ORION ENERGY SYSTEMS, INC.
Form 10-Q/A
June 14, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No.1)

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

For the Quarterly Period Ended June 30, 2011

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	**(I.R.S. Employer**
incorporation or organization)	**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 x 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 definition 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 22,984,286 shares of the Registrant s common stock outstanding on August 5, 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 Quarterly Report on Form 10-Q/A, we have restated our previously issued unaudited consolidated financial statements and related disclosures for the quarter ended June 30, 2011 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 1, 2012, we, together with our independent public accounting firm, 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.

This Quarterly Report on Form 10-Q/A for the quarterly period ended June 30, 2011, initially filed with the SEC on August 9, 2011 (Original Filing), is being filed to reflect the financial statement restatement from sales of our solar PV systems. Generally, for the quarterly period ended June 30, 2011, 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 $4.3 million (20%), an increase in our net loss of $0.6 million (300%) and an increase in our loss per share of $0.02 (200%); and
- An increase in current assets of $6.3 million (8%), an increase in total assets of $7.7 million (6%), an increase in current liabilities of $10.7 million (48%), an increase in total liabilities of $10.7 million (35%) and a decrease in shareholders equity of $3.0 million (3%).

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 June 30, 2011

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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, 2011	June 30, 2011 (As Restated)
Assets		
Cash and cash equivalents	$ 11,560	$ 12,557
Short-term investments	1,011	1,012
Accounts receivable, net of allowances of $757 and $812	23,401	24,781
Inventories, net	15,877	18,435
Deferred contract costs	9,589	12,895
Deferred tax assets	1,049	1,575
Prepaid expenses and other current assets	1,727	1,471
Total current assets	64,214	72,726
Property and equipment, net	30,017	30,126
Patents and licenses, net	1,620	1,631
Long-term accounts receivable	7,251	8,673
Long-term inventory	13,212	13,212
Deferred tax assets	2,354	2,157
Other long-term assets	2,419	2,325
Total assets	$ 121,087	$ 130,850
Liabilities and Shareholders Equity		
Accounts payable	$ 12,483	$ 16,553
Accrued expenses and other	2,184	2,305
Deferred revenue, current	8,427	12,191
Current maturities of long-term debt	1,137	1,855
Total current liabilities	24,231	32,904
Long-term debt, less current maturities	4,225	6,076
Deferred revenue, long-term	1,777	1,665
Other long-term liabilities	399	400
Total liabilities	30,632	41,045
Commitments and contingencies (See Note G)		
Shareholders equity:		
Preferred stock, $0.01 par value: Shares authorized: 30,000,000 shares at March 31, 2011 and June 30, 2011; no shares issued and outstanding at March 31, 2011 and June 30, 2011		
Common stock, no par value: Shares authorized: 200,000,000 at March 31, 2011 and June 30, 2011; shares issued: 30,312,758 and 30,393,053 at March 31, 2011 and June 30, 2011; shares outstanding: 22,893,803 and 22,983,886 at March 31, 2011 and June 30, 2011		
Additional paid-in capital	124,132	124,270

Treasury stock: 7,431,897 and 7,409,167 common shares at March 31, 2011 and June 30, 2011	(31,708)	(31,671)
Shareholder notes receivable	(193)	(226)
Retained deficit	(1,776)	(2,568)
Total shareholders equity	90,455	89,805
Total liabilities and shareholders equity	$ 121,087	$ 130,850

The accompanying notes are an integral part of these 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 June 30,	
	2010	2011 (As Restated)
Product revenue	$ 15,758	$ 17,361
Service revenue	1,219	860
Total revenue	16,977	18,221
Cost of product revenue	10,307	11,592
Cost of service revenue	917	622
Total cost of revenue	11,224	12,214
Gross profit	5,753	6,007
Operating expenses:		
General and administrative	2,945	3,075
Sales and marketing	3,590	3,775
Research and development	610	622
Total operating expenses	7,145	7,472
Loss from operations	(1,392)	(1,465)
Other income (expense):		
Interest expense	(70)	(87)
Dividend and interest income	93	154
Total other income	23	67
Loss before income tax	(1,369)	(1,398)
Income tax benefit	(833)	(606)
Net loss	$ (536)	$ (792)
Basic net loss per share attributable to common shareholders	$ (0.02)	$ (0.03)
Weighted-average common shares outstanding	22,523,107	22,921,436
Diluted net loss per share attributable to common shareholders	$ (0.02)	$ (0.03)
Weighted-average common shares and share equivalents outstanding	22,523,107	22,921,436

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

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ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Three Months Ended June 30, 2010	2011 (As Restated)
Operating activities		
Net loss	$ (536)	$ (792)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	762	927
Stock-based compensation expense	248	352
Deferred income tax benefit	(776)	(328)
Change in bad debt expense	(47)	55
Other	19	13
Changes in operating assets and liabilities:		
Accounts receivable, current and long-term	3,143	(2,857)
Inventories	(4,036)	(2,558)
Prepaid expenses and other current assets	(3,215)	347
Deferred contract costs		(3,306)
Deferred revenue		3,652
Accounts payable	(1,309)	4,070
Accrued expenses	(533)	121
Net cash used in operating activities	(6,280)	(304)
Investing activities		
Purchase of property and equipment	(582)	(983)
Purchase of property and equipment held under operating leases	(4)	(3)
Purchase of short-term investments	(7)	(1)
Proceeds from asset sales		1
Additions to patents and licenses	(35)	(45)
Long term investments	(206)	
Net cash used in investing activities	(834)	(1,031)
Financing activities		
Payment of long-term debt	(133)	(262)
Proceeds from debt		2,831
Proceeds from repayment of shareholders notes		2
Excess tax benefits from stock-based compensation		(324)
Deferred financing costs	(57)	(13)
Proceeds from issuance of common stock	136	98
Net cash provided by (used in) financing activities	(54)	2,332
Net (decrease) increase in cash and cash equivalents	(7,168)	997
Cash and cash equivalents at beginning of period	23,364	11,560
Cash and cash equivalents at end of period	$ 16,196	$ 12,557
Supplemental cash flow information:		
Cash paid for interest	$ 63	$ 72

Cash paid for income taxes	$	28	$	38
Supplemental disclosure of non-cash investing and financing activities:				
Shares surrendered into treasury from stock option exercise	$	51	$	
Shares issued from treasury for stock note receivable	$		$	35

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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 Company s corporate offices and manufacturing operations are located in Manitowoc, Wisconsin and an operations facility occupied by Orion Engineered Systems 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 Form 10-Q for the quarterly period ended June 30, 2011 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.

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.

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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 months ended June 30, 2011 are as follows (in thousands, except share and per share data):

	Consolidated Balance Sheets as of June 30, 2011		
	As Previously Reported	Adjustments	As Restated
Assets:			
Accounts receivable	$ 29,920	$ (5,139)	$ 24,781
Inventory	32,174	(13,739)	18,435
Deferred contract costs		12,895	12,895
Deferred tax asset, current	1,179	396	1,575
Prepaid expenses and other current assets	2,206	(735)	1,471
Total current assets	79,048	(6,322)	72,726
Long-term accounts receivable	7,985	688	8,673
Long-term inventory		13,212	13,212
Deferred tax asset, long-term	2,305	(148)	2,157
Other long-term assets	2,033	292	2,325
Total assets	123,128	7,722	130,850
Accrued expenses	2,544	(239)	2,305
Deferred revenue, current	1,242	10,949	12,191
Total current liabilities	22,194	10,710	32,904
Shareholders equity:			
Additional paid-in-capital	125,426	(1,156)	124,270
Retained deficit	(736)	(1,832)	(2,568)
Total shareholders equity	92,793	(2,988)	89,805
Total liabilities and shareholders equity	123,128	7,722	130,850

	Consolidated Statements of Operations Three months ended June 30, 2011		
	As Previously Reported	Adjustments	As Restated
Product revenue	$ 21,679	$ (4,318)	$ 17,361
Service revenue	1,095	(235)	860
Cost of product revenue	15,004	(3,412)	11,592
Cost of service revenue	734	(112)	622
General and administrative	3,076	(1)	3,075
Selling and marketing	3,768	7	3,775
Loss from operations	(430)	(1,035)	(1,465)
Income tax expense (benefit)	(144)	(462)	(606)
Net loss	(219)	(573)	(792)
Net income (loss) per share attributable to common shareholders basic and diluted	$ (0.01)	$ (0.02)	$ (0.03)
Weighted average common shares outstanding basic and diluted	22,921,436		22,921,436

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	Consolidated Statements of Cash Flows Three Months Ended June 30, 2011		
	As Previously Reported	Adjustments	As Restated
Net loss	$ (219)	$ (573)	$ (792)
Deferred income tax benefit	(424)	96	(328)
Accounts receivable	(4,312)	1,455	(2,857)
Inventories	(2,667)	109	(2,558)
Prepaid expenses and other assets and liabilities	316	31	347
Deferred contract costs		(3,306)	(3,306)
Deferred revenue	868	2,784	3,652
Accounts payable	4,074	(4)	4,070
Accrued expenses	220	(99)	121
Net cash used in operating activities	(797)	493	(304)
Excess tax benefits from stock-based compensation	159	(483)	(324)
Deferred financing costs	(3)	(10)	(13)
Net cash provided by financing activities	2,825	(493)	2,332

NOTE C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The Company s 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 years financial statements to conform to the current year 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. 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 fiscal year ending March 31, 2012 or other interim periods.

The condensed consolidated balance sheet at March 31, 2011 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/A for the fiscal year ended March 31, 2011, which we filed with the SEC on June 14, 2012.

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

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.

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Short-term investments

The amortized cost and fair value of short-term investments, with gross unrealized gains and losses, as of March 31, 2011 and June 30, 2011 were as follows (in thousands):

	March 31, 2011					
	Amortized Cost	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**Cash and Cash Equivalents**	**Short-Term Investments**
Money market funds	$ 485	$	$	$ 485	$ 485	$
Bank certificate of deposit	1,011			1,011		1,011
Total	$ 1,496	$	$	$ 1,496	$ 485	$ 1,011

	June 30, 2011					
	Amortized Cost	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**Cash and Cash Equivalents**	**Short-Term Investments**
Money market funds	$ 485	$	$	$ 485	$ 485	$
Bank certificate of deposit	1,012			1,012		1,012
Total	$ 1,497	$	$	$ 1,497	$ 485	$ 1,012

As of March 31, 2011 and June 30, 2011, 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, investments, accounts receivable, accounts payable and accrued expenses, 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. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. GAAP describes a fair value hierarchy based on the following three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value:

Level 1 Valuations are based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Valuations are based on quoted prices for similar assets or liabilities in active markets, or quoted prices in markets that are not active for which significant inputs are observable, either directly or indirectly.

Level 3 Valuations are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Inputs reflect management s best estimate of what market participants would use in valuing the asset or liability at the measurement date.

Accounts receivable

The majority of the Company s accounts receivable are due from companies in the commercial, industrial and agricultural industries, as well as from 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 generally 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 June 30, 2011 (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	$ 1,811	$ 86	$ 7	$ 93	$ 1,904
Lease balances included in consolidated accounts receivable long-term	5,534				5,534
Total gross sales-type leases	7,345	86	7	93	7,438
Allowance			(2)	(2)	(2)
Total net sales-type leases	$ 7,345	$ 86	$ 5	$ 91	$ 7,436

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 in either fiscal 2011 or for the quarter ended June 30, 2011.

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 and systems, and 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, 2011 and June 30, 2011, the Company had inventory obsolescence reserves of $1.3 million and $1.3 million.

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, 2011	June 30, 2011 (As Restated)
Raw materials and components	$ 12,005	$ 12,343

Work in process	459	972
Finished goods	3,413	5,120
	$ 15,877	$ 18,435

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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. Current deferred costs amounted to $9.6 million and $12.9 million as of March 31, 2011 and June 30, 2011, respectively.

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 and advance commission payments.

Property and Equipment

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

	March 31, 2011	June 30, 2011
Land and land improvements	$ 1,474	$ 1,474
Buildings	15,104	15,161
Furniture, fixtures and office equipment	8,323	10,081
Leasehold improvements	9	44
Equipment leased to customers under Power Purchase Agreements	4,994	4,997
Plant equipment	8,067	8,217
Construction in progress	2,272	1,251
	40,243	41,225
Less: accumulated depreciation and amortization	(10,226)	(11,099)
Net property and equipment	$ 30,017	$ 30,126

Depreciation is provided over the estimated useful lives of the respective assets, using the straight-line method. Depreciable lives by asset category are as follows:

Land improvements	10 15 years
Buildings	10 39 years
Leasehold improvements	Shorter of asset life or life of lease
Furniture, fixtures and office equipment	2 10 years
Plant equipment	3 10 years

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 Receivables

The Company records a long-term receivable for the non-current portion of its sales-type capital lease OTA contracts. The receivable is recorded at the net present value of the future cash flows from scheduled customer payments. The Company uses the implied cost of capital from each individual contract as the discount rate. Long-term receivables from OTA contracts were $5.5 million as of June 30, 2011.

Also included in other long-term receivables 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 11%. As of June 30, 2011, the following amounts were due from the third party finance company in future periods (in thousands):

Fiscal 2013	$ 955
Fiscal 2014	993
Fiscal 2015	936
Fiscal 2016	292
Total gross long-term receivable	3,176
Less: amount representing interest	(744)
Net long-term receivable	$ 2,432

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 $55,000 and $61,000 of deferred financing costs as of March 31, 2011 and June 30, 2011. Deferred financing costs related to debt issuances are amortized to interest expense over the life of the related debt issue (2 to 15 years).

Accrued Expenses

Accrued expenses include warranty accruals, accrued wages and benefits, accrued vacation, sales tax payable and other various unpaid expenses. No accrued expenses exceeded 5% of current liabilities as of either March 31, 2011, or June 30, 2011.

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 June 30,	
	2010	**2011**
Beginning of period	$ 60	$ 59
Provision to cost of product revenue	48	31
Charges	(49)	(31)
End of period	$ 59	$ 59

Revenue Recognition

The Company offers a financing program, called an OTA, for a customer s lease of the Company s energy management systems. The OTA is structured as a sales-type capital lease and upon successful installation of the system and customer acknowledgement that the system is operating as specified, product 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 separate program called a Power Purchase Agreement, or 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.

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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. The adoption had no impact on revenue, income before taxes, net income or earnings per share. The Company elected early adoption due to the increasing volume of renewable energy projects sold during fiscal 2011.

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.

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

	March 31, 2011	June 30, 2011 (As Restated)
Deferred revenue current liability	$ 8,427	$ 12,191
Deferred revenue long term liability	1,777	1,665
Total deferred revenue	$ 10,204	$ 13,856

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. Penalties and interest are immaterial 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 three months ended June 30, 2010 and 2011, there were $0 and $0.3 million realized tax benefits from the exercise of stock options.

Stock Option Plans

The fair value of each option grant, excluding performance stock options, for the three months ended June 30, 2010 and June 30, 2011 was determined using the assumptions in the following table:

	Three Months Ended June 30,	
	2010	2011
Weighted average expected term	5.7 years	5.4 years
Risk-free interest rate	2.25%	1.89%
Expected volatility	60.0%	70.0%
Expected forfeiture rate	10.0%	11.4%
Expected dividend yield	0%	0%

Net Loss per Common Share

Basic net loss per common share is computed by dividing net loss attributable to common shareholders by the weighted-average number of common shares outstanding for the period and does not consider common stock equivalents.

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Diluted net 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 loss per common share is the same as basic net loss per common share for the periods ended June 30, 2010 and June 30, 2011, because the effects of potentially dilutive securities are anti-dilutive. The effect of net loss per common share is calculated based upon the following shares (in thousands except share amounts):

	Three Months Ended June 30,	
	2010	2011 (As Restated)
Numerator:		
Net loss (in thousands)	$ (536)	$ (792)
Denominator:		
Weighted-average common shares outstanding	22,523,107	22,921,436
Weighted-average effect of assumed conversion of stock options and warrants		
Weighted-average common shares and common share equivalents outstanding	22,523,107	22,921,436
Net income (loss) per common share:		
Basic	$ (0.02)	$ (0.03)
Diluted	$ (0.02)	$ (0.03)

The following table indicates the number of potentially dilutive securities as of the end of each period:

	June 30,	
	2010	2011
Common stock options	3,769,282	4,266,586
Common stock warrants	76,240	38,980
Total	3,845,522	4,305,566

Concentration of Credit Risk and Other Risks and Uncertainties

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 27% and 15% of total cost of revenue for the three months ended June 30, 2010 and June 30, 2011, respectively.

The Company currently purchases a majority of its solar panels from one supplier for its sales of solar generating systems through its Orion Engineered Systems Division. The Company does have alternative vendor sources for its sale of PV solar generating systems. Purchases from this supplier accounted for 12% and 43% of total cost or revenue for the three months ended June 30, 2010 and June 30, 2011, respectively.

For the three months ended June 30, 2010 and June 30, 2011, no customer accounted for more than 10% of revenue.

As of March 31, 2011, and June 30, 2011, one customer accounted for 17% of accounts receivable.

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 significant impact on the Company s consolidated financial statements.

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In April, 2011, the FASB issued ASU No. 2011-03 *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements* (ASU 2011-03). ASU No. 2011-03 affects all entities that enter into agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity. The amendments in ASU 2011-03 remove from the assessment of effective control the criterion relating to the transferor s ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. ASU 2011-03 also eliminates the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. The guidance is effective for the Company s reporting period ended March 31, 2012. ASU 2011-03 is required to be applied prospectively to transactions or modifications of existing transaction that occur on or after January 1, 2012. The Company does not expect that the adoption of ASU 2011-03 will have a significant impact on the Company s consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04 *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and International Financial Reporting Standards (IFRS)* (ASU 2011-04). ASU 2011-04 represents the converged guidance of the FASB and the IASB (the Boards) on fair value measurements. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term fair value. The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and IFRSs. The amendments in this ASU are required to be applied prospectively, and are effective for interim and annual periods beginning after December 15, 2011. The Company does not expect that the adoption of ASU 2011-04 will have a significant impact on the Company s consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income,* (ASU 2011-05) which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 will be effective for public companies during the interim and annual periods beginning after December 15, 2011 with early adoption permitted. The adoption of ASU 2011-05 will not have a significant impact on the Company s consolidated statements as it only requires a change in the format of the current presentation.

NOTE D RELATED PARTY TRANSACTIONS

During the three months ended June 30, 2010 and June 30, 2011, the Company recorded revenue of $3,000 and $0 for products and services sold to an entity for which a director of the Company was formerly the executive chairman. 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, 2011 and June 30, 2011 consisted of the following (in thousands):

	March 31, 2011	June 30, 2011
Term note	$ 782	$ 721
Customer equipment finance notes payable	1,793	4,518
First mortgage note payable	853	834
Debenture payable	807	797
Other long-term debt	1,127	1,061
Total long-term debt	5,362	7,931
Less current maturities	(1,137)	(1,855)
Long-term debt, less current maturities	$ 4,225	$ 6,076

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New Debt Arrangements

In June 2011, the Company entered into a note agreement with a financial institution that provided the Company with $2.8 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 46 individual OTA contracts. The note bears interest at 7.85% and matures in March 2016 and is included in the customer equipment finance notes payable line in the table above.

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 June 30, 2011, the Company had outstanding letters of credit totaling $1.7 million, primarily for securing collateral requirements under equipment operating leases. In fiscal 2011, the Company incurred $57,000 of total deferred financing costs related to the Credit Agreement which is being amortized over the two-year term of the Credit Agreement. There were no borrowings by the Company under the Credit Agreement as of March 31, 2011 or June 30, 2011.

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 PV 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 June 30, 2011.

NOTE F INCOME TAXES

The income tax provision for the three months ended June 30, 2011 was determined by applying an estimated annual effective tax rate of 43.3% 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:

	Three Months Ended June 30,	
	2010	2011 (As Restated)
Statutory federal tax rate	(34.0)%	(34.0)%
State taxes, net	(6.1)%	(9.2)%
Stock-based compensation expense	(15.4)%	0.0%
Federal tax credit	5.8%	11.6%
State tax credit	0.0%	5.9%
Permanent items	(3.7)%	(10.0)%

Change in valuation reserve	(7.5)%	(5.9)%
Change in tax contingency reserve	0.0%	(0.8)%
Other, net	0.1%	(0.9)%
Effective income tax rate	(60.8)%	(43.3)%

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The Company is eligible for tax benefits associated with the excess of the tax deduction available for exercises of non-qualified stock options, or NQSOs, 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 $0.5 million were recorded in fiscal 2011 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 $0.3 million were recorded for the period ended June 30, 2011.

During fiscal 2011, the Company converted almost all of its existing incentive stock options, or ISOs, to NQSOs. This conversion was applied retrospectively, allowing the Company to benefit by reducing $0.6 million of income tax expense during fiscal 2011 related to non-deductible ISO stock compensation expense that was previously deferred for income tax purposes. The conversion will greatly reduce the impact of stock-based compensation expense on the effective tax rate in the table above. Since July 30, 2008, all stock option grants have been issued as NQSOs.

As of June 30, 2011, the Company had federal net operating loss carryforwards of approximately $8.0 million, of which $4.8 million are associated with the exercise of NQSOs that have not yet been recognized by the Company in its financial statements. The Company also has state net operating loss carryforwards of approximately $4.7 million, of which $2.5 million are associated with the exercise of NQSOs. The Company also has federal tax credit carryforwards of approximately $1.0 million and state tax credits of $0.6 million. A full valuation allowance has been set up for the state tax credits due to the state apportioned income and the potential expiration of the state tax credits due to the carry forward period. These federal and state net operating losses and 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 2030.

In 2007, the Company s past issuances and transfers of stock caused an ownership change. As a result, the Company s ability to use its net operating loss carryforwards, attributable to the period prior to such ownership change, to offset taxable income will be subject to limitations in a particular year, which could potentially result in increased future tax liability for the Company. The Company does not believe the ownership change affects the use of the full amount of the net operating loss carryforwards.

As of June 30, 2011, the Company s U.S. federal income tax returns for tax years 2009 to 2011 remain subject to examination. The Company has various federal income tax return positions in the process of examination for 2009 and 2010. The Company currently believes that the ultimate resolution of these matters, individually or in the aggregate, will not have a material effect on its business, financial condition, results of operations or liquidity.

Uncertain tax positions

As of June 30, 2011, the balance of gross unrecognized tax benefits was approximately $0.4 million, 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 as of the date of adoption and are included in the unrecognized tax benefits. For the three months ended June 30, 2010 and 2011, the Company had the following unrecognized tax benefit activity (in thousands):

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2011
Unrecognized tax benefits as of beginning of period	$ 398	$ 399
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	$ 399	$ 400

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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 $413,000 and $529,000 for the three months ended June 30, 2010 and June 30, 2011. The Company enters into non-cancellable purchase commitments for certain inventory items in order to secure better pricing and ensure sufficient materials on hand to meet anticipated order volume and customer expectations, as well as for capital expenditures. As of June 30, 2011, the Company had entered into $14.4 million of purchase commitments related to fiscal 2012, including $1.7 million for operating lease commitments and $12.7 million for inventory purchase commitments.

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. After a fairness hearing on April 14, 2011, the court approved the settlement in a final judgment and order. No shareholder appeared at the hearing to object. Accordingly, the case has concluded. Of the final settlement amount of $3.25 million, the Company contributed $0.49 million and the its insurer contributed $2.76 million. The Company recorded the settlement charge in the fourth quarter of fiscal 2010.

NOTE H SHAREHOLDERS EQUITY

Shareholder Rights Plan

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

The Rights will not be exercisable (and will be transferable only with the Company s common stock) until a Distribution Date occurs (or the Rights are earlier redeemed or expire). A Distribution Date generally will occur on the earlier of a public announcement that a person or group of affiliated or associated persons (an Acquiring Person) has acquired beneficial ownership of 20% or more of the Company s outstanding common stock (a Shares Acquisition Date) or 10 business days after the commencement of, or the announcement of an intention to make, a tender offer or exchange offer that would result in any such person or group of persons acquiring such beneficial ownership.

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

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

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 during fiscal 2011 and for the three months ended June 30, 2011:

	Shares Issued Under ESPP Plan	Closing Market Price	Shares Issued Under Loan Program	Dollar Value of Loans Issued	Repayment of Loans
Fiscal Year Ended March 31, 2011	65,776	$ 3.37	58,655	$ 196,100	$ 2,685
Quarter Ended June 30, 2011	9,788	3.93	8,601	33,800	1,649
Total	75,564	$ 3.45	67,256	$ 229,900	$ 4,334

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, other than as described below. 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 ISOs and NQSOs, although in July 2008, the Company adopted a policy of thereafter only granting NQSOs. 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.

In fiscal 2011, the Company converted all of its existing ISO awards to NQSO awards. No consideration was given to the employees for their voluntary conversion of ISO awards.

The Company granted the accelerated vesting stock options in May 2011 under its 2004 Stock and Incentive Awards to provide an opportunity for its named executive officers to earn long-term equity incentive awards based on the Company s financial performance for fiscal 2012. An aggregate of 459,041 stock options were granted on the third business day following the Company s public release of its fiscal 2011 results at an exercise price per share of $4.19, which was the closing sale price of the Company s Common Stock on that date. The stock options will only vest, however, if the optionee remains employed and the Company is successful in achieving at least 100% of the target levels for each of the Company s three financial metric targets for fiscal 2012, and if the Company s stock price equals or exceeds $5.00 per share for at least 20 trading days during any 90-day period during the option s ten-year term.

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For the three months ended June 30, 2010 and June 30, 2011, the Company granted 5,419 and 3,282 shares from the 2004 Stock and Incentive Awards Plan to certain non-employee directors who elected to receive stock awards in lieu of cash compensation. The shares were valued at $3.46 per share and $4.19 per share, the closing market prices as of the grant date.

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

	Three months ended June 30,	
	2010	2011
Cost of product revenue	$ 36	$ 42
General and administrative	98	157
Sales and marketing	109	148
Research and development	5	5
Total	$ 248	$ 352

As of June 30, 2011, compensation cost related to non-vested common stock-based compensation, excluding performance stock option awards amounted to $4.1 million over a remaining weighted average expected term of 6.7 years.

The following table summarizes information with respect to the Plans:

		Options Outstanding			
	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic value
Balance at March 31, 2011	1,577,676	3,658,768	$ 3.83	6.60	
Granted stock options	(873,311)	873,311	4.11		
Granted shares	(3,282)				
Forfeited	188,480	(188,480)	7.42		
Exercised		(77,013)	1.21		
Balance at June 30, 2011	889,563	4,266,586	$ 3.88	7.08	$ 2,882,478
Exercisable at June 30, 2011		1,874,548	$ 3.70	5.11	$ 1,965,319

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 $3.93 as of June 30, 2011.

A summary of the status of the Company s outstanding non-vested stock options as of June 30, 2011 was as follows:

Non-vested at March 31, 2011	1,832,167
Granted	873,311
Vested	(124,960)
Forfeited	(188,480)
Non-vested at June 30, 2011	2,392,038

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 2011 or during the three months ended June 30, 2011.

Outstanding warrants were comprised of the following:

	Number of Shares	Weighted Average Exercise Price
Balance at March 31, 2011	38,980	$ 2.25
Issued		
Exercised		
Cancelled		
Balance at June 30, 2011	38,980	$ 2.25

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A summary of outstanding warrants at June 30, 2011 follows:

Exercise Price	Number of Warrants	Expiration
$2.25	38,980	Fiscal 2015

NOTE J SEGMENT DATA

The Company first introduced the presentation of operating segments for the quarter ended December 31, 2010. As such, descriptions of the Company s segments and their summary financial information are summarized below.

Energy Management

The Energy Management division develops, manufactures, integrates and sells 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 June 30,		Operating (Loss) Profit For the Three Months Ended June 30,	
(dollars in thousands)	2010	2011 (As Restated)	2010	2011 (As Restated)
Segments:				
Energy Management	$ 16,585	$ 17,014	$ 430	$ 657
Engineered Systems	392	1,207	(551)	(795)
Corporate and Other			(1,271)	(1,327)
	$ 16,977	$ 18,221	$ (1,392)	$ (1,465)

	Total Assets		Deferred Revenue	
(dollars in thousands)	March 31, 2011	June 30, 2011 (As Restated)	March 31, 2011	June 30, 2011 (As Restated)
Segments:				
Energy Management	$ 66,795	$ 67,323	$ 533	$ 507
Engineered Systems	20,422	27,705	9,671	13,349
Corporate and Other	33,870	35,822		
	$ 121,087	$ 130,850	$ 10,204	$ 13,856

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. It should also be read in conjunction with our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K/A for the year ended March 31, 2011. 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/A about our expectations, beliefs, plans, objectives, prospects, financial condition, assumptions or future events or performance are not historical facts and are forward-looking statements as that term is defined under the federal securities laws. These statements are often, but not always, made through the use of words or phrases such as believe , anticipate , should , intend plan , will , expects , estimates , projects , positioned , strategy , outlook and similar words. You should read the statements that contain 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 fiscal 2011 Annual Report filed on Form 10-K/A for the fiscal year ended March 31, 2011 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 June 30, 2011 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 Form 10-Q/A for the quarter ended June 30, 2011, initially filed on August 9, 2011 (Original Filing), to restate our unaudited condensed consolidated financial statements related to the accounting change for our solar PV contracts.

Background of the Restatement

As discussed above, the financial statements contained in the Form 10-Q/A for the quarterly period ended June 30, 2011 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 1, 2012, we, together with our independent public accounting firm, 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 period ended June 30, 2011, 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;

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A decrease in our revenue of $4.3 million (20%), an increase in our net loss of $0.6 million (300%) and an increase in our loss per share of $0.02 (200%); and

An increase in current assets of $6.3 million (8%), an increase in total assets of $7.7 million (6%), an increase in current liabilities of $10.7 million (48%), an increase in total liabilities of $10.7 million (35%) and a decrease in shareholders equity of $3.0 million (3%).

The specific line-item effect of the restatement on our previously issued unaudited condensed consolidated financial statements as of and for the three months ended June 30, 2011 are as follows (in thousands, except share and per share data):

	Consolidated Balance Sheets as of June 30, 2011		
	As Previously Reported	Adjustments	As Restated
Assets:			
Accounts receivable	$ 29,920	$ (5,139)	$ 24,781
Inventory	32,174	(13,739)	18,435
Deferred contract costs		12,895	12,895
Deferred tax asset, current	1,179	396	1,575
Prepaid expenses and other current assets	2,206	(735)	1,471
Total current assets	79,048	(6,322)	72,726
Long-term accounts receivable	7,985	688	8,673
Long-term inventory		13,212	13,212
Deferred tax asset, long-term	2,305	(148)	2,157
Other long-term assets	2,033	292	2,325
Total assets	123,128	7,722	130,850
Accrued expenses	2,544	(239)	2,305
Deferred revenue, current	1,242	10,949	12,191
Total current liabilities	22,194	10,710	32,904
Shareholders equity:			
Additional paid-in-capital	125,426	(1,156)	124,270
Retained deficit	(736)	(1,832)	(2,568)
Total shareholders equity	92,793	(2,988)	89,805
Total liabilities and shareholders equity	123,128	7,722	130,850

	Consolidated Statements of Operations Three months ended June 30, 2011		
	As Previously Reported	Adjustments	As Restated
Product revenue	$ 21,679	$ (4,318)	$ 17,361
Service revenue	1,095	(235)	860
Cost of product revenue	15,004	(3,412)	11,592
Cost of service revenue	734	(112)	622
General and administrative	3,076	(1)	3,075
Selling and marketing	3,768	7	3,775
Loss from operations	(430)	(1,035)	(1,465)
Income tax expense (benefit)	(144)	(462)	(606)
Net loss	(219)	(573)	(792)
Net income (loss) per share attributable to common shareholders basic and diluted	$ (0.01)	$ (0.02)	$ (0.03)
Weighted average common shares outstanding basic and diluted	22,921,436		22,921,436

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	Consolidated Statements of Cash Flows Three Months Ended June 30, 2011		
	As Previously Reported	Adjustments	As Restated
Net loss	$ (219)	$ (573)	$ (792)
Deferred income tax benefit	(424)	96	(328)
Accounts receivable	(4,312)	1,455	(2,857)
Inventories	(2,667)	109	(2,558)
Prepaid expenses and other assets and liabilities	316	31	347
Deferred contract costs		(3,306)	(3,306)
Deferred revenue	868	2,784	3,652
Accounts payable	4,074	(4)	4,070
Accrued expenses	220	(99)	121
Net cash used in operating activities	(797)	493	(304)
Excess tax benefits from stock-based compensation	159	(483)	(324)
Deferred financing costs	(3)	(10)	(13)
Net cash provided by financing activities	2,825	(493)	2,332

Overview

We design, manufacture, market and implement energy management systems consisting primarily of high-performance, energy efficient lighting systems, controls and related services and market and implement renewable energy systems consisting primarily of solar generating photovoltaic systems and wind turbines. We operate in two business segments, which we refer to as our energy management division and our engineered systems division.

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

We have sold and installed more than 2,116,000 of our HIF lighting systems in over 7,097 facilities from December 1, 2001 through June 30, 2011. We have sold our products to 135 Fortune 500 companies, many of which have installed our HIF lighting systems in multiple facilities. Our top direct customers by revenue in fiscal 2011 included Coca-Cola Enterprises Inc., U.S. Foodservice, SYSCO Corp., Ball Corporation, MillerCoors and Pepsico, Inc. and its affiliates.

Our fiscal year ends on March 31. We call our prior fiscal year which ended on March 31, 2011, fiscal 2011 . We call our current fiscal year, which will end on March 31, 2012, fiscal 2012. Our fiscal first quarter ended on June 30, our fiscal second quarter ends on September 30, our fiscal third quarter ends on December 31 and our fiscal fourth quarter ends on March 31.

Because of the recessed state of the global economy, especially as it impacted capital equipment manufacturers, our results for the first half of fiscal 2011 were impacted by lengthened customer sales cycles and sluggish customer capital spending. During the second half of fiscal 2011 and the first quarter of fiscal 2012, capital equipment purchases were slightly improved and we continue to remain optimistic regarding customer behaviors for fiscal year 2012. To address these difficult 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 $1 million of annualized cost reductions related to decreased product costs, improved manufacturing efficiencies and reduced operating expenses. We realized these cost reductions beginning during the fiscal 2011 third quarter through reduction in general and administrative expenses and improved product margins for our HIF lighting systems.

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Despite these recent economic challenges, we remain optimistic about our near-term and long-term financial performance. Our near-term optimism is based upon our record level of revenue in fiscal 2011 along with our return to profitability, the increasing volume of unit sales in the second half of fiscal 2011 of our new products, specifically our exterior HIF fixtures, InteLite wireless dynamic controls, and our Apollo light pipes, the increase in the number of our value-added resellers and their sales staffs, and our cost reduction plans completed during 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 in the State of Wisconsin passed in fiscal 2011 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 our fiscal 2011 second quarter, we received an $8.3 million cash order for a solar PV generating system for which we expect to recognize revenue during fiscal 2012.

During our fiscal 2011 third quarter, we introduced the presentation of operating segments. We now report our Energy Management and Engineered Systems groups as separate segments. Our Energy Management division develops, manufactures, integrates 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.

In response to the constraints on our customers capital spending budgets, we have more aggressively promoted the advantages to our customers of purchasing our energy management systems through our Orion Throughput Agreement, or OTA, finance program. Our OTA financing program provides for our customer s purchase or our energy management systems without an up-front capital outlay. The OTA contracts under this sales-type financing are either structured with a fixed term, typically 60 months, and a bargain purchase option at the end of the term, or 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 energy management systems under our OTA financing program is fixed and is based on the cost of the energy management system 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 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. Additionally, we have provided a financing program to our alternative renewable energy system customers called a solar power purchase agreement, or PPA, as an alternative to purchasing our systems for cash. The PPA is a supply side agreement for the generation of electricity and subsequent sale to the end user. We do not intend to use our own cash balances to fund future PPA opportunities and are looking to secure external sources of funding for PPA s on behalf of our customers.

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 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 54% of our total revenue in fiscal 2011, not taking into consideration our renewable technologies revenue generated through our Orion Engineered Systems division. During the fiscal 2012 first quarter, wholesale revenues accounted for approximately 64% of our total revenue, not taking into consideration our renewable technologies revenue generated through our Orion Engineered Systems Division, compared to 53% for the fiscal 2011 first quarter.

Additionally, we offer our OTA sales-type financing program under which we finance the customer s purchase of our energy management systems. 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.

In fiscal 2011, we recognized $10.7 million of revenue from 127 completed OTA contracts. For the three months ended June 30, 2011, we recognized $2.9 million of revenue from 53 completed contracts. In the future, we expect an increase in the volume of OTA contracts as our customers take advantage of the value proposition without incurring any up-front capital cost.

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.

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. In fiscal 2011, we recognized $0.4 million of revenue from completed PPAs. In the first quarter of fiscal 2012, we recognized $0.2 million of revenue from completed PPAs. As of June 30, 2011, we had signed one customer to two separate PPAs representing future potential discounted revenue streams of $2.9 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 June 30, 2011 (in thousands):

Fiscal 2012	$ 210
Fiscal 2013	432
Fiscal 2014	431
Fiscal 2015	431
Fiscal 2016	431
Beyond	998
Total expected future discounted revenue from PPAs	$ 2,933

Other than for OTA, PPA and solar photovoltaic systems sales, we recognize revenue on product only sales at the time of shipment. For projects consisting of multiple elements of revenue, such as a combination of product sales and services, we recognize revenue by allocating the total contract revenue to each element based on their relative selling prices. We determine the selling price of products based upon the price charged when these products are sold separately. For services, we determine the selling price based upon management s best estimate giving consideration to pricing practices, margin objectives, competition, scope and size of individual projects, geographies in which we offer our products and services, and internal costs. 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 relative 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.

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Our dependence on individual key customers can vary from period to period as a result of the significant size of some of our retrofit and multi-facility roll-out projects. Our top 10 customers accounted for approximately 27% and 36% of our total revenue for the first quarter of fiscal 2011 and fiscal 2012, respectively. No customer accounted for more than 10% of our total revenue in the fiscal 2012 first quarter. To the extent that large retrofit and roll-out projects become a greater component of our total revenue, we may experience more customer concentration in given periods. The loss of, or substantial reduction in sales volume to, any of our significant customers could have a material adverse effect on our total revenue in any given period and may result in significant annual and quarterly revenue variations.

Our level of total revenue for any given period is dependent upon a number of factors, including (i) the demand for our products and systems, including our OTA and PPA programs, and any new products, applications and service that we may introduce through our Orion Engineered Systems Division; (ii) changes in capital investment levels by our customers and prospects (iii) the number and timing of large retrofit and multi-facility retrofit, or roll-out, projects; (iv) the level of our wholesale sales; (v) 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 and budget 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.

Backlog. We define backlog as the total contractual value of all firm orders and OTA contracts 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 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 June 30, 2011, we had a backlog of firm purchase orders of approximately $25.5 million, which included $18.1 million of solar PV orders. As of March 31, 2011, we had a backlog of firm purchase orders of approximately $21.2 million, which included $17.0 million of solar PV orders. 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 15 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 15% of our total cost of revenue for the fiscal 2012 first quarter and were 27% of our total cost of revenue for the fiscal 2011 first quarter. 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.

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 and partner 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.

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. In fiscal 2012, we intend to increase headcount in our sales areas for telemarketing and direct sales employees as we believe that future opportunities within our business remain strong.

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, external audit and internal 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 2011 and continuing in our fiscal 2012 first quarter, we 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 investing 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 $0.4 million for the first quarter of fiscal 2012 and $0.2 million for the first quarter of fiscal 2011. As a result of prior option grants, we expect to recognize an additional $4.1 million of stock-based compensation over a weighted average period of approximately seven years, including $1.0 million over the remaining quarters of fiscal 2012. 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, 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.

Interest Income. We report interest income earned on our cash and cash equivalents and short term investments. We also report interest income earned from our financed OTA contracts.

Income Taxes. As of June 30, 2011, we had net operating loss carryforwards of approximately $8.0 million for federal tax purposes and $4.7 million for state tax purposes. Included in these loss carryforwards were $4.8 million for federal and $2.5 million for state tax purposes of compensation expenses that were associated with the exercise of nonqualified stock options. The benefit from our net operating losses created from these compensation expenses has not yet been recognized in our financial statements and will be accounted for in our shareholders equity as a credit to additional paid-in capital as the deduction reduces our income taxes payable. We also had federal tax credit carryforwards of approximately $1.0 million and state credit carryforwards of approximately $0.6 million. A full valuation allowance has been set up for the state tax credits. We believe it is more likely than not that we will realize the benefits of most of these assets and we have 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 net operating losses and 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.

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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 2010 or fiscal 2011. For fiscal 2012, we do not anticipate a limitation on the use of our net operating loss carryforwards.

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 June 30,				
	2010		2011 (As Restated)		
	Amount	% of Revenue	Amount	% of Revenue	% Change
Product revenue	$ 15,758	92.8%	$ 17,361	95.3%	10.2%
Service revenue	1,219	7.2%	860	4.7%	(29.5)%
Total revenue	16,977	100.0%	18,221	100.0%	7.3%
Cost of product revenue	10,307	60.7%	11,592	63.6%	12.5%
Cost of service revenue	917	5.4%	622	3.4%	(32.2)%
Total cost of revenue	11,224	66.1%	12,214	67.0%	8.8%
Gross profit	5,753	33.9%	6,007	33.0%	4.4%
General and administrative expenses	2,945	17.3%	3,075	16.9%	4.4%
Sales and marketing expenses	3,590	21.2%	3,775	20.7%	5.2%
Research and development expenses	610	3.6%	622	3.4%	2.0%
Loss from operations	(1,392)	(8.2)%	(1,465)	(8.0)%	(5.2)%
Interest expense	(70)	(0.4)%	(87)	(0.5)%	(24.3)%
Interest income	93	0.5%	154	0.8%	65.6%
Loss before income tax	(1,369)	(8.1)%	(1,398)	(7.7)%	(2.1)%
Income tax benefit	(833)	(4.9)%	(606)	(3.4)%	27.3%
Net loss	$ (536)	(3.2)%	$ (792)	(4.3)%	(47.8)%

Revenue. Product revenue increased from $15.8 million for the fiscal 2011 first quarter to $17.4 million for the fiscal 2012 first quarter, an increase of $1.6 million, or 10.2%. The increase in product revenue was a result of increased sales of our high intensity fluorescent, or HIF, lighting systems and renewable energy systems. Service revenue decreased from $1.2 million for the fiscal 2011 first quarter to $0.9 million for the fiscal 2012 first quarter, a decrease of $0.3 million or 29.5%. The decrease in service revenues was a result of the continued percentage increase of our total revenues generated by our wholesale channels where our services are not provided. Total revenue from renewable energy systems was $1.2 million for the fiscal 2012 first quarter compared to $0.4 million for the fiscal 2011 first quarter, an increase of $0.8 million or 200%.

Cost of Revenue and Gross Margin. Our cost of product revenue increased from $10.3 million for the fiscal 2011 first quarter to $11.6 million for the fiscal 2012 first quarter, an increase of $1.3 million, or 12.5%. Our cost of service revenues decreased from $0.9 million for the fiscal 2011 first quarter to $0.6 million for the fiscal 2012 first quarter, a decrease of $0.3 million, or 32.2%. Total gross margin decreased from 33.9% for the fiscal 2011 first quarter to 33.0% for the fiscal 2012 first quarter. For the fiscal 2012 first quarter, our gross margin declined due to a

higher mix of renewable product and service revenues from our Orion Engineered Systems division. Our gross margin percentage on renewable revenues from this division was 11.8% during the fiscal 2012 first quarter. Gross margin from our HIF integrated systems revenue for the fiscal 2012 first quarter was 34.5%.

General and Administrative. Our general and administrative expenses increased from $2.9 million for the fiscal 2011 first quarter to $3.1 million for the fiscal 2012 first quarter, an increase of $0.2 million, or 4.4%. The increase was a result of $0.1 million incurred for depreciation and software license costs for our new enterprise resource planning, or ERP, system and $0.1 million for increased stock compensation costs versus the prior fiscal year s period. Additionally, we incurred legal and professional service expenses related to the recently completed financial statement restatements resulting from our revenue recognition change in accounting for our OTA contracts.

Sales and Marketing. Our sales and marketing expenses increased from $3.6 million for the fiscal 2011 first quarter to $3.8 million for the fiscal 2012 first quarter, an increase of $0.2 million, or 5.2%. The increase was a result of increased costs for headcount additions in our newly formed telemarketing department, higher commission expense on our increased revenue and increased depreciation for our new customer relationship management, or CRM, system. Total sales and marketing headcount as of June 30, 2011 was 88 compared to 83 as of June 30, 2010.

Research and Development. Our research and development expenses of $0.6 million for the fiscal 2012 first quarter were slightly higher than our fiscal 2011 first quarter expenses. Expenses incurred in the fiscal 2012 first quarter related to compensation costs for the development and support of our new products, depreciation expenses for lab and research equipment and sample and testing costs related to our dynamic control devices and our light emitting diode, or LED, product initiatives.

Interest Expense. Our interest expense of $0.1 million for the fiscal 2012 first quarter was slightly higher than our fiscal 2011 first quarter expense. The increase in our interest expense was due to additional debt funding completed during the second half of fiscal 2011 for the purpose of financing our OTA projects.

Interest Income. Interest income increased from $.01 million for the fiscal 2011 first quarter to $0.2 million for the fiscal 2012 first quarter, an increase of $0.1 million, or 65.6%. Interest income increased due to an increase in completed OTA contracts and the related interest income under the financing terms.

Income Taxes. Our income tax benefit decreased from a benefit of $0.8 million for the fiscal 2011 first quarter to an income tax benefit of $0.6 million for the fiscal 2012 first quarter, a decrease of $0.2 million or 27.3%. Our effective income tax rate for the fiscal 2011 first quarter was 60.8%, compared to 43.3% for the fiscal 2012 first quarter. The change in effective rate was due to the conversion of our incentive stock options, or ISOs, to non-qualified stock options, or NQSOs, completed during the second half of fiscal 2011.

Energy Management Segment

The following table summarizes the Energy Management segment operating results:

(dollars in thousands)	For the Three Months Ended June 30, 2010	2011 (As Restated)
Revenues	$ 16,585	$ 17,014
Operating income	430	657
Operating margin	2.6%	3.9%

Energy management segment revenue increased $0.4 million, or 2.6%, from $16.6 million for the fiscal 2011 first quarter to $17.0 million for the fiscal 2012 first quarter. The increase was due to increased sales of our HIF lighting systems to our wholesale customers.

Energy management segment operating income increased $0.2 million, or 52.8%, from $0.4 million for the fiscal 2011 first quarter to $0.7 million for the fiscal 2012 first quarter. The increase in operating income was a result of additional revenue and improved gross margins on our HIF lighting systems.

Engineered Systems Segment

The following table summarizes the Engineered Systems segment operating results:

(dollars in thousands)	For the Three Months Ended June 30, 2010	2011 (As Restated)
Revenues	$ 392	$ 1,207
Operating income	(551)	(795)
Operating margin	(140.6)%	(65.9)%

Engineered systems segment revenue increased $0.8 million, or 207.9%, from $0.4 million for the fiscal 2011 first quarter to $1.2 million for the fiscal 2012 first quarter. The increase was due to increased sales of solar renewable technologies. During the first quarter of fiscal 2011, our engineered systems segment efforts were focused on continuing to build sales pipeline and determination of the market for these renewable technologies within our customer base.

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Engineered systems segment operating loss increased $0.2 million, or 44.3%, from an operating loss of $0.6 million for the fiscal 2011 first quarter to operating income of $0.8 million for the fiscal 2012 first quarter. The increase in operating loss was a result of headcount additions in project management and operations support due to the increasing number of solar PV projects in our backlog and headcount additions in sales to generate additional revenue in the future.

Liquidity and Capital Resources

Overview

We had approximately $12.6 million in cash and cash equivalents and $1.0 million in short-term investments as of June 30, 2011, compared to $11.6 million and $1.0 million at March 31, 2011. 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 September 2011 and a yield of 3.25%.

During the fiscal 2012 first quarter, we completed a third tranche of debt funding in the amount of $2.8 million to finance our OTA projects. We have now secured multiple debt sources for our OTA finance contracts. We continue to pursue debt opportunities to support the anticipated growth of our OTA finance program. 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.

Cash Flows

The following table summarizes our cash flows for the three months ended June 30, 2010 and 2011 (in thousands):

	Three Months Ended June 30,	
	2010	**2011**
Operating activities	$ (6,280)	$ (304)
Investing activities	(834)	(1,031)
Financing activities	(54)	2,332
(Decrease) increase in cash and cash equivalents	$ (7,168)	$ 997

Cash Flows Related to Operating Activities. Cash used in operating activities for the first quarter of fiscal 2012 was $0.3 million and consisted of net cash used for changes in operating assets and liabilities of $0.5 million and a net loss adjusted for non-cash expense items of 0.2 million. Cash used for changes in operating assets and liabilities consisted of an increase of $2.9 million in total accounts receivable due to the increase in revenue and OTA finance contracts completed during the quarter and a $2.6 million increase in inventory for purchases of solar panel inventory and increases in our work-in-process and lighting fixture inventories for orders that are expected to ship during the fiscal 2012 second quarter, offset by a $4.0 increase in accounts payable, primarily due to inventory purchases.

Cash used in operating activities for the fiscal 2011 first quarter was $6.3 million and consisted of net cash used for changes in operating assets and liabilities of $5.9 million and a net loss adjusted for non-cash expense items of $0.4 million. Cash used for changes in operating assets and liabilities consisted of an increase of $4.0 million of inventory resulting from an increase of $1.8 million for purchases of wireless control inventories based upon our Phase 2 initiatives, a $1.5 million increase in solar panel inventories in anticipation of the receipt of customer purchase orders and an increase in ballast component inventories. 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. During the fiscal 2011 first quarter, we continued to increase our inventory levels of key electronic components to avoid potential shortages and customer service issues as a result of lengthening supply lead times and product availability issues.

Cash Flows Related to Investing Activities. For the fiscal 2012 first quarter, cash used in investing activities was $1.0 million. This included a net $1.0 million for capital improvements related to our information technology systems, manufacturing and tooling improvements and facility investments.

For the fiscal 2011 first quarter, cash used in investing activities was $0.8 million. This included $0.6 million for capital improvements related to our information technology systems, manufacturing and tooling improvements and facility investments and $0.2 million for a long-term investment.

Cash Flows Related to Financing Activities. For the fiscal 2012 first quarter, cash flows provided by financing activities were $2.3 million. This included $2.8 million in new debt borrowings to fund OTAs and $0.1 million received from stock option and warrant exercises. Cash flows used in financing activities included $0.3 million for repayment of long-term debt and $0.3 million for excess tax benefits from stock-based compensation.

For the fiscal 2011 first quarter, cash flows used in financing activities were $0.1 million. This included $0.1 million for repayment of long-term debt and $0.1 million for costs related to our new credit agreement. Cash flows provided by financing activities included proceeds of $0.1 million received from stock option exercises.

Working Capital

Our net working capital as of June 30, 2011 was $39.8 million, consisting of $72.7 million in current assets and $32.9 million in current liabilities. Our net working capital as of March 31, 2011 was $40.0 million, consisting of $64.2 million in current assets and $24.2 million in current liabilities. Our current accounts receivables increased from fiscal 2011 year-end by $1.4 million as a result of our increased sales activity and related revenue, including receivables from completed OTA contracts, during our fiscal 2012 first quarter. Our inventories increased from our fiscal 2011 year-end by $2.6 million due to a $1.5 million increase in solar panel inventories in anticipation of the receipt of customer purchase orders, a $0.5 million increase in our work-in process inventories for product orders to be delivered in our fiscal 2012 second quarter, a $0.4 million increase in raw materials to provide safety stock and a $0.2 million increase in finished goods for orders shipping in our fiscal 2012 second quarter.

During 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 component 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 are continually monitoring supply side concerns through conversations with our key vendors and currently believe that supply availability concerns appear to have moderated, but have not diminished to the point where we anticipate reducing safety stock to the levels that existed prior to the electrical components supply issues.

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 or component shortages or supply interruptions. Our accounts receivables, inventory and payables may increase to the extent our revenue and order levels increase.

Indebtedness

Revolving Credit Agreement

On 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 June 30, 2011, 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 June 30, 2011. We were in compliance with all of our covenants under the Credit Agreement as of June 30, 2011.

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.

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 June 30, 2011.

Capital Spending

We expect to incur approximately $1.7 to $2.0 million in capital expenditures during the remainder of fiscal 2012, excluding capital to support expected OTA growth. We spent $1.0 million on capital expenditures during the first quarter of fiscal 2012 on information technologies and other tooling and equipment for new products and cost improvements in our manufacturing facility. Our capital spending plans predominantly consist of further cost improvements in our manufacturing facility, improvements to our building and headquarters, new product development and investment in information technology systems. We consider the investment in 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 June 30, 2011 (dollars in thousands):

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Bank debt obligations	$ 7,931	$ 1,855	$ 3,436	$ 2,036	$ 604
Cash interest payments on debt	1,481	456	557	173	295
Operating lease obligations	8,879	1,708	2,103	1,767	3,301
Purchase order commitments	15,605	12,743	2,862		
Total	$ 33,896	$ 16,762	$ 8,958	$ 3,976	$ 4,200

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/A for the year ended March 31, 2011. There have been no material changes in any of our accounting policies since March 31, 2011.

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.

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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, 2011. There have been no material changes to such exposures since March 31, 2011.

ITEM 4. CONTROLS AND PROCEDURES

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 June 30, 2011 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 June 30, 2011, 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 June 30, 2011.

Material Weaknesses in Internal Control over Financial Reporting

In connection with the assessment of our internal control over financial reporting as of June 30, 2011, management has identified the following deficiencies that constituted individually, or in the aggregate, material weaknesses in our internal control over financial reporting as of June 30, 2011:

- 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 weakness described above resulted in a restatement of our interim consolidated financial statements. Because of this material weakness, management concluded that we did not maintain effective internal control over financial reporting as of June 30, 2011.

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 weakness that existed in our internal control over financial reporting as it related to revenue recognition, and our disclosure controls and procedures, as of June 30, 2011.

We have developed a remediation plan (the Remediation Plan) to address the material weakness 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;

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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 weakness 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

During the first quarter of fiscal 2012, we implemented a new ERP system which improved our transaction and review processes related to our financial closing and reporting processes. Except as described above in Plans for Remediation of Material Weakness, there were no other changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

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/A, 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/A for the fiscal year ended March 31, 2011, which we filed with the SEC on June 14, 2012. During the three months ended June 30, 2011, 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, 2011.

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ITEM 5. OTHER INFORMATION

Statistical Data

The following table presents certain statistical data, cumulative from December 1, 2001 through June 30, 2011, 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 June 30, 2011 (in thousands, unaudited)
HIF lighting systems sold(1)		2,116
Total units sold (including HIF lighting systems)		2,802
Customer kilowatt demand reduction(2)		658
Customer kilowatt hours saved(2)(3)		16,712,441
Customer electricity costs saved(4)	$	1,289,858
Indirect carbon dioxide emission reductions from customers energy savings (tons)(5)		10,859
Square footage retrofitted(6)		1,084,824

(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 2.8 million units).

(3) We calculate the number of kilowatt hours saved on a cumulative basis by assuming the demand (kW) reduction for each fixture 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 2010, which is the most current full year for which this information is available, was $0.0988 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.

(5) Based on 2.8 million total units sold, which contain a total of approximately 14.0 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

31.1	Certification of Chief Executive Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chief Executive Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	Taxonomy extension schema document
101.CAL	Taxonomy extension calculation linkbase document
101.LAB	Taxonomy extension label linkbase document
101.PRE	Taxonomy extension presentation linkbase document

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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)

Exhibit Index to Form 10-Q/A for the Period Ended June 30, 2011

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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101.INS	XBRL Instance Document
101.SCH	Taxonomy extension schema document
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