share amount affected for each prior period presented, and the cumulative effect on retained earnings or other appropriate component of equity or net assets in the statement of financial position, as of the beginning of the earliest period presented.

As previously disclosed in a Current Report on Form 8-K, on June 14, 2011, the Company s management, with concurrence from the Audit & Finance Committee of the Company s Board of Directors, concluded that the financial statements contained in the Form 10-Q for the quarterly period ended December 31, 2009 should no longer be relied upon and must be restated to properly record revenue from its OTAs as sales-type lease contracts.

In accordance with ASC Topic 840, Leases, the Company s prior method of accounting for OTA transactions as operating leases deferred revenue recognition over the full term of the OTA contracts, only recognizing revenue on a monthly basis as customer payments became due, while the upfront sales, general and administrative expenses related to these OTA contracts were recognized immediately. On June 9, 2011, the Company concluded that generally accepted accounting principles, or GAAP, required the Company to reclassify its transactions under its OTAs as sales-type leases instead of as operating leases. Accounting for OTA contracts as sales-type leases under GAAP requires the Company to record revenue at the net present value of the future payments at the time customer acceptance of its installed and operating energy management system is complete, rather than deferring revenue recognition over the full term of the OTA contracts.

Throughout this Form 10-Q/A, all amounts presented from prior periods and prior period comparisons that have been revised are labeled As Restated and reflect the balances and amounts on a restated basis.

The specific line-item effect of the restatement on the Company s previously issued unaudited condensed consolidated financial statements as of and for the three months ended December 31, 2009 as filed on Form 10-Q on February 9, 2010 are as follows (in thousands, except share and per share data):

	Consolidated Balance Sheets as of December 31, 2009		
	As Previously reported	Adjustments	As Restated
Assets:			
Accounts receivable	$ 13,397	$ 1,020	$ 14,417
Deferred tax assets, current	549	806	1,355
Prepaid expenses and other current assets	1,955	633	2,588
Total current assets	73,354	2,459	75,813
Property and equipment, net	30,732	(3,550)	27,182
Deferred tax assets, long-term	1,826	(1,227)	599
Accounts receivable, long-term		3,686	3,686
Total assets	107,495	1,368	108,863

Liabilities and Shareholders Equity:			
Accrued expenses	2,792	261	3,053
Shareholders equity:			
Retained earnings (deficit)	(2,009)	1,107	(902)

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	Consolidated Statements of Operations					
	Three months ended December 31, 2009			Nine months ended December 31, 2009		
	As Previously reported	Adjustments	As Restated	As Previously reported	Adjustments	As Restated
Product revenue	$ 17,205	$ 1,532	$ 18,737	$ 41,645	$ 4,234	$ 45,879
Cost of product revenue	10,633	1,227	11,860	27,727	3,002	30,729
Interest expense	(67)	1	(66)	(197)	5	(192)
Dividend and interest income	49	108	157	248	291	539
Income tax expense (benefit)	(249)	467	218	(1,072)	420	(652)
Net income (loss)	807	(53)	754	(3,365)	1,107	(2,257)
Net income (loss) per share attributable to common shareholders basic	$ 0.04	$ (0.01)	$ 0.03	$ (0.15)	$ 0.05	$ (0.10)
Net income (loss) per share attributable to common shareholders diluted	$ 0.04	$ (0.01)	$ 0.03	$ (0.15)	$ 0.05	$ (0.10)
Weighted average common shares outstanding basic	21,792,175		21,792,175	21,709,799		21,709,799
Weighted average common shares outstanding diluted	22,567,575		22,567,575	21,709,799		21,709,799

	Consolidated Statements of Cash Flows Nine months ended December 31, 2009		
	As Previously Reported	Adjustments	As Restated
Net loss	$ (3,365)	$ 1,107	$ (2,257)
Deferred income tax benefit	(1,234)	421	(813)
Accounts receivable	(1,950)	(1,019)	(2,969)
Prepaid expenses and other assets and liabilities	1,414	(4,165)	(2,751)
Accrued expenses	633	105	738
Net cash used in operating activities	(175)	(3,551)	(3,726)
Purchase of property and equipment	(4,268)	126	(4,142)
Purchase of property and equipment leased to customers under operating leases	(5,328)	3,425	(1,903)
Net cash used in investing activities	(4,254)	3,551	(703)

NOTE C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The condensed consolidated financial statements include the accounts of Orion Energy Systems, Inc. and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Basis of presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the rules and regulations of the Securities Exchange Commission. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of results that may be expected for the year ending March 31, 2010 or other interim periods.

The condensed consolidated balance sheet at March 31, 2009 has been derived from the audited consolidated financial statements at that date but does not include all of the information required by GAAP for complete financial statements.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2009 as supplemented by the audited consolidated financial statements and footnotes thereto included in the Company s Annual Reports on Form 10-K for the fiscal years ended March 31, 2010 and March 31, 2011 filed with the SEC on July 22, 2011 (see, in particular, footnote B therein).

Evaluation of Subsequent Events

The Company evaluated subsequent events from the balance sheet date of December 31, 2009 through February 9, 2010, the date that the Company s interim consolidated financial statements were issued, and has concluded that no subsequent events have occurred during this period.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during that reporting period. Areas that require the use of significant management estimates include revenue recognition, inventory obsolescence,

bad debt reserves, accruals for warranty expenses, income taxes and certain equity transactions. Accordingly, actual results could differ from those estimates.

Reclassification

Certain reclassifications have been made in the prior periods financial statements to conform to current period presentation.

Cash and cash equivalents

The Company considers all highly liquid, short-term investments with original maturities of three months or less to be cash equivalents.

Short-term investments available for sale

The amortized cost and fair value of marketable securities, with gross unrealized gains and losses, as of March 31, 2009 and December 31, 2009 were as follows (in thousands):

	March 31, 2009					
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short Term Investments
Money market funds	$ 14,114	$	$	$ 14,114	$ 14,114	$
Bank certificate of deposit	9,007			9,007	6,207	2,800
Commercial paper	3,690			3,690		3,690
Corporate obligations	2,257		(7)	2,250	2,250	
Government agency obligations	12,412		(25)	12,387	12,387	
Total	$ 41,480	$	$ (32)	$ 41,448	$ 34,958	$ 6,490

	December 31, 2009					
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short Term Investments
Money market funds	$ 27,148	$	$	$ 27,148	$ 27,148	$
Bank certificate of deposit	3,032			3,032	2,032	1,000
Total	$ 30,180	$	$	$ 30,180	$ 29,180	$ 1,000

The Company s accounting and disclosures for short-term investments are in accordance with the requirements of the Fair Value Measurements and Disclosure, Financial Instrument, and Investments: Debt and Security Topics of the FASB Accounting Standards Codification. The Fair Value Measurements and Disclosure Topic defines fair value, establishes a framework for measuring fair value under GAAP and requires certain disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. GAAP describes a fair value hierarchy based on the following three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

As of December 31, 2009, the Company s financial assets described in the table above were measured at fair value employing level 1 inputs.

Fair value of financial instruments

The carrying amounts of the Company s financial instruments, which include cash and cash equivalents, short-term investments, accounts receivable, and accounts payable, approximate their respective fair values due to the relatively short-term nature of these instruments. Based upon interest rates currently available to the Company for debt with similar terms, the carrying value of the Company s long-term debt is also approximately equal to its fair value.

Accounts receivable

The majority of the Company s accounts receivable are due from companies in the commercial, industrial and agricultural industries, as well as wholesalers. Credit is extended based on an evaluation of a customer s financial condition. Generally, collateral is not required for end users; however, the payment of certain trade accounts receivable from wholesalers is secured by irrevocable standby letters of credit. Accounts receivable are due within 30-60 days. Accounts receivable are stated at the amount the Company expects to collect from outstanding balances. The Company provides for probable uncollectible amounts through a charge to earnings and a credit to an allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after the Company has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable.

Included in accounts receivable are amounts due from a third party finance company to which the Company has sold, without recourse, the future cash flows from lease arrangements entered into with customers. Such receivables are recorded at the present value of the future cash flows discounted at 10.25%. As of December 31, 2009, the following amounts were due from the third party finance company in future periods (in thousands):

Fiscal 2010	$	14
Fiscal 2011		25
Total gross receivable		39
Less: amount representing interest		(3)
Net contracts receivable	$	36

Inventories

Inventories consist of raw materials and components, such as ballasts, metal sheet and coil stock and molded parts; work in process inventories, such as frames and reflectors; and finished goods, including completed fixtures or systems and accessories, such as lamps, meters and power supplies. All inventories are stated at the lower of cost or market value with cost determined using the first-in, first-out (FIFO) method. The Company reduces the carrying value of its inventories for differences between the cost and estimated net realizable value, taking into consideration usage in the preceding 12 months, expected demand, and other information indicating obsolescence. The Company records as a charge to cost of product revenue the amount required to reduce the carrying value of inventory to net realizable value. As of March 31, 2009 and December 31, 2009, the Company had inventory obsolescence reserves of $668,000 and $737,000, respectively.

Costs associated with the procurement and warehousing of inventories, such as inbound freight charges and purchasing and receiving costs, are also included in cost of product revenue.

Inventories were comprised of the following (in thousands):

	March 31, 2009		December 31, 2009	
Raw materials and components	$	9,629	$	11,427
Work in process		1,753		587
Finished goods		8,850		12,503
	$	20,232	$	24,517

Property and Equipment

Property and equipment were comprised of the following (in thousands):

	March 31,	December 31,

	2009	2009 (As Restated)
Land and land improvements	$ 822	$ 1,436
Buildings	5,435	14,060
Furniture, fixtures and office equipment	3,432	5,126
Plant equipment	6,882	7,389
Construction in progress	11,366	5,796
	27,937	33,807
Less: accumulated depreciation and amortization	(4,938)	(6,625)
Net property and equipment	$ 22,999	$ 27,182

Equipment included above under capital leases was as follows (in thousands):

	March 31, 2009	December 31, 2009
Equipment	$ 1,104	$ 645
Less: accumulated amortization	(477)	(333)
Net equipment	$ 627	$ 312

The Company capitalized $90,000 and $0 of interest for construction in progress for the three months ended December 31, 2008 and 2009; and $186,000 and $21,000 for the nine months ended December 31, 2008 and 2009.

Patents and Licenses

In April 2008, the Company entered into a new employment agreement with the Company s CEO, Neal Verfuerth, which superceded and terminated Mr. Verfuerth s former employment agreement with the Company. Under the former agreement, Mr. Verfuerth was entitled to initial ownership of any intellectual work product he made or developed, subject to the Company s option to acquire, for a fee, any such intellectual work product. The Company made payments to Mr. Verfuerth totaling $144,000 per year in exchange for the rights to eight issued and pending patents. Pursuant to the new employment agreement, in exchange for a lump sum payment of $950,000, Mr. Verfuerth terminated the former agreement and irrevocably transferred ownership of his current and future intellectual property rights to the Company as the Company s exclusive property. This amount was capitalized in fiscal 2009 and is being amortized over the estimated future useful lives (ranging from 10 to 17 years) of the property rights.

Long-term Receivables

The Company records a long-term receivable for the non-current portion of its sales-type capital lease OTA contracts. The receivable is recorded at the net present value of the future cash flows from scheduled customer payments. The Company uses the implied cost of capital from each individual contract as the discount rate. Long-term receivables from OTA contracts were $3.7 million as of December 31, 2009.

Investment

In June 2008, the Company sold its long-term investment consisting of 77,000 shares of preferred stock of a manufacturer of specialty aluminum products. The investment was originally acquired in July 2006 by exchanging products with a fair value of $794,000. The Company received cash proceeds from the sale in the amount of $986,000, which included accrued dividends of $128,000, and also received a promissory note in the amount of $298,000.

Other Long-Term Assets

Other long-term assets include $33,000 and $28,000 of deferred financing costs as of March 31, 2009 and December 31, 2009 and $298,000 and $39,000 of a note receivable as of March 31, 2009 and December 31, 2009, respectively. Upon the sale of the long-term investment noted above, the Company received a promissory note. The note provides for interest only payments at 7% for the first year and 15% for the second year and thereafter. The full principal amount of the note is due in June 2011. The note is secured by a personal guarantee from the CEO of the specialty aluminum products company. In the second quarter of fiscal 2010, the Company assessed the long-term note receivable and determined that a portion of the note receivable may not be collectible. Accordingly, the Company established a reserve for uncollectibility of $259,000 of the original face value of the promissory note. For the nine months ended December 31, 2009, the Company recorded an expense of $259,000.

Accrued Expenses

Accrued expenses include warranty accruals, accrued wages and benefits, accrued vacation, accrued installation costs, sales tax payable and other various unpaid expenses. As of March 31, 2009 and December 31, 2009, no accrued expenses exceeded 5% of current liabilities.

The Company generally offers a limited warranty of one year on its products in addition to those standard warranties offered by major original equipment component manufacturers. The manufacturers warranties cover lamps and ballasts, which are significant components in the Company s products.

Changes in the Company s warranty accrual were as follows (in thousands):

	Three Months Ended December 31,				Nine Months Ended December 31,			
	2008		2009		2008		2009	
Beginning of period	$	46	$	42	$	69	$	55
Provision to cost of revenue		10		40		35		60
Charges		(1)		(44)		(49)		(77)
End of period	$	55	$	38	$	55	$	38

Revenue Recognition

Other than under OTAs, revenue is recognized when the following four criteria are met:

- persuasive evidence of an arrangement exists;
- delivery has occurred and title has passed to the customer;
- the sales price is fixed and determinable and no further obligation exists; and
- collectability is reasonably assured

These four criteria are met for the Company s product only revenue upon delivery of the product and title passing to the customer. At that time, the Company provides for estimated costs that may be incurred for product warranties and sales returns. Revenues are presented net of sales tax and other sales related taxes.

For sales contracts consisting of multiple elements of revenue, such as a combination of product sales and services, the Company determines revenue by allocating the total contract revenue to each element based on the relative fair values.

Services other than installation and recycling that are completed prior to delivery of the product are recognized upon shipment and are included in product revenue as evidence of fair value does not exist. These services include comprehensive site assessment, site field verification, utility incentive and government subsidy management, engineering design, and project management.

Service revenue includes revenue earned from installation, which includes recycling services. Service revenue is recognized when services are complete and customer acceptance has been received. The Company primarily contracts with third-party vendors for the installation services provided to customers and, therefore, determines fair value based upon negotiated pricing with such third-party vendors. Recycling services provided in connection with installation entail disposal of the customer s legacy lighting fixtures.

In October 2008, the Company introduced a financing program, called an OTA, for a customer s lease of the Company s energy management systems. The OTA is structured as a sales-type capital lease and upon successful installation of the system and customer acknowledgement that the product is operating as specified, revenue is recognized at the Company s net investment in the lease which typically is the net present value of the future cash flows.

Deferred revenue relates to an obligation to provide maintenance on certain sales and is classified as a liability on the balance sheet. The fair value of these maintenance obligations is readily determinable based upon pricing from third-party vendors. Deferred revenue is recognized when the services are delivered, which occurs in excess of a year after the original contract.

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Deferred revenue was comprised of the following (in thousands):

	March 31, 2009	December 31, 2009
Deferred revenue current liability	$ 103	$ 98
Deferred revenue long-term liability	36	176
Total deferred revenue	$ 139	$ 274

Income Taxes

The Company recognizes deferred tax assets and liabilities for the future tax consequences of temporary differences between financial reporting and income tax basis of assets and liabilities, measured using the enacted tax rates and laws expected to be in effect when the temporary differences reverse. Deferred income taxes also arise from the future tax benefits of operating loss and tax credit carryforwards. A valuation allowance is established when management determines that it is more likely than not that all or a portion of a deferred tax asset will not be realized.

GAAP also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination. The Company has classified the amounts recorded for uncertain tax benefits in the balance sheet as other liabilities (non-current) to the extent that payment is not anticipated within one year. The Company recognizes penalties and interest related to uncertain tax liabilities in income tax expense. Penalties and interest are immaterial as of the date of adoption and are included in the unrecognized tax benefits.

	Nine Months Ended,	
	December 31, 2008	December 31, 2009
Unrecognized tax benefits as of beginning of period	$ 392	$ 397
Decreases relating to settlements with tax authorities	(5)	
Additions based on tax positions related to the current period positions	10	1
Unrecognized tax benefits as of end of period	$ 397	$ 398

The income tax provision for the nine months ended December 31, 2009 was determined by applying an estimated annual effective tax rate of (22.4)% to income (loss) before taxes. The estimated effective income tax rate was determined by applying statutory tax rates to pretax income adjusted for certain permanent book to tax differences and tax credits.

Below is a reconciliation of the statutory federal income tax rate and the effective income tax rate:

	Nine Months Ended	
	December 31, 2008	December 31, 2009 (As Restated)
Statutory federal tax rate	34.00%	(34.0)%
State taxes, net	5.89%	2.6%
Stock-based compensation expense	6.05%	5.0%

Federal tax credit	0.00%	(3.5)%
State tax credit	0.00%	(0.4)%
Permanent differences	0.00%	0.1%
Change in valuation reserve	0.00%	5.1%
Other, net	0.36%	2.7%
Effective income tax rate	46.30%	(22.4)%

The Company has issued incentive stock options for which stock compensation expense is not deductible currently for tax purposes. The non-deductible expense is considered permanent in nature. A disqualifying disposition occurs when a shareholder sells shares from an option exercise within 12 months of the exercise date or within 24 months of the option grant date. In the event of a disqualifying disposition, the option and related stock compensation expense take on the characteristics of a non-qualified stock option grant, and is deductible for income tax purposes. This deduction is a permanent tax rate differential. The Company could incur significant changes in its effective tax rate in future periods based upon incentive stock option compensation expense and disqualifying disposition events. Since July 30, 2008, all stock option grants have been issued as non-qualified stock options.

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Stock Option Plans

The fair value of each option grant for the three and nine months ended December 31, 2008 and 2009 was determined using the assumptions in the following table:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	2009	2008	2009
Weighted average expected term	5.2 years	5.9 years	5.6 years	6.4 years
Risk-free interest rate	2.19%	2.33%	3.15%	2.56%
Expected volatility	60%	60%	60%	60%
Expected forfeiture rate	2%	3%	2%	3%
Expected dividend yield	0%	0%	0%	0%

Net Income (Loss) per Common Share

Basic net income (loss) per common share is computed by dividing net income (loss) attributable to common shareholders by the weighted-average number of common shares outstanding for the period and does not consider common stock equivalents. For the nine months ended December 31, 2009, the calculation of dilutive weighted average shares outstanding does not include the following potentially dilutive shares in the table below as their effect would be antidilutive.

The net income (loss) per share of common stock for the three and nine months ended December 31, 2008 and 2009 was as follows (in thousands except share amounts):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	2009 (As Restated)	2008	2009 (As Restated)
Numerator:				
Net income (loss)	$ 1,154	$ 754	$ 1,641	$ (2,257)
Denominator:				
Weighted-average common shares outstanding	25,203,827	21,792,175	26,398,338	21,709,799
Weighted-average effect of restricted stock, and assumed conversion of stock options and warrants	1,210,923	775,400	2,312,427	810,315
Weighted-average common shares and common share equivalents outstanding	26,414,750	22,567,575	28,710,765	22,520,114

Concentration of Credit Risk and Other Risks and Uncertainties

The Company s cash is deposited with three financial institutions. At times, deposits in these institutions exceed the amount of insurance provided on such deposits. The Company has not experienced any losses in such accounts and believes that it is not exposed to any significant risk on these balances.

The Company currently depends on one supplier for a number of components necessary for its products, including ballasts and lamps. If the supply of these components were to be disrupted or terminated, or if this supplier were unable to supply the quantities of components required, the Company may have short-term difficulty in locating alternative suppliers at required volumes. Purchases from this supplier accounted for 19% and 43% of total cost of revenue for the three months ended December 31, 2008 and 2009 and 21% and 26% of total cost of revenue for the nine months ended December 31, 2008 and 2009.

For the three and nine months ended December 31, 2008 and December 31, 2009, no customers accounted for more than 10% of revenue.

As of March 31, 2009 and December 31, 2009, no customer accounted for more than 10% of the accounts receivable balance.

Segment Information

The Company has determined that it operates in only one segment in accordance with the Segment Reporting Topic of the FASB Accounting Standards Codification as it does not disaggregate profit and loss information on a segment basis for internal management reporting purposes to its chief operating decision maker.

The Company s revenue and long-lived assets outside the United States are insignificant.

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Recent Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Update 2009-13, *Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force* (Topic 605), which amends the revenue guidance under ASC 605. This update requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. This guidance eliminates the residual method of revenue allocation and requires revenue to be allocated using the relative selling price method. This update is effective for fiscal years ending after June 15, 2010, and may be applied prospectively for revenue arrangements entered into or materially modified after the date of adoption or retrospectively for all revenue arrangements for all periods presented. The Company is currently evaluating the impact this update will have on our consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-02, Consolidation (Topic 810): *Accounting and Reporting for Decreases in Ownership of a Subsidiary*. This amendment to Topic 810 clarifies, but does not change, the scope of current US GAAP. It clarifies the decrease in ownership provisions of Subtopic 810-10 and removes the potential conflict between guidance in that Subtopic and asset derecognition and gain or loss recognition guidance that may exist in other US GAAP. An entity will be required to follow the amended guidance beginning in the period that it first adopts FAS 160(now included in Subtopic 810-10). For those entities that have already adopted FAS 160, the amendments are effective at the beginning of the first interim or annual reporting period ending on or after December 15, 2009. The amendments should be applied retrospectively to the first period that an entity adopted FAS 160. The Company does not expect the provision of ASU 2010-02 to have a material effect on the financial position, results of operations, or cash flows of the Company.

In January 2010, the FASB issued ASU 2010-01, Equity (Topic 505): *Accounting for Distributions to Shareholder with Components of Stock and Cash* (A Consensus of the FASB Emerging Issues Task Force). This amendment to Topic 505 clarifies the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a limit on the amount of cash that will be distributed is not a stock dividend for purposes of applying Topic 505 and 260 for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The Company does not expect the provision of ASU 2010-01 to have a material effect on the financial position, results of operations, or cash flows of the Company.

NOTE D RELATED PARTY TRANSACTIONS

The Company incurred fees of $12,000 for the nine months ended December 31, 2008 for intellectual property fees paid to its CEO pursuant to his employment agreement. In April 2008, the intellectual property rights were purchased from the executive for a cash payment of $950,000. Please refer to Patents and Licenses under footnote C for additional disclosure.

During the nine months ended December 31, 2008 and 2009, the Company recorded revenue of $24,000 and $27,000 for products and services sold to an entity for which a director of the Company was formerly the executive chairman. During the same nine month periods, the Company purchased goods and services from the same entity in the amounts of $125,000 and $30,000. The terms and conditions of such relationship are believed to be not materially more favorable to the Company or the entity than could be obtained from an independent third party.

During the nine months ended December 31, 2008 and 2009, the Company recorded revenue of $57,000 and $338,000 for products and services sold to an entity for which a former director previously served as an executive vice president. The terms and conditions of such relationship are believed to be not materially more favorable to the Company or the entity than could be obtained from an independent third party.

During the nine months ended December 31, 2008 and 2009, the Company recorded revenue of $102,000 and $79,000 for products and services sold to an entity for which a member of the board of directors serves as the chief executive officer. During the nine months ended December 31, 2008 and 2009, the Company purchased goods and services from the same entity in the amounts of $79,000 and $109,000. The terms and conditions of such relationship are believed to be not materially more favorable to the Company or the entity than could be obtained from an independent third party.

During the nine months ended December 31, 2008 and 2009, the Company recorded revenue of $415,000 and $705,000 for products and services sold to various entities affiliated or associated with an entity for which an executive officer of the Company serves as a member of the board of directors. The Company is not able to identify

the respective amount of revenues attributable to specifically identifiable entities within such group of affiliated or associated entities or the extent to which any such individual entities are related to the entity on whose board of directors the Company s executive officer serves. The terms and conditions of such relationship are believed to be not materially more favorable to the Company or the entity than could be obtained from an independent third party.

NOTE E LONG-TERM DEBT

Long-term debt as of March 31, 2009 and December 31, 2009 consisted of the following (in thousands):

	March 31, 2009	December 31, 2009
Term note	$ 1,235	$ 1,073
First mortgage note payable	990	944
Debenture payable	885	857
Lease obligations	227	22
Other long-term debt	1,125	1,126
Total long-term debt	4,462	4,022
Less current maturities	(815)	(650)
Long-term debt, less current maturities	$ 3,647	$ 3,372

Revolving Credit Agreement

On March 18, 2008, the Company entered into a credit agreement (Credit Agreement) to replace a previous agreement between the Company and Wells Fargo Bank, N.A. The Credit Agreement provides for a revolving credit facility (Line of Credit) that matures on August 31, 2010. The initial maximum aggregate amount of availability under the Line of Credit is $25.0 million. In December 2008, the Company briefly drew $4.0 million on the line of credit due to the timing of treasury repurchases and funds available in the Company s operating account. In May 2009, the Company completed an amendment to the Credit Agreement, effective as of March 31, 2009, which formalized Wells Fargo s prior consent to the Company s treasury repurchase program, increased the capital expenditures covenant for fiscal 2009 and revised certain financial covenants by adding a minimum requirement for unencumbered liquid assets, increasing the quarterly rolling net income requirement and modifying the merger and acquisition covenant exemption. In December 2009, the Company completed a second amendment to the Credit Agreement which formalized Wells Fargo s prior consent to the Company s prior failure to meet its net earnings and fixed charge coverage ratio covenants, limited borrowings to a percentage of eligible money market funds held in a Wells Fargo account, revised certain financial covenants by removing the minimum requirement for unencumbered assets and removing the fixed charge coverage ratio, decreased the quarterly rolling net income requirement, removed the first lien security interest in all of the Company s accounts receivable, general intangibles and inventory, and removed the second lien priority in all of the Company s equipment and fixtures and reduced the fee rate of the unused amounts on the Line of Credit. As of March 31, 2009 and December 31, 2009, there was no outstanding balance due on the Line of Credit.

The Company must currently pay a fee of 0.15% on the average daily unused amount of the Line of Credit and fees upon the issuance of each letter of credit equal to 1.25% per annum of the principal amount thereof.

The Credit Agreement provides that the Company has the option to select the interest rate applicable to all or a portion of the outstanding principal balance of the Line of Credit either (i) at a fluctuating rate per annum 1.00% below the prime rate in effect from time to time, or (ii) at a fixed rate per annum determined by Wells Fargo to be 1.25% above LIBOR. Interest is payable on the last day of each month.

The Credit Agreement contains certain financial covenants including minimum net income requirements and requirements that the Company maintain a net worth ratio at prescribed levels. The Credit Agreement also contains certain restrictions on the ability of the Company to make capital or lease expenditures over prescribed limits, incur additional indebtedness, consolidate or merge, guarantee obligations of third parties, make loans or advances, declare or pay any dividend or distribution on its stock, redeem or repurchase shares of its stock, or pledge assets.

NOTE F COMMITMENTS AND CONTINGENCIES

Operating Leases and Purchase Commitments

The Company leases vehicles and equipment under operating leases. Rent expense under operating leases was $263,000 and $385,000 for the three months ended December 31, 2008 and 2009; and $802,000 and $1,008,000 for the nine months ended December 31, 2008 and 2009. In addition, the Company enters into non-cancellable purchase commitments for certain inventory items in order to secure better pricing and ensure materials on hand, as well as for capital expenditures. As of December 31, 2009, the Company had entered into $12.6 million of purchase commitments, including $0.6 million related to the remaining capital committed for information technology improvements and other manufacturing equipment, $0.9 million for commitments under operating leases and $11.1 million for inventory purchases, including $0.2 million for commitments related to solar photovoltaic inventory.

Litigation

In February and March 2008, three class action lawsuits were filed in the United States District Court for the Southern District of New York against the Company, several of its officers, all members of its then existing board of directors, and certain underwriters relating to the Company s December 2007 initial public offering (IPO). The plaintiffs claim to represent those persons who purchased shares of the Company s common stock from December 18, 2007 through February 6, 2008. The plaintiffs allege, among other things, that the defendants made misstatements and failed to disclose material information in the Company s IPO registration statement and prospectus. The complaints allege various claims under the Securities Act of 1933, as amended. The complaints seek, among other relief, class certification, unspecified damages, fees, and such other relief as the court may deem just and proper.

On August 1, 2008, the court-appointed lead plaintiff filed a consolidated amended complaint in the United States District Court for the Southern District of New York. On September 15, 2008, the Company and the other director and officer defendants filed a motion to dismiss the consolidated complaint, and the underwriters filed a separate motion to dismiss the consolidated complaint on January 16, 2009. After oral argument on August 19, 2009, the Court granted in part and denied in part the motions to dismiss. The plaintiff filed a second consolidated amended complaint on September 4, 2009, and the defendants filed an answer to the complaint on October 9, 2009.

The Company believes that it and the other defendants have substantial legal and factual defenses to the claims and allegations contained in the consolidated complaint, and the Company intends to pursue these defenses vigorously. There can be no assurance, however, that the Company will be successful, and an adverse resolution of the lawsuit could have a material adverse effect on the Company s consolidated financial position, results of operations and cash flow. In addition, although the Company carries insurance for these types of claims, a judgment significantly in excess of the Company s insurance coverage or any costs, claims or judgment which are disputed or not covered by insurance could materially and adversely affect the Company s financial condition, results of operations and cash flow. The Company is not presently able to reasonably estimate potential costs and/or losses, if any, related to the lawsuit.

NOTE G SHAREHOLDERS EQUITY

Share Repurchase Program

In July 2008, the Company s board of directors approved a share repurchase program authorizing the Company to repurchase in the aggregate up to a maximum of $20 million of the Company s outstanding common stock. In December 2008, the Company s board of directors supplemented the share repurchase program authorizing the Company to repurchase up to an additional $10 million of the Company s outstanding common stock. As of December 31, 2009, the Company had repurchased 7,075,733 shares of common stock at a cost of $29.7 million under the program.

Shareholder Rights Plan

On January 7, 2009, the Company s Board of Directors adopted a shareholder rights plan and declared a dividend distribution of one common share purchase right (a Right) for each outstanding share of the Company s common stock. The issuance date for the distribution of the Rights was February 15, 2009 to shareholders of record on February 1, 2009. Each Right entitles the registered holder to purchase from the Company one share of the Company s common stock at a price of $30.00 per share, subject to adjustment (the Purchase Price).

The Rights will not be exercisable (and will be transferable only with the Company s common stock) until a Distribution Date occurs (or the Rights are earlier redeemed or expire). A Distribution Date generally will occur on

the earlier of a public announcement that a person or group of affiliated or associated persons (an Acquiring Person) has acquired beneficial ownership of 20% or more of the Company s outstanding common stock (a Shares Acquisition Date) or 10 business days after the commencement of, or the announcement of an intention to make, a tender offer or exchange offer that would result in any such person or group of persons acquiring such beneficial ownership.

If a person becomes an Acquiring Person, holders of Rights (except as otherwise provided in the shareholder rights plan) will have the right to receive that number of shares of the Company s common stock having a market value of two times the then-current Purchase Price, and all Rights beneficially owned by an Acquiring Person, or by certain related parties or transferees, will be null and void. If, after a Shares Acquisition Date, the Company is acquired in a merger or other business combination transaction or 50% or more of its consolidated assets or earning power are sold, proper provision will be made so that each holder of a Right (except as otherwise provided in the shareholder rights plan) will thereafter have the right to receive that number of shares of the acquiring company s common stock which at the time of such transaction will have a market value of two times the then-current Purchase Price.

Until a Right is exercised, the holder thereof, as such, will have no rights as a shareholder of the Company. At any time prior to a person becoming an Acquiring Person, the Board of Directors of the Company may redeem the Rights in whole, but not in part, at a price of $0.001 per Right. Unless they are extended or earlier redeemed or exchanged, the Rights will expire on January 7, 2019.

NOTE H STOCK OPTIONS AND WARRANTS

The Company grants stock options and restricted stock awards under its 2003 Stock Option and 2004 Stock and Incentive Awards Plans (the Plans). Under the terms of the Plans, the Company has reserved 10,500,000 shares for issuance to key employees, consultants and directors. The options generally vest and become exercisable ratably between one month and five years although longer vesting periods have been used in certain circumstances. In August and September of 2009, the Company granted stock option awards which vest based upon market or service conditions. The Company determined the vesting period for these option awards based upon an analysis of employment conditions and simulations of market conditions. Exercisability of the options granted to employees are contingent on the employees continued employment and non-vested options are subject to forfeiture if employment terminates for any reason. Options under the Plans have a maximum life of 10 years. In the past, the Company has granted both incentive stock options and non-qualified stock options, although in July 2008, the Company adopted a policy of thereafter only granting non-qualified stock options. Restricted stock awards have no vesting period and have been issued to certain non-employee directors in lieu of cash compensation pursuant to elections made under the Company s non-employee director compensation program. The Plans also provide to certain employees accelerated vesting in the event of certain changes of control of the Company.

In fiscal 2009, the Company granted 16,627 shares from the 2004 Stock and Incentive Awards Plan to certain non-employee directors who elected to receive stock awards in lieu of cash compensation. The shares were valued at the market price as of the grant date, ranging from $3.00 to $11.61 per share. For the three months and nine months ended December 31, 2009, the Company granted 4,921 and 7,764 shares from the 2004 Stock Incentive Awards Plan to certain non-employee directors who elected to receive stock awards in lieu of cash compensation. The shares were valued ranging from $3.29 to $3.81 per share, the market prices as of the grant dates.

The following amounts of stock-based compensation were recorded (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	2009	2008	2009
Cost of product revenue	$ 68	$ 51	$ 198	$ 163
General and administrative	121	135	546	400
Sales and marketing	157	205	428	472
Research and development	12	10	32	29
Total	$ 358	$ 401	$ 1,204	$ 1,064

As of December 31, 2009, compensation cost related to non-vested stock-based compensation amounted to $4.1 million over a remaining weighted average expected term of 6.7 years.

The following table summarizes information with respect to the Plans:

		Options Outstanding			
	Shares Available for Grant	**Number of Shares**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term (in years)**	**Aggregate Intrinsic value**
Balance at March 31, 2009	1,070,954	3,680,945	$ 3.40	6.82	
Granted stock options	(624,518)	624,518	3.38		
Granted shares in lieu of cash compensation	(7,764)				
Forfeited	347,965	(347,965)	5.07		
Exercised		(393,298)	1.64		
Balance at December 31, 2009	786,637	3,564,200	$ 3.43	6.71	$ 5,712,982
Exercisable at December 31, 2009		1,742,831	$ 2.67	5.25	$ 3,535,649

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The aggregate intrinsic value represents the total pre-tax intrinsic value, which is calculated as the difference between the exercise price of the underlying stock options and the fair value of the Company s closing common stock price of $4.39 as of December 31, 2009.

A summary of the status of the Company s outstanding non-vested stock options as of December 31, 2009 was as follows:

Non-vested at March 31, 2009	1,821,827
Granted	624,518
Vested	(277,011)
Forfeited	(347,965)
Non-vested at December 31, 2009	1,821,369

The Company has previously issued warrants in connection with various private placement stock offerings and services rendered. The warrants granted the holder the option to purchase common stock at specified prices for a specified period of time. No warrants were issued in fiscal 2009 or for the nine months ended December 31, 2009. Outstanding warrants are comprised of the following:

	Number of Shares	Weighted Average Exercise Price
Balance at March 31, 2009	488,504	$ 2.31
Issued		
Exercised	(131,360)	$ 2.30
Cancelled		
Balance at December 31, 2009	357,144	$ 2.32

A summary of outstanding warrants at December 31, 2009 follows:

Exercise Price	Number of Warrants	Expiration
$2.25	38,980	Fiscal 2014
$2.30	280,904	Fiscal 2010
$2.50	37,260	Fiscal 2011
Total	357,144	

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

The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and related notes, included elsewhere in this Quarterly Report on Form 10-Q/A. The information below has been adjusted to reflect the impact of the restatement of our financial results which is more fully described in Note B Restatement to the unaudited consolidated financial statements contained in this Quarterly Report on Form 10-Q/A and under the paragraph Restatement of Previously Issued Consolidated Financial Statements below and does not reflect any subsequent information or events occurring after the Original Filing or to modify or update those disclosures affected by subsequent events.

Cautionary Note Regarding Forward-Looking Statements

Any statements in this Quarterly Report on Form 10-Q/A about our expectations, beliefs, plans, objectives, prospects, financial condition, assumptions or future events or performance are not historical facts and are forward-looking statements as that term is defined under the federal securities laws. These statements are often, but not always, made through the use of words or phrases such as believe , anticipate , should , intend , plan , will , expects , estimates , projects , positioned , strategy , outlook and similar words. You should read the statements that contain these types of words carefully. Such forward-looking statements are subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what is expressed or implied in such forward-looking statements. There may be events in the future that we are not able to predict accurately or over which we have no control. Potential risks and uncertainties include, but are not limited to, those discussed in Part I, Item 1A. Risk Factors in our 2009 Annual Report filed on Form 10-K for the year ended March 31, 2009 and elsewhere in this Quarterly Report. We urge you not to place undue reliance on these forward-looking statements, which speak only as the date of this report. We do not undertake any obligation to release publicly any revisions to such forward-looking statements to reflect events or uncertainties after the date hereof or to reflect the occurrence of unanticipated events.

Restatement of Prior Period Financial Statements

As discussed in the explanatory note to this Form 10-Q/A, we have restated our previously issued unaudited consolidated financial statements and related disclosures for the quarter ended December 31, 2009 to account for our transactions under our Orion Throughput Agreements, or OTAs, as sales-type leases instead of as operating leases.

Our prior method of accounting for OTA transactions as operating leases deferred revenue recognition over the full term of the OTA contracts, only recognizing revenue on a monthly basis as customer payments are due, while the upfront sales, general and administrative expenses related to these OTA contracts were recognized immediately.

We are filing this Amendment No. 1, or First Amendment, to the Quarterly Report on Form 10-Q for the quarter ended December 31, 2009, or Form 10-Q, filed on February 9, 2010, to restate our unaudited interim condensed consolidated financial statements.

Background of the Restatement

As discussed above in the Explanatory Note in this Form 10-Q/A, the financial statements contained in the Form 10-Q for the quarterly period ended December 31, 2009 should no longer be relied upon and must be restated to account for our transactions under our OTA, as sales-type leases instead of as operating leases.

Our prior method of accounting for OTA transactions as operating leases deferred revenue recognition over the full term of the OTA contracts, only recognizing revenue on a monthly basis as customer payments are due, while the upfront sales, general and administrative expenses related to these OTA contracts were recognized immediately.

This Quarterly Report on Form 10-Q/A for the quarterly period ended December 31, 2009, initially filed with the SEC on February 9, 2009 (Original Filing), is being filed to reflect the financial statement restatement. Generally, for the quarterly and year-to-date periods ended December 31, 2009, this change in accounting treatment and financial statement restatements has resulted in:

No impact to our cash, cash equivalents, short-term investments; or overall cash flow;

Increases in our revenue of $1.5 million (9%), a decrease in our net income of $0.1 million (7%) and a reduction in our earnings per share of $0.01 (25%) for the quarter ended December 31, 2009, and an increase in our revenue of $4.2 million (10%), a decrease in our net loss of $1.1 million (32%) and a reduction in our loss per share of $0.05

(33%) for the nine months ended December 31, 2009; and

Increases in our current assets of $2.5 million (3%), our total assets of $1.4 million (1%), our total liabilities of $0.3 million (1%) and a reduction in our retained deficit of $1.1 million (55%).

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The specific line-item effect of the restatement on our previously issued unaudited condensed consolidated financial statements as of and for the nine months ended December 31, 2009 as filed on Form 10-Q on February 9, 2010 are as follows (in thousands, except share and per share data):

	Consolidated Balance Sheets as of December 31, 2009		
	As Previously reported	Adjustments	As Restated
Assets:			
Accounts receivable	$ 13,397	$ 1,020	$ 14,417
Deferred tax assets, current	549	806	1,355
Prepaid expenses and other current assets	1,955	633	2,588
Total current assets	73,354	2,459	75,813
Property and equipment, net	30,732	(3,550)	27,182
Deferred tax assets, long-term	1,826	(1,227)	599
Accounts receivable, long-term		3,686	3,686
Total assets	107,495	1,368	108,863
Liabilities and Shareholders Equity:			
Accrued expenses	2,792	261	3,053
Shareholders equity:			
Retained deficit	(2,009)	1,107	(902)

	Consolidated Statements of Operations					
	Three months ended December 31, 2009			Nine months ended December 31, 2009		
	As Previously reported	Adjustments	As Restated	As Previously reported	Adjustments	As Restated
Product revenue	$ 17,205	$ 1,532	$ 18,737	$ 41,645	$ 4,234	$ 45,879
Cost of product revenue	10,633	1,227	11,860	27,727	3,002	30,729
Interest expense	(67)	1	(66)	(197)	5	(192)
Dividend and interest income	49	108	157	248	291	539
Income tax expense (benefit)	(249)	467	218	(1,072)	420	(652)
Net income (loss)	807	(53)	754	(3,365)	1,107	(2,257)
Net income (loss) per share attributable to common shareholders basic	$ 0.04	$ (0.01)	$ 0.03	$ (0.15)	$ 0.05	$ (0.10)
Net income (loss) per share attributable to common shareholders diluted	$ 0.04	$ (0.01)	$ 0.03	$ (0.15)	$ 0.05	$ (0.10)
	21,792,175		21,792,175	21,709,799		21,709,799

Weighted average common shares outstanding basic				
Weighted average common shares outstanding diluted	22,567,575	22,567,575	21,709,799	21,709,799

	Consolidated Statements of Cash Flows Nine months ended December 31, 2009		
	As Previously Reported	Adjustments	As Restated
Net loss	$ (3,365)	$ 1,107	$ (2,257)
Deferred income tax benefit	(1,234)	421	(813)
Accounts receivable	(1,950)	(1,019)	(2,969)
Prepaid expenses and other assets and liabilities	1,414	(4,165)	(2,751)
Accrued expenses	633	105	738
Net cash used in operating activities	(175)	(3,551)	(3,726)
Purchase of property and equipment	(4,268)	126	(4,142)
Purchase of property and equipment leased to customers under operating leases	(5,328)	3,425	(1,903)
Net cash used in investing activities	(4,254)	3,551	(703)

Except for the foregoing amended information, this Form 10-Q/A continues to describe conditions as of the date of the Original Filing, and we have not updated the disclosures contained herein to reflect events that occurred at a later date. Throughout this Quarterly Report on Form 10-Q/A, all amounts presented from prior periods and prior period comparisons that have been revised are labeled As Restated and reflect the balances and amounts on a restated basis.

Overview

We design, manufacture and implement energy management systems consisting primarily of high-performance, energy-efficient lighting systems, controls and related services.

We currently generate the substantial majority of our revenue from sales of high intensity fluorescent, or HIF, lighting systems and related services to commercial and industrial customers. We typically sell our HIF lighting systems in replacement of our customers existing high intensity discharge, or HID, fixtures. We call this replacement process a retrofit. We frequently engage our customer s existing electrical contractor to provide installation and project management services. We also sell our HIF lighting systems on a wholesale basis, principally to electrical contractors and value-added resellers to sell to their own customer bases.

We have sold and installed more than 1,667,000 of our HIF lighting systems in over 5,300 facilities from December 1, 2001 through December 31, 2009. We have sold our products to 123 Fortune 500 companies, many of which have installed our HIF lighting systems in multiple facilities. Our top direct customers by revenue in fiscal 2009 included Coca-Cola Enterprises Inc., Anheuser-Busch Companies, Inc., Kraft Foods Inc., Ben E. Keith Co., SYSCO Corp., Americold Logistics, LLC and U.S. Foodservice. Our top direct customers by revenue for the nine months ended December 31, 2009 included Coca-Cola Enterprises Inc., U.S. Foodservice, SYSCO Corp., Ball Corporation, MillerCoors and Pepsico, Inc. and its affiliates.

Our fiscal year ends on March 31. We call our prior fiscal year which ended on March 31, 2009, fiscal 2009 . We call our current fiscal year, which will end on March 31, 2010, fiscal 2010. Our fiscal first quarter ends on June 30, our fiscal second quarter ends on September 30, our fiscal third quarter ends on December 31 and our fiscal fourth quarter ends on March 31.

Because of the current recessed state of the global economy, especially as it has affected capital equipment manufacturers, our first nine months of fiscal 2010 continued to be impacted by lengthened customer sales cycles and sluggish customer capital spending. To address these conditions, we implemented $3.2 million of annualized cost reductions, which are beginning to be realized over fiscal 2010. These cost containment initiatives included reductions related to headcount, work hours and discretionary spending. We believe these cost reduction efforts will better position us for profitability in the second half of fiscal 2010, dependent upon the economic environment, customer

capital spending and other factors.

In August 2009, we created Orion Technology Ventures (OTV), a new operating division which is exploring whether we should offer our customers additional alternative renewable energy systems, such as those using wind and solar technologies. This division is conducting research on various renewable energy technologies that we may be able to add to our menu of products, applications and services offered, make recommendations to our senior management regarding the technologies viability, develop commercialization tactics, and if determined commercially viable, ultimately add the technology into our menu of products, applications and services offered through our distribution channels. In the second quarter of fiscal 2010, we began researching three test solar photovoltaic (PV) electricity generating projects. These projects are helping us answer technological, installation and commercial feasability questions before determining how this technology may fit into our overall business plan. In the third quarter of fiscal 2010, we completed our test analysis on two of the three initial PV projects that were initiated through OTV and executed our first cash sale and our first purchase power agreement (PPA) as a result of the successful testing of these systems. A PPA contract is a supply side agreement for the generation of electricity and subsequent sale to the end user. We expect the installation and customer acceptance of these systems to be completed during our fiscal 2010 fourth quarter or our fiscal 2011 first quarter. In the near term we do not anticipate revenue contributions from these projects to be significant.

Revenue and Expense Components

Revenue. We sell our energy management products and services directly to commercial and industrial customers, and indirectly to end users through wholesale sales to electrical contractors and value-added resellers. We currently generate the substantial majority of our revenue from sales of HIF lighting systems and related services to commercial and industrial customers. While our services include comprehensive site assessment, site field verification, utility incentive and government subsidy management, engineering design, project management, installation and recycling in connection with our retrofit installations, we separately recognize service revenue only for our installation and recycling services. Except for our installation and recycling services, all other services are completed prior to product shipment and revenue from such services is included in product revenue because evidence of fair value for these services does not exist. For the first nine months of fiscal 2010, we maintained our efforts in selling through our contractor and value-added reseller channels with marketing through mass mailings, participating in national trade organizations and providing training to channel partners on our sales methodologies. These wholesale channels accounted for approximately 43% of our total cash revenue in the first nine months of fiscal 2010 compared to 40% of total cash revenue contributed in fiscal 2009.

In October 2008, we introduced to the market a financing program, called an OTA, for our customer s lease of our energy management systems. The OTA program was established to assist customers who are interested in purchasing our energy management systems but who have capital expenditure budget limitations. Our OTA contracts are sales-type capital leases under GAAP and we record revenue at the net present value of the future payments at the time customer acceptance of the installed and operating system is complete. Our OTA contracts under this sales-type capital lease financing are one year in duration and, at the completion of the initial one-year term, provide for (i) one to four automatic one-year renewals at agreed upon pricing; (ii) an early buyout for cash; or (iii) the return of the equipment at the customer s expense. The revenue that we are entitled to receive from the sale of our lighting fixtures under our OTA financing program is fixed and is based on the cost of the lighting fixtures and applicable profit margin. Our revenue from agreements entered into under this program is not dependent upon our customers actual energy savings. Upon completion of the installation, we may choose to sell the future cash flows and residual rights to the equipment on a non-recourse basis to an unrelated third party finance company in exchange for cash and future payments. We recognize revenue from OTA contracts at the net present value of the future cash flows at the completion date of the installation of the energy management systems and the customers acknowledgement that they system is operating as specified.

For the first nine months of fiscal 2010, we recognized $4.2 million of revenue from completed OTA contracts. As of December 31, 2009, we had signed 82 customers to OTA contracts representing future gross cash flows of $7.9 million. In the future, we expect an increase in the volume of OTA contracts as our customers take advantage of our value proposition without incurring an up-front capital cost.

Other than OTA sales, we recognize revenue on product only sales at the time of shipment. For projects consisting of multiple elements of revenue, such as a combination of product sales and services, we separate the project into separate units of accounting based on their relative fair values for revenue recognition purposes. Additionally, the deferral of revenue on a delivered element may be required if such revenue is contingent upon the delivery of the remaining undelivered elements. We recognize revenue at the time of product shipment on product sales and on services completed prior to product shipment. We recognize revenue associated with services provided after product shipment, based on their fair value, when the services are completed and customer acceptance has been received. When other significant obligations or acceptance terms remain after products are delivered, revenue is recognized only after such obligations are fulfilled or acceptance by the customer has occurred.

Our dependence on individual key customers can vary from period to period as a result of the significant size of some of our retrofit and multi-facility roll-out projects. Our top 10 customers accounted for approximately 27% and 36% of our total revenue for the first nine months of fiscal 2010 and fiscal 2009, respectively. No single customer accounted for more than 10% of our total revenue for either our first nine months of fiscal 2010 or fiscal 2009. To the extent that large retrofit and roll-out projects become a greater component of our total revenue, we may experience more customer concentration in given periods. The loss of, or substantial reduction in sales volume to, any of our significant customers could have a material adverse effect on our total revenue in any given period and may result in significant annual and quarterly revenue variations.

Our level of total revenue for any given period is dependent upon a number of factors, including (i) the demand for our products and systems, including our OTA program and any new products, applications and services that we may introduce through our new OTV division; (ii) the number and timing of large retrofit and multi-facility retrofit, or roll-out, projects; (iii) the level of our wholesale sales; (iv) our ability to realize revenue from our services; (v) market conditions; (vi) our execution of our sales process; (vii) our ability to compete in a highly competitive market and our ability to respond successfully to market competition; (viii) the selling price of our products and services; (ix) changes in capital investment levels by our customers and prospects; and (x) customer sales cycles. As a result, our total revenue may be subject to quarterly variations and our total revenue for any particular fiscal quarter may not be indicative of future results.

Contracted Revenue. Although Contracted Revenue is not a term recognized under GAAP, since the volume of our OTA and PPA business is expected to continue to increase and because our OTA revenues are not recognized until project completion occurs and due to the long-term operating lease treatment of our PPA projects, we believe Contracted Revenue provides our management and investors with an informative measure of our relative order activity for any particular period. We define Contracted Revenue as the total contractual value of all firm purchase orders received for our products and services and the expected future potential gross cash flow streams, including all renewal periods, for all OTAs upon the execution of the contract and the discounted value of future potential revenue from energy generation over the life of all PPAs along with the discounted value of revenue for renewable energy credits, or RECs, for as long as the REC programs are currently defined to be in existence with the governing body. For cash Contracted Revenue, we generally expect that we will begin to recognize GAAP revenue within 30 days from receipt of purchase order. For OTA Contracted Revenue, we generally expect that we will recognize GAAP revenue upon project completion within 90-120 days from the firm contract date. For PPA Contracted Revenue, we generally expect that we will begin to recognize GAAP revenue under the terms of the PPAs within 180 days from the firm contract date. We believe that total Contracted Revenues are a key financial metric for evaluating and measuring our performance because the measure is an indicator of our success in our customers adoption and acceptance of our energy products and services as it measures firm contracted revenue value, regardless of the contract s cash or deferred financial structure and the related different GAAP revenue recognition treatment. For the three months ended December 31, 2008 and 2009, our contracted revenue was $23.3 million and $21.4 million, which included $0.8 million and $3.4 million of future gross cash flow streams associated with OTA and OTV contracts, respectively. For the first nine months of fiscal 2009 and fiscal 2010, our contracted revenue was $57.1 million and $57.2 million, which for the first nine months of fiscal 2009 and fiscal 2010 included $0.8 million and $8.1 million of future gross cash flow streams associated with OTA and OTV contracts.

Backlog. We define backlog as the total contractual value of all firm orders received for our lighting products and services. Such orders must be evidenced by a signed proposal acceptance or purchase order from the customer. Our backlog does not include OTA contracts or national account contracts that have been negotiated, but for which we have not yet received a purchase order for the specific location. As of December 31, 2009, we had a backlog of firm purchase orders of approximately $5.1 million compared to a backlog of firm purchase orders of approximately $3.2 million as of December 31, 2008. We generally expect this level of firm purchase order backlog to be converted into revenue within the following quarter. Principally as a result of the continued lengthening of our customer s purchasing decisions because of current economic conditions and related factors, the continued shortening of our installation cycles and the number of projects sold through national and OTA contracts, a comparison of backlog from period to period is not necessarily meaningful and may not be indicative of actual revenue recognized in future periods.

Cost of Revenue. Our total cost of revenue consists of costs for: (i) raw materials, including sheet, coiled and specialty reflective aluminum; (ii) electrical components, including ballasts, power supplies and lamps; (iii) wages and related personnel expenses, including stock-based compensation charges, for our fabricating, coating, assembly, logistics and project installation service organizations; (iv) manufacturing facilities, including depreciation on our manufacturing facilities and equipment, taxes, insurance and utilities; (v) warranty expenses; (vi) installation and integration; and (vii) shipping and handling. Our cost of aluminum can be subject to commodity price fluctuations, which we attempt to mitigate with forward fixed-price, minimum quantity purchase commitments with our suppliers. We also purchase many of our electrical components through forward purchase contracts. We buy most of our specialty reflective aluminum from a single supplier, and most of our ballast and lamp components from a single supplier, although we believe we could obtain sufficient quantities of these raw materials and components on a price and quality competitive basis from other suppliers if necessary. Purchases from our current primary supplier of ballast and lamp components constituted 26% of our total cost of revenue for the first nine months of fiscal 2010 and were 21% of total cost of revenue for the first nine months of fiscal 2009. Our cost of revenue from OTA projects is recorded as an asset on our balance sheet during the implementation stage of the project and expensed to product cost of goods sold upon completion of installation and the customers acceptance of the technology. Our production labor force is non-union and, as a result, our production labor costs have been relatively stable. We have been expanding our network of qualified third-party installers to realize efficiencies in the installation process. During the first nine months of fiscal 2010, we reduced headcounts and improved production product flow through reengineering of our assembly stations.

Gross Margin. Our gross profit has been, and will continue to be, affected by the relative levels of our total revenue and our total cost of revenue, and as a result, our gross profit may be subject to quarterly variation. Our gross profit as a percentage of total revenue, or gross margin, is affected by a number of factors, including: (i) our mix of large retrofit and multi-facility roll-out projects with national accounts; (ii) the level of our wholesale sales (which generally have historically resulted in lower relative gross margins, but higher relative net margins, than our sales to direct customers); (iii) our realization rate on our billable services; (iv) our project pricing; (v) our level of warranty claims; (vi) our level of utilization of our manufacturing facilities and production equipment and related absorption of our manufacturing overhead costs; (vii) our level of efficiencies in our manufacturing operations; and (viii) our level of efficiencies from our subcontracted installation service providers.

Operating Expenses. Our operating expenses consist of: (i) general and administrative expenses; (ii) sales and marketing expenses; and (iii) research and development expenses. Personnel related costs are our largest operating expense. While we have recently focused on reducing our personnel costs and headcount in certain functional areas, we do nonetheless believe that future opportunities within our business remain strong. As a result, we may choose to selectively add to our sales staff based upon opportunities in regional markets.

Our general and administrative expenses consist primarily of costs for: (i) salaries and related personnel expenses, including stock-based compensation charges related to our executive, finance, human resource, information technology and operations organizations; (ii) public company costs, including investor relations and audit; (iii) occupancy expenses; (iv) professional services fees; (v) technology related costs and amortization; (vi) bad debt and asset impairment charges; and (vii) corporate-related travel.

Our sales and marketing expenses consist primarily of costs for: (i) salaries and related personnel expenses, including stock-based compensation charges related to our sales and marketing organization; (ii) internal and external sales commissions and bonuses; (iii) travel, lodging and other out-of-pocket expenses associated with our selling efforts; (iv) marketing programs; (v) pre-sales costs; and (vi) other related overhead.

Our research and development expenses consist primarily of costs for: (i) salaries and related personnel expenses, including stock-based compensation charges, related to our engineering organization; (ii) payments to consultants; (iii) the design and development of new energy management products and enhancements to our existing energy management system; (iv) quality assurance and testing; and (v) other related overhead. We expense research and development costs as incurred.

In fiscal 2009, we incurred increased general and administrative expenses in connection with our becoming a public company, including increased accounting, audit, investor relations, legal and support services and Sarbanes-Oxley compliance fees and expenses. Our operating expenses continued to increase in the first nine months of fiscal 2010 as a result of the completion of our new technology center and the related building occupancy costs. We expense all pre-sale costs incurred in connection with our sales process prior to obtaining a purchase order. These pre-sale costs may reduce our net income in a given period prior to recognizing any corresponding revenue. We also intend to continue to invest in our research and development of new and enhanced energy management products and services.

We recognize compensation expense for the fair value of our stock option awards granted over their related vesting period. We recognized \$1.1 million in the first nine months of fiscal 2010 and \$1.2 million of stock-based compensation expense in the same period in fiscal 2009. As a result of prior option grants, we expect to recognize an additional \$4.1 million of stock-based compensation over a weighted average period of approximately seven years, including \$0.3 million in the fourth quarter of fiscal 2010. These charges have been, and will continue to be, allocated to cost of product revenue, general and administrative expenses, sales and marketing expenses and research and development expenses based on the departments in which the personnel receiving such awards have primary responsibility. A substantial majority of these charges have been, and likely will continue to be, allocated to general and administrative expenses and sales and marketing expenses.

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Interest Expense. Our interest expense is comprised primarily of interest expense on outstanding borrowings under long-term debt obligations described under Liquidity and Capital Resources Indebtedness below, including the amortization of previously incurred financing costs. We amortize deferred financing costs to interest expense over the life of the related debt instrument, ranging from six to fifteen years.

Dividend and Interest Income. Our dividend income consists of dividends paid on preferred shares that we acquired in July 2006. The terms of these preferred shares provided for annual dividend payments to us of $0.1 million. The preferred shares were sold back to the issuer in June 2008 and all dividends accrued were paid upon sale. We also report interest income earned from our financed OTA contracts and on our cash and cash equivalents and short term investments. For the first nine months of fiscal 2010, our interest income declined as a result of the decrease in our cash and cash equivalents and declining market rates.

Income Taxes. We had federal and state credit carryforwards that each totaled approximately $0.5 million as of March 31, 2009. These federal and state net operating losses and credit carryforwards will begin to expire in varying amounts between 2020 and 2029. Anytime a company is reporting a net deferred tax asset, management needs to consider the likelihood of the assets being realized. If after management weighs the effects of both positive and negative evidence, it is determined that there is less than a 50% chance that the deferred tax asset will be realized, the company is required to establish a valuation allowance. As of December 31, 2009, a valuation allowance of $0.2 million has been established. This allowance has been established due to the potential of a portion of the state net operating loss carryforwards and state tax credit carryforwards not being realizable.

Results of Operations

The following table sets forth the line items of our consolidated statements of operations on an absolute dollar basis and as a relative percentage of our total revenue for each applicable period, together with the relative percentage change in such line item between applicable comparable periods set forth below (dollars in thousands):

	Three Months Ended December 31,					Nine Months Ended December 31,				
	2008		2009			2008		2009		
			(As Restated)	(As Restated)	(As Restated)			(As Restated)	(As Restated)	(As Restated)
	Amount	% of Revenue	Amount	% of Revenue	% Change	Amount	% of Revenue	Amount	% of Revenue	% Change
Product revenue	$ 20,671	92.4%	$ 18,737	90.0%	(9.4)%	$ 50,840	88.8%	$ 45,879	90.4%	(9.8)%
Service revenue	1,704	7.6%	2,090	10.0%	22.7%	6,401	11.2%	4,897	9.6%	(23.5)%
Total revenue	22,375	100.0%	20,827	100.0%	(6.9)%	57,241	100.0%	50,776	100.0%	(11.3)%
Cost of product revenue	13,644	61.0%	11,860	56.9%	(13.1)%	33,724	58.9%	30,729	60.5%	(8.9)%
Cost of service revenue	1,311	5.9%	1,568	7.5%	19.6%	4,565	8.0%	3,455	6.8%	(24.3)%
Total cost of revenue	14,955	66.8%	13,428	64.5%	(10.2)%	38,289	66.9%	34,184	67.3%	(10.7)%
Gross profit	7,420	33.2%	7,399	35.5%	(0.3)%	18,952	33.1%	16,592	32.7%	(12.5)%
General and administrative expenses	2,438	10.9%	3,051	14.6%	25.1%	7,946	13.9%	9,357	18.4%	17.8%
	2,741	12.3%	3,063	14.7%	11.7%	8,164	14.3%	9,176	18.1%	12.4%

Sales and marketing expenses										
Research and development expenses	347	1.6%	404	1.9%	16.4%	1,138	2.0%	1,315	2.6%	15.6%
Income (loss) from operations	1,894	8.4%	881	4.2%	(53.5)%	1,704	2.9%	(3,256)	(6.4)%	(291.1)%
Interest expense	33	0.1%	66	0.3%	100.0%	141	0.2%	192	0.4%	36.2%
Dividend and interest income	325	1.5%	157	0.8%	(51.7)%	1,492	2.6%	539	1.1%	(63.9)%
Income (loss) before income tax	2,186	9.8%	972	4.7%	(55.5)%	3,055	5.3%	(2,909)	(5.7)%	(195.2)%
Income tax expense (benefit)	1,032	4.6%	218	1.0%	(78.9)%	1,414	2.5%	(652)	(1.3)%	(146.1)%
Net income (loss)	$ 1,154	5.2%	$ 754	3.6%	(34.7)%	$ 1,641	2.8%	$ (2,257)	(4.4)%	(237.5)%

NM = Not Meaningful

Revenue. Product revenue decreased from $20.7 million for the fiscal 2009 third quarter ended December 31, 2008 to $18.7 million for the fiscal 2010 third quarter ended December 31, 2009, a decrease of $2.0 million, or 10%. Product revenue decreased from $50.8 million for the nine months of fiscal 2009 to $45.9 million for the first nine months of fiscal 2010, a decrease of $4.9 million, or 10%. The decrease in product revenue was a result of decreased sales of our HIF lighting systems. Service revenue increased from $1.7 million for the fiscal 2009 third quarter to $2.1 million for the fiscal 2010 third quarter, an increase of $0.4 million, or 24%. The increase in service revenue for the quarter was due to the timing of project completions within the quarter. Service revenue decreased from $6.4 million for the first nine months of fiscal 2009 to $4.9 million for the first nine months of fiscal 2010, a decrease of $1.5 million, or 23%. The decrease in service revenue was a result of the decreased sales of our HIF lighting systems. Our nine months fiscal 2010 revenue continued to be impacted by a lengthening sales cycle in the marketplace. We attribute this circumstance to general conservatism in the marketplace concerning capital spending and purchase decisions due to continuing adverse economic and credit market conditions. In our fiscal 2010 third quarter, we realized a slight improvement in our order volumes in relation to our fiscal 2010 second quarter.

Cost of Revenue and Gross Margin. Our cost of product revenue decreased from $13.6 million for the fiscal 2009 third quarter to $11.9 million for the fiscal 2010 third quarter, a decrease of $1.7 million, or 13%. Our cost of product revenue decreased from $33.7 million for the first nine months of fiscal 2009 to $30.7 million for the first nine months of fiscal 2010, a decrease of $3.0 million, or 9%. Our cost of service revenues increased from $1.3 million for the fiscal 2009 third quarter to $1.6 million for the fiscal 2010 third quarter, an increase of $0.3 million, or 23%. Our cost of service revenue decreased from $4.6 million for the first nine months of fiscal 2009 to $3.5 million for the first nine months of fiscal 2010, a decrease of $1.1 million, or 24%. Total gross margin increased from 33.2% for the fiscal 2009 third quarter to 35.5% for the fiscal 2010 third quarter and decreased from 33.1% for the first nine months of fiscal 2009 to 32.7% for the first nine months of fiscal 2010. During the fiscal 2010 third quarter, we maintained

improvements in our product gross margins, in spite of the volume decline, resulting from our efforts to reengineer our assembly processes, including the implementation of cell manufacturing stations, a reduction in headcount and a reduction in work hours, and reduction in discretionary spending and premium costs, like overtime. The decrease in gross margin for the first nine months of fiscal 2010 was attributable to unabsorbed manufacturing capacity costs related to the decline in product revenues.

Operating Expenses

General and Administrative. Our general and administrative expenses increased from $2.4 million for the fiscal 2009 third quarter to $3.1 million for the fiscal 2010 third quarter, an increase of $0.7 million, or 29%. The increase was a result of: (i) $0.2 million in cost benefit related to bonus accrual reversals that occurred in the fiscal 2009 third quarter that did not reoccur in our fiscal 2010 third quarter; (ii) $0.1 million for legal expenses for business and class action litigation; and (iii) $0.3 million for occupancy costs related to the completion of our new technology center.

General and administrative expenses increased from $7.9 million for the first nine months of fiscal 2009 to $9.4 million for the first nine months of fiscal 2010, an increase of $1.5 million, or 19%. The increase was a result of: (i) $0.3 million in costs related to the write down of a long-term note receivable and bad debt charges on aged accounts receivables; (ii) $0.4 million in severance compensation costs and headcount additions; (iii) $0.4 million as a result of a one-time gain on asset disposal in the first nine months of fiscal 2009 that did not recur in the first nine months of fiscal 2010 and (iv) $0.9 million increase for occupancy costs related to the completion of our new technology center, including approximately $0.1 million for one-time start-up charges. These cost increases were partially offset by $0.5 million in decreased compensation costs resulting from headcount reductions and other discretionary spending reductions.

Sales and Marketing. Our sales and marketing expenses increased from $2.7 million for the fiscal 2009 third quarter to $3.1 million for the fiscal 2010 third quarter, an increase of $0.4 million, or 15%. The increase was a result of: (i) $0.1 million in cost benefit related to bonus accrual reversals that occurred in the fiscal 2009 third quarter that did not reoccur in our fiscal 2010 third quarter; (ii) $0.1 million in additional stock compensation costs; and (iii) $0.2 million for commission and compensation cost increases related to headcount additions.

Sales and marketing expenses increased from $8.1 million for the first nine months of fiscal 2009 to $9.2 million for the first nine months of fiscal 2010, an increase of $1.1 million, or 14%. The increase was a result of compensation and benefit costs for additional sales and marketing personnel. We increased our sales and marketing headcount to further develop opportunities for our exterior lighting products within the utility and governmental markets, expanded sales and sales support personnel dedicated to our in-market sales programs and added technical expertise for our wireless controls product lines. Total sales and marketing headcount as of December 31, 2009 was 78 compared to 62 at December 31, 2008.

Research and Development. Our research and development expenses increased from $0.3 million for the fiscal 2009 third quarter to $0.4 million for the fiscal 2010 third quarter, an increase of $0.1 million, or 33%. Research and development expenses increased from $1.1 million for the first nine months of fiscal 2009 to $1.3 million for the first nine months of fiscal 2010. Expenses incurred for the first nine months of fiscal 2010 related to compensation costs for the development and support of new products, depreciation expenses for lab and research equipment and testing costs related to our new wireless controls and exterior lighting product initiatives.

Interest Expense. Our interest expense increased from $33,000 for the fiscal 2009 third quarter to $66,000 for the fiscal 2010 third quarter, an increase of $33,000, or 100%. Our interest expense increased from $141,000 for the first nine months of fiscal 2009 to $192,000 for the first nine months of fiscal 2010, an increase of $51,000, or 36%. The increase in interest expense was due to the elimination of capitalized interest resulting from the completion of our corporate technology center. For the first nine months of fiscal 2009 and fiscal 2010, we capitalized $186,000 and $21,000 of interest for construction in progress, respectively.

Dividend and Interest Income. Our dividend and interest income decreased from both the three- and nine month fiscal 2009 periods to the three- nine-month fiscal 2010 periods as a result of declining market interest rates and the reduction in our cash balances year over year due to cash used for our common share repurchase.

Income Taxes. Our income tax expense decreased from both the three- and nine-month fiscal 2009 periods to the three- and nine month fiscal 2010 periods due to the reduction in our taxable income. Our effective income tax rate for the first nine months of fiscal 2009 was 46.3%, compared to a benefit rate of 22.4% for the first nine months of fiscal 2010. The change in our effective tax rate was due to a reduction of benefits for non-deductible stock compensation expense from prior incentive stock option grants, a mix change in state rates and an increase in federal tax credits available.

Liquidity and Capital Resources

Overview

On December 24, 2007, we completed our initial public offering, or IPO. Net proceeds to us from our IPO were approximately $82.8 million (net of underwriting discounts and commissions but before the deduction of offering expenses). We invested the net proceeds from our IPO in money market funds and short-term government agency bonds.

We had approximately $31.9 million in cash and cash equivalents and $1.0 million in short-term investments as of December 31, 2009, compared to $36.2 million and $6.5 million at March 31, 2009. Our cash equivalents are invested in money market accounts and bank certificates of deposit with maturities of less than 90 days and an average yield of 0.5%. Our short-term investment account consists of a single bank certificate of deposit with an expiration date of June 2010 and a yield of 1.0%.

We believe that our existing cash and cash equivalents will be sufficient to meet our currently anticipated cash needs for at least the next 12 months.

Cash Flows

The following table summarizes our cash flows for the nine months ended December 31, 2008 and 2009 (in thousands):

	Nine Months Ended December 31,	
	2008	2009
		(As Restated)
Operating activities	$ (468)	$ (3,726)
Investing activities	(33,491)	(703)
Financing activities	(20,178)	202
Decrease in cash and cash equivalents	$ (54,137)	$ (4,227)

Cash Flows Related to Operating Activities. Cash used in operating activities primarily consists of net income (loss) adjusted for certain non-cash items including depreciation and amortization, stock-based compensation expenses, income taxes and the effect of changes in working capital and other activities.

Cash used in operating activities for the first nine months of fiscal 2010, was $3.7 million and consisted of net cash of $4.1 million provided from working capital purposes, offset by net loss adjusted non-cash expense items of $0.3 million. Cash used for working capital purposes consisted of an increase of $3.0 million in trade receivables due to the increasing volume of our OTA finance contracts being completed, a $2.8 million increase in prepaid and other due to an increase of $3.7 in long-term accounts receivable from our OTA finance program offset by a decrease in prepaid expenses resulting from refunds of deposits held under construction projects and for operating leases and the amortization of expenses and a $4.3 million increase in inventories resulting from purchases of ballast and wireless component inventories. We increased our level of inventory for these components due to longer lead times and supply availability concerns for inventory components shipping out of Asia. These amounts were offset by an increase of $5.2 million in accounts payable for inventory purchases with payment terms and a $0.6 million increase in accrued expenses resulting from increases in accrued severance costs, increases in accrued legal expenses and increased deposit payments for OTA contracts.

Cash used in operating activities for the first nine months of fiscal 2009 was $0.5 million and consisted of net cash of $4.7 million used for working capital purposes partially offset by net income adjusted for non-cash expense items of $4.2 million. Cash used for working capital consisted of an increase of $1.8 million in inventory to provide safety stock inventories on key components, a $1.5 million increase in trade receivables attributed to national account customers holding cash at calendar year-end, a $0.7 million increase in prepaids due to advanced payments for income taxes and services, a $0.4 million increase in deferred costs due to incomplete projects where revenue has not yet been recognized, a $0.1 million increase for interest receivable on short-term investments, and a $1.6 million decrease in

accrued expenses due to $0.8 million for payments to contractors for project services performed and a $0.8 million decrease in compensation accruals for payments made and bonus accruals no longer required. This amount was offset by a $1.4 million increase in accounts payable due to inventory purchases within the quarter that were still within payment terms.

Cash Flows Related to Investing Activities. For the first nine months of fiscal 2010, cash used in investing activities was $0.7 million.

This included $4.1 million for capital expenditures related to the technology center, operating software systems, and processing equipment for capacity and cost improvement measures, $1.9 million for OTV solar PV equipment installed and operating at customer locations and $0.2 million for investment into patents, offset by cash provided from the maturation of short-term investments of $5.5 million.

Cash used in investing activities for the first nine months of fiscal 2009, was $33.5 million. This included $22.3 million for short-term investments with maturity dates ranging from 91 to 360 days, $10.6 million for capital expenditures related to the technology center, operating software systems and processing equipment for capacity and cost improvement measures, $1.0 million for the purchase of intellectual property rights from an executive, offset by net proceeds from the sale of an investment of $0.5 million.

Cash Flows Related to Financing Activities. For the first nine months of fiscal 2010, cash flows provided by financing activities was $0.2 million. This included proceeds of $0.9 million received from stock option and warrant exercises, $0.2 million for proceeds from long-term debt and $0.1 million for excess tax benefits from stock based compensation, offset by cash flows used in financing activities, which included $0.4 million for common share repurchases and $0.6 million used for the repayment of long-term debt.

Cash used in financing activities for the first nine months of fiscal 2009, was $20.2 million. This included $22.4 million used for common share repurchases and $0.6 million for repayment of long-term debt. Cash flows provided by financing activities included proceeds of $1.4 million received from stock option and warrant exercises and $1.5 million in deferred tax benefits from non-qualified stock option exercises.

Working Capital

Our net working capital as of December 31, 2009 was $59.1 million, consisting of $75.8 million in current assets and $16.7 million in current liabilities. Our net working capital as of March 31, 2009 was $67.5 million, consisting of $78.4 million in current assets and $10.9 million in current liabilities. Our inventories have increased from our prior fiscal year-end by $4.3 million due to increasing the level of our wireless control inventories based upon our Phase 2 initiatives and an increase in ballast component inventories. The vast majorities of our wireless components are assembled overseas, require longer delivery lead times and suppliers require deposit payments at time of purchase order. We increased our inventory level of ballasts due to concerns over supply availability resulting from extended lead times for products shipping out of Asia. We generally attempt to maintain a three-month supply of on-hand inventory of purchased components and raw materials to meet anticipated demand, as well as to reduce our risk of unexpected raw material or component shortages or supply interruptions. Our accounts receivables, inventory and payables may increase to the extent our revenue and order levels increase.

Indebtedness

Revolving Credit Agreement

On March 18, 2008, we entered into a credit agreement to replace a previous agreement between us and Wells Fargo Bank, N.A. The credit agreement provides for a revolving credit facility that matures on August 31, 2010. The initial maximum aggregate amount of availability under the line of credit is $25.0 million. In December 2008, we briefly drew $4.0 million on the line of credit due to the timing of treasury repurchases and funds available in our operating account. In May 2009, we completed an amendment to the credit agreement, effective as of March 31, 2009, which formalized Wells Fargo s prior consent to our treasury repurchase program, increased the capital expenditures covenant for fiscal 2009 and revised certain financial covenants by adding a minimum requirement for unencumbered liquid assets, increasing the quarterly rolling net income requirement and modifying the merger and acquisition covenant exemption. In December 2009, we completed a second amendment to the credit agreement which formalized Wells Fargo s prior consent to our prior failure to meet our net earnings and fixed charge coverage ratio covenants, limited borrowings to a percentage of eligible money market funds held in a Wells Fargo account, revised certain financial covenants by removing the minimum requirement for unencumbered assets and removing the fixed charge coverage ratio, decreased the quarterly rolling net income requirement, removed the first lien security interest in all of our accounts receivable, general intangibles and inventory, and removed the second lien priority in all of our equipment and fixtures and reduced the fee rate of the unused amounts on the line of credit. As of December 31, 2009, there was no outstanding balance due on the line of credit.

We must pay a fee of 0.15% on the average daily unused amount of the line of credit and fees upon the issuance of each letter of credit equal to 1.25% per annum of the principal amount thereof.

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The credit agreement provides that we have the option to select the interest rate applicable to all or a portion of any then outstanding principal balance of the line of credit either (i) at a fluctuating rate per annum 1.00% below the prime rate in effect from time to time, or (ii) at a fixed rate per annum determined by Wells Fargo to be one and 1.25% above LIBOR. The credit agreement contains certain financial covenants including minimum net income requirements and that we maintain a net worth ratio at prescribed levels. The credit agreement also contains certain restrictions on our ability to make capital or lease expenditures over prescribed limits, incur additional indebtedness, consolidate or merge, guarantee obligations of third parties, make loans or advances, declare or pay any dividend or distribution on its stock, redeem or repurchase shares of its stock, or pledge assets.

Capital Spending

We expect to incur approximately $0.6 million in capital expenditures during the remainder of fiscal 2010 to complete information technology projects, tooling and manufacturing improvements. We spent approximately $4.3 million of capital expenditure in the first nine months of fiscal 2010 on the completion of our corporate technology center, implementation of an ERP system, software development for our wireless controls technology and other tooling and equipment for new products and cost improvements in our manufacturing facility. Our capital spending plans predominantly consist of the completion of projects that have been in place for several months and for which we have already invested significant capital. We consider the completion of our ERP systems critical to our long-term success and our ability to ensure a strong control environment over financial reporting and operations. We expect to finance the information technology and manufacturing improvements primarily through equipment secured loans and leases, long-term debt financing, using cash on hand or by using our available capacity under our revolving credit facility.

Contractual Obligations and Commitments

The following table is a summary of our long-term contractual obligations as of December 31, 2009 (dollars in thousands):

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Bank debt obligations	$ 4,022	$ 650	$ 1,245	$ 943	$ 1,184
Cash interest payments on debt	1,014	200	301	176	337
Operating lease obligations	3,040	925	1,702	261	152
Purchase order and cap-ex commitments (1)	11,716	11,422	294		
Total	$ 19,792	$ 13,197	$ 3,542	$ 1,380	$ 1,673

(1) Reflects non-cancellable purchase order commitment in the amount of $11.1 million for certain inventory items entered into in order to secure better pricing and ensure materials on hand and capital expenditure commitments in the amount of $0.6 million for improvements to information technology systems and manufacturing equipment and tooling.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Inflation

Our results from operations have not been, and we do not expect them to be, materially affected by inflation.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our consolidated financial statements requires us to make certain estimates and judgments that affect our reported assets, liabilities, revenue and expenses, and our related disclosure of contingent assets and liabilities. We re-evaluate our estimates on an ongoing basis, including those related to revenue recognition,

inventory valuation, the collectability of receivables, stock-based compensation, warranty reserves and income taxes. We base our estimates on historical experience and on various assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. A summary of our critical accounting policies is set forth in the Critical Accounting Policies and Estimates section of our Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended March 31, 2009. There have been no material changes in any of our accounting policies since March 31, 2009.

Recent Accounting Pronouncements

For a complete discussion of recent accounting pronouncements, refer to Note C in the condensed consolidated financial statements included elsewhere in this report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk was discussed in the Quantitative and Qualitative Disclosures About Market Risk section contained in our Annual Report on Form 10-K for the year ended March 31, 2009. There have been no material changes to such exposures since March 31, 2009.

ITEM 4. CONTROLS AND PROCEDURES

As a result of the restatement described in Note B to the accompanying Notes to the consolidated financial statements, the Company re-evaluated the effectiveness of internal controls related to accounting for the revenue associated with our OTA contracts.

Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures designed to provide reasonable assurance as to the reliability of our published financial statements and other disclosures included in this report. Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter ended December 31, 2009 pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934 (the Exchange Act). After re-evaluating the effectiveness of the controls noted above, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the quarter ended December 31, 2009, to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms, and to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosures.

There was no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to various claims and legal proceedings arising in the ordinary course of our business. In addition to ordinary-course litigation, we are a party to the litigation described below.

In February and March 2008, three class action lawsuits were filed in the United States District Court for the Southern District of New York against us, several of our officers, all members of our then existing board of directors, and certain underwriters from our December 2007 IPO. The plaintiffs claim to represent certain persons who purchased shares of our common stock from December 18, 2007 through February 6, 2008. The plaintiffs allege, among other things, that the defendants made misstatements and failed to disclose material information in our IPO registration statement and prospectus. The complaints allege various claims under the Securities Act of 1933, as amended. The complaints seek, among other relief, class certification, unspecified damages, fees, and such other relief as the court may deem just and proper.

On August 1, 2008, the court-appointed lead plaintiff filed a consolidated amended complaint in the United States District Court for the Southern District of New York. On September 15, 2008, the Company and the other director and officer defendants filed a motion to dismiss the consolidated complaint, and the underwriters filed a separate motion to dismiss the consolidated complaint on January 16, 2009. After oral argument on August 19, 2009, the Court granted in part and denied in part the motions to dismiss. The plaintiff filed a second consolidated amended complaint on September 4, 2009, and the defendants filed an answer to the complaint on October 9, 2009.

We believe that we and the other defendants have substantial legal and factual defenses to the claims and allegations contained in the consolidated complaint, and we intend to pursue these defenses vigorously. There can be no assurance, however, that we will be successful, and an adverse resolution of the lawsuit could have a material adverse effect on our consolidated financial position, results of operations and cash flow. In addition, although we carry insurance for these types of claims, a judgment significantly in excess of our insurance coverage or any costs, claims or judgment which are disputed or not covered by insurance could materially and adversely affect our financial condition, results of operations and cash flow. We are not presently able to reasonably estimate potential costs and/or losses, if any, related to the lawsuit.

ITEM 1A. RISK FACTORS

We operate in a rapidly changing environment that involves a number of risks that could materially affect our business, financial condition or future results, some of which are beyond our control. In addition to the other information set forth in this Quarterly Report on Form 10-Q, the risks and uncertainties that we believe are most important for you to consider are discussed in Part I Item 1A under the heading Risk Factors in our Annual Report on Form 10-K for the fiscal year ended March 31, 2009 and Part II Item 1A Risk Factors in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009. During the three months ended December 31, 2009, there were no material changes to the risk factors that were disclosed in Part I Item 1A under the heading Risk Factors in our Annual Report on Form 10-K for the fiscal year ended March 31, 2009 and Part II Item 1A Risk Factors in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009.

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

(b) Use of Proceeds

Our IPO was declared effective by the SEC on December 18, 2007. The net offering proceeds received by us, after deducting underwriting discounts and commissions and expenses incurred in connection with the offering, were approximately $78.6 million. Through December 31, 2009, approximately $16.0 million of the proceeds from our IPO have been used to fund operations of our business and for general corporate purposes and approximately $29.7 million was used for the repurchase of common shares. There were no share repurchases of our common stock during the three months ended December 31, 2009. The remainder of the net proceeds from the IPO are invested in bank certificates of deposit and money market accounts. Other than for our share repurchases, there has been no material change in the planned use of proceeds from our IPO as described in our final prospectus filed with the SEC on December 18, 2007 pursuant to Rule 424(b).

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Our 2009 annual meeting of shareholders was held on October 28, 2009. Proxies with regard to the matters voted upon at the Annual Meeting were solicited under Regulation 14A of the Securities Exchange Act of 1934, as amended. Set forth below is a brief description of each matter voted upon at the annual meeting and the results of voting on each such matter.

(I) The name of each director elected at the Annual Meeting and the name of each other director whose term of office as a director continued after the Annual Meeting is as follows:

Class I Directors	Class II Directors	Class III Directors
Thomas A. Quadracci	Roland G. Stephenson	Neal R. Verfuerth
Michael J. Potts	Mark C. Williamson	James R. Kackley
	Michael W. Altschaefl	

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(II) The election of three Class II directors named below to serve until the 2012 Annual Meeting of Shareholders. There was no solicitation in opposition to the nominees listed in the proxy statement, and the nominees were elected.

	Votes	
Nominee	**For**	**Withheld**
Roland G. Stephenson	14,547,440	2,437,079
Mark C. Williamson	15,589,537	1,394,982
Michael W. Altschaefl	15,876,491	1,108,028

(III) The approval of the ratification of Grant Thornton LLP to serve as our independent registered public accounting firm for our fiscal year 2010.

	Votes		
Firm	**For**	**Against**	**Abstain**
Grant Thornton LLP	16,617,317	173,427	193,775

ITEM 5. OTHER INFORMATION

Statistical Data

The following table presents certain statistical data, cumulative from December 1, 2001 through December 31, 2009, regarding sales of our HIF lighting systems, total units sold (including HIF lighting systems), customer kilowatt demand reduction, customer kilowatt hours saved, customer electricity costs saved, indirect carbon dioxide emission reductions from customers energy savings, and square footage we have retrofitted. The assumptions behind our calculations are described in the footnotes to the table below.

	Cumulative From December 1, 2001 Through December 31, 2009 (in thousands, unaudited)
HIF lighting systems sold(1)	1,667
Total units sold (including HIF lighting systems)	2,156
Customer kilowatt demand reduction(2)	504
Customer kilowatt hours saved(2)(3)	10,158,182
Customer electricity costs saved(4)	$ 782,180
Indirect carbon dioxide emission reductions from customers energy savings (tons)(5)	6,752
Square footage retrofitted(6)	850,644

(1) HIF lighting systems includes all HIF units sold under the brand name Compact Modular and its predecessor, Illuminator.

(2) A substantial majority of our HIF lighting systems, which generally operate at approximately 224 watts per six-lamp fixture, are installed in replacement of HID fixtures, which generally operate at approximately 465 watts per fixture in commercial and industrial applications. We calculate that each six-lamp HIF lighting system we install in replacement of an HID fixture generally reduces electricity consumption by approximately 241 watts (the difference between 465 watts and 224 watts). In retrofit projects where we replace fixtures other than HID fixtures, or where we replace fixtures with products other than our HIF lighting systems (which other products generally consist of products with lamps similar to those used in our HIF systems, but with varying frames, ballasts or power packs), we generally achieve similar wattage reductions (based on an analysis of the operating

wattages of each of our fixtures compared to the operating wattage of the fixtures they typically replace). We calculate the amount of kilowatt demand reduction by multiplying (i) 0.241 kilowatts per six-lamp equivalent unit we install by (ii) the number of units we have installed in the period presented, including products other than our HIF lighting systems (or a total of approximately 2.0 million units).

(3) We calculate the number of kilowatt hours saved on a cumulative basis by assuming the reduction of 0.241 kilowatts of electricity consumption per six-lamp equivalent unit we install and assuming that each such unit has averaged 7,500 annual operating hours since its installation.

(4) We calculate our customers electricity costs saved by multiplying the cumulative total customer kilowatt hours saved indicated in the table by $0.077 per kilowatt hour. The national average rate for 2008, which is the most current full year for which this information is available, was $0.098 per kilowatt hour according to the United States Energy Information Administration.

(5) We calculate this figure by multiplying (i) the estimated amount of carbon dioxide emissions that result from the generation of one kilowatt hour of electricity (determined using the Emissions and Generation Resource Integration Database, or EGrid, prepared by the United States Environmental Protection Agency), by (ii) the number of customer kilowatt hours saved as indicated in the table. The calculation of indirect carbon dioxide emissions reductions reflects the most recent Environmental Protection Agency eGrid data.

(6) Based on 2.16 million total units sold, which contain a total of approximately 10.8 million lamps. Each lamp illuminates approximately 75 square feet. The majority of our installed fixtures contain six lamps and typically illuminate approximately 450 square feet.

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ITEM 6. EXHIBITS
(a) Exhibits

10.1	Second Amendment, dated December 18, 2009, to the Credit Agreement, dated as of March 18, 2008, among Orion Energy Systems, Inc., Great Lakes Energy Technologies, LLC, and Wells Fargo Bank, National Association (incorporated by reference to the Exhibit 10.1 to the Current Report on Form 8-K dated December 18, 2009 of Orion Energy Systems, Inc.).
31.1	Certification of Chief Executive Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chief Executive Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on August 1, 2011.

ORION ENERGY SYSTEMS, INC.
Registrant

By /s/ Scott R. Jensen
Scott R. Jensen
Chief Financial Officer
(Principal Financial Officer and Authorized Signatory)

Exhibit Index to Form 10-Q for the Period Ended December 31, 2009

31.1	Certification of Chief Executive Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chief Executive Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.