UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No.2)

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

For the Quarterly Period Ended December 31, 2010

OR

¨ **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 x No ¨

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 ¨ No ¨

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	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

There were 22,818,902 shares of the Registrant s common stock outstanding on February 7, 2011.

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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 Amendment No. 2 to Form 10-Q/A (Amendment No. 2), we have restated our previously issued unaudited consolidated financial statements and related disclosures for the quarter ended December 31, 2010 to record our transactions from sales of our solar photovoltaic, or PV, systems using the percentage-of-completion method rather than based upon multiple deliverable elements.

Under our prior method of accounting for sales of our PV systems, we recognized revenue in two stages (i) when the title to the products had been transferred and (ii) when the service installation was complete. On February 2, 2012, we concluded that generally accepted accounting principles, or GAAP, required that revenue from the sales of solar PV systems be recognized under the percentage-of-completion method. The percentage-of-completion method requires revenue from the delivery of products to be deferred and the cost of such products to be capitalized as a deferred cost and current asset on the balance sheet. The difference between the percentage-of-completion method and the multiple deliverable elements method is a matter of timing, with no impact on overall earnings or cash flow from the individual contracts.

Previously, on August 2, 2011, we filed an Amendment No. 1 to Form 10-Q/A (Amendment No. 1) to record 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. Throughout this Amendment #2, all amounts presented from prior periods are labeled As Previously Reported and reflect the balances and amounts of our restatement related to the accounting change for OTA contracts as detailed in Amendment No. 1.

This Amendment No. 2 is being filed to reflect the financial statement restatement from sales of our solar PV systems. Generally, for the quarterly and year-to-date periods ended December 31, 2010, 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;

- A decrease in our revenue of $6.4 million (21%), a decrease in our net income of $0.9 million (124%) and a decrease in our income per share of $0.04 (133%) for the quarter ended December 31, 2010 and a decrease in our revenue of $6.4 million (10%), a decrease in our net income of $0.9 million (124%) and a decrease in our income per share of $0.04 (133%) for the nine months ended December 31, 2010; and

- An increase in deferred contract costs of $7.1 million, an increase in deferred revenue of $2.7 million, a decrease in accounts receivable of $4.1 million, a decrease in prepaid expenses and other current assets of $1.6 million and a decrease in accrued expenses of $0.3 million for the quarter ended December 31, 2010.

In addition to the impact of the accounting treatment change for solar PV sales described above, management s reassessment of the quarter ended December 31, 2010, resulted in the following additional change:

- An increase in long-term assets of $13.5 million and a decrease in current assets of $13.5 million as a result of a reclassification of current inventory to long-term inventory related to our investment in wireless control products.

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 Amendment No. 2.

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This Amendment #2 only amends and restates Items 1, 2, and 4 of Part I of Amendment No. 1, in each case, solely as a result of, and to reflect, the restatement, and no other information is amended hereby. The foregoing items have not been updated to reflect other events occurring after February 9, 2011, the date of the filing of the initial Form 10-Q (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 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 Amendment No. 2 as Exhibits 31.1, 31.2, 32.1, and 32.2, respectively.

Except for the foregoing amended information, this Amendment No. 2 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 Amendment No. 2, 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. In addition, all amounts presented from prior periods are labeled As Previously Reported and reflect the restatement related to the accounting change for OTA contracts as detailed in Amendment No. 1.

Orion Energy Systems, Inc.

Quarterly Report On Form 10-Q/A

For The Quarter Ended December 31, 2010

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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, 2010	December 31, 2010 (As Restated)
Assets		
Cash and cash equivalents	$ 23,364	$ 9,858
Short-term investments	1,000	1,010
Accounts receivable, net of allowances of $382 and $467	15,991	22,173
Inventories, net	25,991	18,712
Deferred contract costs	1,553	7,115
Deferred tax assets	1,244	1,754
Prepaid expenses and other current assets	2,559	3,116
Total current assets	71,702	63,738
Property and equipment, net	28,193	30,991
Patents and licenses, net	1,590	1,634
Deferred tax assets	974	1,059
Long-term accounts receivable	2,092	5,963
Long-term inventories		13,518
Other long-term assets	27	1,886
Total assets	$ 104,578	$ 118,789
Liabilities and Shareholders Equity		
Accounts payable	$ 7,761	$ 15,363
Accrued expenses and other	3,790	3,718
Deferred revenue, current	338	2,650
Current maturities of long-term debt	562	1,261
Total current liabilities	12,451	22,992
Long-term debt, less current maturities	3,156	4,618
Deferred revenue, long-term	186	1,036
Other long-term liabilities	398	399
Total liabilities	16,191	29,045
Commitments and contingencies (See Note G)		
Shareholders equity:		
Preferred stock, $0.01 par value: Shares authorized: 30,000,000 shares at March 31, 2010 and December 31, 2010; no shares issued and outstanding at March 31, 2010 and December 31, 2010		
Common stock, no par value: Shares authorized: 200,000,000 at March 31, 2010 and December 31, 2010; shares issued: 29,911,203 and 30,224,199 at March 31, 2010 and December 31, 2010; shares outstanding: 22,442,380 and 22,792,302 at March 31, 2010 and December 31, 2010		

Additional paid-in capital	122,515	123,965
Treasury stock: 7,468,823 and 7,431,897 common shares at March 31, 2010 and December 31, 2010	(32,011)	(31,767)
Shareholder notes receivable		(157)
Accumulated deficit	(2,117)	(2,297)
Total shareholders equity	88,387	89,744
Total liabilities and shareholders equity	$ 104,578	$ 118,789

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, 2009	Three Months Ended December 31, 2010 (As Restated)	Nine Months Ended December 31, 2009	Nine Months Ended December 31, 2010 (As Restated)
Product revenue	$ 18,737	$ 21,633	$ 45,879	$ 52,476
Service revenue	2,090	2,011	4,897	3,997
Total revenue	20,827	23,644	50,776	56,473
Cost of product revenue	11,860	14,134	30,729	34,186
Cost of service revenue	1,568	1,676	3,455	3,091
Total cost of revenue	13,428	15,810	34,184	37,277
Gross profit	7,399	7,834	16,592	19,196
Operating expenses:				
General and administrative	3,051	2,709	9,357	8,642
Sales and marketing	3,063	3,235	9,176	10,124
Research and development	404	614	1,315	1,797
Total operating expenses	6,518	6,558	19,848	20,563
Income (loss) from operations	881	1,276	(3,256)	(1,367)
Other income (expense):				
Interest expense	(66)	(98)	(192)	(223)
Dividend and interest income	157	189	539	435
Total other income (expense)	91	91	347	212
Income (loss) before income tax	972	1,367	(2,909)	(1,155)
Income tax expense (benefit)	218	1,549	(652)	(976)
Net income (loss)	$ 754	$ (182)	$ (2,257)	$ (179)
Basic net income (loss) per share	$ 0.03	$ (0.01)	$ (0.10)	$ (0.01)
Weighted-average common shares outstanding	21,792,175	22,726,426	21,709,799	22,629,776
Diluted net income (loss) per share	$ 0.03	$ (0.01)	$ (0.10)	$ (0.01)
Weighted-average common shares and share equivalents outstanding	22,567,575	22,726,426	21,709,799	22,629,776

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, 2009	Nine Months Ended December 31, 2010 (As Restated)
Operating activities		
Net loss	$ (2,257)	$ (179)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,956	2,414
Stock-based compensation expense	1,064	931
Deferred income tax benefit	(813)	(595)
Loss on sale of assets		13
Change in bad debt expense	384	85
Other	15	38
Changes in operating assets and liabilities:		
Accounts receivable	(2,969)	(10,138)
Inventories	(4,285)	(6,239)
Deferred contract costs		(5,562)
Prepaid expenses and other assets	(2,752)	(2,044)
Deferred revenue		3,162
Accounts payable	5,193	7,602
Accrued expenses	738	(73)
Net cash used in operating activities	(3,726)	(10,585)
Investing activities		
Purchase of property and equipment	(4,142)	(2,986)
Purchase of property and equipment leased to customers under operating leases	(1,903)	(2,126)
Purchase of short-term investments		(10)
Sale of short-term investments	5,522	
Long-term assets		(330)
Additions to patents and licenses	(186)	(138)
Proceeds from sales of long-term assets	6	1
Net cash used in investing activities	(703)	(5,589)
Financing activities		
Payment of long-term debt	(640)	(528)
Proceeds from long-term debt	200	2,689
Proceeds from shareholder notes		1
Repurchase of common stock into treasury	(400)	
Excess tax benefits from stock-based compensation	95	193
Deferred financing costs and offering costs		(61)
Proceeds from issuance of common stock	947	374
Net cash provided by financing activities	202	2,668
Net decrease in cash and cash equivalents	(4,227)	(13,506)
Cash and cash equivalents at beginning of period	36,163	23,364
Cash and cash equivalents at end of period	$ 31,936	$ 9,858

Supplemental cash flow information:				
Cash paid for interest	$	215	$	192
Cash paid for income taxes	$	30	$	31
Supplemental disclosure of non-cash investing and financing activities				
Shares issued from treasury for stock note receivable	$		$	158
Shares surrendered into treasury for stock option exercise	$		$	51

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 to commercial and industrial businesses, predominantly in North America.

In August 2009, The Company created Orion Engineered Systems, a new operating division offering additional alternative renewable energy systems. The Company first introduced the presentation of operating segments for the quarter ended December 31, 2010. See Note J Segment Reporting of these financial statements for further discussion of our reportable segments.

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 February 1, 2012, 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 Amendment No. 1 to Form 10-Q (Amendment No. 1) for the quarterly period ended December 31, 2010 should no longer be relied upon and must be restated to properly record revenue from its sales of solar photovoltaic systems.

In accordance with ASC Topic 605, Revenue Recognition, the Company s prior method of accounting for solar photovoltaic systems under the multiple deliverable element method resulted in revenue being recognized (i) when the title to the products has been transferred and (ii) when the service installation is complete. On February 1, 2012, the Company concluded that generally accepted accounting principles, or GAAP, required the Company to record its sales of solar photovoltaic systems under the percentage-of-completion method. Accounting for sales of solar photovoltaic systems under the percentage-of-completion method under GAAP requires that the Company recognize revenue over the life of the project. The Company has determined that the appropriate method of measuring progress on these sales is measured by the percentage of costs incurred to date of the total estimated costs for each contract as materials are installed. The percentage-of-completion method requires revenue recognition from the delivery of products to be deferred and the cost of such products to be capitalized as a deferred cost and current asset on the balance sheet. The percentage-of-completion method requires periodic evaluations of the progress of the installation of the solar photovoltaic systems using actual costs incurred over total estimated costs to complete a project and will require immediate recognition of any losses that are identified on such contracts. Incurred costs include all direct materials, costs for solar modules, labor, subcontractor costs, and those indirect costs related to contract performance, such as indirect labor, supplies, and tools. The difference between the percentage-of-completion method of revenue recognition and the multiple deliverable elements method of revenue recognition is a question of timing. Additionally, the Company reclassified it s wireless control inventory from a current asset to a long-term asset.

Throughout this Amendment No. 2 to Form 10-Q (Amendment No. 2), 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. In addition, all amounts presented from prior periods are labeled As Previously Reported and reflect the restatement related to the accounting change for OTA contracts as detailed in Amendment No. 1.

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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 three and nine months ended December 31, 2010 as set forth in Amendment No. 1 are as follows (in thousands, except share and per share data):

	Consolidated Balance Sheets as of December 31, 2010		
	As Previously Reported (1)	Adjustments	As Restated
Assets:			
Accounts receivable	$ 26,241	$ (4,068)	$ 22,173
Inventories, net	32,230	(13,518)	18,712
Deferred contract costs, current		7,115	7,115
Prepaid expenses and other current assets	4,726	(1,610)	3,116
Total current assets	75,819	(12,081)	63,738
Long-term accounts receivable	4,886	1,077	5,963
Long-term inventories		13,518	13,518
Long-term other assets	2,963	(1,077)	1,886
Total assets	117,352	1,437	118,789
Accrued expenses	3,993	(275)	3,718
Deferred revenue, current		2,650	2,650
Total current liabilities	20,617	2,375	22,992
Shareholders equity:			
Retained deficit	(1,359)	(938)	(2,297)

	Consolidated Statements of Operations					
	Three months ended December 31, 2010			Nine months ended December 31, 2010		
	As Previously Reported (1)	Adjustments	As Restated	As Previously Reported (1)	Adjustments	As Restated
Product revenue	$ 28,048	$ (6,415)	$ 21,633	$ 58,891	$ (6,415)	$ 52,476
Service revenue	2,008	3	2,011	3,994	3	3,997
Cost of product revenue	19,228	(5,094)	14,134	39,280	(5,094)	34,186
Cost of service revenue	1,674	2	1,676	3,089	2	3,091
Income (loss) from operations	2,596	(1,320)	1,276	(47)	(1,320)	(1,367)
Income tax expense (benefit)	1,931	(382)	1,549	(594)	(382)	(976)
Net income (loss)	756	(938)	(182)	759	(938)	(179)
Net income (loss) per share attributable to common shareholders basic	$ 0.03	$ (0.04)	$ (0.01)	$ 0.03	$ (0.04)	$ (0.01)
Net income (loss) per share attributable to common shareholders diluted	$ 0.03	$ (0.04)	$ (0.01)	$ 0.03	$ (0.04)	$ (0.01)
Weighted average common shares outstanding basic	22,726,426		22,726,426	22,629,776		22,629,776
Weighted average common shares outstanding diluted	23,110,633		22,726,426	23,061,360		22,629,776

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	Consolidated Statements of Cash Flows Nine Months Ended December 31, 2010		
	As Previously Reported (1)	Adjustments	As Restated
Net income (loss)	$ 759	$ (938)	$ (179)
Depreciation and amortization	2,341	73	2,414
Loss on sale of assets		13	13
Other	25	13	38
Accounts receivable	(10,335)	197	(10,138)
Deferred contract costs		(5,562)	(5,562)
Prepaid expenses and other assets and liabilities	(5,102)	3,058	(2,044)
Deferred revenue		3,162	3,162
Accrued expenses	(136)	63	(73)
Net cash used in operating activities	(10,664)	79	(10,585)
Purchase of property and equipment	(2,887)	(99)	(2,986)
Additions to patents and licenses	(158)	20	(138)
Net cash used in investing activities	(5,510)	(79)	(5,589)

(1) Reflects the restatement related to the accounting change for OTA contracts as detailed in Amendment No. 1.

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.

Reclassifications

Where appropriate, certain reclassifications have been made to prior periods financial statements to conform to the current period presentation.

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 and Exchange Commission (SEC). 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, 2011 or other interim periods.

The condensed consolidated balance sheet at March 31, 2010 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, 2010 filed with the SEC on June 14, 2010.

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.

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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, 2010 and December 31, 2010 were as follows (in thousands):

	March 31, 2010					
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Investments
Money market funds	$ 22,297	$	$	$ 22,297	$ 22,297	$
Bank certificates of deposit	1,000			1,000		1,000
Total	$ 23,297	$	$	$ 23,297	$ 22,297	$ 1,000

	December 31, 2010					
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Investments
Money market funds	$ 484	$	$	$ 484	$ 484	$
Bank certificate of deposit	1,010			1,010		1,010
Total	$ 1,494	$	$	$ 1,494	$ 484	$ 1,010

As of March 31, 2010 and December 31, 2010, the Company s financial assets described in the table above were measured at cost (level 1 inputs).

The Company s certificate of deposit is pledged as security for an equipment lease.

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, accounts payable and accrued liabilities, 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.

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Financing receivables

The Company considers its lease balances included in consolidated current and long-term accounts receivable from its Orion Throughput Agreement, or OTA, sales-type leases to be financing receivables. Additional disclosures on the credit quality of the Company s sold OTA sales-type leases and lease balances included in accounts receivable are as follows:

Aging Analysis as of December 30, 2010 (in thousands):

	Not Past Due	1-90 days past due	Greater than 90 days past due	Total past due	Total sales-type leases
Lease balances included in consolidated accounts receivable current	$ 1,896	$ 19	$ 1	$ 20	$ 1,916
Lease balances included in consolidated accounts receivable long-term	4,887				4,887
Total gross sales-type leases	6,783	19	1	20	6,803
Allowance					
Total net sales-type leases	$ 6,783	$ 19	$ 1	$ 20	$ 6,803

Allowance for credit losses

The Company s allowance for credit losses is based on management s assessment of the collectability of customer accounts. A considerable amount of judgment is required in order to make this assessment, including a detailed analysis of the aging of the lease receivables and the current credit worthiness of the Company s customers and an analysis of historical bad debts and other adjustments. If there is a deterioration of a major customer s credit worthiness or if actual defaults are higher than historical experience, the estimate of the recoverability of amounts due could be adversely affected. The Company reviews in detail the allowance for doubtful accounts on a quarterly basis and adjusts the allowance estimate to reflect actual portfolio performance and any changes in future portfolio performance expectations. The Company believes that there is no impairment of the receivables for the sales-type leases. The Company did not incur any provision write-offs or credit losses against its OTA sales-type lease receivable balances for the three or nine months ended December 31, 2010.

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, wireless energy management 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, 2010 and December 31, 2010, the Company had inventory obsolescence reserves of $756,000 and $798,000, 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, 2010	December 31, 2010
Raw materials and components	$ 11,107	$ 14,128

Work in process	669	402
Finished goods	14,215	4,182
	$ 25,991	$ 18,712

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Deferred Contract Costs

Deferred contract costs consist primarily of the costs of products delivered, and services performed, that are subject to additional performance obligations or customer acceptance. These deferred contract costs are expensed at the time the related revenue is recognized. Deferred costs amounted to $1.6 million and $7.1 million as of March 31, 2010 and December 31, 2010.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist primarily of prepaid insurance premiums, prepaid license fees, purchase deposits, advance payments to contractors, advance commission payments and miscellaneous receivables.

Property and Equipment

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

	March 31, 2010	December 31, 2010
Land and land improvements	$ 1,436	$ 1,474
Buildings	14,072	15,749
Furniture, fixtures and office equipment	6,615	8,056
Equipment leased to customers under Power Purchase Agreements		2,659
Plant equipment	7,627	7,919
Construction in progress	5,774	4,570
	35,524	40,427
Less: accumulated depreciation and amortization	(7,331)	(9,436)
Net property and equipment	$ 28,193	$ 30,991

The Company capitalized $21,000 and none, respectively, of the interest costs for construction in progress for the nine months ended December 31, 2009 and 2010, respectively. Included in construction in progress are costs related to Company-owned equipment leased to customers under solar power purchase agreements, or PPAs, of $2.7 million and $2.1 million as of March 31, 2010 and December 31, 2010, respectively.

Patents and Licenses

Patents and licenses are amortized over their estimated useful life, ranging from 7 to 17 years, using the straight line method.

Long-Term Inventories

The Company records long-term inventory for the non-current portion of its wireless controls inventory. All inventories are stated at the lower of cost or market value with cost determined using the first-in, first-out (FIFO) method.

Other Long-Term Assets

Other long-term assets include long-term security deposits, prepaid licensing costs and deferred financing costs. Other long-term assets include $27,000 and $68,000 of deferred financing costs as of March 31, 2010 and December 31, 2010, respectively. Deferred financing costs related to debt issuances are amortized to interest expense over the life of the related debt issue (2 to 10 years).

Also included in other long-term assets are amounts due from a third party finance company to which the Company has sold, without recourse, the future cash flows from OTAs entered into with customers. Such receivables are recorded at the present value of the future cash flows discounted at 7.5%. As of December 31, 2010, the following amounts were due from the third party finance company in future periods (in thousands):

Fiscal 2013	$ 336
Fiscal 2014	336
Fiscal 2015	403
Total gross long-term receivable	1,075
Less: amount representing interest	(164)
Net long-term receivable	$ 911

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Accrued Expenses

Accrued expenses include warranty accruals, accrued wages and benefits, accrued vacation, sales tax payable and other various unpaid expenses. Accrued legal costs were $1.2 million and $1.1 million as of March 31, 2010 and December 31, 2010, respectively.

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,	
	2009	2010	2009	2010
Beginning of period	$ 42	$ 59	$ 55	$ 60
Provision to cost of revenue	40	20	60	95
Charges	(44)	(18)	(77)	(94)
End of period	$ 38	$ 61	$ 38	$ 61

Revenue Recognition

The Company offers a financing program called the Orion Throughput Agreement, or OTA, for a customer s lease of the Company s energy management systems. The OTA is structured as a sales-type lease upon successful installation of the system and customer acknowledgement that the system 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.

The Company offers a financing program, called a PPA, for the Company s renewable energy product offerings. A PPA is a supply side agreement for the generation of electricity and subsequent sale to the end user. Upon the customer s acknowledgement that the system is operating as specified, product revenue is recognized on a monthly basis over the life of the PPA contract, typically in excess of 10 years.

For sales of solar photovoltaic systems, which are governed by customer contracts that require the Company to deliver functioning solar power systems and are generally completed within three to 15 months, the Company recognizes revenue from fixed price construction contracts using the percentage-of-completion method in accordance with ASC 605-35, Construction-Type and Production-Type Contracts. Under this method, revenue arising from fixed price construction contracts is recognized as work is performed based upon the percentage of incurred costs to estimated total forecasted costs. The Company has determined that the appropriate method of measuring progress on these sales is measured by the percentage of costs incurred to date of the total estimated costs for each contract as materials are installed. The percentage-of-completion method requires revenue recognition from the delivery of products to be deferred and the cost of such products to be capitalized as a deferred cost and current asset on the balance sheet. The Company performs periodic evaluations of the progress of the installation of the solar photovoltaic systems using actual costs incurred over total estimated costs to complete a project. Provisions for estimated losses on uncompleted contracts, if any, are recognized in the period in which the loss first becomes probable and reasonably estimable.

Revenue is recognized on the sales of our lighting and related energy efficiency systems and products 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.

As discussed in Recent Accounting Pronouncements , the Company elected to adopt the revised guidance of ASC 605-25 related to multiple-element arrangements during the quarter ended December 31, 2010. This guidance was retrospectively applied to the beginning of the Company s fiscal year.

For sales of the Company s lighting and energy management technologies, 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 their relative selling prices. In such circumstances, the Company uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (1) vendor-specific objective evidence (VSOE) of fair value, if available, (2) third-party evidence (TPE) of selling price if VSOE is not available, and (3) best estimate of the selling price if neither VSOE nor TPE is available (a description as to how the Company determined VSOE, TPE and estimated selling price is provided below).

The nature of the Company s multiple element arrangements for the sale of its lighting and energy management technologies is similar to a construction project, with materials being delivered and contracting and project management activities occurring according to an installation schedule. The significant deliverables include the shipment of products and related transfer of title and the installation.

To determine the selling price in multiple-element arrangements, the Company established VSOE of the selling price for its HIF lighting and energy management system products using the price charged for a deliverable when sold separately. In addition, the Company records in service revenue the selling price for its installation and recycling services using management s best estimate of selling price, as VSOE or TPE evidence does not exist. Service revenue is recognized when services are completed and customer acceptance has been received. Recycling services provided in connection with installation entail the disposal of the customer s legacy lighting fixtures. The Company s service revenues, other than for installation and recycling that are completed prior to delivery of the product, are included in product revenue using management s best estimate of selling price, as VSOE or TPE evidence does not exist. These services include comprehensive site assessment, site field verification, utility incentive and government subsidy management, engineering design, and project management. For these services and for installation and recycling services, management s best estimate of selling price is determined by considering several external and internal factors including, but not limited to, pricing practices, margin objectives, competition, geographies in which the Company offers its products and services and internal costs. The determination of estimated selling price is made through consultation with and approval by management, taking into account all of the preceding factors.

Deferred revenue relates to advance customer billings, investment tax grants received related to PPAs and a separate obligation to provide maintenance on OTAs and is classified as a liability on the Balance Sheet. The fair value of the maintenance is readily determinable based upon pricing from third-party vendors. Deferred revenue related to maintenance services is recognized when the services are delivered, which occurs in excess of a year after the original OTA contract is executed.

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

	March 31, 2010	December 31, 2010 (As Restated)
Deferred revenue current liability	$ 338	$ 2,650
Deferred revenue long term liability	186	1,036
Total deferred revenue	$ 524	$ 3,686

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.

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ASC 740, *Income Taxes*, 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. Accrued penalties and interest were immaterial as of the date of adoption and are included in the unrecognized tax benefits.

Deferred tax benefits have not been recognized for income tax effects resulting from the exercise of non-qualified stock options. These benefits will be recognized in the period in which the benefits are realized as a reduction in taxes payable and an increase in additional paid-in capital. For the nine months ended December 31, 2009 and 2010, realized tax benefits from the exercise of stock options were $0.1 million and $0.2 million, respectively.

Stock Option Plans

The fair value of each option grant for the three and nine months ended December 31, 2009 and 2010 was determined using the assumptions in the following table:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2010	2009	2010
Weighted average expected term	5.9 years	6.0 years	6.4 years	5.6 years
Risk-free interest rate	2.33%	1.47%	2.56%	2.06%
Expected volatility	60.0%	74.8%	60.0%	60.0% - 74.8%
Expected forfeiture rate	3.0%	10.0%	3.0%	10.0%
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.

Diluted net income (loss) per common share reflects the dilution that would occur if warrants and employee stock options were exercised. In the computation of diluted net income per common share, the Company uses the treasury stock method for outstanding options and warrants. Diluted net income (loss) per common share is the same as basic net income (loss) per common share for the periods ended December 31, 2010 and the nine-months ended December 31, 2009, because the effects of potentially dilutive securities are anti-dilutive. The effect of net income (loss) per common share is calculated based upon the following shares (in thousands except share amounts):

	Three months Ended December 31,		Nine months Ended December 31,	
	2009	2010 (As Restated)	2009	2010 (As Restated)
Numerator:				
Net income (loss) (in thousands)	$ 754	$ (182)	$ (2,257)	$ (179)
Denominator:				
Weighted-average common shares outstanding	21,792,175	22,726,426	21,709,799	22,629,776
Weighted-average of assumed conversion of stock options and warrants	775,400			
Weighted-average common shares and common share equivalents outstanding	22,567,575	22,726,426	21,709,799	22,629,776
Net income (loss) per common share:				
Basic	$ 0.03	$ (0.01)	$ (0.10)	$ (0.01)
Diluted	$ 0.03	$ (0.01)	$ (0.10)	$ (0.01)

The Company had the following anti-dilutive securities outstanding which were excluded from the calculation of diluted net loss per share for the nine months ended:

	December 31, 2009	December 31, 2010
Warrants	357,144	45,040
Stock Options	3,564,200	3,651,648
Total	3,921,344	3,696,688

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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 43% and 21% of total cost of revenue for the three months ended December 31, 2009 and 2010, respectively, and 26% and 29% of total cost of revenue for the nine months ended December 31, 2009 and 2010, respectively.

For the three and nine months ended December 31, 2009 and December 31, 2010, no customers accounted for more than 10% of revenue.

As of March 31, 2010, one customer accounted for 16% of the accounts receivable balance. As of December 31, 2010, no customer accounted for more than 10% of the accounts receivable balance.

Recent Accounting Pronouncements

In July 2010, the FASB issued Accounting Standards Update 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (ASU 2010-20). ASU 2010-20 requires further disaggregated disclosures that improve financial statement users understanding of (1) the nature of an entity s credit risk associated with its financing receivables and (2) the entity s assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. The new and amended disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The adoption of ASU 2010-20 did not have a material impact on the Company s consolidated results of operations and financial condition.

Effective April 1, 2010, the Company adopted ASU 2009-13 for the sale of its lighting and energy management systems, *Multiple-Deliverable Revenue Arrangements*, which amends ASC Subtopic 650-25 Revenue Recognition Multiple-Element Arrangements to eliminate the requirement that all undelivered elements have vendor-specific objective evidence (VSOE) or third-party evidence (TPE) before an entity can recognize the portion of an overall arrangement fee that is attributable to items that already have been delivered. In the absence of VSOE or TPE of the standalone selling price for one or more delivered or undelivered elements in a multiple-element arrangement, entities will be required to estimate the selling prices of those elements. The overall arrangement fee will be allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or TPE or are based on the entity s estimated selling price. Additionally, the new guidance will require entities to disclose more information about their multiple-element revenue arrangements. The adoption of this ASU did not result in a material change in either the units of accounting or a change in the pattern or timing of revenue recognition. Additionally, the adoption of this ASU did not have a material impact on the Company s consolidated financial statements.

NOTE D RELATED PARTY TRANSACTIONS

During the nine months ended December 31, 2009 and 2010, the Company recorded revenue of $27,000 and $18,000 for products and services sold to an entity for which a director of the Company was formerly the executive chairman. The Company also entered into an OTA finance contract with such entity in September 2010 with future expected gross contracted revenue to the Company of $2.9 million. During the same nine month periods, the Company purchased goods and services from the same entity in the amounts of $30,000 and none. 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, 2009 and 2010, the Company recorded revenue of $705,000 and $183,000 for products and services sold to various entities affiliated or associated with an entity for which a director of the Company previously served 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.

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NOTE E LONG-TERM DEBT

Long-term debt as of March 31, 2010 and December 31, 2010 consisted of the following (in thousands):

	March 31, 2010	December 31, 2010
Term note	$ 1,017	$ 843
Customer equipment finance note payable		2,318
First mortgage note payable	926	872
Debenture payable	847	817
Lease obligations	7	2
Other long-term debt	921	1,027
Total long-term debt	3,718	5,879
Less: current maturities	(562)	(1,261)
Long-term debt, less current maturities	$ 3,156	$ 4,618

New Debt Arrangements

In September 2010, the Company entered into a note agreement with a financial institution that provided the Company with $2.4 million to fund completed customer contracts under the Company s OTA finance program. This note is included in the table above as customer equipment finance note payable. The note is collateralized by the OTA-related equipment and the expected future monthly payments under the supporting 57 individual OTA customer contracts. The note bears interest at 7% and matures in September 2015. The note agreement includes certain prepayment penalties and a covenant that the Company maintain at least $5 million in cash liquidity.

In September 2010, the Company entered into a note agreement with the Wisconsin Department of Commerce that provided the Company with $0.3 million to fund the Company s rooftop solar project at its Manitowoc manufacturing facility. This note is included in the table above as other long-term debt. The note is collateralized by the related solar equipment. The note allows for two years without interest accruing or principal payments due. Beginning in June 2012, the note bears interest at 2%. The note matures in June 2017. The note agreement requires the Company to maintain a certain number of jobs at its Manitowoc facilities during the note s duration.

Revolving Credit Agreement

On June 30, 2010, the Company entered into a new credit agreement (Credit Agreement) with JP Morgan Chase Bank, N.A. (JP Morgan). The Credit Agreement replaced the Company s former credit agreement with a different bank.

The Credit Agreement provides for a revolving credit facility (Credit Facility) that matures on June 30, 2012. The Company is currently working on an amendment to the Credit Facility to extend the maturity date to June 30, 2013. Borrowings under the Credit Facility are limited to (i) $15.0 million or (ii) during periods in which the outstanding principal balance of outstanding loans under the Credit Facility is greater than $5.0 million, the lesser of (A) $15.0 million or (B) the sum of 75% of the outstanding principal balance of certain accounts receivable of the Company and 45% of certain inventory of the Company. The Credit Agreement contains certain financial covenants, including minimum unencumbered liquidity requirements and requirements that the Company maintain a total liabilities to tangible net worth ratio not to exceed 0.50 to 1.00 as of the last day of any fiscal quarter. 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. The Company also may cause JP Morgan to issue letters of credit for the Company s account in the aggregate principal amount of up to $2.0 million, with the dollar amount of each issued letter of credit counting against the overall limit on borrowings under the Credit Facility. As of December 31, 2010, the Company had outstanding letters of credit totaling $1.7 million, primarily for securing collateral requirements under equipment operating leases. The Company incurred $61,000 of deferred financing costs related to the Credit Agreement which will be amortized over the two-year term of the Credit Agreement. There were no borrowings by the Company under the Credit Agreement as of December 31, 2010.

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The Credit Agreement is secured by a first lien security interest in the Company s accounts receivable, inventory and general intangibles, and a second lien priority in the Company s equipment and fixtures. All OTAs, PPAs, leases, supply agreements and/or similar agreements relating to solar photovoltaic and wind turbine systems or facilities, as well as all accounts receivable and assets of the Company related to the foregoing, are excluded from these liens.

The Company must pay a fee of 0.25% on the average daily unused amount of the Credit Facility and a fee of 2.00% on the daily average face amount of undrawn issued letters of credit. The fee on unused amounts is waived if the Company or its affiliates maintain funds on deposit with JP Morgan or its affiliates above a specified amount. The deposit threshold requirement was not met as of December 31, 2010.

NOTE F INCOME TAXES

The income tax provision for the nine months ended December 31, 2010 was determined by applying an estimated annual effective tax rate of 84.5% to income 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,	
	2009	2010 (As Restated)
Statutory federal tax rate	(34.0)%	34.0%
State taxes, net	2.6%	2.0%
Stock-based compensation expense	5.0%	(113.3)%
Federal tax credit	(3.5)%	(14.7)%
State tax credit	(0.4)%	(2.2)%
State valuation allowance	0.1%	8.0%
Permanent items	5.1%	7.0%
Other, net	2.7%	(5.3)%
Effective income tax rate	(22.4)%	(84.5)%

Included in the effective rate impact for stock compensation was the conversion of incentive stock options to non-qualified stock options. The conversion was applied retrospectively, allowing the Company to benefit $0.6 million of income tax expense that was previously deferred for income tax purposes.

The Company is eligible for tax benefits associated with the excess of the tax deduction available for exercises of non-qualified stock options over the fair value determined at the grant date. The amount of the benefit is based on the ultimate deduction reflected in the applicable income tax return. Benefits of $0.1 million were recorded in fiscal 2010 as a reduction in taxes payable and a credit to additional paid in capital based on the amount that was utilized during the year. Benefits of $0.1 million and $0.2 million were recorded for the nine-month periods ended December 31, 2009 and 2010, respectively.

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.

Uncertain tax positions

As of December 31, 2010, the balance of gross unrecognized tax benefits was approximately $399,000, all of which would reduce the Company s effective tax rate if recognized. The Company does not expect this amount to change in the next 12 months as none of the issues are currently under examination, the statutes of limitations do not expire within the period, and the Company is not aware of any pending litigation. Due to the existence of net operating loss and credit carryforwards, all years since 2002 are open to examination by tax authorities.

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 and are included in the unrecognized tax benefits. For the nine months ended December 31, 2009 and 2010, the Company had the following unrecognized tax benefit activity (in thousands):

	Nine Months Ended December 31, 2009	Nine Months Ended December 31, 2010
Unrecognized tax benefits as of beginning of period	$ 397	$ 398
Decreases relating to settlements with tax authorities		
Additions based on tax positions related to the current period positions	1	1
Unrecognized tax benefits as of end of period	$ 398	$ 399

NOTE G COMMITMENTS AND CONTINGENCIES

Operating Leases and Purchase Commitments

The Company leases vehicles and equipment under operating leases. Rent expense under operating leases was $385,000 and $483,000 for the three months ended December 31, 2009 and 2010; and $1.0 million and $1.3 million for the nine months ended December 31, 2009 and 2010. 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, 2010, the Company had entered into $22.7 million of purchase commitments, including $0.1 million related to the remaining capital committed for information technology improvements and other manufacturing equipment, $9.2 million for commitments under operating leases and $13.4 million for inventory purchases.

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 claimed to represent those persons who purchased shares of the Company s common stock from December 18, 2007 through February 6, 2008. The plaintiffs alleged, 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 alleged various claims under the Securities Act of 1933, as amended. The complaints sought, 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.

In the fourth quarter of fiscal 2010, the Company reached a preliminary agreement to settle the class action lawsuits and on January 3, 2011, the court issued an order granting preliminary approval of the settlement. The court has scheduled a fairness hearing for April 14, 2011. Substantially all of the proposed preliminary settlement amount will be covered by the Company s insurance. However, for the Company s share of the proposed preliminary settlement not covered by insurance, the Company recorded an after-tax charge in the fourth quarter of fiscal 2010 of approximately $0.02 per share. The Company deposited its uninsured share of the settlement amount in escrow on February 1, 2011.

If the preliminary settlement is not finally approved or the other conditions are not met, the Company will continue to defend against the lawsuits and believes that it and the other defendants have substantial legal and factual defenses to the claims and allegations contained in the consolidated complaint. In such a case, the Company would intend to pursue these defenses vigorously. There can be no assurance, however, that the Company would be successful, and an adverse resolution of the lawsuits could have a material adverse effect on the Company s financial condition, 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. If the preliminary settlement is not finally approved or the other conditions are not met, the Company is not presently able to reasonably estimate potential costs and/or losses, if any, related to the lawsuit.

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NOTE H SHAREHOLDERS EQUITY

Employee Stock Purchase Plan

In August 2010, the Company s board of directors approved a non-compensatory employee stock purchase plan, or ESPP. The ESPP authorizes 2,500,000 million shares to be issued from treasury or authorized shares to satisfy employee share purchases under the ESPP. All full-time employees of the Company are eligible to be granted a non-transferable purchase right each calendar quarter to purchase directly from the Company up to $20,000 of the Company s common stock at a purchase price equal to 100% of the closing sale price of the Company s common stock on the NYSE Amex exchange on the last trading day of each quarter. The ESPP allows for employee loans from the Company, except for Section 16 officers, limited to 20% of an individual s annual income and no more than $250,000 outstanding at any one time. Interest on the loans is charged at the 10-year loan IRS rate and is payable at the end of each calendar year or upon loan maturity. The loans are secured by a pledge of any and all the Company s shares purchased by the participant under the ESPP and the Company has full recourse against the employee, including offset against compensation payable. The Company had the following shares issued from treasury for the first nine months of fiscal 2011:

	As of December 31, 2010				
Period	**Shares Issued Under ESPP Plan**	**Closing Market Price**	**Shares Issued Under Loan Program**	**Dollar Value Of Loans Issued**	**Repayment Of Loans**
Quarter Ended September 30, 2010	40,560	$ 3.17	38,202	$ 121,100	$
Quarter Ended December 31, 2010	12,274	3.34	10,898	36,400	844
Total	52,834	$ 3.21	49,100	$ 157,500	$ 844

Loans issued to employees are reflected on the Company s balance sheet as a contra-equity account.

NOTE I STOCK OPTIONS AND WARRANTS

The Company grants stock options under its 2003 Stock Option and 2004 Stock and Incentive Awards Plans (the Plans). Under the terms of the Plans, the Company has reserved 12,000,000 shares for issuance to key employees, consultants and directors. The Company s board of directors approved an increase to the number of shares available under the 2004 Stock and Incentive Awards Plan of 1,500,000 shares, and such share increase was approved by the Company s shareholders at the 2010 annual shareholders meeting and such shares are included above. The options generally vest and become exercisable ratably between one month and five years although longer vesting periods have been used in certain circumstances. 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 as well as under other special circumstances.

For the three and nine months ended December 31, 2010, the Company granted none and 11,976 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 ranging from $2.86 to $3.46 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,	
	2009	**2010**	**2009**	**2010**
Cost of product revenue	$ 51	$ 42	$ 163	$ 116
General and administrative	135	147	400	417

Sales and marketing	205	123	472	377
Research and development	10	9	29	21
Total	$ 401	$ 321	$ 1,064	$ 931

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As of December 31, 2010, compensation cost related to non-vested stock-based compensation amounted to $4.3 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, 2010	569,690	3,546,249	$ 3.66	6.87	
Amendment to Plan	1,500,000				
Granted stock options	(609,077)	609,077	3.66		
Granted shares in lieu of cash compensation	(11,976)				
Forfeited	218,658	(218,658)	3.88		
Exercised		(285,020)	1.31		
Balance at December 31, 2010	1,667,295	3,651,648	$ 3.80	6.65	$ 2,080,575
Exercisable at December 31, 2010		1,748,281	$ 3.34	4.96	$ 1,581,405

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 $3.34 as of December 31, 2010.

A summary of the status of the Company s outstanding non-vested stock options as of December 31, 2010 was as follows:

Non-vested at March 31, 2010	1,789,119
Granted	609,077
Vested	(276,171)
Forfeited	(218,658)
Non-vested at December 31, 2010	1,903,367

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 2010 or for the nine months ended December 31, 2010.

Outstanding warrants are comprised of the following:

	Number of Shares	Weighted Average Exercise Price
Balance at March 31, 2010	76,240	$ 2.37
Issued		
Exercised	(16,000)	2.50

Cancelled	(15,200)	2.50
Balance at December 31, 2010	45,040	$ 2.28

A summary of outstanding warrants at December 31, 2010 follows:

Exercise Price	Number of Warrants	Expiration
$2.25	38,980	Fiscal 2014
$2.50	6,060	Fiscal 2011
Total	45,040	

NOTE J SEGMENTS

The Company operates in two business segments. As such, descriptions of the Company s segments and their summary financial information are presented below.

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Energy Management

The Energy Management division develops, manufactures, sells and provides technical services commercial high intensity fluorescent, or HIF, lighting systems and energy management systems.

Engineered Systems

The Engineered Systems division sells and integrates alternative renewable energy systems, such as solar and wind.

Corporate and Other

Corporate and Other is comprised of selling, general and administrative expenses not directly allocated to the Company s segments and adjustments to reconcile to consolidated results, which primarily include intercompany eliminations.

	Revenues For the Three Months Ended December 31,		Operating (Loss) Profit For the Three Months Ended December 31,	
	2009	2010	2009	2010
(dollars in thousands)		(As Restated)		(As Restated)
Segments:				
Energy Management	$ 20,621	$ 22,042	$ 3,122	$ 3,499
Engineered Systems	206	1,602	(632)	(640)
Corporate and Other			(1,609)	(1,583)
	$ 20,827	$ 23,644	$ 881	$ 1,276

	Revenues For the Nine Months Ended December 31,		Operating (Loss) Profit For the Nine Months Ended December 31,	
	2009	2010	2009	2010
(dollars in thousands)		(As Restated)		(As Restated)
Segments:				
Energy Management	$ 50,570	$ 54,121	$ 3,158	$ 5,268
Engineered Systems	206	2,352	(1,509)	(1,658)
Corporate and Other			(4,905)	(4,977)
	$ 50,776	$ 56,473	$ (3,256)	$ (1,367)

	Total Assets		Deferred Revenue	
	March 31, 2010	December 31, 2010	March 31, 2010	December 31, 2010
(dollars in thousands)		(As Restated)		(As Restated)
Segments:				
Energy Management	$ 57,968	$ 72,866	$ 390	$ 536
Engineered Systems	3,481	12,876	134	3,150
Corporate and Other	43,129	33,047		
	$ 104,578	$ 118,789	$ 524	$ 3,686

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

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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 restatements of our financial results which are 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 Prior Period 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 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 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 2010 Annual Report filed on Form 10-K for the year ended March 31, 2010 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 Amendment No. 2, we have restated our previously issued unaudited consolidated financial statements and related disclosures for the quarter ended December 31, 2010 to account for sales of our solar photovoltaic, or PV, systems using the percentage-of-completion method rather than based upon multiple deliverable elements. Under our prior method of accounting for sales of our PV systems, we recognized revenue in two stages (i) when the title to the products had been transferred and (ii) when the service installation was complete.

We are filing this Amendment No. 2 to the Quarterly Report on Form 10-Q/A for the quarter ended December 31, 2010, initially filed on February 9, 2011 (Original Filing) and amended on August 2, 2011 (Amendment No. 1) to restate our unaudited condensed consolidated financial statements related to the accounting change for OTA contracts as detailed in Amendment No. 1.

Background of the Restatement

As discussed above in the Explanatory Note, the financial statements contained in the Amendment No. 1 to the Form 10-Q for the quarterly period ended December 31, 2010 should no longer be relied upon and must be restated to account for sales of our solar photovoltaic, or PV, systems using the percentage-of-completion method rather than based upon multiple deliverable elements.

Under our prior method of accounting for sales of our PV systems, we recognized revenue in two stages (i) when the title to the products had been transferred and (ii) when the service installation was complete. On February 2, 2012, we concluded that generally accepted accounting principles, or GAAP, required that revenue from the sales of solar PV systems be recognized under the percentage-of-completion method. The percentage-of-completion method requires revenue from the delivery of products to be deferred and the cost of such products to be capitalized as a deferred cost and current asset on the balance sheet. The difference between the percentage-of-completion method and the multiple deliverable elements method is a matter of timing, with no impact on overall earnings or cash flow from the individual contracts.

Generally, for the quarterly and year-to-date periods ended December 31, 2010, 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;

An increase in deferred contract costs of $7.1 million, an increase in deferred revenue of $2.7 million, a decrease in accounts receivable of $4.1 million, a decrease in prepaid expenses and other current assets of $1.6 million and a decrease in accrued expenses of $0.3 million for the quarter ended December 31, 2010;

A decrease in our revenue of $6.4 million (21%), a decrease in our net income of $0.9 million (124%) and a decrease in our income per share of $0.04 (133%) for the quarter ended December 31, 2010 and a decrease in our revenue of $6.4 million (10%), a decrease in our net income of $0.9 million (124%) and a decrease in our income per share of $0.04 (133%) for the nine months ended December 31, 2010.

In addition to the impact of the accounting treatment change for solar PV sales described above, management s reassessment of the quarter ended December 31, 2010, resulted in the following additional change:

An increase in long-term assets of $13.5 million and a decrease in current assets of $13.5 million as a result of a reclassification of current inventory to long-term inventory related to our investment in wireless control products.

The specific line-item effect of the restatement on our previously issued unaudited condensed consolidated financial statements as of and for the three and nine months ended December 31, 2010 as set forth in Amendment No. 1 are as follows (in thousands, except share and per share data):

	Consolidated Balance Sheets as of December 31, 2010		
	As Previously Reported (1)	Adjustments	As Restated
Assets:			
Accounts receivable	$ 26,241	$ (4,068)	$ 22,173
Inventories, net	32,230	(13,518)	18,712
Deferred contract costs, current		7,115	7,115
Prepaid expenses and other current assets	4,726	(1,610)	3,116
Total current assets	75,819	(12,081)	63,738
Long-term accounts receivable	4,886	1,077	5,963
Long-term inventories		13,518	13,518
Long-term other assets	2,963	(1,077)	1,886
Total assets	117,352	1,437	118,789
Accrued expenses	3,993	(275)	3,718
Deferred revenue, current		2,650	2,650
Total current liabilities	20,617	2,375	22,992
Shareholders equity:			
Retained deficit	(1,359)	(938)	(2,297)

	Consolidated Statements of Operations					
	Three months ended December 31, 2010			Nine months ended December 31, 2010		
	As Previously Reported (1)	Adjustments	As Restated	As Previously Reported (1)	Adjustments	As Restated
Product revenue	$ 28,048	$ (6,415)	$ 21,633	$ 58,891	$ (6,415)	$ 52,476
Service revenue	2,008	3	2,011	3,994	3	3,997
Cost of product revenue	19,228	(5,094)	14,134	39,280	(5,094)	34,186
Cost of service revenue	1,674	2	1,676	3,089	2	3,091
Income (loss) from operations	2,596	(1,320)	1,276	(47)	(1,320)	(1,367)
Income tax expense (benefit)	1,931	(382)	1,549	(594)	(382)	(976)
Net income (loss)	756	(938)	(182)	759	(938)	(179)
Net income (loss) per share attributable to common shareholders basic	$ 0.03	$ (0.04)	$ (0.01)	$ 0.03	$ (0.04)	$ (0.01)
Net income (loss) per share attributable to common shareholders diluted	$ 0.03	$ (0.04)	$ (0.01)	$ 0.03	$ (0.04)	$ (0.01)

Weighted average common shares outstanding basic	22,726,426	22,726,426	22,629,776	22,629,776
Weighted average common shares outstanding diluted	23,110,633	22,726,426	23,061,360	22,629,776

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	Consolidated Statements of Cash Flows Nine Months Ended December 31, 2010		
	As Previously Reported (1)	Adjustments	As Restated
Net income (loss)	$ 759	$ (938)	$ (179)
Depreciation and amortization	2,341	73	2,414
Loss on sale of assets		13	13
Other	25	13	38
Accounts receivable	(10,335)	197	(10,138)
Deferred contract costs		(5,562)	(5,562)
Prepaid expenses and other assets and liabilities	(5,102)	3,058	(2,044)
Deferred revenue		3,162	3,162
Accrued expenses	(136)	63	(73)
Net cash used in operating activities	(10,664)	79	(10,585)
Purchase of property and equipment	(2,887)	(99)	(2,986)
Additions to patents and licenses	(158)	20	(138)
Net cash used in investing activities	(5,510)	(79)	(5,589)

(1) Reflects the restatement related to the accounting change for OTA contracts as detailed in Amendment No. 1.

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 that sell to their own customer bases.

We have sold and installed more than 1,972,000 of our HIF lighting systems in over 6,500 facilities from December 1, 2001 through December 31, 2010. We have sold our products to 130 Fortune 500 companies, many of which have installed our HIF lighting systems in multiple facilities. Our top direct customers by revenue in fiscal 2010 included Coca-Cola Enterprises Inc., U.S. Foodservice, SYSCO Corp., Ball Corporation, MillerCoors and Pepsico, Inc. and its affiliates.

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Our fiscal year ends on March 31. We call our prior fiscal year which ended on March 31, 2010, fiscal 2010 . We call our current fiscal year, which will end on March 31, 2011, fiscal 2011. Our fiscal 2011 first quarter ended on June 30, our fiscal 2011 second quarter ended on September 30, our fiscal 2011 third quarter ended on December 31 and our fiscal 2011 fourth quarter will end on March 31.

Because of the recessed state of the global economy, especially as it relates to capital equipment manufacturers, our fiscal 2011 first half results continued to be impacted by lengthened customer sales cycles and sluggish customer capital spending. During the fiscal 2011 third quarter, capital equipment purchases were slightly improved and we continue to remain optimistic regarding customer behaviors heading into calendar year 2011. To address the economic conditions, we implemented $3.2 million of annualized cost reductions during the first quarter of fiscal 2010. These cost containment initiatives included reductions related to headcount, work hours and discretionary spending and began to show results in the second half of fiscal 2010 and the first half of fiscal 2011. During the second quarter of fiscal 2011, we identified an additional $2 million of annualized cost reductions related to decreased product costs, improved manufacturing efficiencies and reduced operating expenses. We began to realize some of these cost reductions during the fiscal 2011 third quarter through reduction in general and administrative expenses and improved product margins for our HIF lighting systems.

Despite the recent economic challenges, we remain optimistic about our near-term and long-term financial performance. Our near-term optimism is based upon our increased level of revenue and operating income for the third quarter of fiscal 2011, our increased backlog of cash orders at the end of our fiscal 2011 third quarter versus our backlog at the end of our fiscal 2010 third quarter, the increase in the number of our value-added resellers and their sales staffs and our cost reduction plans for the remainder of fiscal 2011. Our long-term optimism is based upon the considerable size of the existing market opportunity for lighting retrofits, the continued development of our new products and product enhancements, the opportunity for additional revenue from sales of renewable technologies through our Orion Engineered Systems division, the opportunity for our participation in the replacement part aftermarket and the increasing national recognition of the importance of environmental stewardship, including legislation within the State of Wisconsin passed earlier this fiscal year that recognized our solar Apollo Light Pipe as a renewable product offering and qualified it for incentives currently offered to other renewable technologies.

In August 2009, we created Orion Engineered Systems, a new operating division which has been offering our customers additional alternative renewable energy systems. In fiscal 2010, we sold and installed three solar photovoltaic, or PV, electricity generating projects, completing our test analysis on two of the three in the fiscal 2010 third quarter, and executed our first cash sale and our first Power Purchase Agreement, or PPA, as a result of the successful testing of these systems. We completed the installation and customer acceptance of the third system, a cash sale, during our fiscal 2011 first quarter. During the quarter ended September 30, 2010, we received an $8.3 million cash order for a solar PV generating system for which we anticipate recognizing revenue beginning in fiscal 2012.

During our fiscal 2011 third quarter, we introduced segment reporting for our Energy Management and Engineered Systems groups. Our Energy Management division develops, manufactures, provides technical services and sells commercial high intensity fluorescent, or HIF, lighting systems and energy management systems. Our Engineered Systems division sells and integrates alternative renewable energy systems, including solar and wind.

In response to the constraints on our customers capital spending budgets, we have more aggressively promoted the advantages to our customers of leasing our energy management systems through our Orion Throughput Agreement, or OTA, financing program, as well as our solar PPA, as an alternative to purchasing our systems for cash. Our OTA financing program provides for our customer s leasing of our energy management systems without an up-front capital outlay. 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 our net investment in the lease which typically is the net present value of the future cash flows. The PPA is a supply side agreement for the generation of electricity and subsequent sale to the end user. We expect that the number of customers who choose to purchase our systems by using our OTA financing program will continue to increase in future periods.

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. Our service revenues are recognized when services are complete and customer acceptance has been received. In fiscal 2010 and continuing into fiscal 2011, we increased our efforts to expand our value-added reseller channels, including through developing a partner standard operating procedural kit, providing our partners with product marketing materials and providing training to channel partners on our sales methodologies. These wholesale channels accounted for approximately 43% of our total revenue volume in fiscal 2010 which was an increase from the 40% of total revenue contributed in fiscal 2009. This growth trend in our wholesale mix of total revenue continued to increase during the first nine months of fiscal 2011, with our wholesale mix of total revenue, not taking into consideration our renewable technologies revenue generated through our Orion Engineered Systems division, equaling 51% compared to 43% for the first nine months of fiscal 2010.

We offer our OTA sales-type financing program under which we finance the customer s purchase 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 the system is operating as specified. For the first nine months of fiscal 2010, we recognized $4.2 million of revenue from completed OTAs. For the first nine months of fiscal 2011, we recognized $6.3 million of revenue from completed OTAs. As of December 31, 2010, we had signed 167 customers to OTAs representing future potential gross cash flow streams of $16.6 million. In the future, we expect an increase in the volume of OTAs as our customers take advantage of our value proposition without incurring up-front capital cost.

For sales of solar PV systems, we recognize revenue using the percentage-of-completion method. Under this method, revenue arising from fixed price construction contracts is recognized as work is performed based upon the percentage of incurred costs to estimated total forecasted costs. The Company has determined that the appropriate method of measuring progress on these sales is measured by the percentage of costs incurred to date of the total estimated costs for each contract as materials are installed. The percentage-of-completion method requires revenue recognition from the delivery of products to be deferred and the cost of such products to be capitalized as a deferred cost and current asset on the balance sheet. We perform periodic evaluations of the progress of the installation of the solar PV systems using actual costs incurred over total estimated costs to complete a project. Provisions for estimated losses on uncompleted contracts, if any, are recognized in the period in which the loss first becomes probable and reasonably estimable.

Our PPA financing program provides for our customer s purchase of electricity from our renewable energy generating assets without an upfront capital outlay. Our PPA is a longer-term contract, typically in excess of 10 years, in which we receive monthly payments over the life of the contract. This program creates an ongoing recurring revenue stream, but reduces near-term revenue as the payments are recognized as revenue on a monthly basis over the life of the contract versus upfront upon product shipment or project completion. For the first nine months of fiscal 2010, we did not recognize any revenue from completed PPAs. For the first nine months of fiscal 2011, we recognized $0.3 million of revenue from completed PPAs. As of December 31, 2010, we had signed one customer to two separate PPAs representing future potential discounted revenue streams of $3.4 million. We discount the future revenue from PPAs due to the long-term nature of the contracts, typically in excess of 10 years. The timing of expected future discounted GAAP revenue recognition and the resulting operating cash inflows from PPAs, assuming the systems perform as designed, was as follows as of December 31, 2010 (in thousands):

Fiscal 2011 remainder	$ 130
Fiscal 2012	432
Fiscal 2013	432
Fiscal 2014	431
Beyond	1,896
Total expected future discounted revenue from PPAs	$ 3,321

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 selling price, 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 30% and 27% of our total revenue for the first nine months of fiscal 2011 and fiscal 2010, respectively. No customer accounted for 10% of our total revenue for our first nine months of fiscal 2011 and fiscal 2010. To the extent that large retrofit and roll-out projects and large solar PV contracts 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 and PPA programs and any new products, applications and service that we may introduce through our Orion Engineered Systems 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; (vi) market conditions; (vii) our execution of our sales process; (viii) our ability to compete in a highly competitive market and our ability to respond successfully to market competition; (ix) the selling price of our products and services; (x) changes in capital investment levels by our customers and prospects; and (xi) 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 solar business is expected to continue to increase and because our OTA revenues are not recognized until project completion occurs and our solar contracts are recognized over a longer time period, 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 discounted future cash flows expected, 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 for sales of our HIF lighting and energy management systems, we generally expect that we will begin to recognize GAAP revenue within 30 days from receipt of purchase order. For cash Contracted Revenue for sales of our solar PV systems, we generally expect that we will begin to recognize GAAP revenue within three to 15 months, from receipt of purchase order. For OTA Contracted Revenue, we generally expect that we will begin to recognize GAAP revenue under the terms of the agreements 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 our first nine months of fiscal 2010, total Contracted Revenue was $55.9 million, which included $5.1 million of discounted future expected potential revenue associated with OTAs and $1.7 million of potential discounted revenue streams from PPAs. For our fiscal first nine months of fiscal 2011, total Contracted Revenue was $72.6 million, an increase of 30% compared to the same period in fiscal 2010, which included of $8.8 million of discounted future expected revenue associated with OTAs and $1.9 million of potential discounted revenue streams from PPAs. A reconciliation of our Contracted Revenue to our GAAP revenue for the three and nine months ended December 31, 2010 is as follows:

	Three months ended December 31, 2010	Nine months ended December 31, 2010
Total Contracted Revenues	$ 26.1	$ 72.6
Change in backlog (1)	(1.3)	(11.8)
Contracted Revenue backlog from OTAs and PPAs (2)	(1.8)	(4.1)
Other miscellaneous	0.6	(0.2)
Revenue GAAP basis	$ 23.6	$ 56.5

(1) Change in backlog reflects the increase in cash orders at the end of the respective period where product delivery or service performance has not yet occurred. GAAP revenue will be recognized when the performance conditions have been satisfied. For sales of HIF lighting energy management systems, typically within 90 days from the end of the period. For sales of solar PV systems, typically within three to 15 months from the end of the period. typically within 90 days from the end of the period.

(2) Contracted Revenue from OTAs and PPAs are subtracted to reconcile the GAAP revenue as recognition of GAAP revenue will occur in future periods upon completion of the installation for OTAs or monthly revenue recognition for PPAs.

Backlog. We define backlog as the total contractual value of all firm orders received for our lighting products and services where delivery of product or completion of services has not yet occurred as of the end of any particular reporting period. Such orders must be evidenced by a signed proposal acceptance or purchase order from the customer. Our backlog does not include OTAs that are in process, PPAs or national contracts that have been negotiated, but under which we have not yet received a purchase order for the specific location. As of December 31, 2010, we had a backlog of firm purchase orders of approximately $15.0 million, which included $10.3 million of solar PV orders, compared to a backlog of firm purchase orders of approximately $5.1 million as of December 31, 2009. We generally expect this level of firm purchase order backlog related to HIF lighting systems to be converted into revenue within the following quarter. We generally expect our firm purchase order backlog related to solar PV systems to be recognized within the following three to fifteen months. Principally as a result of the increased volume of our solar PV orders, the continued lengthening of our customer s purchasing decisions because of current recessed economic conditions and related factors, the continued shortening of our installation cycles and the number of projects sold through OTAs, 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 29% of our total cost of revenue for the first nine months of fiscal 2011 and were 26% of total cost of revenue for the first nine months of fiscal 2010. Our cost of revenue from OTA projects is recorded upon customer acceptance and acknowledgement that the system is operating as specified. 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 level of solar PV sales which generally have substantially lower relative gross margins than our traditional energy management systems; (ii) our mix of large retrofit and multi-facility roll-out projects with national accounts; (iii) 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); (iv) our realization rate on our billable services; (v) our project pricing; (vi) our level of warranty claims; (vii) our level of utilization of our manufacturing facilities and production equipment and related absorption of our manufacturing overhead costs; (viii) our level of efficiencies in our manufacturing operations; and (ix) our level of efficiencies from our subcontracted installation service providers.

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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 2010, our operating expenses increased as a result of the completion of our new technology center and the related building occupancy costs. During fiscal 2011, we have invested in marketing efforts to our direct end customers and to our channel partners through increasing advertising, marketing collateral materials and participating in national industry and customer trade shows. 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 $0.9 million in the first nine months of fiscal 2011 and $1.1 million of stock-based compensation expense in the same period in fiscal 2010. As a result of prior option grants, we expect to recognize an additional $4.3 million of stock-based compensation over a weighted average period of approximately seven years, including $0.4 million in the fourth quarter of fiscal 2011. 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.

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 two to fifteen years.

Dividend and Interest Income. We 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 2011, our interest income declined compared to the first nine months of fiscal 2010 as a result of the decrease in our cash and cash equivalents and lower market rates of return on our investments.

Income Taxes. As of March 31, 2010, we had federal tax credit carryforwards of approximately $0.5 million and state credit carryforwards which are fully reserved for with a valuation allowance of $0.4 million. Management believes it is more likely than not that we will realize the benefits of these federal assets and has reserved for an allowance due to our state apportioned income and the potential expiration of the state tax credits due to the carryforwards period. These federal and state credit carryforwards are available, subject to the discussion in the following paragraph, to offset future taxable income and, if not utilized, will begin to expire in varying amounts between 2014 and 2030.

Generally, a change of more than 50% in the ownership of a company s stock, by value, over a three year period constitutes an ownership change for federal income tax purposes. An ownership change may limit a company s ability to use its net operating loss carryforwards attributable to the period prior to such change. In fiscal 2007 and prior to our IPO, past issuances and transfers of stock caused an ownership change for certain tax purposes. When certain ownership changes occur, tax laws require that a calculation be made to establish a limitation on the use of net operating loss carryforwards created in periods prior to such ownership change. For fiscal year 2008, utilization of our federal loss carryforwards was limited to $3.0 million. There was no limitation that occurred for fiscal 2009 or fiscal 2010. For fiscal 2011, we do not anticipate a limitation on the use of our net operating loss carryforwards.

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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,				
	2009		2010			2009		2010		
			(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	$ 18,737	90.0%	$ 21,633	91.5%	15.5%	$ 45,879	90.4%	$ 52,476	92.9%	14.4%
Service revenue	2,090	10.0%	2,011	8.5%	(3.8)%	4,897	9.6%	3,997	7.1%	(18.4)%
Total revenue	20,827	100.0%	23,644	100.0%	13.5%	50,776	100.0%	56,473	100.0%	11.2%
Cost of product revenue	11,860	56.9%	14,134	59.8%	19.2%	30,729	60.5%	34,186	60.5%	11.2%
Cost of service revenue	1,568	7.5%	1,676	7.1%	6.9%	3,455	6.8%	3,091	5.5%	(10.5)%
Total cost of revenue	13,428	64.5%	15,810	66.9%	17.7%	34,184	67.3%	37,277	66.0%	9.0%
Gross profit	7,399	35.5%	7,834	33.1%	5.9%	16,592	32.7%	19,196	34.0%	15.7%
General and administrative expenses	3,051	14.6%	2,709	11.5%	(11.2)%	9,357	18.4%	8,642	15.3%	(7.6)%
Sales and marketing expenses	3,063	14.7%	3,235	13.7%	5.6%	9,176	18.1%	10,124	17.9%	10.3%
Research and development expenses	404	1.9%	614	2.6%	52.0%	1,315	2.6%	1,797	3.2%	36.7%
Income (loss) from operations	881	4.2%	1,276	5.3%	44.8%	(3,256)	(6.4)%	(1,367)	(2.4)%	(58.0)%
Interest expense	66	0.3%	98	0.4%	48.5%	192	0.4%	223	0.4%	16.1%
Dividend and interest income	157	0.8%	189	0.8%	20.4%	539	1.1%	435	0.8%	(19.3)%
Income (loss) before income tax	972	4.7%	1,367	5.8%	40.6%	(2,909)	(5.7)%	(1,155)	(2.0)%	60.3%
Income tax expense (benefit)	218	1.0%	1,549	6.6%	(610.6)%	(652)	(1.3)%	(976)	(1.7)%	49.7%
Net income (loss)	$ 754	3.6%	$ (182)	(0.8)%	(124.1)%	$ (2,257)	(4.4)%	$ (179)	(0.3)%	92.1%

Consolidated

Revenue. Product revenue increased $2.9 million, or 15.5%, from $18.7 million for the fiscal 2010 third quarter to $21.6 million for the fiscal 2011 third quarter. The increase was a result of increased sales of our HIF lighting systems to both our national account and wholesale customers. Product revenue increased $6.6 million, or 14.4%, from $45.9 million for the first nine months of fiscal 2010 to $52.5 million for the first nine months of fiscal 2011. Service revenue decreased $0.1 million, or 3.8%, from $2.1 million for the fiscal 2010 third quarter to $2.0 million for the fiscal 2011 third quarter. Service revenue decreased $0.9 million, or 18.4%, from $4.9 million for the first nine months of fiscal 2010 to $4.0 million for the first nine months of fiscal 2011. The decrease in service revenue was a result of the continued percentage increase of total revenue to our wholesale channels where services are not provided.

Cost of Revenue and Gross Margin. Our cost of product revenue increased $2.3 million, or 19.2%, from $11.9 million for the fiscal 2010 third quarter to $14.1 million for the fiscal 2011 third quarter. Our cost of product revenue increased $3.5 million, or 11.2%, from $30.7 million for the first nine months of fiscal 2010 to $34.2 million for the first nine months of fiscal 2011. Our cost of service revenues increased $0.1 million, or 6.9%, from $1.6 million for the fiscal 2010 third quarter to $1.7 million for the fiscal 2011 third quarter. Our cost of service revenue decreased $0.4 million, or 10.5%, from $3.5 million for the first nine months of fiscal 2010 to $3.1 million for the first nine months of fiscal

2011. Total gross margin decreased from 35.5% for the fiscal 2010 third quarter to 33.1% for the fiscal 2011 third quarter and increased from 32.7% for the first nine months of fiscal 2010 to 34.0% for the first nine months of fiscal 2011. For the fiscal 2011 third quarter, our gross margins declined due to a higher mix of renewable product revenue from our Orion Engineered Systems division. Our gross margin percentage for the fiscal 2011 third quarter on renewable product revenue from this division was 3.4%. Gross margin from our HIF integrated systems revenue for the fiscal 2011 third quarter was 35.3%. For the first nine months of fiscal 2011, our increase in gross margin on product revenues versus the first nine months of fiscal 2010 was attributable to cost containment efforts through the reduction of direct and indirect headcounts, improved production efficiencies resulting from the reengineering of our assembly process, negotiated price decreases on raw materials and reductions in discretionary spending.

General and Administrative Expense. Our general and administrative expenses decreased $0.4 million, or 11.2%, from $3.1 million for the fiscal 2010 third quarter to $2.7 million for the fiscal 2011 third quarter. The decrease was a result of $0.2 million for decreased litigation-related and other legal expenses, $0.1 million in reduced compensation costs resulting from headcount reductions and $0.1 million in discretionary spending reductions. General and administrative expenses decreased $0.8 million, or 7.6%, from $9.4 million for the first nine months of fiscal 2010 to $8.6 million for the first nine months of fiscal 2011. The decrease was a result of $0.4 million in reduced compensation costs resulting from headcount reductions and reduced severance payments, a $0.3 million decrease in consulting and auditing services, a $0.2 million reduction in bad debt expense and $0.2 million in discretionary spending reductions. These reductions were offset by increased legal expenses of $0.3 million related to the settlement efforts of the class action litigation and general corporate matters.

Sales and Marketing Expense. Our sales and marketing expenses increased $0.1 million, or 5.6%, from $3.1 million for the fiscal 2010 third quarter to $3.2 million for the fiscal 2011 third quarter. The increase was a result of increased costs for headcount additions and increased travel for customer site visits. Sales and marketing expenses increased $0.9 million, or 10.3%, from $9.2 million for the first nine months of fiscal 2010 to $10.1 million for the first nine months of fiscal 2011. The increase was a result of $0.2 million for advertising and marketing expenses and $0.2 million in business development expenses related to our efforts to expand our partner channels, $0.3 million in increased travel costs for customer site visits and $0.1 million for additional technology costs, including depreciation, for improvements to our customer relationship management system and computer investments to improve our sales presentation process. Total sales and marketing headcount as of December 31, 2010 was 87 compared to 78 at December 31, 2009.

Research and Development Expense. Our research and development expenses increased $0.2 million, or 52.0%, from $0.4 million for the fiscal 2010 third quarter to $0.6 million for the fiscal 2011 third quarter. Research and development expenses increased $0.5 million, or 36.7%, from $1.3 million for the first nine months of fiscal 2010 to $1.8 million for the first nine months of fiscal 2011. The increase was a result of headcount additions in our engineering and product development group and materials for new product development and testing. Expenses incurred within the fiscal 2011 third quarter related to compensation costs for the development and support of new products, depreciation expenses for lab and research equipment and sample and testing costs related to our new exterior lighting and our light emitting diode, or LED, product initiatives.

Interest Expense. Our interest expense increased $32,000, or 48.5%, from $66,000 for the fiscal 2010 third quarter to $98,000 for the fiscal 2011 third quarter. Our interest expense increased $31,000, or 16.1%, from $192,000 for the first nine months of fiscal 2010 to $223,000 for the first nine months of fiscal 2011. The increase in interest expense for the fiscal 2011 third quarter was due to the additional debt funding completed during our fiscal 2010 second quarter for the purpose of financing our OTA projects. For the first nine months of fiscal 2010 and fiscal 2011, we capitalized $21,000 and $0 of interest for construction in progress, respectively.

Interest Income. Interest income increased $32,000, or 20.4%, from $157,000 for the fiscal 2010 third quarter to $189,000 for the fiscal 2011 third quarter. Interest income decreased $0.1 million, or 19.3%, from $0.5 million for the first nine months of fiscal 2010 to $0.4 million for the first nine months of fiscal 2011. The increase in interest income for the fiscal 2011 third quarter was due to additional interest income earned from completed OTA projects. The decrease in investment income for the nine months ended December 31, 2011 was a result of less cash invested and a decrease in interest rates on our short-term investments.

Income Taxes. Our income tax expense increased from $0.2 million for the fiscal 2010 third quarter to $1.5 million for the fiscal 2011 third quarter. Our income tax benefit decreased from a benefit of $0.7 million for the first nine months of fiscal 2010 to a benefit of $1.0 million for the first nine months of fiscal 2011. Our effective income tax rate for the first nine months of fiscal 2010 was a benefit rate of 22.4%, compared to a benefit rate of 84.5% for the first nine months of fiscal 2011. The change in tax rate versus the prior year is due to a $0.6 million income tax benefit related to the conversion of incentive stock options to non-qualified stock options and the recognition of previously deferred income tax benefit.

Contracted Revenue. Total Contracted Revenue increased $4.7 million, or 22.0%, from $21.4 million (which included $1.7 million of future potential cash flow streams associated with OTAs and $1.7 million of future potential revenue streams associated with PPAs) for the fiscal 2010 third quarter to $26.1 million (which included $2.8 million of discounted future potential cash flow streams associated with OTAs) for the fiscal 2011 third quarter. The increase in Contracted Revenue was due to increased order activity for our integrated lighting systems, increased orders for renewable technologies through our Orion Engineered Systems division and an increase in new customer OTA contracts completed. Total Contracted Revenue increased $15.4 million, or 26.9%, from $57.2 million (which included $6.4 million of future potential cash flow streams associated with OTAs and $1.7 million of future potential revenue streams associated with PPAs) for the first nine months of fiscal 2010 to $72.6 million (which included $8.7 million of discounted future potential cash flow streams associated with OTAs and $1.9 million of future potential revenue streams associated with PPAs) for the first nine months of fiscal 2011. This improvement in Contracted Revenue was attributable to an increase in the number of OTAs and renewable project sales through our Orion Engineered Systems division, along with an improved economic environment during the third quarter of fiscal 2011.

Energy Management Segment

The following table summarizes the Energy Management segment operating results:

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2009	2010	2009	2010

(dollars in thousands)		(As Restated)		(As Restated)
Revenues	$ 20,621	$ 22,042	$ 50,570	$ 54,121
Operating income	3,122	3,499	3,158	5,268
Operating margin	15.1%	15.9%	6.2%	9.7%

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Energy Management segment revenue increased $1.4 million, or 6.9%, from $20.6 million for the fiscal 2010 third quarter to $22.0 million for the fiscal 2011 third quarter. The increase was due to increased sales of our HIF lighting systems to our national account and wholesale customers, increased revenue from new product offerings, including exterior lighting and LED fixtures. Energy Management segment revenue increased $3.5 million, or 7.0%, from $50.6 million for the first nine months of fiscal 2010 to $54.1 million for the first nine months of fiscal 2011.

Energy Management segment operating income increased $0.4 million, or 12.1%, from $3.1 million for the fiscal 2010 third quarter to $3.5 million for the fiscal 2011 third quarter. Energy Management segment operating income increased $2.1 million, or 66.8%, from $3.2 million for the first nine months of fiscal 2010 to $5.3 million for the first nine months of fiscal 2011. The increase in operating income for both the quarter and year-to-date, was a result of improved gross margins on HIF lighting product sales due to cost reduction efforts to reduce labor costs and plant reengineering of our manufacturing processes to improve production efficiencies.

Engineered Systems Segment

The following table summarizes the Engineered Systems segment operating results:

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
(dollars in thousands)	2009	2010 (As Restated)	2009	2010 (As Restated)
Revenues	$ 206	$ 1,602	$ 206	$ 2,352
Operating (loss) income	(632)	(640)	(1,509)	(1,658)
Operating margin	(306.8)%	(40.0)%	(732.5)%	(70.5)%

Engineered Systems segment revenue increased $1.4 million, or 677.7%, from $0.2 million for the fiscal 2010 third quarter to $1.6 million for the fiscal 2011 third quarter. Energy Systems segment revenue increased $2.2 million, or 1041.7%, from $0.2 million for the first nine months of fiscal 2010 to $2.4 million for the first nine months of fiscal 2011. The increase was due to increased sales of solar renewable technologies for the fiscal 2011 third quarter and the first nine months of fiscal 2011. During the same periods of fiscal 2010, our Engineered Systems segment efforts were primarily focused on research of renewable technology products and understanding if there was a market for these technologies within our customer base.

Engineered Systems segment operating loss was unchanged at $0.6 million for the fiscal 2010 and fiscal 2011 third quarters. Energy Systems segment operating loss increased $0.2 million, or 9.9%, from an operating loss of $1.5 million for the first nine months of fiscal 2010 to an operating loss of $1.7 million for the first nine months of fiscal 2011. The increase in operating loss for the first nine months of fiscal 2011 was due to headcount additions in the sales area to generate additional revenues and headcount additions to project operations to support the growing backlog of solar PV orders.

Liquidity and Capital Resources

Overview

We had approximately $9.9 million in cash and cash equivalents and $1.0 million in short-term investments as of December 31, 2010, compared to $23.4 million and $1.0 million at March 31, 2010. Our cash equivalents are invested in money market accounts with maturities of less than 90 days and an average yield of 0.2%. Our short-term investment account consists of a bank certificate of deposit in the amount of $1.0 million with an expiration date of March 2011 and a yield of 0.50%.

Cash Flows

The following table summarizes our cash flows for the nine months ended December 31, 2009 and 2010 (in thousands):

Nine Months Ended December 31,

	2009	2010 (As Restated)
Operating activities	$ (3,726)	$ (10,585)
Investing activities	(703)	(5,589)
Financing activities	202	2,668
Decrease in cash and cash equivalents	$ (4,227)	$ (13,506)

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Cash Flows Related to Operating Activities. Cash used in operating activities primarily consists of net 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 2011 was $10.6 million and consisted of net cash of $13.3 million used for working capital purposes, partially offset by net income adjusted for non-cash expense items of $2.7 million. Cash used for working capital consisted of an increase of $10.1 million in accounts receivable due to the increase in revenue, an increase in deferred contract costs of $5.6 for solar project costs incurred and an increase of $6.2 million in inventory for purchases described under Liquidity and Capital Resources Working Capital below. Cash provided by working capital included a $7.6 million increase in accounts payable related to payment terms on inventory purchases during the fiscal 2011 third quarter and a $3.2 million increase in deferred revenue related to advanced customer billings.

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 $0.7 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 Flows Related to Investing Activities. For the first nine months of fiscal 2011, cash used in investing activities was $5.6 million. This included $2.1 million invested in equipment related to our OTA and PPA finance programs, $3.0 million for capital improvements related to our information technology systems, renewable technologies, manufacturing and tooling improvements and facility investments, $0.3 million for long-term investments and $0.2 million for patent investments.

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 Flows Related to Financing Activities. For the first nine months of fiscal 2011, cash flows provided by financing activities were $2.7 million. This included $2.7 million in new debt borrowings to fund OTA and capital projects, $0.4 million received from stock option and warrant exercises and $0.2 million for excess tax benefits from stock based compensation. Cash flows used in financing activities included $0.5 million for repayment of long-term debt and $0.1 million for costs related to our new Credit Agreement.

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.

Working Capital

Our net working capital as of December 31, 2010 was $40.8 million, consisting of $63.8 million in current assets and $23.0 million in current liabilities. Our net working capital as of March 31, 2010 was $59.2 million, consisting of $71.7 million in current assets and $12.5 million in current liabilities. Our current accounts receivables have increased from fiscal 2010 year-end by $6.2 million as a result of our increased sales activity and related revenue during our fiscal 2011 third quarter. Our inventories have decreased from fiscal 2010 year-end by $7.3 million due to the reclassification of $13.5 million of wireless control inventory to long-term inventories, offset by purchases of our wireless control inventories of $1.8 million based upon our Phase 2 initiatives and a $4.4 million increase in ballast component inventories to avoid potential supply disruptions. The vast majority of our wireless components are assembled overseas and require longer delivery lead times. In addition, overseas suppliers require deposit payments at time of purchase order. As of August 2010, we had completed our initial purchase and investment in wireless component inventories. Since that period, we have been reducing our wireless inventories as we sell the products to our customers. During the first nine months of fiscal 2011, we continued to increase our inventory levels of key electronic components, specifically electronic ballasts, to avoid potential shortages and customer service issues as a result of lengthening supply lead times and product availability issues. We continue to monitor supply side concerns within the electronic components market and believe that our current inventory levels are sufficient to protect us against the risk of being unable to deliver product as specified by our customers requirements. We also are continually monitoring supply side concerns through conversations with our key vendors and currently believe that supply availability concerns, previously thought to be improving, have not diminished to the point where we anticipate reducing safety stock to the levels that existed prior to the electrical components supply issues. Accordingly, we expect to reduce inventories by approximately $4.0 million during our fiscal 2011 fourth quarter by selling wireless control inventory and through the shipment of our remaining solar panel inventories to customers during our fiscal 2011 fourth quarter. We generally attempt to maintain at least 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 component shortages or supply interruptions. Our accounts receivables, inventory and payables may increase to the extent our revenue and order levels increase.

We historically have funded the system costs of our OTAs and PPAs with our own cash. However, we have more recently begun obtaining debt financing alternatives to support our OTA growth. During the fiscal 2011 second quarter, we entered into a note agreement with a financial institution that provided us with $2.4 million of funding for our OTA projects. We expect to close a second round of funding with the same financial institution during the fourth fiscal quarter that will provide us with an additional $1.3 million for funding OTA projects. To ensure long-term capital support for our expected growth of these financing programs, we are currently pursuing several additional debt financing alternatives to provide funding to specifically support the equipment and purchases that underlie our OTAs and PPAs.

We believe that our existing cash and cash equivalents, our anticipated cash flows from operating activities and our borrowing capacity under our revolving credit facility will be sufficient to meet our anticipated cash needs for at least the next 12 months, dependent upon the growth of our OTA finance programs and the extent to which we support such contracts with our own cash.

Indebtedness

Revolving Credit Agreement

On June 30, 2010, we entered into a new credit agreement, or Credit Agreement, with JP Morgan Chase Bank, N.A., or JP Morgan. The Credit Agreement replaced our former credit agreement.

The Credit Agreement provides for a revolving credit facility, or Credit Facility, that matures on June 30, 2012. We are currently working on an amendment to the Credit Facility to extend the maturity date to June 30, 2013. Borrowings under the Credit Facility are limited to (i) $15.0 million or (ii) during periods in which the outstanding principal balance of outstanding loans under the Credit Facility is greater than $5.0 million, the lesser of (A) $15.0 million or (B) the sum of 75% of the outstanding principal balance of certain accounts receivable and 45% of certain inventory. We also may cause JP Morgan to issue letters of credit for our account in the aggregate principal amount of up to $2.0 million, with the dollar amount of each issued letter of credit counting against the overall limit on borrowings under the Credit Facility. As of December 31, 2010, we had outstanding letters of credit totaling $1.7 million, primarily for securing collateral requirements under equipment operating leases. We had no outstanding borrowings under the Credit Agreement as of December 31, 2010. We were in compliance with all of our covenants under the credit agreement as of December 31, 2010.

The Credit Agreement is secured by a first lien security interest in our accounts receivable, inventory and general intangibles, and a second lien priority in our equipment and fixtures. All OTAs, PPAs, leases, supply agreements and/or similar agreements relating to solar photovoltaic and wind turbine systems or facilities, as well as all of our accounts receivable and assets related to the foregoing, are excluded from these liens.

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We must pay a fee of 0.25% on the average daily unused amount of the Credit Facility and a fee of 2.00% on the daily average face amount of undrawn issued letters of credit. The fee on unused amounts is waived if we or our affiliates maintain funds on deposit with JP Morgan or its affiliates above a specified amount. We did not meet the deposit requirement to waive the unused fee as of December 31, 2010.

Capital Spending

We expect to incur approximately $0.3 million in capital expenditures during the remainder of fiscal 2011, excluding capital to support expected OTA growth. We spent approximately $2.9 million in the first nine months of fiscal 2011 on information technologies, renewable energy-related investments 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 information 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 these capital expenditures primarily through our existing cash, equipment secured loans and leases, to the extent needed, long-term debt financing, or by using our available capacity under our credit facility.

Contractual Obligations and Commitments

The following table is a summary of our long-term contractual obligations as of December 31, 2010 (dollars in thousands):

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Bank debt obligations	$ 5,877	$ 1,261	$ 2,315	$ 1,632	$ 669
Capital lease obligations	2	2			
Cash interest payments on debt	1,209	312	403	174	320
Operating lease obligations	9,217	1,699	2,301	1,670	3,547
Purchase order and cap-ex commitments (1)	13,460	9,643	3,817		
Total	$ 29,765	$ 12,917	$ 8,836	$ 3,476	$ 4,536

(1) Reflects non-cancellable purchase order commitment in the amount of $13.4 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 $0.1 million for improvements to information technology systems, renewable energy products 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, 2010. During the quarter ended December 31, 2010, we adopted new accounting guidance related to revenue recognition and estimated selling price on multiple element deliverables and updated our accounting policy accordingly. There have been no other material changes in any of our accounting policies since March 31, 2010.

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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, 2010. There have been no material changes to such exposures since March 31, 2010.

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 solar PV 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, 2010 pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934 (the Exchange Act). In light of the restatement of our consolidated financial statements as described in Note B to the unaudited consolidated financial statements as of December 31, 2010, our Chief Executive Officer and our Chief Financial Officer have identified a material weakness in internal controls over financial reporting described below and have, therefore, concluded that our disclosure controls and procedures were not effective as of December 31, 2010.

Material Weaknesses in Internal Control over Financial Reporting

In connection with the assessment of our internal control over financial reporting as of December 31, 2010, management has identified the following deficiencies that constituted individually, or in the aggregate, material weaknesses in our internal control over financial reporting as of December 31, 2010:

- We did not maintain an effective control environment, as evidenced by the combination of (i) having an insufficient number of personnel appropriately qualified to perform an appropriately detailed review of the accounting for nonroutine revenue transactions, and (ii) having inadequate disclosure controls to ensure timely internal notification of business transactions impacting revenue recognition and decisions requiring accounting entries.

- We did not maintain an effective control environment over our financial close and reporting processes as evidenced by having an insufficient number of personnel appropriately qualified to support timely and thorough reconciliation of significant accounts.

The material weaknesses described above resulted in a restatement of our interim consolidated financial statements. Because of these material weaknesses, management concluded that we did not maintain effective internal control over financial reporting as of December 31, 2010.

Plans for Remediation of Material Weaknesses

Our Board, the Audit & Finance Committee and management have added resources and are developing and implementing new processes, procedures and internal controls to remediate the material weaknesses that existed in our internal control over financial reporting as it related to revenue recognition, and our disclosure controls and procedures, as of December 30, 2010.

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We have developed a remediation plan (the Remediation Plan) to address the material weaknesses for the affected areas presented above. The Remediation Plan ensures that each area affected by a material control weakness is put through a comprehensive remediation process. The Remediation Plan entails a thorough analysis which includes the following phases:

- Define and assess each control deficiency: ensure a thorough understanding of the as is state, process owners, and procedural or technological gaps causing the deficiency;
- Design and evaluate a remediation action for each control deficiency for each affected area; validate or improve the related policy and procedures; evaluate skills of the process owners with regard to the policy and adjust as required;
- Implement specific remediation actions: train process owners, allow time for process adoption and adequate transaction volume for next steps;
- Test and measure the design and effectiveness of the remediation actions; test and provide feedback on the design and operating effectiveness of the controls, and:
- Review and acceptance of completion of the remediation effort by management and the Audit & Finance Committee.

The following are steps we have taken in this process:

- In the second quarter of fiscal 2012, we hired a Corporate controller and in the third quarter of fiscal 2012, we hired a corporate tax manager;
- In April 2012, we developed and implemented a new sub-certification process with our management group in order to identify new revenue sources and identify legal contractual terms and conditions revisions;
- In the first quarter of fiscal 2012, we implemented a new enterprise resource planning, or ERP, system to improve our process transactions and the underlying data that supports our financial closing and reporting process.
- We have identified external resources for the purpose of engaging them to perform detailed accounting analysis on complex nonroutine revenue transactions.

The Remediation Plan is being administered by our Chief Financial Officer and involves key leaders from across the organization.

We will continue to monitor the effectiveness of our internal control over financial reporting in the areas affected by the material weaknesses described above and employ any additional tools and resources deemed necessary to ensure that our financial statements are fairly stated in all material respects.

Changes in Internal Control over Financial Reporting

Except as described above in Plans for Remediation of Material Weaknesses, there were no other changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2010 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 relating to our December 2007 IPO. The plaintiffs claimed to represent those persons who purchased shares of our common stock from December 18, 2007 through February 6, 2008. The plaintiffs alleged, among other things, that the defendants made misstatements and failed to disclose material information in our IPO registration statement and prospectus. The complaints alleged various claims under the Securities Act of 1933, as amended. The complaints sought, 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, we 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.

In the fourth quarter of fiscal 2010, we reached a preliminary agreement to settle the class action lawsuits and on January 3, 2011, the court issued an order granting preliminary approval of the settlement. The court has scheduled a fairness hearing for April 14, 2011. Substantially all of the proposed preliminary settlement amount will be covered by our insurance. However, for our share of the proposed preliminary settlement not covered by insurance, we recorded an after-tax charge in the fourth quarter of fiscal 2010 of approximately $0.02 per share. We deposited our uninsured share of the settlement amount in escrow on February 1, 2011.

If the preliminary settlement is not finally approved or the other conditions are not met, we will continue to defend against the lawsuits and believe that we and the other defendants have substantial legal and factual defenses to the claims and allegations contained in the consolidated complaint. In such a case, we would intend to pursue these defenses vigorously. There can be no assurance, however, that we would be successful, and an adverse resolution of the lawsuits could have a material adverse effect on our financial condition, 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. If the preliminary settlement is not finally approved or the other conditions are not met, 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, 2010, which we filed with the SEC on June 14, 2010. During the three months ended December 31, 2010, 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, 2010.

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, 2010, approximately $43.1 million of the proceeds from our IPO have been used to fund operations of our business and for general corporate purposes and approximately $29.8 million was used for the repurchase of common shares. 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. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

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Statistical Data

The following table presents certain statistical data, cumulative from December 1, 2001 through December 31, 2010, 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, 2010 (in thousands, unaudited)
HIF lighting systems sold(1)		1,973
Total units sold (including HIF lighting systems)		2,593
Customer kilowatt demand reduction(2)		607
Customer kilowatt hours saved(2)(3)		14,321,538
Customer electricity costs saved(4)	$	1,102,758
Indirect carbon dioxide emission reductions from customers energy savings (tons)(5)		9,519
Square footage retrofitted(6)		1,010,057

(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 2.59 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 2009, which is the most current full year for which this information is available, was $0.0989 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 2.59 million total units sold, which contain a total of approximately 12.95 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.

ITEM 6. EXHIBITS
(a) Exhibits

10.1 Orion Energy Systems, Inc. 2004 Stock and Incentive Awards Plan, as amended (incorporated by reference to Appendix A to the definitive proxy statement of Orion Energy Systems, Inc. filed on Schedule 14A on September 10, 2010).

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.

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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 June 14, 2012.

ORION ENERGY SYSTEMS, INC.
Registrant

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

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Exhibit Index to Form 10-Q for the Period Ended December 31, 2010

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