

ORION ENERGY SYSTEMS, INC.

Form 10-Q/A

August 02, 2011

Table of Contents

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

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

For the Quarterly Period Ended September 30, 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 ☒ 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 ☒

Non-accelerated filer ☐

Smaller reporting
company ☐

(Do not check if a 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 ☒

There were 22,715,028 shares of the Registrant's common stock outstanding on November 4, 2010.

Table of Contents

EXPLANATORY NOTE

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

As previously disclosed, in this Quarterly Report on Form 10-Q/A, we have restated our previously issued unaudited consolidated financial statements and related disclosures for the quarter ended September 30, 2010 to reclassify our transactions under our Orion Throughput Agreements, or OTAs, as sales-type leases instead of as operating leases.

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

This Quarterly Report on Form 10-Q/A for the quarterly period ended September 30, 2010, initially filed with the SEC on November 9, 2010 (Original Filing), is being filed to reflect the financial statement restatement. Generally, for the quarterly and year-to-date periods ended September 30, 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;

Increases in our revenue of \$2.1 million (16%), a decrease in our net loss of \$0.7 million (437%) and an increase in our earnings per share of \$0.03 (300%) for the quarter ended September 30, 2009, and an increase in our revenue of \$4.4 million (16%), a decrease in our net loss of \$1.2 million (100%) and a reduction in our loss per share of \$0.05 (100%) for the six months ended September 30, 2009; and

Increases in our current assets of \$5.0 million (8%), an increase in our total assets of \$1.4 million (1%), a decrease in our total liabilities of \$0.5 million (2%) and a reduction in our retained deficit of \$1.9 million (48%).

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

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

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

Orion Energy Systems, Inc.
Quarterly Report On Form 10-Q/A
For The Quarter Ended September 30, 2010
Table Of Contents

	Page(s)
<u>PART I FINANCIAL INFORMATION</u>	
<u>ITEM 1. Financial Statements (unaudited)</u>	4
<u>Condensed Consolidated Balance Sheets as of March 31, 2010 and September 30, 2010</u>	4
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended September 30, 2009 and 2010</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended September 30, 2009 and 2010</u>	6
<u>Notes to the Condensed Consolidated Financial Statements</u>	7
<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>ITEM 3. Quantitative and Qualitative Disclosures about Market Risk</u>	31
<u>ITEM 4. Controls and Procedures</u>	31
<u>PART II OTHER INFORMATION</u>	
<u>ITEM 1. Legal Proceedings</u>	32
<u>ITEM 1A. Risk Factors</u>	32
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	33
<u>ITEM 5. Other Information</u>	33
<u>ITEM 6. Exhibits</u>	34
<u>SIGNATURES</u>	35
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>Exhibit 32.2</u>	

Table of Contents**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 (As Restated)	September 30, 2010 (As Restated)
Assets		
Cash and cash equivalents	\$ 23,364	\$ 13,324
Short-term investments	1,000	1,007
Accounts receivable, net of allowances of \$382 and \$446	15,991	13,381
Inventories, net	25,991	33,706
Deferred tax assets	1,244	2,361
Prepaid expenses and other current assets	4,112	6,651
 Total current assets	 71,702	 70,430
Property and equipment, net	28,193	30,313
Patents and licenses, net	1,590	1,627
Deferred tax assets	974	1,231
Long-term accounts receivable	2,092	4,603
Other long-term assets	27	1,793
 Total assets	 \$ 104,578	 \$ 109,997
 Liabilities and Shareholders' Equity		
Accounts payable	\$ 7,761	\$ 9,235
Accrued expenses and other	4,128	3,771
Current maturities of long-term debt	562	1,202
 Total current liabilities	 12,451	 14,208
Long-term debt, less current maturities	3,156	4,934
Deferred revenue, long-term	186	1,149
Other long-term liabilities	398	399
 Total liabilities	 16,191	 20,690
 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 September 30, 2010; no shares issued and outstanding at March 31, 2010 and September 30, 2010		
Common stock, no par value: Shares authorized: 200,000,000 at March 31, 2010 and September 30, 2010; shares issued: 29,911,203 and 30,158,399 at March 31, 2010 and September 30, 2010; shares outstanding: 22,442,380 and 22,714,228 at March 31, 2010 and September 30, 2010		
Additional paid-in capital	122,515	123,378

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Shareholder notes receivable		(121)
Treasury stock: 7,468,823 and 7,444,171 common shares at March 31, 2010 and September 30, 2010	(32,011)	(31,835)
Accumulated deficit	(2,117)	(2,115)
Total shareholders' equity	88,387	89,307
Total liabilities and shareholders' equity	\$ 104,578	\$ 109,997

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

Table of Contents

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2009	2010	2009	2010
	(As Restated)	(As Restated)	(As Restated)	(As Restated)
Product revenue	\$ 15,219	\$ 15,086	\$ 27,143	\$ 30,844
Service revenue	856	767	2,807	1,986
Total revenue	16,075	15,853	29,950	32,830
Cost of product revenue	10,122	9,745	18,870	20,053
Cost of service revenue	632	498	1,887	1,415
Total cost of revenue	10,754	10,243	20,757	21,468
Gross profit	5,321	5,610	9,193	11,362
Operating expenses:				
General and administrative	3,143	2,988	6,307	5,933
Sales and marketing	2,962	3,299	6,113	6,889
Research and development	491	573	910	1,183
Total operating expenses	6,596	6,860	13,330	14,005
Loss from operations	(1,275)	(1,250)	(4,137)	(2,643)
Other income (expense):				
Interest expense	(73)	(55)	(127)	(124)
Dividend and interest income	147	153	383	246
Total other income (expense)	74	98	256	122
Loss before income tax	(1,201)	(1,152)	(3,881)	(2,521)
Income tax benefit	(269)	(1,692)	(869)	(2,525)
Net loss	\$ (932)	\$ 540	\$ (3,012)	\$ 4
Basic net income (loss) per share attributable to common shareholders	\$ (0.04)	\$ 0.02	\$ (0.14)	\$ 0.00
Weighted-average common shares outstanding	21,707,477	22,638,638	21,648,246	22,581,188
Diluted net income (loss) per share attributable to common shareholders	\$ (0.04)	\$ 0.02	\$ (0.14)	\$ 0.00
Weighted-average common shares outstanding	21,707,477	22,901,590	21,648,246	23,007,067

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

Table of Contents

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

	Six Months Ended September 30,	
	2009 (As Restated)	2010 (As Restated)
Operating activities		
Net income (loss)	\$ (3,012)	\$ 4
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,325	1,543
Stock-based compensation expense	663	611
Deferred income tax benefit	(1,556)	(1,374)
Change in allowance for notes and accounts receivable	353	64
Other	(3)	34
Changes in operating assets and liabilities:		
Accounts receivable	(1,969)	2,546
Inventories	560	(7,715)
Prepaid expenses and other assets and liabilities	(383)	(5,463)
Accounts payable	(2,338)	1,474
Accrued expenses	703	(357)
Net cash used in operating activities	(5,657)	(8,633)
Investing activities		
Purchase of property and equipment	(2,235)	(1,957)
Purchase of property and equipment held under operating leases		(1,630)
Purchase of short-term investments		(7)
Sale of short-term investments	5,583	
Additions to patents and licenses	(131)	(110)
Proceeds from sales of property, plant and equipment	6	1
Long-term assets		(330)
Net cash provided by (used in) investing activities	3,223	(4,033)
Financing activities		
Payment of long-term debt	(433)	(271)
Proceeds from long-term debt		2,689
Repurchase of common stock into treasury	(400)	
Deferred financing costs		(61)
Proceeds from issuance of common stock	517	269
Net cash (used in) provided by financing activities	(316)	2,626
Net decrease in cash and cash equivalents	(2,750)	(10,040)
Cash and cash equivalents at beginning of period	36,163	23,364
Cash and cash equivalents at end of period	\$ 33,413	\$ 13,324

Supplemental cash flow information:

Cash paid for interest	\$	149	\$	126
Cash paid for income taxes		30		28

Supplemental disclosure of non-cash investing and financing activities:

Shares issued from treasury for shareholder note receivable	\$		\$	121
Shares surrendered into treasury for stock option exercise	\$		\$	51

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

Table of Contents**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. The corporate offices and manufacturing operations are located in Manitowoc, Wisconsin and an operations facility is located in Plymouth, Wisconsin.

NOTE B RESTATEMENT OF FINANCIAL STATEMENTS

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

As previously disclosed in a Current Report on Form 8-K, on June 14, 2011, the Company's management, with concurrence from the Audit & Finance Committee of the Company's Board of Directors, concluded that the financial statements contained in the Form 10-Q for the quarterly period ended September 30, 2010 should no longer be relied upon and must be restated to properly record revenue from its OTAs as sales-type lease contracts.

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

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

The specific line-item effect of the restatement on the Company's previously issued unaudited condensed consolidated financial statements as of and for the three months ended September 30, 2010 as filed on Form 10-Q on November 9, 2010 are as follows (in thousands, except share and per share data):

**Consolidated Balance Sheets as of September 30,
2010**

	As Previously reported	Adjustments	As Restated
Assets:			
Accounts receivable	\$ 11,589	\$ 1,792	\$ 13,381
Deferred tax assets, current	521	1,840	2,361
Prepaid expenses and other current assets	5,295	1,356	6,651
Total current assets	65,442	4,988	70,430
Property, plant and equipment	36,333	(6,020)	30,313
Deferred tax assets, long-term	3,383	(2,152)	1,231
Accounts receivable, long-term		4,603	4,603

Total assets	108,578	1,419	109,997
Liabilities and Shareholders' Equity:			
Accrued Expenses	3,656	115	3,771
Deferred revenue, long-term	1,779	(630)	1,149
Shareholders' equity:			
Retained deficit	(4,049)	1,934	(2,115)

Table of Contents**Consolidated Statements of Operations**

	Three months ended September 30, 2010			Six months ended September 30, 2010		
	As Previously reported	Adjustments	As Restated	As Previously reported	Adjustments	As Restated
Product revenue	\$ 12,948	\$ 2,138	\$ 15,086	\$ 26,417	\$ 4,427	\$ 30,844
Cost of product revenue	8,257	1,488	9,745	16,782	3,271	20,053
Dividend and interest income	6	147	153	16	230	246
Income tax benefit	(1,788)	96	(1,692)	(2,692)	167	(2,525)
Net income (loss)	(160)	700	540	(1,215)	1,219	4
Net income (loss) per share attributable to common shareholders basic and diluted	\$ (0.01)	\$ 0.03	\$ 0.02	\$ (0.05)	\$ 0.05	\$ 0.00
Weighted average common shares outstanding basic	22,638,638		22,638,638	22,581,188		22,581,188
Weighted average common shares outstanding diluted	22,638,638		22,901,590	22,581,188		23,007,067

Consolidated Statements of Cash Flows**Six months ended September 30, 2010**

	As Previously Reported	Adjustments	As Restated
Net (loss) income	\$ (1,215)	\$ 1,219	\$ 4
Depreciation and Amortization	1,994	(451)	1,543
Deferred income tax benefit	(1,337)	(37)	(1,374)
Accounts receivable	2,964	(418)	2,546
Prepaid expenses and other assets and liabilities	(1,155)	(4,308)	(5,463)
Accrued expenses	(188)	(169)	(357)
Net cash used in operating activities	(4,519)	(4,114)	(8,633)
Purchase of property and equipment	(1,955)	(2)	(1,957)
Purchase of property and equipment held under operating leases	(5,746)	4,116	(1,630)
Net cash used in investing activities	(8,147)	4,114	(4,033)

Table of Contents**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

Certain items have been reclassified from the fiscal 2010 classifications to conform to the fiscal year 2011 presentation. The reclassification had no effect on net cash provided by operating activities, total assets, net income or earnings per share.

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 as supplemented by the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2011 filed with the SEC on July 22, 2011 (see, in particular, Footnote B, therein).

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during that reporting period. Areas that require the use of significant management estimates include revenue recognition, inventory obsolescence, bad debt reserves, accruals for warranty expenses, income taxes and certain equity transactions. Accordingly, actual results could differ from those estimates.

Reclassification

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

Cash and cash equivalents

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

Short-term investments available for sale

The amortized cost and fair value of marketable securities, with gross unrealized gains and losses, as of March 31, 2010 and September 30, 2010 were as follows (in thousands):

	March 31, 2010				Cash and	Short
	Amortized	Unrealized	Unrealized		Cash	Term
	Cost	Gains	Losses	Fair Value	Equivalents	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
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September 30, 2010

	Amortized	Unrealized	Unrealized		Cash and	Short
	Cost	Gains	Losses	Fair	Cash	Term
				Value	Equivalents	Investments
Money market funds	\$ 484	\$	\$	\$ 484	\$ 484	\$
Bank certificate of deposit	1,007			1,007		1,007
Total	\$ 1,491	\$	\$	\$ 1,491	\$ 484	\$ 1,007

Table of Contents

As of March 31, 2010 and September 30, 2010, the Company's financial assets described in the table above were measured at fair value on a recurring basis employing quoted prices in active markets for identical assets (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 deferred revenue, 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, and 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.

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 September 30, 2010, the Company had inventory obsolescence reserves of \$756,000 and \$775,000, 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	September 30, 2010
Raw materials and components	\$ 11,107	\$ 13,318
Work in process	669	792
Finished goods	14,215	19,596
	\$ 25,991	\$ 33,706

Property and Equipment

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

March 31, 2010	September 30, 2010 (As Restated)
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	(As Restated)	
Land and land improvements	\$ 1,436	\$ 1,468
Buildings	14,072	14,215
Furniture, fixtures and office equipment	6,615	7,146
Equipment leased to customers under finance agreements		2,660
Plant equipment	7,627	7,855
Construction in progress	5,774	5,711
	35,524	39,055
Less: accumulated depreciation and amortization	(7,331)	(8,742)
Net property and equipment	\$ 28,193	\$ 30,313

Table of Contents

The Company capitalized \$21,000 and none, respectively, of the interest costs for construction in progress for the six months ended September 30, 2009 and 2010, respectively. Included in construction in progress were costs related to Company-owned equipment leased to customers under solar power purchase agreements, or PPAs, of \$2.7 million and \$1.6 million as of March 31, 2010 and September 30, 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 Finance Receivables

The Company records a long-term receivable for the non-current portion of its OTA contracts. The receivable is recorded at the net present value of the future cash flows from scheduled customer payments. The Company uses the implied cost of capital from each individual contract as the discount rate. Long-term receivables from OTA contracts were \$4.6 million as of September 30, 2010.

Other Long-Term Assets

Other long-term assets include \$27,000 and \$77,000 of deferred financing costs as of March 31, 2010 and September 30, 2010, respectively.

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 7.25%. As of September 30, 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		(174)
Net long-term receivable	\$	901

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 \$970,000 as of March 31, 2010 and September 30, 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 September 30,		Six Months Ended September 30,	
	2009	2010	2009	2010
Beginning of period	\$ 65	\$ 59	\$ 55	\$ 60
Provision to product cost of revenue	10	27	20	75
Charges	(33)	(27)	(33)	(76)
End of period	\$ 42	\$ 59	\$ 42	\$ 59

Table of Contents

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 capital lease and upon successful installation of the system and customer acknowledgement that the product is operating as specified, revenue is recognized at the Company's net investment in the lease which typically is the net present value of the future cash flows.

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, revenue is recognized on a monthly basis over the life of the PPA contract, typically in excess of 10 years.

Other than for OTA and PPA sales, revenue is recognized when the following four criteria are met:

persuasive evidence of an arrangement exists;

delivery has occurred and title has passed to the customer;

the sales price is fixed and determinable and no further obligation exists; and

collectability is reasonably assured

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

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

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

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

Costs of products delivered, and services performed, that are subject to additional performance obligations or customer acceptance are deferred and recorded in Prepaid expenses and other current assets on the unaudited Condensed Consolidated Balance Sheet. These deferred costs are expensed at the time the related revenue is recognized. Deferred costs amounted to \$1.6 million and \$1.5 million as of March 31, 2010 and September 30, 2010, respectively.

Deferred revenue relates to advance customer billings, investment tax grants received related to PPAs and a separate obligation to provide maintenance on OTA contracts 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	September 30, 2010 (As Restated)
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		(As Restated)	
Deferred revenue	current liability	\$ 338	\$ 432
Deferred revenue	long term liability	186	1,149
Total deferred revenue		\$ 524	\$ 1,581

Table of Contents***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.

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 six months ended September 30, 2009 and 2010, there were no realized tax benefits from the exercise of stock options.

Stock Option Plans

The fair value of each option grant for the three and six months ended September 30, 2009 and 2010 was determined using the assumptions in the following table:

	Three months Ended September 30,		Six months Ended September 30,	
	2009	2010	2009	2010
Weighted average expected term	7.3 years	8.3 years	6.5 years	5.8 years
Risk-free interest rate	2.77%	2.24%	2.57%	2.25%
Expected volatility	60%	60%	60%	60%
Expected forfeiture rate	3%	10%	3%	10%
Expected dividend yield	0%	0%	0%	0%

Net Loss per Common Share

Net loss per share of common stock is as follows for the three and six months ended September 30, 2009 and 2010:

	Three months Ended September 30,		Six months Ended September 30,	
	2009	2010	2009	2010
	(As Restated)	(As Restated)	(As Restated)	(As Restated)
Net income (loss) (in thousands)	\$ (932)	\$ 540	\$ (3,012)	\$ 4
Net income (loss) per common share:				
Basic	\$ (0.04)	\$ 0.02	\$ (0.14)	\$ 0.00
Diluted	\$ (0.04)	\$ 0.02	\$ (0.14)	\$ 0.00

Weighted-average common shares
outstanding used in:

Basic	21,707,477	22,638,638	21,648,246	22,581,188
Diluted	21,707,477	22,901,590	21,648,246	23,007,067

Basic net loss per common share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted net loss per common share is computed by dividing the net income by the weighted-average number of diluted common shares outstanding during the period. Diluted shares outstanding are

calculated by adding to the weighted average shares any outstanding stock options and warrants based upon the treasury stock method.

Diluted net loss per share is the same as basic net loss per share for the three and six months ended September 30, 2009 and 2010, because the effects of potentially dilutive securities are anti-dilutive.

Table of Contents

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

	September 30, 2009	September 30, 2010
Warrants	459,318	76,240
Stock Options	3,752,314	3,638,252
	4,211,632	3,714,492

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 20.6% and 44.1% of total cost of revenue for the three months ended September 30, 2009 and 2010 and 14.9% and 34.1% of total cost of revenue for the six months ended September 30, 2009 and 2010.

For the three and six months ended September 30, 2009 and September 30, 2010, no customers accounted for more than 10% of revenue.

As of March 31, 2010, one customer accounted for 16% of accounts receivable. As of September 30, 2010, no customer accounted for more than 10% of the accounts receivable balance.

Segment Information

The Company has determined that it has two operating segments, Orion Energy Systems and Orion Engineered Systems; however, as of September 30, 2010, one segment is less than ten percent of total assets and total revenue and accordingly, the Company has aggregated the financial information into one reportable segment.

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

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 will only impact disclosures and is not expected to have a material impact on the Company's consolidated results of operations and financial condition.

NOTE D RELATED PARTY TRANSACTIONS

During the six months ended September 30, 2009 and 2010, the Company recorded revenue of \$25,000 and \$11,000, respectively, 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 six 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.

Table of Contents

During the six months ended September 30, 2009 and 2010, the Company recorded revenue of \$526,000 and \$144,000, respectively, for products and services sold to various entities affiliated or associated with an entity for which a director of the Company serves as a member of the board of directors. The Company is not able to identify the respective amount of revenue attributable to specifically identifiable entities within such group of affiliated or associated entities or to the extent to which any such individual entities are related to the entity on whose board of directors the Company's director serves. The terms and conditions of such relationship are believed to be not materially more favorable to the Company or the entity than could be obtained from an independent third party.

NOTE E LONG-TERM DEBT

Long-term debt as of March 31, 2010 and September 30, 2010 consisted of the following (in thousands):

	March 31, 2010	September 30, 2010
Term note	\$ 1,017	\$ 902
Customer equipment finance note payable		2,429
First mortgage note payable	926	890
Debenture payable	847	828
Lease obligations	7	3
Other long-term debt	921	1,084
 Total long-term debt	 3,718	 6,136
Less: current maturities	(562)	(1,202)
 Long-term debt, less current maturities	 \$ 3,156	 \$ 4,934

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. 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. The Company was in compliance with all covenants in the note agreement as of September 30, 2010.

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. 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. The Company was in compliance with all covenants in the note agreement as of September 30, 2010.

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 former credit agreement with a different bank.

The Credit Agreement provides for a revolving credit facility (Credit Facility) that matures on June 30, 2012. 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. 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 September 30, 2010. The Company was in compliance with all of its covenants under the Credit Agreement as of September 30, 2010.

Table of Contents

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 September 30, 2010.

NOTE F INCOME TAXES

The income tax provision for the six months ended September 30, 2010 was determined by applying an estimated annual effective tax rate of (100.2)% 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:

	Six Months Ended September 30,	
	2009 (As Restated)	2010 (As Restated)
Statutory federal tax rate	(34.0)%	(34.0)%
State taxes, net	2.6%	(9.9)%
Stock-based compensation expense	5.0%	(44.6)%
Federal tax credit	(3.5)%	7.9%
State tax credit	(0.4)%	2.1%
Permanent items	0.1%	(11.7)%
Change in valuation reserve	5.1%	(10.4)%
Other, net	2.7%	0.4%
Effective income tax rate	(22.4)%	(100.2)%

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 amount recorded at grant. 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. No benefits were recorded for the period ended September 30, 2010.

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 September 30, 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.

Table of Contents

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 six months ended September 30, 2009 and 2010, the Company had the following unrecognized tax benefit activity (in thousands):

	Six Months Ended September 30, 2009	Six Months Ended September 30, 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 \$336,000 and \$428,000 for the three months ended September 30, 2009 and 2010; and \$623,000 and \$841,000 for the six months ended September 30, 2009 and 2010. 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 September 30, 2010, the Company had entered into \$9.2 million of purchase commitments related to fiscal 2011, including \$0.2 million related to the remaining capital committed for information technology improvements and other manufacturing equipment, \$1.0 million for commitments under operating leases and \$8.0 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, or IPO. The plaintiffs claim to represent those persons who purchased shares of the Company's common stock from December 18, 2007 through February 6, 2008. The plaintiffs allege, among other things, that the defendants made misstatements and failed to disclose material information in the Company's IPO registration statement and prospectus. The complaints allege various claims under the Securities Act of 1933, as amended. The complaints seek, among other relief, class certification, unspecified damages, fees, and such other relief as the court may deem just and proper.

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

In the fourth quarter of fiscal 2010, the Company reached a preliminary agreement to settle the class action lawsuits. Although the preliminary settlement is subject to approval by the court, as well as other conditions, it is expected to provide for the dismissal of the consolidated action against all defendants. 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.

If the preliminary settlement is not 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 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.

Table of Contents**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 2.5 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. For the three months ended September 30, 2010, the Company issued 40,560 shares out of treasury to employees under the ESPP at a price of \$3.17 per share for a total of \$129,000 to fund employee share purchases under the ESPP. For the three months ended September 30, 2010, the Company issued loans to employees in the total amount of \$121,000. The loans are reflected on the Company's balance sheet as a contra-equity account.

NOTE I STOCK OPTIONS AND WARRANTS

The Company grants stock options and restricted stock awards under its 2003 Stock Option and 2004 Stock and Incentive Awards Plans (the Plans). Under the terms of the Plans, the Company has reserved 10,500,000 shares for issuance to key employees, consultants and directors. The 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 shareholder meeting. 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.

For the three and six months ended September 30, 2010, the Company granted 6,557 and 11,976 shares under 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 closing market prices as of the grant dates.

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

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2009	2010	2009	2010
Cost of product revenue	\$ 53	\$ 38	\$ 112	\$ 74
General and administrative	145	173	267	271
Sales and marketing	136	145	265	254
Research and development	9	7	19	12
Total	\$ 343	\$ 363	\$ 663	\$ 611

As of September 30, 2010, compensation cost related to non-vested stock-based compensation amounted to \$4.4 million over a remaining weighted average expected term of 7.0 years.

Table of Contents

The following table summarizes information with respect to the Plans:

	Shares Available for Grant	Number of Shares	Options Outstanding		Aggregate Intrinsic value
			Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	
Balance at March 31, 2010	569,690	3,546,249	\$ 3.66	6.87	
Granted stock options	(504,077)	504,077	3.71		
Granted shares in lieu of cash compensation	(11,976)				
Forfeited	176,854	(176,854)	3.56		
Exercised		(235,220)	1.33		
Balance at September 30, 2010	230,491	3,638,252	\$ 3.79	6.73	\$ 1,893,707
Exercisable at September 30, 2010		1,684,621	\$ 3.38	4.97	\$ 1,391,009

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 \$3.17 as of September 30, 2010.

A summary of the status of the Company's outstanding non-vested stock options as of September 30, 2010 was as follows:

Non-vested at March 31, 2010	1,789,119
Granted	504,077
Vested	(162,711)
Forfeited	(176,854)
Non-vested at September 30, 2010	1,953,631

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 during the six months ended September 30, 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		
Cancelled		

Balance at September 30, 2010	76,240	\$	2.37
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A summary of outstanding warrants at September 30, 2010 follows:

Exercise Price	Number of Warrants	Expiration
\$2.25	38,980	Fiscal 2014
\$2.50	37,260	Fiscal 2011
Total	76,240	

Table of Contents

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

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

Cautionary Note Regarding Forward-Looking Statements

Any statements in this Quarterly Report on Form 10-Q 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, estimate, positioned, strategy, outlook and similar words. You should read the statements that contain these types of words carefully. Such forward-looking statements are subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what is expressed or implied in such forward-looking statements. There may be events in the future that we are not able to predict accurately or over which we have no control. Potential risks and uncertainties include, but are not limited to, those discussed in Part I, Item 1A. Risk Factors in our 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 Form 10-Q/A, we have restated our previously issued unaudited consolidated financial statements and related disclosures for the quarter ended September 30, 2010 to account for our transactions under our Orion Throughput Agreements, or OTAs, as sales-type leases instead of as operating leases. Our prior method of accounting for OTA transactions as operating leases deferred revenue recognition over the full term of the OTA contracts, only recognizing revenue on a monthly basis as customer payments are due, while the upfront sales, general and administrative expenses related to these OTA contracts were recognized immediately. We are filing this Amendment No. 1, or First Amendment, to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, or Form 10-Q, filed on November 9, 2010, to restate our unaudited interim condensed consolidated financial statements.

Background of the Restatement

As discussed above in the Explanatory Note in this Form 10-Q/A, the financial statements contained in the Form 10-Q for the quarterly period ended September 30, 2010 should no longer be relied upon and must be restated to account for our transactions under our OTAs as sales-type leases instead of as operating leases.

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

This Quarterly Report on Form 10-Q/A for the quarterly period ended September 30, 2010, initially filed with the SEC on November 9, 2010 (Original Filing), is being filed to reflect the financial statement restatement. Generally, for the quarterly and year-to-date periods ended September 30, 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;

Table of Contents

Increases in our revenue of \$2.1 million (16%), a decrease in our net loss of \$0.7 million (437%) and an increase in our earnings per share of \$0.03 (300%) for the quarter ended September 30, 2009, and an increase in our revenue of \$4.4 million (16%), a decrease in our net loss of \$1.2 million (100%) and a reduction in our loss per share of \$0.05 (100%) for the six months ended September 30, 2009; and

Increases in our current assets of \$5.0 million (8%), an increase in our total assets of \$1.4 million (1%), a decrease in our total liabilities of \$0.5 million (2%) and a reduction in our retained deficit of \$1.9 million (48%).

The specific line-item effect of the restatement on our previously issued unaudited condensed consolidated financial statements as of and for the six months ended September 30, 2010 as filed on Form 10-Q on November 9, 2010 are as follows (in thousands, except share and per share data):

Consolidated Balance Sheets as of September 30, 2010			
	As Previously reported	Adjustments	As Restated
Assets:			
Accounts receivable	\$ 11,589	\$ 1,792	\$ 13,381
Deferred tax assets, current	&		