

ORION ENERGY SYSTEMS, INC.

Form 10-K

July 22, 2011

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-K

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

For the fiscal year ended March 31, 2011

or

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

For the transition period from to

Commission File Number: 001-33887

Orion Energy Systems, Inc.

(Exact name of Registrant as specified in its charter)

Wisconsin

(State or other jurisdiction of incorporation or organization)

2210 Woodland Drive, Manitowoc, WI

(Address of principal executive offices)

39-1847269

(I.R.S. Employer Identification No.)

54220

(Zip Code)

(920) 892-9340

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, no par value	NYSE AMEX LLC
Common stock purchase rights	NYSE AMEX LLC

Securities registered pursuant to Section 12(g) of the act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

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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 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). (Registrant is not yet required to provide financial disclosure in an Interactive Data File format.). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer 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

The aggregate market value of shares of the Registrant's common stock held by non-affiliates as of September 30, 2010, the last business day of the Registrant's most recently completed second fiscal quarter, was approximately \$72,004,102.

At July 14, 2011, there were 22,974,498 shares of the Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Not applicable.

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FORWARD-LOOKING STATEMENTS

This Form 10-K includes forward-looking statements that are based on our beliefs and assumptions and on information currently available to us. When used in this Form 10-K, the words anticipate, believe, could, estimate, expect, intend, may, plan, potential, predict, project, should, will, would and similar expressions are used to identify forward-looking statements. Although we believe that our plans, intentions, and expectations reflected in any forward-looking statements are reasonable, these plans, intentions or expectations are based on assumptions, are subject to risks and uncertainties and may not be achieved. These statements are based on assumptions made by us based on our experience and perception of historical trends, current conditions, expected future developments and other factors that we believe are appropriate in the circumstances. Such statements are subject to a number of risks and uncertainties, many of which are beyond our control. Our actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained in this Form 10-K. Important factors could cause actual results to differ materially from our forward-looking statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our beliefs and assumptions only as of the date of this Form 10-K. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth in this Form 10-K. Actual events, results and outcomes may differ materially from our expectations due to a variety of factors. Although it is not possible to identify all of these factors, they include, among others, the following:

deterioration of market conditions, including customer capital expenditure budgets;

our ability to compete and execute our growth strategy in a highly competitive market and our ability to respond successfully to market competition;

increasing duration of customer sales cycles;

the market acceptance of our products and services, including increasing customer preference to purchase our products through our Orion Throughput Agreements, or OTAs, rather than through cash purchases;

our ability to effectively manage the credit risk associated with our increasing reliance on OTA contracts;

price fluctuations, shortages or interruptions of component supplies and raw materials used to manufacture our products;

loss of one or more key employees, customers or suppliers, including key contacts at such customers;

our ability to effectively manage our product inventory to provide our products to customers on a timely basis;

the increasing relative volume of our product sales through our wholesale channel;

a reduction in the price of electricity;

the cost to comply with, and the effects of, any current and future government regulations, laws and policies;

increased competition from government subsidies and utility incentive programs;

dependence on customers' capital budgets for sales of products and services;

our development of, and participation in, new product and technology offerings or applications;

the availability of additional debt financing and/or equity capital;

legal proceedings; and

potential warranty claims.

You are urged to carefully consider these factors and the other factors described under Part I. Item 1A. Risk Factors when evaluating any forward-looking statements, and you should not place undue reliance on these forward-looking statements.

Except as required by applicable law, we assume no obligation to update any forward-looking statements publicly or to update the reasons why actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available in the future.

**ORION ENERGY SYSTEMS, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED MARCH 31, 2011**

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ITEM 1. BUSINESS

The following business overview is qualified in its entirety by the more detailed information included elsewhere or incorporated by reference in this Annual Report on Form 10-K. 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.

Restatement of Previously Issued Consolidated Financial Statements

In this Annual Report on Form 10-K, we have restated our previously issued consolidated financial statements and related disclosures for the fiscal year ended March 31, 2010 and each of the unaudited quarterly condensed consolidated financial statements for the periods ended June 30, 2009 through December 31, 2010 to reclassify our transactions under our Orion Throughput Agreements, or OTAs, as sales-type leases instead of as operating leases.

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

Accounting for OTA contracts as sales-type leases under GAAP requires us to record revenue at the net present value of the future payments at the time customer acceptance of our installed and operating energy management system is complete, rather than deferring revenue recognition over the full term of the OTA contracts. Generally, this change in accounting treatment and financial statement restatements has resulted in:

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

An increase in our revenue of \$2.8 million (3%) and \$2.7 million (4%) for our full fiscal years 2011 and 2010, respectively;

An increase in our net income of \$0.4 million (34%) and earnings per share of \$0.02 (40%) for our full fiscal year 2011 and a reduction in our net loss of \$0.7 million (17%) and loss per share of \$0.03 (16%) for our full fiscal year 2010;

An increase in our current assets of \$3.8 million (6%) and total assets of \$1.0 million (1%) and an increase in our total shareholders' equity of \$0.7 million (1%) for our fiscal year 2010 and an increase in our current assets of \$2.7 million (4%) and total assets of \$0.5 million (1%) and an increase in our total shareholders' equity of \$1.6 million (2%) and a decrease in our total liabilities of \$1.1 million (5%) for our fiscal year 2011; and

An increase in our net cash used in operating activities of \$2.4 million (38%), a decrease in net our cash used in investing activities of \$2.0 million (26%) and an increase in our net cash provided by financing activities of \$0.4 million (18%) for our fiscal year 2011 and an increase in our net cash used in operating activities of \$2.1 million (24%) and a decrease in net our cash used in investing activities of \$2.1 million (40%) for our fiscal year 2010; and

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An increase in our revenue, net income and earnings per share for the first three quarters of each of our fiscal years 2011 and 2010 and a decrease in revenue, net income and earnings per share for the last quarter of fiscal year 2010 as follows (in thousands except per share amounts):

Period	Revenue			Net Income (Loss)			Earnings (Loss) Per Diluted Share	
	Previously Reported	As Restated	% Change	Previously Reported	As Restated	% Change	Previously Reported	As Restated
Quarter Ended June 30, 2009	\$ 12,628	\$ 13,875	9.9%	\$ (2,773)	\$ (2,080)	25.0%	\$ (0.13)	\$ (0.10)
Quarter Ended Sept. 30, 2009	14,619	16,075	10.0%	(1,399)	(932)	33.4%	\$ (0.06)	\$ (0.04)
Quarter Ended Dec. 31, 2009	19,295	20,827	7.9%	807	754	(6.6)%	\$ 0.04	\$ 0.03
Quarter Ended March 31, 2010	18,876	17,296	(8.4)%	(825)	(1,215)	(47.3)%	\$ (0.04)	\$ (0.05)
Quarter Ended June 30, 2010	14,688	16,977	15.6%	(1,055)	(536)	49.2%	\$ (0.05)	\$ (0.02)
Quarter Ended Sept. 30, 2010	13,715	15,853	15.6%	(160)	540	437.5%	\$ (0.01)	\$ 0.02
Quarter Ended Dec. 31, 2010	29,671	30,056	1.3%	644	756	17.4%	\$ 0.03	\$ 0.03

We do not plan to amend our previously filed Annual Report on Form 10-K for the fiscal year ended March 31, 2010 due to the restatement of our previously issued consolidated financial statements and related disclosures for the fiscal year ended March 31, 2010 contained herein. However, we plan to amend our Quarterly Reports on Form 10-Q for the periods ended June 30, 2009 through December 31, 2010 to reflect the restatements described in this Annual Report on Form 10-K. As a result of the restatement, the financial statements and related financial statement information contained in those reports should no longer be relied upon. Throughout this Annual Report on Form 10-K, all amounts presented from prior periods and prior period comparisons that have been revised are labeled **As Restated** and reflect the balances and amounts on a restated basis.

Overview

We design, manufacture, 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.

Our Energy Management Division

Our energy management division develops, manufactures and sells commercial high intensity fluorescent, or HIF, lighting systems and energy management systems. Our energy management systems deliver energy savings and efficiency gains to our commercial and industrial customers without compromising their quantity or quality of light. The core of our energy management system is our HIF lighting system that we estimate cuts our customers

lighting-related electricity costs by approximately 50%, while increasing their quantity of light by approximately 50% and improving lighting quality when replacing traditional high intensity discharge, or HID, fixtures. Our customers typically realize a two-to-three-year payback period from electricity cost savings generated by our HIF lighting systems without considering utility incentives or government subsidies. We have sold and installed our HIF fixtures in over 6,800 facilities across North America, representing over one billion square feet of commercial and industrial building space, including for many Fortune 500 companies.

Our core energy management system is comprised of: our HIF lighting system; our Intelite wireless lighting controls; our Apollo Solar Light Pipe, which collects and focuses renewable daylight and consumes no electricity; and our integrated energy management services. We believe that the implementation of our complete energy management system enables our customers to further reduce electricity costs, while permanently reducing base and peak load demand from the electrical grid. From December 1, 2001 through March 31, 2011, we installed over 2,056,000 HIF lighting systems for our commercial and industrial customers. We are focused on leveraging this installed base to expand our customer relationships from single-site implementations of our HIF lighting systems to enterprise-wide roll-outs of our complete energy management system. We have also expanded our product and service offerings by providing our customers with exterior lighting products and renewable energy solutions. We generally have focused on selling retrofit projects whereby we replace inefficient HID, fluorescent or incandescent

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systems. In fiscal 2011, we generated approximately 47% of our revenue through direct sales relationships with end users, compared to 58% in fiscal 2010 and 60% in fiscal 2009. We continue to develop resellers and partner relationships that utilize our systematized sales process to increase overall market coverage and awareness in regional and local markets along with electrical contractors that provide installation services for these projects. Reflecting our increased emphasis on expanding this sales channel, approximately 53% of our revenues in fiscal 2011 were generated from such indirect sales, compared to 42% in fiscal 2010 and 40% in fiscal 2009.

We estimate that the use of our HIF fixtures has resulted in cumulative electricity cost savings for our customers of approximately \$1.2 billion and has reduced base and peak load electricity demand by approximately 639 megawatts, or MW, through March 31, 2011. We estimate that this reduced electricity consumption has reduced associated indirect carbon dioxide emissions by approximately 10.1 million tons over the same period.

For a description of the assumptions behind our calculations of customer kilowatt demand reduction, customer kilowatt hours and electricity costs saved and reductions in indirect carbon dioxide emissions associated with our products used throughout this Annual Report on Form 10-K, see the following table and notes.

	Cumulative from December 1, 2001 through March 31, 2011 (In thousands, unaudited)
HIF lighting systems sold(1)	2,056
Total units sold (including HIF lighting systems)	2,715
Customer kilowatt demand reduction(2)	639
Customer kilowatt hours saved(2)(3)	15,494,020
Customer electricity costs saved(4)	\$ 1,193,040
Indirect carbon dioxide emission reductions from customers' energy savings (tons)(5)	10,067
Square footage retrofitted(6)	1,054,122

(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 2.25 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, or EPA), by (ii) the number of customer kilowatt hours saved as indicated in the table.

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- (6) Based on 2.7 million total units sold, which contain a total of approximately 13.5 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.

Our Engineered Systems Division

In August 2009, we created our engineered systems division, which operates out of our Plymouth, WI facility and sells and integrates alternative renewable energy systems and provides technical services for our sale of HIF lighting systems and energy management systems. Our engineered systems division is also responsible for our project management activities and related services for both HIF lighting and renewable technology projects. During our fiscal 2011 third quarter, revenue from our engineered systems division exceeded the quantitative threshold under GAAP to report as a separate segment.

Our Industry

As a company focused on providing energy management systems, our market opportunity is created by growing electricity capacity shortages, underinvestment in transmission and distribution, or T&D infrastructure, high electricity costs and the high financial and environmental costs associated with adding generation capacity and upgrading the T&D infrastructure. The United States electricity market is generally characterized by rising demand, increasing electricity costs and power reliability issues due to continued constraints on generation and T&D capacity. Electricity demand is expected to grow steadily over the coming decades and significant challenges exist in meeting this increase in demand, including the environmental concerns associated with generation assets using fossil fuels. These constraints are causing governments, utilities and businesses to focus on demand reduction initiatives, including energy efficiency and other demand-side management solutions.

Today's Electricity Market

Growing Demand for Electricity. Demand for electricity in the United States has grown steadily in recent years and is expected to grow significantly for the foreseeable future. According to the Energy Information Administration, or EIA, \$353.3 billion was spent on electricity in 2010 in the United States, up from \$233.1 billion in 2000, an increase of 52%. Additionally, the EIA identified that consumption was 3,749 billion kWh in 2010 and predicts it will increase by 34% to 5,021 billion kWh in 2035. According to the North American Electric Reliability Corporation, or NERC, demand for electricity is expected to increase through 2016 by approximately 17% in the United States, but generation capacity is expected to increase by only approximately 8.4% to 12.7% of existing generating capacity in the United States during that same period. While the recent recession has led to a slowing in demand growth from approximately 2% per year to below 1.5% year, according to NERC, there are still significant parts of the country including the Southwest Power Pool, or SPP, and the Southeast Electric Reliability Council, or SERC, that are still experiencing significant transmission constraints. These two regional transmission organizations, or RTOs, serve the power needs of Alabama (SERC), Arkansas (SPP/SERC), Illinois (SERC), Florida (SERC), Georgia (SERC), Kansas (SPP), Kentucky (SERC), Louisiana (SPP/SERC), Mississippi (SPP/SERC), Missouri (SPP/SERC), Nebraska (SPP), New Mexico (SPP), North Carolina (SERC), Oklahoma (SPP/SERC), South Carolina (SERC), Tennessee (SERC), Texas (SPP/SERC) and Virginia (SERC). According to the International Energy Agency, or IEA, North America is expected to add 698,000 MW of additional capacity at a cost of \$2.4 trillion between 2009 and 2030 to reliably meet expected annual growth in demand. Worldwide, the IEA, expects 4,799,000 MW of additional capacity to be required over the same period at a total cost of \$13.7 trillion. We believe that meeting this increasing domestic electricity demand will require either an increase in energy supply through capacity expansion, broader adoption of demand management programs, or a combination of these solutions.

Challenges to Capacity Expansion. Based on the forecasted growth in electricity demand, the EIA, in its Annual Energy Outlook for 2011, estimates that the United States will require 223 gigawatts, or GW, of new generating capacity by 2035 (the equivalent of 500 power plants rated at an average of 500 MW each). According to data provided by the IEA, we estimate that new generating capacity and associated T&D investment will cost at least \$2.8 million per MW.

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In addition to the high financial costs associated with adding power generation capacity, there are environmental concerns about the effects of emissions from additional power plants, especially coal-fired power plants. According to the IEA in its Annual Energy Outlook for 2010, federal and state energy policies recently enacted will stimulate the increased use of renewable technologies and efficiency improvements, slowing the growth of energy-related carbon dioxide emissions through 2035. Additionally, the EIA believes that by 2035, total carbon dioxide emissions will be approximately 6,311 million metric tons, which is approximately 12% higher than 2010 levels. Of the projected 223 GW of new generating capacity required by 2035, coal-fired plants, which generate significant emissions of carbon dioxide and other pollutants, are projected to account for only 11% of added capacity between 2010 and 2035; however, coal fired generation will still power 28% of the country's electricity generation in 2035, according to the EIA. We believe that concerns over emissions may make it increasingly difficult for utilities to add coal-fired generating capacity. Clean coal energy initiatives are characterized by an uncertain legislative and regulatory framework and would involve substantial infrastructure cost to readily commercialize.

Although the EIA expects clean-burning natural gas-fired plants to account for 60% of total required domestic capacity additions between 2010 and 2035, natural gas prices are directly tied to technological developments and opportunities to capture new sources of natural gas, which according to the EIA in its Annual Energy Outlook for 2010 is leading to a great deal of uncertainty about the long term trend in natural gas prices. Additionally, natural gas prices have approximately doubled in the last decade according to the EIA. Environmentally-friendly renewable energy alternatives, such as solar and wind, generally require subsidies and rebates to be cost competitive and do not provide continuous electricity generation. Despite these challenges, the EIA projects that 24% of new capacity additions between 2010 and 2035 will be renewable technologies, due in large part to regulatory initiatives mandating the use of renewable energy sources. We believe these challenges to expanding generating capacity will increase the need for energy efficiency initiatives to meet demand growth.

Underinvestment in Electricity Transmission and Distribution. According to the Department of Energy, or DOE, the majority of United States transmission lines, transformers and circuit breakers—the backbone of the United States T&D system—is more than 25 years old. The underinvestment in T&D infrastructure has led to well-documented power reliability issues, such as the August 2003 blackout that affected a number of states in the northeastern United States. To upgrade and maintain the United States T&D system, the Brattle Group, in a November 2008 report for the Edison Foundation, estimates that it will cost over \$800 billion between 2010 and 2030. The underinvestment in T&D infrastructure is projected to become more pronounced as electricity demand grows. According to NERC, the growth in electricity demand is expected to outpace the growth in transmission capacity by a significant amount between now and 2015.

High Electricity Costs. Due to the recent recessionary impact within the U.S. during 2009 and 2010, electricity pricing has declined slightly from prior years due to declining demand charges and lower capacity costs for open market purchases of electricity in deregulated states. Prior to 2009, the price of one kWh of electricity (in nominal dollars, including the effects of inflation) had reached historic highs, according to the EIA's Annual Review of Energy 2007. Based on the most recent EIA electricity rate and consumption data available (February 2011), we estimate that commercial and industrial electricity expenditures rose 73.9% and 32.3%, respectively, from 1995 to 2010, and rose by 0.6% and 5.2%, respectively, in comparing monthly expenditures in February 2010 and February 2011. We believe that recent increases in electricity costs will become more pronounced during an economic upturn or through the aging grid supply system and that electricity cost increases will return to the rates experienced prior to 2009 and will continue to increase. As a result, we believe that electricity costs will continue to be an increasingly significant operating expense for businesses, particularly those with large commercial and industrial facilities.

Our Market Opportunity

We believe that energy efficiency measures represent permanent, cost-effective and environmentally-friendly alternatives to expanding electricity capacity in order to meet demand growth. The American Council for an Energy Efficient Economy, or ACEEE, in a 2011 fact sheet estimated that the United States can reduce up to 25%-30% of its estimated electricity usage over the next 25 to 30 years, by deploying all currently available cost-effective energy efficiency products and technologies across commercial, industrial and residential market sectors. Moreover, the ACEEE asserts that these gains can be done at significantly lower costs for energy efficiency (\$0.03 per kWh) than

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for traditional or renewable generation (\$0.06 to \$0.20 per kWh). As a result, we believe governments, utilities and businesses are increasingly focused on demand reduction through energy efficiency and demand management programs. For example:

Forty-nine states, through legislation, regulation or voluntarily, have seen their utilities design and fund programs that promote or deliver energy efficiency. In fact, as of March 31, 2011, only Alaska and the District of Columbia, do not have some form of utility or state energy efficiency programs for any of their commercial or industrial customers.

According to the ACEEE, as of June 2011, 26 states have implemented, or are in the process of implementing, Energy Efficiency Resource Standards, or EERS, or have an energy efficiency component to their Renewable Portfolio Standard, or RPS, which generally requires utilities to allocate funds to energy efficiency programs to meet near-term energy savings targets set by state governments or regulatory authorities.

In recent years, there has also been an increasing focus on decoupling, a regulatory initiative designed to break the linkage between utility kWh sales and revenues, in order to remove the disincentives for utilities to promote load reducing initiatives. Decoupling aims to encourage utilities to actively promote energy efficiency by allowing utilities to generate revenues and returns on investment from employing energy management solutions. According to the Pew Center on Global Climate Change, 20 states had adopted or are considering adopting some form of decoupling for electric utilities.

One method utilities use to reduce demand is the implementation of demand response programs. Demand response is a method of reducing electricity usage during periods of peak demand in order to promote grid stability, either by temporarily curtailing end use or by shifting generation to backup sources, typically at customer facilities. While demand response is an effective tool for addressing peak demand, these programs are called upon to reduce consumption typically for only up to 200 hours per year, based on demand conditions, and require end users to compromise their consumption patterns, for example by reducing lighting or air conditioning.

We believe that given the costs of adding new capacity and the limited demand time period that is addressed by current demand response initiatives, there is a significant opportunity for more comprehensive energy efficiency solutions to permanently reduce electricity demand during both peak and off-peak periods. We believe such solutions are a compelling way for businesses, utilities and regulators to meet rising demand in a cost-effective and environmentally-friendly manner. We also believe that, in order to gain acceptance among end users, energy efficiency solutions must offer substantial energy savings and return on investment, without requiring compromises in energy usage patterns.

The Role of Lighting

Commercial and industrial facilities in the United States employ a variety of lighting technologies, including HID, traditional fluorescents, LED and incandescent lighting fixtures. Our HIF lighting systems typically replace HID fixtures, which operate inefficiently because, according to EPRI, HID fixtures only convert approximately 36% of the energy they consume into visible light. We believe that the U.S. market opportunity for HID retrofits is \$9.6 billion. We base this estimate on the most recent EIA Commercial and Manufacturing Energy Consumption Survey published in September 2008, which states that a total of 81.9 billion commercial and industrial square feet are estimated to exist in the U.S. Estimates from the DOE concur with this statistic, as they indicate that there is 85.0 billion square feet of rooftop surface area for commercial and industrial buildings. We estimate that 20.6 billion of these square feet are eligible for HID retrofits, based upon our analysis of the EIA's market sector data giving consideration to a building's principal activity or purpose and the related square feet. Based on our experience that each HID fixture covers 450 square feet, approximately 45.7 million HID fixtures would be required to cover the estimated 20.6 billion square

feet eligible for HID retrofits, at an estimated average cost per fixture of approximately \$210.

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Our Solution

50/50 Value Proposition. We estimate our HIF lighting systems generally reduce lighting-related electricity costs by approximately 50% compared to HID fixtures, while increasing the quantity of light by approximately 50% and improving lighting quality. From December 1, 2001 through March 31, 2011, we believe that the use of our HIF fixtures has saved our customers \$1.2 billion in electricity costs and reduced their energy consumption by 15.5 billion kWh.

Multi-Facility Roll-Out Capability. We offer our customers a single source, turn-key solution for project implementation in which we manage and maintain responsibility for entire multi-facility roll-outs of our energy management solutions across North American real estate portfolios. This capability allows us to offer our customers an orderly, timely and scheduled process for recognizing energy reductions and cost savings.

Rapid Payback Period. In most retrofit projects where we replace HID fixtures, our customers typically realize a two- to three-year payback period on our HIF lighting systems. These returns are achieved without considering utility incentives or government subsidies (although subsidies and incentives are increasingly being made available to our customers and us in connection with the installation of our systems and further shorten payback periods).

Comprehensive Energy Management System. Our comprehensive energy management system enables us to reduce our customers' base and peak load electricity consumption. By replacing existing HID fixtures with our HIF lighting systems, our customers permanently reduce base load electricity consumption while significantly increasing their quantity and quality of light. We can also add intelligence to the customer's lighting system through the implementation of our Intelite wireless dynamic control devices. These devices allow our customers the ability to control and adjust their lighting and energy use levels for additional cost savings. Finally, we offer a further reduction in electricity consumption through the installation and integration of our Apollo Solar Light Pipe, which is a lens-based device that collects and focuses renewable daylight without consuming electricity. By integrating our Apollo Solar Light Pipe and HIF lighting system with the intelligence of our Intelite product line, the output and electricity consumption of our HIF lighting systems can be automatically adjusted based on the level of natural light being provided by our Apollo Light Pipe and, in certain circumstances, our customers can illuminate their facilities off the grid during peak hours of the day.

Easy Installation, Implementation and Maintenance. Our HIF fixtures are designed with a lightweight construction and modular plug-and-play architecture that allows for fast and easy installation, facilitates maintenance and allows for easy integration of other components of our energy management system. We believe our system's design reduces installation time and expense compared to other lighting solutions, which further improves our customers' return on investment. We also believe that our use of standard components reduces our customers' ongoing maintenance costs.

Expanded Product/Service Offerings. We have expanded our product and service offerings by providing our customers with alternative renewable energy systems through our Orion Engineered Systems division. We have also recently introduced exterior lighting products for parking lot and roadway illumination, an LED product offering for freezer and cold storage applications, and a hybrid fixture combining the performance benefits of both LED and fluorescent bulb technologies.

Base and Peak Load Relief for Utilities. The implementation of our energy management systems can substantially reduce our customers' electricity demand during peak and off-peak periods. Since we believe that commercial and industrial lighting represents approximately 14% of total energy usage in the United States, our systems can substantially reduce the need for additional base and peak load generation and distribution capacity, while reducing the impact of peak demand periods on the electrical grid. We estimate that the HIF fixtures we have installed from December 1, 2001 through March 31, 2011 have had the effect of reducing base and peak load demand by

approximately 639 MW.

Environmental Benefits. By permanently reducing electricity consumption, our energy management systems reduce associated indirect carbon dioxide emissions that would otherwise have resulted from generation of this energy. We estimate that one of our HIF lighting systems, when replacing a standard HID fixture, displaces 0.241 kW of electricity, which, based on information provided by the EPA, reduces a customer's indirect carbon dioxide

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emissions by approximately 1.2 tons per year. Based on these figures, we estimate that the use of our HIF fixtures has reduced indirect carbon dioxide emissions by approximately 10.1 million tons through March 31, 2011.

Our Competitive Strengths

Compelling Value Proposition. By permanently reducing lighting-related electricity usage, our systems enable our commercial and industrial customers to achieve significant cost savings, without compromising the quantity or quality of light in their facilities. As a result, our energy management systems offer our customers a rapid return on their investment, without relying on government subsidies or utility incentives. We believe our ability to deliver improved lighting quality while reducing electricity costs differentiates our value proposition from other demand management solutions which require end users to alter the time, manner or duration of their electricity use to achieve cost savings. We also offer our customers a single source solution whereby we manage and are responsible for the entire project, including installation and manufacturing across the entire North American real estate portfolio. Our ability to offer such a turn-key, national solution allows us to deliver energy reductions and cost savings to our customers in timely, orderly and planned multi-facility roll-outs.

Large and Growing Customer Base. We have developed a large and growing national customer base, and have installed our products in over 6,800 commercial and industrial facilities across North America. As of March 31, 2011, we have completed or are in the process of completing retrofits in over 1,500 facilities for our customers who are Fortune 500 companies. We believe that the willingness of our blue-chip customers to install our products across multiple facilities represents a significant endorsement of our value proposition, which in turn helps us sell our energy management systems to new customers.

Systematized Sales Process. We have invested substantial resources in the development of our innovative sales process. We sell directly to our end user customers using a systematized multi-step sales process that focuses on our value proposition and provides our sales force with specific, identified tasks that govern their interactions with our customers from the point of lead generation through delivery of our products and services. Management of this process seeks to continually improve salesforce effectiveness while simultaneously improving salesforce efficiency. We also train select partners and resellers to follow our systemized sales process, thereby extending our sales reach while making their businesses more effective.

Innovative Technology. We have developed a portfolio of 36 United States patents primarily covering various elements of our HIF fixtures. We believe these innovations allow our HIF fixtures to produce more light output per unit of input energy compared to competitive HIF product offerings. We also have 23 patents pending that primarily cover various elements of our InteLite wireless controls and our Apollo Solar Light Pipe and certain business methods. To complement our innovative energy management products, we have introduced integrated energy management services to provide our customers with a turnkey solution either at a single facility or across North American facility footprints. We believe that our demonstrated ability to innovate provides us with significant competitive advantages. We believe that our HIF solutions offer significantly more light output as measured in foot-candles of light delivered per watt of electricity consumed when compared to HID, traditional fluorescent and light emitting diode, or LED, light sources.

Expanded Product/Service Offerings. We have expanded our product and service offerings by providing our customers with alternative renewable energy systems through our Orion Engineered Systems division. In fiscal 2010, we began researching three test solar photovoltaic electricity generating projects, completing our test analysis on two of the three in the third quarter of fiscal 2010, and executed our first cash sale and our first purchase power agreement, or PPA, as a result of the successful testing of these systems. A PPA is a supply side agreement for the generation of electricity and subsequent sale to the end user. We completed the installation and customer acceptance of the third test system during our fiscal 2011 first quarter. During fiscal 2011, we executed seven additional contracts for renewable

technology product sales. We have also recently introduced exterior lighting products for parking lot, gas station canopies and roadway illumination and an LED product offering for freezer and cold storage applications.

Expanded Partner Network. In addition to selling directly to commercial and industrial customers, we sell our energy management products and services indirectly to end users through wholesale sales to electrical contractors and value-added resellers. In fiscal 2010, we increased our focus on selling through our contractor

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and value-added reseller channels with the development of a partner recruitment team that focuses on recruiting and developing partners in key markets with a higher saturation of commercial and industrial buildings. In fiscal 2011, we began developing an integrated partner network and have developed standard operating procedures related to their sales and operations. Our integrated partners are required to have in-market technology demonstration centers to showcase our products and are trained to conduct their own energy workshops for their in-market customers. We now have relationships with more than 100 partners, some of whom are exclusive agents for our product lines. We intend to continue to build out our partner network in the future and expect an increasing percentage of our total revenue to be generated from our partners.

Strong, Experienced Leadership Team. We have a strong and experienced senior management team led by our chief executive officer, Neal R. Verfuert, who was the principal founder of our company in 1996 and invented many of the products that form our energy management system. Our senior executive management team of seven individuals has a combined 51 years of experience with our company and a combined 76 years of experience in the lighting and energy management industries.

Innovative Financing Solutions. We have developed a patent-pending financing program called the Orion Throughput Agreement, or OTA. Our OTA is structured similarly to a supply contract under which we commit to deliver a set amount of energy savings to the customer at a fixed monthly rate. Our OTA program allows customers to deploy our energy management systems without having to make upfront investments or capital outlays. After the pre-determined amount of energy savings are delivered, our customers assume full ownership of the energy management system and benefit from the entire amount of energy savings over the remaining useful life of the technology. We believe the OTA allows us to capture customer sales opportunities that otherwise may not have occurred due to capital constraints.

Efficient, Scalable Manufacturing Process. We have made significant investments in our manufacturing facility since fiscal 2005, including investments in production efficiencies, automated processes and modern production equipment. These investments have substantially increased our production capacity, which we believe will enable us to support substantially increased demand from our current level. In addition, these investments, combined with our modular product design and use of standard components, enable us to reduce our cost of revenue, while better controlling production quality, and allow us to be responsive to customer needs on a timely basis. We generally are able to deliver standard products within several weeks of receipt of order which leads to greater energy savings to customers through shorter implementation time frames. We believe the sales to implementation cycles for our competitors are substantially longer.

Our Growth Strategies

Leverage Existing Customer Base. We are expanding our relationships with our existing customers by transitioning from single-site facility implementations to comprehensive enterprise-wide roll-outs of our HIF lighting systems. We also intend to leverage our large installed base of HIF lighting systems to implement all aspects of our energy management system, as well as our additional alternative/renewable energy solutions for our existing customers.

Target Additional Customers. We are expanding our base of commercial and industrial customers by executing our systematized sales process with our direct sales force and through our existing resellers and partners. In addition, we are continuing to execute on a sales and marketing program designed to develop new relationships with partners, resellers and their respective customers. For fiscal 2012, we have added a telemarketing group to generate sales leads and schedule appointments for our internal salespeople and our partners and resellers.

Develop New Sources of Revenue Through Expanded Product/Service Offerings. We have introduced our Intelite wireless dynamic controls, Apollo Solar Light Pipe and outdoor lighting products to complement our core HIF

lighting systems. We are continuing to develop new energy management products and services that can be utilized in connection with our current products, including intelligent HVAC integration controls, renewable energy solutions, exterior parking lot lighting products, comprehensive lighting management software and controls and additional consulting services.

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Expanded Partner Network. In addition to selling directly to commercial and industrial customers, we sell our energy management products and services indirectly to end users through wholesale sales to electrical contractors and value-added resellers. We intend to continue to build out our partner network in the future, including the addition of integration partners. Our integration partners represent Orion products exclusively, maintain product demonstration areas within their facilities, are offered our lowest pricing level and follow Orion standard operating procedures related to their sales, project management and operational activities. Our partner expansion team focuses on aggressively recruiting and developing new partners in markets where we currently do not have representation and markets with high concentrations of commercial and industrial buildings.

Provide Load Relief to Utilities and Grid Operators. Because commercial and industrial lighting represents a significant percentage of overall electricity usage, we believe that as we increase our market penetration, our systems will, in the aggregate, have a significant impact on permanently reducing base and peak load electricity demand. We estimate our HIF lighting systems can generally eliminate demand at a cost of approximately \$1.0 million per MW when used in replacement of typical HID fixtures, as compared to the IEA's estimate of approximately \$2.8 million per MW of capacity for new generation and T&D assets. We intend to market our energy management systems directly to utilities and grid operators as a lower-cost, permanent and distributed alternative to capacity expansion. We believe that utilities and grid operators may increasingly view our systems as a way to help them meet their requirements to provide reliable electric power to their customers in a cost-effective and environmentally-friendly manner. In addition, we believe that potential regulatory decoupling initiatives could increase the amount of incentives that utilities and grid operators will be willing to pay us or our customers for the installation of our systems.

Continue to Improve Operational Efficiencies. We are focused on continually improving the efficiency of our operations to increase the profitability of our business. In our manufacturing operations, we pursue opportunities to reduce our materials, component and manufacturing costs through product engineering, manufacturing process improvements, research and development on alternative materials and components, volume purchasing and investments in manufacturing equipment and automation. We also seek to reduce our installation costs by training our authorized installers to perform retrofits more efficiently and cost effectively. We have also undertaken initiatives to achieve operating expense efficiencies by more effectively executing our systematized multi-step sales process and focusing on geographically-concentrated sales efforts. We believe that realizing these efficiencies will enhance our profitability potential and allow us to continue to deliver our compelling value proposition.

Products and Services

We provide a variety of products and services that together comprise our energy management system. The core of our energy management system is our HIF lighting platform, which we primarily sell under the Compact Modular brand name. We offer our customers the option to build on our core HIF lighting platform by adding our Intelite wireless dynamic control devices and Apollo Solar Light Pipes. Together with these products, we offer our customers a variety of integrated energy management services, such as system design, project management and installation. We refer to the combination of these products and services as our energy management system. Additionally, we provide renewable energy solutions, including solar and wind to our customers.

Products

The following is a description of our primary products:

The Compact Modular. Our primary product is our line of high-performance HIF lighting systems, the Compact Modular, which includes a variety of fixture configurations to meet customer specifications. The Compact Modular generally operates at 224 watts per six-lamp fixture, compared to approximately 465 watts for the HID fixtures that it typically replaces. This wattage difference is the primary reason our HIF lighting systems are able to reduce electricity

consumption by approximately 50% compared to HID fixtures. Our Compact Modular has a thermally efficient design that allows it to operate at significantly lower temperatures than HID fixtures and most other legacy lighting fixtures typically found in commercial and industrial facilities. Because of the lower operating temperatures of our fixtures, our ballasts and lamps operate more efficiently, allowing more electricity to be converted to light rather than to heat or vibration, while allowing these components to last longer before needing

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replacement. In addition, the heat reduction provided by installing our HIF lighting systems reduces the electricity consumption required to cool our customers' facilities, which further reduces their electricity costs. The EPRI estimates that commercial buildings use 5% to 10% of their electricity consumption for cooling required to offset the heat generated by lighting fixtures.

In addition, our patented optically-efficient reflector increases light quantity by efficiently harvesting and focusing emitted light. We and some of our customers have conducted tests that generally show that our Compact Modular product line can increase light quantity in footcandles by approximately 50% when replacing HID fixtures. Further, we believe, based on customer data, that our Compact Modular products provide a greater quantity of light per watt than competing HIF fixtures. Our optical reflector design also allows us to take advantage of dimming ballast technologies, operating at 134 watts per six-lamp fixture, which provides even greater energy savings and delivers the same light output as our competitor's HIF fixtures.

The Compact Modular product line also includes our modular power pack, which enables us to customize our customers' lighting systems to help achieve their specified lighting and energy savings goals. Our modular power pack integrates easily into a wide variety of electrical configurations at our customers' facilities, allowing for faster and less expensive installation compared to lighting systems that require customized electrical connections. In addition, our HIF lighting systems are lightweight and, we believe, easy to handle, which further reduces installation and maintenance costs and helps to build brand loyalty with electrical contractors and installers.

InteLite Dynamic Control Device. Our InteLite wireless dynamic control products allow customers to remotely communicate with and give commands to individual light fixtures and other peripheral devices through web-based software, and allow the customer to configure and easily change the control parameters of each fixture based on a number of inputs and conditions, including time-of-day, motion and ambient light levels. Our InteLite products can be added to our HIF lighting systems at or after installation on a plug and play basis by coupling the wireless transceivers directly to the modular power pack. Because of their modular design, our InteLite wireless products can be added to our energy management system easily and at lower cost when compared to lighting systems that require similar controls to be included at original installation or retrofitted. Recent improvements to our InteLite products allow us to provide reporting and metering capabilities at the individual control unit level.

Apollo Solar Light Pipe. Our Apollo Solar Light Pipe is a lens-based device that collects and focuses renewable daylight, bringing natural light indoors without consuming electricity. Our Apollo Solar Light Pipe is designed and manufactured to maximize light collection during times of low sun angles, such as those that occur during early morning and late afternoon. The Apollo Solar Light Pipe produces maximum lighting power in peak summer months and during peak daylight hours, when electricity is most expensive. By integrating our Apollo Solar Light Pipe with our HIF lighting systems and InteLite wireless controls, the output and associated electricity consumption of our HIF lighting systems can be automatically adjusted based on the level of natural light being provided by our Apollo Solar Light Pipe to offer further energy savings for our customers. In certain circumstances, our customers can illuminate their facilities off the grid during peak hours of the day through the use of our integrated energy management system.

Renewable Energy Projects. In fiscal 2011, we continued the expansion of our alternative renewable energy product and service offerings. In fiscal 2010, we began researching three test solar photovoltaic electricity generating projects, completing our test analysis on two of the three in the 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 during our fiscal 2011 first quarter. During fiscal 2011, we entered into contracts for an additional seven renewable generating systems, including the single largest project in our history, with a contract value of \$8.2 million.

Other Products. We also offer our customers a variety of other HIF fixtures to address their lighting and energy management needs, including fixtures designed for agribusinesses, parking lots, roadways, outdoor applications, LED freezer applications and private label resale.

Our warranty policy generally provides for a limited one-year warranty on our products. Ballasts, lamps and other electrical components are excluded from our standard warranty since they are covered by a separate warranty offered by the original equipment manufacturer. We coordinate and process customer warranty inquiries and

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claims, including inquiries and claims relating to ballast and lamp components, through our customer service department.

Services

We provide, and derive revenue from, a range of fee-based lighting-related energy management services to our customers, including:

comprehensive site assessment, which includes a review of the current lighting requirements and energy usage at the customer's facility;

site field verification, where we perform a test implementation of our energy management system at a customer's facility upon request;

utility incentive and government subsidy management, where we assist our customers in identifying, applying for and obtaining available utility incentives or government subsidies;

engineering design, which involves designing a customized system to suit our customer's facility lighting and energy management needs, and providing the customer with a written analysis of the potential energy savings and lighting and environmental benefits associated with the designed system;

project management, which involves our working with the electrical contractor in overseeing and managing all phases of implementation from delivery through installation for a single facility or through multi-facility roll-outs tied to a defined project schedule;

installation services, for our products, which we provide through our national network of qualified third-party installers; and

recycling in connection with our retrofit installations, where we remove, dispose of and recycle our customer's legacy lighting fixtures.

We are also expanding our offering of other energy management services that we believe will represent additional sources of revenue for us in the future. Those services primarily include review and management of electricity bills, as well as management and control of power quality and remote monitoring and control of our installed systems. We also sell and distribute replacement lamps and fixture components into the after-market.

Our Customers

We primarily target commercial and industrial end users who have warehousing and manufacturing facilities. As of March 31, 2011, we have installed our products in 6,807 commercial and industrial facilities across North America. Our diversified customer base includes:

American Standard International Inc.	Ecolab, Inc.	Newell Rubbermaid Inc.	SYSCO Corp.
Anheuser-Busch Companies, Inc.	Gap, Inc.	OfficeMax, Inc.	Textron, Inc.
Avery Dennison Corporation	General Electric Co.	PepsiAmericas Inc.	Toyota Motor Corp.
Big Lots Inc.	Kraft Foods Inc.	Sealed Air Corp.	United Stationers Inc.
Coca-Cola Enterprises Inc.	Miller Coors LLC	Sherwin-Williams Co.	U.S. Foodservice

No single customer accounted for 10% or more of our total revenue in any of our last three fiscal years.

Sales and Marketing

We sell our products directly to commercial and industrial customers using a systematized multi-step process that focuses on our value proposition and provides our sales force with specific, identified tasks that govern their interactions with our customers from the point of lead generation through delivery of our products and services. In fiscal 2010, we increased our sales and marketing headcount to further develop opportunities for our exterior lighting products within the utility and governmental markets, expanded sales and sales support personnel dedicated to our in-market sales programs and added technical expertise for our wireless controls product lines. In fiscal 2011, we upgraded our Customer Relationship Management system, or CRM, to improve the information and tracking of

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our customer project pipeline and expanded the CRM system to include our elite partners, providing visibility into their project pipelines as well.

We also sell our products and services indirectly to our customers through their electrical contractors or distributors, or to electrical contractors and distributors who buy our products and resell them to end users as part of an installed project. We believe these relationships allow us to increase penetration into the lighting retrofit market because electrical contractors often have significant influence over their customers' lighting product selections. Even in cases where we sell through these indirect channels, we strive to have our own relationship with the end user customer.

We also sell our products on a wholesale basis to electrical contractors and value-added resellers. We often train our value-added resellers to implement our systematized sales process to more effectively resell our products to their customers. We attempt to leverage the customer relationships of these electrical contractors and value-added resellers to further extend the geographic scope of our selling efforts. In fiscal 2010, we increased our focus on selling through our contractor and value-added reseller channels through participation in national trade organizations, providing training on our sales methodologies, including the development and distribution of standard sales partner operating procedures and providing training to our partners to enable them to conduct their own energy workshops with their customer and prospect bases. We intend to focus on expanding our partner network, selectively adding new partners in geographic regions where we do not currently have a significant market presence.

We have historically focused our marketing efforts on traditional direct advertising, as well as developing brand awareness through customer education and active participation in trade shows and energy management seminars. In fiscal 2012, we expect to continue to selectively invest in advertising and marketing campaigns to increase the visibility of our brand name and raise awareness of our value proposition. In the past, these efforts have included participating in national, regional and local trade organizations, exhibiting at trade shows, executing targeted direct mail campaigns, advertising in select publications, public relations campaigns and other lead generation and brand building initiatives. We are also actively training contractors and partners on how to effectively represent our product offering and have designed an intensive classroom training program, Orion University, to complement the energy management workshops we conduct in the field. We have added employees focused on telemarketing to our end customers and to generate sales leads for our internal salespeople and partners.

Competition

The market for energy management products and services is fragmented. We face strong competition primarily from manufacturers and distributors of energy management products and services as well as electrical contractors. We compete primarily on the basis of technology, quality, customer relationships, energy efficiency, customer service and marketing support.

There are a number of lighting fixture manufacturers that sell HIF products that compete with our Compact Modular product line. Some of these manufacturers also sell HID products that compete with our HIF lighting systems, including Cooper Industries, Ltd., Hubbell Incorporated, Ruud Lighting, Inc. and Acuity Brands, Inc. These companies generally have large, diverse product lines. Many of these competitors are better capitalized than we are, have strong existing customer relationships, greater name recognition, and more extensive engineering and marketing capabilities. We also compete for sales of our HIF lighting systems with manufacturers and suppliers of older fluorescent technology in the retrofit market. Some of the manufacturers of HIF and HID products that compete with our HIF lighting systems sell their systems at a lower initial capital cost than the cost at which we sell our systems, although we believe based on our industry experience that these systems generally do not deliver the light quality and the cost savings that our HIF lighting systems deliver over the long-term.

Light emitting diode, or LED, technology is emerging and gaining acceptance for certain types of lighting applications; however, we believe the performance characteristics and relatively high cost do not make LEDs a cost-effective alternative to HIF for general illumination applications in the commercial and industrial markets. We are continuing to research this technology and have introduced LED based products designed to achieve desired light outputs in freezer applications where the optimal performance for LED lighting fixtures is achieved at 20 degrees below zero.

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Many of our competitors market their manufactured lighting and other products primarily to distributors who resell their products for use in new commercial, residential, and industrial construction. These distributors, such as Graybar Electric Company, Gexpro (GE Supply) and W.W. Grainger, Inc., generally have large customer bases and wide distribution networks and supply to electrical contractors.

We also face competition from companies who provide energy management services. Some of these competitors, such as Johnson Controls, Inc. and Honeywell International, provide basic systems and controls designed to further energy efficiency. Other competitors provide demand response systems that compete with our energy management systems, such as Comverge, Inc. and EnerNOC, Inc.

Intellectual Property

As of March 31, 2011, we had been issued 36 United States patents, and had applied for 23 additional United States patents. The patented and patent pending technologies include the following:

Portions of our core HIF lighting technology (including our optically efficient reflector and some of our thermally efficient fixture I-frame constructions) are patented with additional patents pending.

Our ballast assembly method is patent pending.

Our light pipe technology and its manufacturing methods are patented with additional patents pending.

Our wireless lighting control system is patent pending.

The technology and methodology of our OTA financing program is patent pending.

Our exterior lighting fixture technology is patent pending.

Our hybrid HIF and LED lighting fixture technology is patent pending.

Our 36 United States patents have expiration dates ranging from 2015 to 2028, with more than half of these patents having expiration dates of 2022 or later.

We believe that our patent portfolio as a whole is material to our business. We also believe that our patents covering certain component parts of our Compact Modular, including our thermally efficient I-frame and our optically efficient reflector, are material to our business, and that the loss of these patents could significantly and adversely affect our business, operating results and prospects. See [Risk Factors](#) [Risks Related to Our Business](#) Our inability to protect our intellectual property, or our involvement in damaging and disruptive intellectual property litigation, could negatively affect our business and results of operations and financial condition or result in the loss of use of the product or service.

Manufacturing and Distribution

We own an approximately 266,000 square foot manufacturing and distribution facility located in Manitowoc, Wisconsin. Since fiscal 2005, we have made significant investments in new equipment and in the development of our workforce to expand our internal production capabilities and increase production capacity. As a result of these investments, we are generally able to manufacture and assemble our products internally. We supplement our in-house production with outsourcing contracts as required to meet short-term production needs. We believe we have sufficient production capacity to support a substantial expansion of our business.

We generally maintain a significant supply of raw material and purchased and manufactured component inventory. We manufacture products to order and are typically able to ship most orders within 14 days of our receipt of a purchase order. We contract with transportation companies to ship our products and we manage all aspects of distribution logistics. We generally ship our products directly to the end user.

Research and Development

Our research and development efforts are centered on developing new products and technologies, enhancing existing products, and improving operational and manufacturing efficiencies. The products, technologies and services we are developing are focused on increasing end user energy efficiency. We are also developing lighting

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products based on LED technology, intelligent HVAC integration controls, direct solar solutions and comprehensive lighting management software. Our research and development expenditures were \$1.9 million, \$1.9 million and \$2.3 million for fiscal years 2009, 2010 and 2011.

Regulation

Our operations are subject to federal, state, and local laws and regulations governing, among other things, emissions to air, discharge to water, the remediation of contaminated properties and the generation, handling, storage transportation, treatment, and disposal of, and exposure to, waste and other materials, as well as laws and regulations relating to occupational health and safety. We believe that our business, operations, and facilities are being operated in compliance in all material respects with applicable environmental and health and safety laws and regulations.

State, county or municipal statutes often require that a licensed electrician be present and supervise each retrofit project. Further, all installations of electrical fixtures are subject to compliance with electrical codes in virtually all jurisdictions in the United States. In cases where we engage independent contractors to perform our retrofit projects, we believe that compliance with these laws and regulations is the responsibility of the applicable contractor.

Our Corporate and Other Available Information

We were incorporated as a Wisconsin corporation in April 1996 and our corporate headquarters are located at 2210 Woodland Drive, Manitowoc, Wisconsin 54220. Our Internet website address is www.oesx.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, are available through the investor relations page of our internet website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission, or the SEC.

Employees

As of March 31, 2011, we had 226 full-time and 42 part-time employees. Our employees are not represented by any labor union, and we have never experienced a work stoppage or strike. We consider our relations with our employees to be good.

ITEM 1A. RISK FACTORS

You should carefully consider the risk factors set forth below and in other reports that we file from time to time with the Securities and Exchange Commission and the other information in this Annual Report on Form 10-K. The matters discussed in the risk factors, and additional risks and uncertainties not currently known to us or that we currently deem immaterial, could have a material adverse effect on our business, financial condition, results of operation and future growth prospects and could cause the trading price of our common stock to decline.

Our financial performance is dependent on our ability to execute on our growth strategy.

Our fiscal 2012 operating plan and financial expectations are predicated upon our growth strategy, and our ability to achieve our desired growth depends on our execution in areas including proposal development, marketing, sales training, project management and our new telemarketing initiative, and our ability to expand our partner network rapidly, as well as other factors. If we are unable to successfully execute in any of these areas or on our growth strategy as a whole, our business and financial performance will likely be adversely affected.

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Increasing use of our OTA financing program could require us to seek additional debt financing and/or equity capital and expose us to financing risk and additional customer credit risk and impact our financial results.

Our financing program, the Orion Throughput Agreements, or OTA, is an installment based payment plan for our customers in contrast to our traditional cash terms. This financing program may subject us to additional credit risk as we do not have a long history or experience related to longer term credit decision making. Poor credit decisions or customer defaults could result in increases to our allowances for doubtful accounts and/or write-offs of accounts receivable and could have material adverse effects on our results of operations and financial condition.

These agreements and their increased use will require us to make significant investments of capital, whether we finance them internally or raise additional debt financing and/or equity capital to support the expansion. We may not be able to obtain sufficient additional equity capital and/or debt financing required to expand the OTA programs or we may not be able to obtain such additional equity capital or debt financing on acceptable terms or conditions. Any national economic downturn or disruption of financial markets could reduce our access to capital necessary for these programs. The agreements and their increased use also may subject us to additional credit risk as we do not have a long history or experience related to longer term credit decision making.

Our inability to retain key employees or protect our partner network could adversely affect our operations and our ability to execute on our operating plan and growth strategy.

We rely upon the knowledge, experience and skills of key employees throughout our organization, and particularly in our sales group, that require technical knowledge or contacts in and knowledge of the industry. We also depend on our value-added reseller channels, including our partner network. If we are unable to retain key employees or protect the integrity of our partner network because of competition or, in the case of employees, inadequate compensation or other factors, our operations and our ability to execute our operating plan could be adversely affected.

Adverse conditions in the global economy and disruption of financial markets have negatively impacted, and could continue to negatively impact, our customers, suppliers and business.

Financial markets in the United States, Europe and Asia have experienced extreme disruption over the past several years, including, among other things, extreme volatility in security prices, severely diminished liquidity and credit availability, rating downgrades, declines in asset valuations, inflation, reduced consumer spending and fluctuations in foreign currency exchange rates. While currently these conditions have not impaired our ability to finance our operations, such conditions coupled with recessionary type economic conditions, have adversely affected our customers' capital budgets, purchasing decisions and facilities managers and, therefore, have adversely affected our results of operations. In addition, some of our installer base of contractors have stopped doing business due to the challenging economic conditions, which has increased the cost and delayed the timing of installation of our products and thereby negatively impact our business and results of operations. Our business and results of operations will continue to be adversely affected to the extent these adverse financial market and general economic conditions continue to adversely affect our customers' purchasing decisions and the availability of installers.

Adverse market conditions have led to increasing duration of customer sales cycles, limitations on customer capital budgets, closure of facilities and the loss of key contacts due to workforce reductions at existing and prospective customers.

The volatility and uncertainty in the financial and credit markets has led many customers to adopt strategies for conserving cash, including limits on capital spending and expense reductions. Our HIF lighting systems are often purchased as capital assets and therefore are subject to capital availability. Uncertainty around such availability has led customers to delay purchase decisions, which has elongated the duration of our sales cycles. Along with limiting

capital spending, some customers have reduced expenses by closing facilities and reducing workforces. As a result, facilities that were or may be considering installing our HIF lighting systems have closed or may close. Due to downsizings, key contacts and decision-makers at customers have lost or may lose their jobs, which requires us to re-initiate the sales cycle with other personnel, further elongating the sales cycle. We have experienced, and may in

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the future experience, variability in our operating results, on both an annual and a quarterly basis, as a result of these factors.

Our renewable energy technologies involve many risks and uncertainties. Many new technologies do not become commercially profitable products, applications or services despite extensive development and commercialization efforts.

In fiscal 2011, we continued the expansion that began in fiscal 2010 of our product and service offerings by providing our customers with alternative renewable energy systems, such as photovoltaic solar systems and wind energy systems through our Orion Engineered Systems division. This division continues to conduct research on various additional renewable energy technologies that we may be able to add to our menu of products, applications and services offered, making recommendations to our senior management regarding the technologies' viability and developing commercialization tactics.

The process of developing and commercializing new products, applications and services, particularly relating to alternative renewable energy systems, is typically both time-consuming and costly and usually involves a high degree of business risk. We may be unable to successfully develop or commercialize new technologies in the form of new products, applications or services. This process may involve substantial expenditures in research and development, sourcing and marketing. Commercialization of new technological products, applications and services often requires a very long lead time. Because it is generally not possible to predict the amount of time required or the costs involved in achieving new product, application or service introduction objectives, actual development and commercialization costs may exceed budgeted amounts and estimated development and commercialization schedules may be extended. Developing new technological products, applications and services, and creating effective commercialization strategies for new renewable energy technologies, are subject to inherent risks that may include:

Unanticipated and/or substantial delays;

Unanticipated and/or substantially increased costs;

Unrecoverable and/or substantially increased expenses;

Technical, reliability, durability or quality problems, including potential warranty and/or product liability claims;

Insufficiency of dedicated or budgeted funds;

Inability to meet targeted cost or performance objectives;

Inability to satisfy industry standards or consumer expectations and needs;

Regulatory obstacles;

Competition;

Inability to prove the original concept;

Lack of demand; and

Diversion of our management's and employees' focus and/or attention.

The occurrence of any one or more of these risks could cause us to incur substantial costs and expenses or even to abandon or substantially delay or change our strategy of exploring the addition of new alternative renewable energy technologies into our product, application and service offerings.

Orion Engineered Systems may not be able to identify suitable new technologies, we may invest too much in new technologies, our management could be distracted by new technologies and we could fail to develop any new products, applications or services successfully.

Identifying suitable new alternative renewable energy technologies for addition into our product, application and service offerings may be difficult, and the failure to do so could harm our growth strategy. If we make an

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investment in one or more new alternative renewable energy technologies, then we could have difficulty developing and commercializing it or integrating it into our product, application or service offerings. These difficulties could disrupt our ongoing business, distract our management and employees and increase our expenses and/or capital expenditures. As a result, our failure to fully develop and commercialize potential new alternative renewable energy technologies or to integrate them effectively into our product, application and service offerings properly could have a material adverse effect on our business, financial condition and operating results.

We may not be able to obtain additional equity capital or debt financing necessary to effectively introduce and commercialize any new alternative renewable energy technologies identified by Orion Engineered Systems into our product, application and service offerings.

Our existing capital resources may not be sufficient to effectively introduce and commercialize any new alternative renewable energy technologies identified by Orion Engineered Systems into our product, application and service offerings. We may not be able to obtain sufficient additional equity capital and/or debt financing required to do so or we may not be able to obtain such additional equity capital or debt financing on acceptable terms or conditions. Factors affecting the availability to us of equity capital or debt financing on acceptable terms and conditions include:

The price, volatility and trading volume and history of our common stock.

Our current and future financial results and position.

The market's view of our industry and products.

The perception in the equity and debt markets of our ability to execute our business plan or achieve our operating results expectations.

We have no significant operating history in the solar photovoltaic or wind energy industries that can be used to evaluate our potential prospects for success in these industries.

In fiscal 2011, we continued the expansion begun in fiscal 2010 of our product and service offerings by providing our customers with alternative renewable energy systems, such as photovoltaic solar systems and, potentially, wind energy systems through our Orion Engineered Systems division. In fiscal 2010, we sold and installed three solar photovoltaic 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 PPA as a result of the successful testing of these systems. In fiscal 2011, we entered into contracts for an additional seven photovoltaic electricity generating projects. Our Orion Engineered Systems division continues to conduct research on various other renewable energy technologies that we may be able to add to our menu of products, applications and services offered.

We have no significant history or experience in the solar photovoltaic or wind energy industries. If we continue to further pursue adding these technologies into our product, application or service offerings, there can be no assurance that our venture into these industries will prove successful. We have no significant history or experience in developing or commercializing solar photovoltaic or wind energy technologies that can be used to evaluate our potential prospects for success. As a result, our prospects for success in being able to introduce new products, applications or services using these technologies must be considered in the context of a new company in a developing industry. The risks we face include the possibility that we will not be successful in developing or commercializing any such technologies, that we will not be able to do so without incurring unexpected and/or substantial costs and expenses and/or failing to generate any substantial incremental revenues, that we will not be able to rely on third-party manufacturers or providers of such technologies, and that we will not be able to operate successfully in the competitive environment of the solar photovoltaic and/or wind energy industries. If we are unable to address all of these risks, our business, results

of operations and financial condition may be materially adversely affected.

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Orion Engineered System's pursuit of solar photovoltaic and/or wind electricity generating technologies is subject to risks specific to the solar photovoltaic and/or wind industry.

If we continue to expand our offerings of solar photovoltaic electricity generating technologies and/or wind electricity generating technologies into our product, application or service offerings, such business pursuits will involve risks specifically associated with the solar photovoltaic and/or wind industry, including:

The market for photovoltaic and wind electricity generating technologies has been adversely affected by the recessionary economic conditions, and we cannot guarantee that demand will return or increase in the future.

A variety of solar power, wind power and other renewable energy technologies may be currently under development by other companies that could result in higher or more effective product performance than the performance expected to be produced by any technology that we decide to offer.

Our ability to generate revenue and profitability from adding solar photovoltaic and/or wind electricity generating technologies into our product, application or service offerings is dependent on consumer acceptance and the economic feasibility of solar and/or wind generated energy.

A drop in the retail price of conventional energy or other alternate renewable energy sources may negatively impact our ability to generate revenue and profitability from solar photovoltaic and/or wind generated energy technologies.

The reduction, elimination or expiration of government mandates and subsidies or economic or tax rebates, credits and/or incentives for alternative renewable energy systems would likely substantially reduce the demand for, and economic feasibility of, any solar photovoltaic and/or wind electricity generating products, applications or services and could materially reduce any prospects for our successfully introducing any new products, applications or services using such technologies.

We operate in a highly competitive industry and if we are unable to compete successfully our revenue and profitability will be adversely affected.

We face strong competition primarily from manufacturers and distributors of energy management products and services, as well as from electrical contractors. We compete primarily on the basis of customer relationships, price, quality, energy efficiency, customer service and marketing support. Our products are in direct competition primarily with high intensity discharge, or HID, technology, as well as LED, other HIF products and older fluorescent technology in the lighting systems retrofit market.

Many of our competitors are better capitalized than we are, have strong existing customer relationships, greater name recognition, and more extensive engineering, manufacturing, sales and marketing capabilities. Competitors could focus their substantial resources on developing a competing business model or energy management products or services that may be potentially more attractive to customers than our products or services. In addition, we may face competition from other products or technologies that reduce demand for electricity. Our competitors may also offer energy management products and services at reduced prices in order to improve their competitive positions. Any of these competitive factors could make it more difficult for us to attract and retain customers, require us to lower our prices in order to remain competitive, and reduce our revenue and profitability, any of which could have a material adverse effect on our results of operations and financial condition.

Our success is largely dependent upon the skills, experience and efforts of our senior management, and the loss of their services could have a material adverse effect on our ability to expand our business or to maintain profitable

operations.

Our continued success depends upon the continued availability, contributions, skills, experience and effort of our senior management. We are particularly dependent on the services of Neal R. Verfueth, our chief executive officer and principal founder, Michael J. Potts, our president and chief operating officer and John Scribante, our president of Orion Engineered Systems. Messrs. Verfueth, Potts and Scribante have major responsibilities with respect to sales, engineering, product development, operations and executive administration. We do not have a formal succession plan in place for Messrs. Verfueth, Potts and Scribante. Our current employment agreements

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with Messrs. Verfueth, Potts and Scribante do not guarantee their respective services for a specified period of time. All of the current employment agreements with our senior management team may be terminated by the employee at any time and without notice. While all such agreements include noncompetition and confidentiality covenants, there can be no assurance that such provisions will be enforceable or adequately protect us. The loss of the services of either of these persons might impede our operations or the achievement of our strategic and financial objectives, and we may not be able to attract and retain individuals with the same or similar level of experience or expertise. Additionally, while we have key man insurance on the lives of Messrs. Verfueth and Potts and other members of our senior management team, such insurance may not adequately compensate us for the loss of these individuals. The loss or interruption of the service of members of our senior management, particularly Messrs. Verfueth, Potts or Scribante, or our inability to attract or retain other qualified personnel could have a material adverse effect on our ability to expand our business, implement our strategy or achieve profitable operations.

The success of our business depends on the market acceptance of our energy management products and services.

Our future success depends on continued commercial acceptance of our energy management products and services. If we are unable to convince current and potential customers of the advantages of our HIF lighting systems and energy management products and services, then our ability to sell our HIF lighting systems and energy management products and services will be limited. In addition, because the market for energy management products and services is rapidly evolving, we may not be able to accurately assess the size of the market, and we may have limited insight into trends that may emerge and affect our business. If the market for our HIF lighting systems and energy management products and services does not continue to develop, or if the market does not accept our products, then our ability to grow our business could be limited and we may not be able to increase our revenue or achieve profitability.

Our products use components and raw materials that may be subject to price fluctuations, shortages or interruptions of supply.

We may be vulnerable to price increases for components or raw materials that we require for our products, including aluminum, ballasts, power supplies and lamps. In particular, our cost of aluminum can be subject to commodity price fluctuation. Further, suppliers' inventories of certain components that our products require may be limited and are subject to acquisition by others. We have had to purchase quantities of certain components that are critical to our product manufacturing and were in excess of our estimated near-term requirements as a result of supplier delivery constraints and concerns over component availability, and we may need to do so in the future. As a result, we have had, and may need to continue, to devote additional working capital to support a large amount of component and raw material inventory that may not be used over a reasonable period to produce saleable products, and we may be required to increase our excess and obsolete inventory reserves to provide for these excess quantities, particularly if demand for our products does not meet our expectations. Also, any shortages or interruptions in supply of our components or raw materials could disrupt our operations. If any of these events occurs, our results of operations and financial condition could be materially adversely affected.

We have made a significant investment in inventory related to our wireless controls product offering, which is costly and, if not properly managed, may result in an inability to provide our products on a timely basis or in unforeseen valuation adjustments.

Our wireless control inventories were approximately 50% of our total March 31, 2011 inventory balance. The components for our wireless inventories are manufactured and assembled overseas, require longer delivery lead times, suppliers require deposit payments at time of purchase order and suppliers also require volume commitments to secure production capacity. We maintain this significant investment in our wireless controls inventory in order to provide prompt and complete service to our customers. There can be no guarantees that our customers will purchase our wireless technologies or that unforeseen evolutions in technologies may render our inventories unsalable and require a

valuation adjustment to our inventories. Additionally, price changes or other circumstances could result in unforeseen valuation adjustments to inventories. Such occurrences could have a negative effect on our results of operations and financial condition.

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We depend on a limited number of key suppliers.

We depend on certain key suppliers for the raw materials and key components that we require for our current products, including sheet, coiled and specialty reflective aluminum, power supplies, ballasts and lamps. In particular, we buy most of our specialty reflective aluminum from a single supplier and we also purchase most of our ballast and lamp components from a single supplier. Purchases of components from our current primary ballast and lamp supplier constituted 26% and 34% of our total cost of revenue in fiscal 2010 and fiscal 2011, respectively. If these components become unavailable, or our relationships with suppliers become strained, particularly as relates to our primary suppliers, our results of operations and financial condition could be materially adversely affected.

We experienced component quality problems related to certain suppliers in the past, and our current suppliers may not deliver satisfactory components in the future.

In fiscal 2003 through fiscal 2005, we experienced higher than normal failure rates with certain components purchased from two suppliers. These quality issues led to an increase in warranty claims from our customers and we recorded warranty expenses of approximately \$0.1 million and \$0.7 million in fiscal 2005 and fiscal 2006, respectively. We may experience quality problems with suppliers in the future, which could decrease our gross margin and profitability, lengthen our sales cycles, adversely affect our customer relations and future sales prospects and subject our business to negative publicity. Additionally, we sometimes satisfy warranty claims even if they are not covered by our general warranty policy as a customer accommodation. If we were to experience quality problems with the ballasts or lamps purchased from our primary ballast and lamp supplier, these adverse consequences could be magnified, and our results of operations and financial condition could be materially adversely affected.

We depend upon a limited number of customers in any given period to generate a substantial portion of our revenue.

We do not have long-term contracts with our customers, and 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 29% and 38%, respectively, of our total revenue for fiscal 2010 and 2011. In fiscal 2010 and fiscal 2011, our top customer accounted for less than 6% and 7% of our total revenues, respectively. We expect large retrofit and roll-out projects to continue to be a significant component of our total revenue. As a result, we may experience more customer concentration in any given future period. The loss of, or substantial reduction in sales to, any of our significant customers could have a material adverse effect on our results of operations in any given future period.

Product liability claims could adversely affect our business, results of operations and financial condition.

We face exposure to product liability claims in the event that our energy management products fail to perform as expected or cause bodily injury or property damage. Since the majority of our products use electricity, it is possible that our products could result in injury, whether by product malfunctions, defects, improper installation or other causes. Particularly because our products often incorporate new technologies or designs, we cannot predict whether or not product liability claims will be brought against us in the future or result in negative publicity about our business or adversely affect our customer relations. Moreover, we may not have adequate resources in the event of a successful claim against us. A successful product liability claim against us that is not covered by insurance or is in excess of our available insurance limits could require us to make significant payments of damages and could materially adversely affect our results of operations and financial condition.

We depend on our ability to develop new products and services.

The market for our products and services is characterized by rapid market and technological changes, uncertain product life cycles, changes in customer demands and evolving government, industry and utility standards and regulations. As a result, our future success will depend, in part, on our ability to continue to design and manufacture new products and services. We may not be able to successfully develop and market new products or

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services that keep pace with technological or industry changes, satisfy changes in customer demands or comply with present or emerging government and industry regulations and technology standards.

We may pursue acquisitions and investments in new product lines, businesses or technologies that involve numerous risks, which could disrupt our business or adversely affect our financial condition and results of operations.

In the future, we may pursue acquisitions of, or investments in, new product lines, businesses or technologies to expand our current capabilities. We have limited experience in making such acquisitions or investments. Acquisitions present a number of potential risks and challenges that could disrupt our business operations, increase our operating costs or capital expenditure requirements and reduce the value of the acquired product line, business or technology. For example, if we identify an acquisition candidate, we may not be able to successfully negotiate or finance the acquisition on favorable terms. The process of negotiating acquisitions and integrating acquired products, services, technologies, personnel, or businesses might result in significant transaction costs, operating difficulties or unexpected expenditures, and might require significant management attention that would otherwise be available for ongoing development of our business. If we are successful in consummating an acquisition, we may not be able to integrate the acquired product line, business or technology into our existing business and products, and we may not achieve the anticipated benefits of any acquisition. Furthermore, potential acquisitions and investments may divert our management's attention, require considerable cash outlays and require substantial additional expenses that could harm our existing operations and adversely affect our results of operations and financial condition. To complete future acquisitions, we may issue equity securities, incur debt, assume contingent liabilities or incur amortization expenses and write-downs of acquired assets, which could dilute the interests of our shareholders or adversely affect our profitability.

Our inability to protect our intellectual property, or our involvement in damaging and disruptive intellectual property litigation, could adversely affect our business, results of operations and financial condition or result in the loss of use of the product or service.

We attempt to protect our intellectual property rights through a combination of patent, trademark, copyright and trade secret laws, as well as employee and third-party nondisclosure and assignment agreements. Our failure to obtain or maintain adequate protection of our intellectual property rights for any reason could have a material adverse effect on our business, results of operations and financial condition.

We own United States patents and patent applications for some of our products, systems, business methods and technologies. We offer no assurance about the degree of protection which existing or future patents may afford us. Likewise, we offer no assurance that our patent applications will result in issued patents, that our patents will be upheld if challenged, that competitors will not develop similar or superior business methods or products outside the protection of our patents, that competitors will not infringe our patents, or that we will have adequate resources to enforce our patents. Effective protection of our United States patents may be unavailable or limited in jurisdictions outside the United States, as the intellectual property laws of foreign countries sometimes offer less protection or have onerous filing requirements. In addition, because some patent applications are maintained in secrecy for a period of time, we could adopt a technology without knowledge of a pending patent application, and such technology could infringe a third party's patent.

We also rely on unpatented proprietary technology. It is possible that others will independently develop the same or similar technology or otherwise learn of our unpatented technology. To protect our trade secrets and other proprietary information, we generally require employees, consultants, advisors and collaborators to enter into confidentiality agreements. We cannot assure you that these agreements will provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of

such trade secrets, know-how or other proprietary information. If we are unable to maintain the proprietary nature of our technologies, our business could be materially adversely affected.

We rely on our trademarks, trade names, and brand names to distinguish our company and our products and services from our competitors. Some of our trademarks may conflict with trademarks of other companies. Failure to obtain trademark registrations could limit our ability to protect our trademarks and impede our sales and marketing

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efforts. Further, we cannot assure you that competitors will not infringe our trademarks, or that we will have adequate resources to enforce our trademarks.

In addition, third parties may bring infringement and other claims that could be time-consuming and expensive to defend. In addition, parties making infringement and other claims may be able to obtain injunctive or other equitable relief that could effectively block our ability to provide our products, services or business methods and could cause us to pay substantial damages. In the event of a successful claim of infringement, we may need to obtain one or more licenses from third parties, which may not be available at a reasonable cost, or at all. It is possible that our intellectual property rights may not be valid or that we may infringe existing or future proprietary rights of others. Any successful infringement claims could subject us to significant liabilities, require us to seek licenses on unfavorable terms, prevent us from manufacturing or selling products, services and business methods and require us to redesign or, in the case of trademark claims, re-brand our company or products, any of which could have a material adverse effect on our business, results of operations or financial condition.

We may face additional competition if government subsidies and utility incentives for renewable energy increase or if such sources of energy are mandated.

Many states and the federal government have adopted a variety of government subsidies and utility incentives to allow renewable energy sources, such as biofuels, wind and solar energy, to compete with currently less expensive conventional sources of energy, such as fossil fuels. We may face additional competition from providers of renewable energy sources if government subsidies and utility incentives for those sources of energy increase or if such sources of energy are mandated. Additionally, the availability of subsidies and other incentives from utilities or government agencies to install alternative renewable energy sources may negatively impact our customers' desire to purchase our products and services, or may be utilized by our existing or new competitors to develop a competing business model or products or services that may be potentially more attractive to customers than ours, any of which could have a material adverse effect on our results of operations or financial condition.

If our information technology systems fail, or if we experience an interruption in their operation, then our business, results of operations and financial condition could be materially adversely affected.

The efficient operation of our business is dependent on our information technology systems. We rely on those systems generally to manage the day-to-day operation of our business, manage relationships with our customers, maintain our research and development data and maintain our financial and accounting records. We recently replaced our then-existing enterprise resource planning, or ERP, system. Our ERP implementation project has consumed, and may continue to consume, significant business resources, including personnel and financial resources, and is not yet fully complete. The failure of our information technology systems, our inability to successfully maintain, enhance and/or replace our information technology systems, or any compromise of the integrity or security of the data we generate from our information technology systems, could adversely affect our results of operations, disrupt our business and product development and make us unable, or severely limit our ability, to respond to customer demands. In addition, our information technology systems are vulnerable to damage or interruption from:

earthquake, fire, flood and other natural disasters;

employee or other theft;

attacks by computer viruses or hackers;

power outages; and

computer systems, internet, telecommunications or data network failure.

Any interruption of our information technology systems could result in decreased revenue, increased expenses, increased capital expenditures, customer dissatisfaction and potential lawsuits, any of which could have a material adverse effect on our results of operations or financial condition.

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We own and operate an industrial property that we purchased in 2004 and, if any environmental contamination is discovered, we could be responsible for remediation of the property.

We own our manufacturing and distribution facility located at an industrial site. We purchased this property from an adjacent aluminum rolling mill and cookware manufacturing facility in 2004. The company that previously owned this facility has subsequently become insolvent and the facility was sold at a foreclosure sale to a new owner. Accordingly, if environmental contamination is discovered at our facility and we are required to remediate the property, we would likely have no effective recourse against the prior owners. Any such potential remediation could be costly and could adversely affect our results of operations or financial condition.

The cost of compliance with environmental laws and regulations and any related environmental liabilities could adversely affect our results of operations or financial condition.

Our operations are subject to federal, state and local laws and regulations governing, among other things, emissions to air, discharge to water, the remediation of contaminated properties and the generation, handling, storage, transportation, treatment and disposal of, and exposure to, waste and other materials, as well as laws and regulations relating to occupational health and safety. These laws and regulations frequently change, and the violation of these laws or regulations can lead to substantial fines, penalties and other liabilities. The operation of our manufacturing facility entails risks in these areas and there can be no assurance that we will not incur material costs or liabilities in the future which could adversely affect our results of operations or financial condition.

Our retrofitting process frequently involves responsibility for the removal and disposal of components containing hazardous materials.

When we retrofit a customer's facility, we typically assume responsibility for removing and disposing of its existing lighting fixtures. Certain components of these fixtures typically contain trace amounts of mercury and other hazardous materials. Older components may also contain trace amounts of polychlorinated biphenyls, or PCBs. We currently rely on contractors to remove the components containing such hazardous materials at the customer job site. The contractors then arrange for the disposal of such components at a licensed disposal facility. Failure by such contractors to remove or dispose of the components containing these hazardous materials in a safe, effective and lawful manner could give rise to liability for us, or could expose our workers or other persons to these hazardous materials, which could result in claims against us.

We expect our quarterly revenue and operating results to fluctuate. If we fail to meet the expectations of market analysts or investors, the market price of our common stock could decline substantially, and we could become subject to additional securities litigation.

Our quarterly revenue and operating results have fluctuated in the past and will likely vary from quarter to quarter in the future. For example, our first fiscal quarter typically reflects operating results that do not compare favorably with our other fiscal quarters. You should not rely upon the results of one quarter as an indication of our future performance. Our revenue and operating results may fall below the expectations of market analysts or investors in some future quarter or quarters. Our failure to meet these expectations could cause the market price of our common stock to decline substantially. If the price of our common stock is volatile or falls significantly below our current price, we may be the target of additional securities litigation. If we become involved in this type of litigation, regardless of the outcome, we could incur substantial legal costs, management's attention could be diverted from the operation of our business, and our reputation could be damaged, which could adversely affect our business, results of operations or financial condition.

Our net operating loss carryforwards may be subject to limitation and may be subject to a valuation adjustment if we do not maintain our profitability.

As of March 31, 2011, we had aggregate federal net operating loss carryforwards of approximately \$8.1 million and state net operating loss carryforwards of approximately \$4.8 million. 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

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attributable to the period prior to such change. We believe that past issuances and transfers of our stock caused an ownership change in fiscal 2007 that may affect the timing of the use of our net operating loss carryforwards, but we do not believe the ownership change affects the use of the full amount of our net operating loss carryforwards. As a result, our ability to use our 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 us. In fiscal 2008, utilization of our net operating loss carryforwards was limited to \$3.0 million. For fiscal 2009, 2010 and 2011, utilization of our net operating loss carryforwards was not limited. In addition to any limitations imposed by a past ownership change, if we fail to maintain our recent profitability, our net operating loss carryforwards and related deferred tax assets may be subject to a valuation adjustment.

The restatement of our historical financial statements has already consumed, and may continue to consume, a significant amount of our time and resources and may have a material adverse effect on our business and stock price.

As described earlier, we have restated our consolidated financial statements for fiscal 2010 and our first three quarters of fiscal 2010 and fiscal 2011. The restatement process was highly time and resource-intensive and involved substantial attention from management and significant legal and accounting costs. Furthermore, we cannot guarantee that we will have no inquiries from the SEC or the NYSE Amex regarding our restated financial statements or matters relating thereto. Any future inquiries from the SEC as a result of the restatement of our historical financial statements will, regardless of the outcome, likely consume a significant amount of our resources in addition to those resources already consumed in connection with the restatement itself. Further, many companies that have been required to restate their historical financial statements have experienced a decline in stock price and shareholder lawsuits related thereto.

We were unable to timely file this Annual Report on Form 10-K as required by the Securities Exchange Act of 1934 and our continued inability to file these reports on time could result in investors not having access to important information about us and the delisting of our common stock from the NYSE Amex LLC.

Due to the complexities and complications associated with the restatement of our financial statements, we were late in filing this Annual Report on Form 10-K. As a result, we were not in compliance with the continued listing requirements of the NYSE Amex LLC Company Guide and with the applicable SEC rules under the Securities Exchange Act of 1934, as amended. We are required to comply with these rules as a condition to listing on the NYSE Amex LLC. Furthermore, the late filing has resulted in our inability to utilize a short-form registration statement on SEC Form S-3 for a period of twelve months.

Although we have been timely with our other quarterly and annual reports, there can be no assurance that we will be able to timely file such reports in the future. If we are unable to timely file all reports in the future, you may not receive information from us in a timely manner. In addition, our common stock could be delisted from the NYSE Amex LLC. Such events would negatively impact the price of our common stock and, if we are delisted, the liquidity of such stock.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will continue to depend in part on the research and reports that securities or industry analysts publish about us or our business. If these analysts do not continue to provide adequate research coverage or if one or more of the analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our

stock price and trading volume to decline.

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The market price of our common stock could be adversely affected by future sales of our common stock in the public market by our executive officers and directors.

Our executive officers and directors may from time to time sell shares of our common stock in the public market or otherwise. We cannot predict the size or the effect, if any, that future sales of shares of our common stock by our executive officers and directors, or the perception of such sales, would have on the market price of our common stock.

Anti-takeover provisions included in the Wisconsin Business Corporation Law, provisions in our amended and restated articles of incorporation or bylaws and the common share purchase rights that accompany shares of our common stock could delay or prevent a change of control of our company, which could adversely impact the value of our common stock and may prevent or frustrate attempts by our shareholders to replace or remove our current board of directors or management.

A change of control of our company may be discouraged, delayed or prevented by certain provisions of the Wisconsin Business Corporation Law. These provisions generally restrict a broad range of business combinations between a Wisconsin corporation and a shareholder owning 15% or more of our outstanding voting stock. These and other provisions in our amended and restated articles of incorporation, including our staggered board of directors and our ability to issue blank check preferred stock, as well as the provisions of our amended and restated bylaws and Wisconsin law, could make it more difficult for shareholders or potential acquirers to obtain control of our board of directors or initiate actions that are opposed by the then-current board of directors, including to delay or impede a merger, tender offer or proxy contest involving our company.

Each currently outstanding share of our common stock includes, and each newly issued share of our common stock will include, a common share purchase right. The rights are attached to and trade with the shares of common stock and generally are not exercisable. The rights will become exercisable if a person or group acquires, or announces an intention to acquire, 20% or more of our outstanding common stock. The rights have some anti-takeover effects and generally will cause substantial dilution to a person or group that attempts to acquire control of us without conditioning the offer on either redemption of the rights or amendment of the rights to prevent this dilution. The rights could have the effect of delaying, deferring or preventing a change of control.

In addition, our employment arrangements with senior management provide for severance payments and accelerated vesting of benefits, including accelerated vesting of stock options, upon a change of control. These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock, thereby adversely affecting the market price of our common stock. These provisions may also discourage or prevent a change of control or result in a lower price per share paid to our shareholders.

We may fail to comply with the financial and operating covenants in our credit agreement, which could result in our being unable to borrow under the agreement and other negative consequences.

Our credit agreement with JP Morgan Chase Bank, N.A., contains certain financial covenants including minimum net income requirements and requirements that we maintain net worth ratios at prescribed levels. The credit agreement also contains certain restrictions on our ability to make capital or lease expenditures over prescribed limits, incur additional indebtedness, consolidate or merge, guarantee obligations of third parties, make loans or advances, declare or pay any dividend or distribution on our stock, redeem or repurchase shares of our stock, or pledge assets. The credit agreement also contains other customary covenants. As of March 31, 2011, we had no borrowings outstanding under the credit agreement.

There can be no assurance that we will be able to comply with the financial and other covenants in the credit agreement. Our failure to comply with these covenants could cause us to be unable to borrow under the agreement and

may constitute an event of default which, if not cured or waived, could result in the acceleration of the maturity of any indebtedness then outstanding under the agreement, which would require us to pay all amounts outstanding. Due to our cash and cash equivalent position and the fact that we have no borrowings currently outstanding, we do not currently anticipate that our failure to comply with the covenants under the credit agreement would have a significant impact on our ability to meet our financial obligations in the near term. Our failure to comply with such

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covenants, however, would be a disclosable event and may be perceived negatively. Such perception could adversely affect the market price for our common stock and our ability to obtain financing in the future.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

On March 23, 2011, we received a comment letter from the staff of the Division of Corporation Finance of the Securities and Exchange Commission. The comments from the staff were issued with respect to its review of our Form 10-K for the fiscal year ended March 31, 2010 and the Form 10-Q for the quarterly period ended December 31, 2010. In addition to other comments, the staff's letter included comments relating to our determination of the depreciation period for the equipment under both our OTA and PPA agreements, the nature of the arrangements with a financing company under which we have sold OTA agreements and the accounting treatment thereof.

We responded to all of the staff's comments in a letter dated April 4, 2011, and the staff replied with additional comments on the topics described above. We responded to all of the additional comments on May 13, 2011. As of the date of the filing of this Form 10-K, the staff continues to review our latest responses and, therefore, these comments remain unresolved.

ITEM 2. *PROPERTIES*

We own our approximately 266,000 square foot manufacturing and distribution facility in Manitowoc, Wisconsin. We own our approximately 70,000 square foot technology center and corporate headquarters adjacent to our Manitowoc manufacturing and distribution facility. We own our approximately 23,000 square foot sales and operations support facility in Plymouth, Wisconsin. Our Plymouth facility is used by our Orion Engineered Systems segment.

ITEM 3. *LEGAL PROCEEDINGS*

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

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

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

In the fourth quarter of fiscal 2010, we reached a preliminary agreement to settle the class action lawsuits and on January 3, 2011, the court issued an order granting preliminary approval of the settlement. 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, we

contributed \$0.49 million and our insurer contributed \$2.76 million.

Table of Contents**ITEM 4. *REMOVED AND RESERVED*****ITEM 5. *MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES*****Price Range of our Common Stock**

Our common stock has been listed on the NYSE Amex under the symbol OESX since April 6, 2010. Prior to April 6, 2010, our common stock had been listed on The NASDAQ Global Market under the symbol OESX. The following table sets forth the range of high and low sales prices per share as reported on the exchange on which our common stock was then listed for the periods indicated.

	High	Low
Fiscal 2010		
First Quarter	\$ 4.66	\$ 3.25
Second Quarter	\$ 3.92	\$ 2.68
Third Quarter	\$ 4.76	\$ 3.05
Fourth Quarter	\$ 6.35	\$ 4.37
Fiscal 2011		
First Quarter	\$ 5.43	\$ 2.84
Second Quarter	\$ 3.43	\$ 2.10
Third Quarter	\$ 4.14	\$ 3.11
Fourth Quarter	\$ 4.94	\$ 3.21

Shareholders

The closing sales price of our common stock on the NYSE Amex as of July 14, 2011 was \$3.98. As of July 14, 2011, there were approximately 240 record holders of the 22,974,498 outstanding shares of our common stock. The number of record holders does not include shareholders for whom shares are held in a nominee or street name.

Dividend Policy

We have never paid or declared any cash dividends on our common stock. We currently intend to retain all available funds and any future earnings to fund the development and expansion of our business, and we do not anticipate any cash dividends in the foreseeable future. In addition, the terms of our existing credit agreement restrict the payment of cash dividends on our common stock. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, contractual restrictions (including those under our loan agreements) and other factors that our board of directors deems relevant.

Use of Proceeds from our Public Offering

We registered shares of our common stock in connection with our IPO under the Securities Act of 1933, as amended. The Registration Statement on Form S-1 (Reg. No. 333-145569) filed in connection with our IPO was declared effective by the Securities and Exchange Commission on December 18, 2007. The IPO commenced on December 18, 2007 and did not terminate before any securities were sold. As of the date of this filing, the IPO has terminated. Including shares sold pursuant to the exercise by the underwriters of their over-allotment option, 6,849,092 shares of our common stock were registered and sold in the IPO by us and an additional 1,997,062 shares of common stock

were registered and sold by the selling shareholders named in the Registration Statement. All shares were sold at a price to the public of \$13.00 per share.

After deducting the underwriters' commission and the offering expenses, we received net proceeds of approximately \$78.6 million.

We invested the net proceeds from our IPO in bank certificates of deposits and money market accounts. Through March 31, 2011, approximately \$48.8 million of the net proceeds from the IPO had been used for working capital, capital expenditures and general corporate purposes, along with \$29.8 million used to repurchase shares of

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our common stock into treasury. As of the date of this filing, we have not entered into any purchase agreements, understandings or commitments with respect to any acquisitions. Other than for our share repurchases, there has been no material change in the planned use of proceeds from our IPO as described in our final prospectus filed with the Securities and Exchange Commission on December 18, 2007 pursuant to Rule 424(b).

Securities Authorized for Issuance under Equity Compensation Plans

The following table represents shares outstanding under the 2003 Stock Option Plan and the 2004 Equity Incentive Plan as of March 31, 2011.

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuances Under the Equity Compensation Plans(1)
Equity Compensation plans approved by security holders	3,658,768	\$ 3.83	1,577,676
Equity Compensation plans not approved by security holders			
Total	3,658,768	\$ 3.83	1,577,676

(1) Excludes shares reflected in the column titled Number of Securities to be Issued Upon Exercise of Outstanding Options .

Issuer Purchase of Equity Securities

There were no repurchases of our common stock during the three-month period ended March 31, 2011.

Unregistered Sales of Securities

During the fiscal year ended March 31, 2011, we issued 22,060 shares of common stock in connection with the exercise of outstanding warrants at a weighted average exercise price of \$2.50 per share. These warrant exercises resulted in aggregate proceeds to us of approximately \$55,150. These issuances of common stock were not registered under the Securities Act of 1933, as amended, and were exempt from such registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

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The following graph shows the total shareholder return of an investment of \$100 in cash on December 19, 2007, the date we priced our stock pursuant to our IPO, through March 31, 2011, for (1) our common stock, (2) the Russell 2000 Index and (3) The NASDAQ Clean Edge Green Energy Index. Data for the Russell 2000 Index and the NASDAQ Clean Edge Green Energy Index assume reinvestment of dividends. The stock price performance graph should not be deemed filed or incorporated by reference into any other filing made by us under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate the stock performance graph by reference in another filing.

	December 19, 2007	March 31, 2008	March 31, 2009	March 31, 2010	March 31, 2011
Orion Energy Systems, Inc.	\$ 100	\$ 73	\$ 34	\$ 38	\$ 31
Russell 2000 Index	\$ 100	\$ 91	\$ 57	\$ 93	\$ 117
NASDAQ Clean Edge Green Energy Index	\$ 100	\$ 78	\$ 36	\$ 54	\$ 58

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

You should read the following selected consolidated financial data in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this Form 10-K. The consolidated statements of operations data for the fiscal years ended March 31, 2009, 2010 (as restated) and 2011 and the consolidated balance sheet data as of March 31, 2010 (as restated) and 2011 are derived from our audited consolidated financial statements included elsewhere in this Form 10-K, which have been prepared in accordance with generally accepted accounting principles in the United States. As described below in Management's Discussion and Analysis of Financial Condition and Results of Operations and Note B—Restatement of Financial Statements to our consolidated financial statements, our audited consolidated financial statements for our fiscal year ended March 31, 2010 have been restated to reflect our change of accounting for our OTA contracts from operating lease treatment to sales-type capital lease treatment. The consolidated statements of operations data for the years ended March 31, 2007 and 2008, and the consolidated balance sheet data as of March 31, 2007, 2008 and 2009 have been derived from our audited consolidated financial statements which are not included in this Form 10-K. The selected historical consolidated financial data are not necessarily indicative of future results.

	2007	Fiscal Year Ended March 31,			2011
		2008	2009	2010	
		(As Restated)(5)			
		(In thousands, except per share amounts)			
Consolidated statements of operations data:					
Product revenue	\$ 40,201	\$ 65,359	\$ 63,008	\$ 60,882	\$ 86,443
Service revenue	7,982	15,328	9,626	7,191	6,015
Total revenue	48,183	80,687	72,634	68,073	92,458
Cost of product revenue(1)	26,511	42,127	42,235	40,063	58,251
Cost of service revenue	5,976	10,335	6,801	5,266	4,499
Total cost of revenue	32,487	52,462	49,036	45,329	62,750
Gross profit	15,696	28,225	23,598	22,744	29,708
General and administrative expenses(1)	6,162	10,200	10,451	12,836	11,431
Sales and marketing expenses(1)	6,459	8,832	11,261	12,596	13,740
Research and development expenses(1)	1,078	1,832	1,942	1,891	2,333
Income (loss) from operations	1,997	7,361	(56)	(4,579)	2,204
Interest expense	1,044	1,390	167	256	406
Loss on sale of receivables				561	1,012
Extinguishment of debt				250	
Dividend and interest income	201	1,189	1,661	670	571
Income (loss) before income tax	1,154	7,160	1,438	(4,476)	1,357
Income tax expense (benefit)	225	2,750	927	(1,003)	(243)
Net income (loss)	929 (201)	4,410 (225)	511	(3,473)	1,600

Accretion of redeemable preferred stock and preferred stock dividends(2)					
Conversion of preferred stock(3)	(83)				
Participation rights of preferred stock in undistributed earnings(4)	(205)	(775)			
Net income (loss) attributable to common shareholders	\$ 440	\$ 3,410	\$ 511	\$ (3,473)	\$ 1,600
Net income (loss) per share attributable to common shareholders:					
Basic	\$ 0.05	\$ 0.22	\$ 0.02	\$ (0.16)	\$ 0.07
Diluted	\$ 0.05	\$ 0.19	\$ 0.02	\$ (0.16)	\$ 0.07
Weighted-average shares outstanding:					
Basic	9,080	15,548	25,352	21,844	22,678
Diluted	16,433	23,454	27,445	21,844	23,198

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	2007	2008	As of March 31, 2009 (As Restated)(5) (In thousands)	2010	2011
Consolidated balance sheet data:					
Cash and cash equivalents	\$ 285	\$ 78,312	\$ 36,163	\$ 23,364	\$ 11,560
Short-term investments		2,404	6,490	1,000	1,011
Total assets	33,583	130,702	103,722	104,578	114,990
Long-term debt, less current maturities	10,603	4,473	3,647	3,156	4,225
Temporary equity (Series C convertible redeemable preferred stock)	4,953				
Series B convertible preferred stock	5,959				
Shareholder notes receivable	(2,128)				(193)
Shareholders' equity	\$ 9,355	\$ 113,190	\$ 88,695	\$ 88,387	\$ 92,387

- (1) Includes stock-based compensation expense recognized under Financial Accounting Standards Board Accounting Standards Codification Topic 718, or ASC Topic 718, as follows:

	Fiscal Year Ended March 31, 2009 2010 2011 (In thousands)		
Cost of product revenue	\$ 269	\$ 222	\$ 187
General and administrative expenses	676	539	560
Sales and marketing expenses	587	691	523
Research and development expenses	45	39	31
Total stock-based compensation expense	\$ 1,577	\$ 1,491	\$ 1,301

- (2) For fiscal 2007 and 2008, represents the impact attributable to the accretion of accumulated dividends on our Series C preferred stock, plus accumulated dividends on our Series A preferred stock prior to its conversion into common stock on March 31, 2007. The Series C preferred converted automatically into common stock on a one-for-one basis upon the closing of our IPO and our obligation to pay accumulated dividends was extinguished.
- (3) Represents the estimated fair market value of the premium paid to holders of Series A preferred stock upon induced conversion. See Management's Discussion and Analysis of Financial Condition and Results of Operations Revenue and Expense Components Conversion of Preferred Stock.
- (4) For fiscal 2007 and 2008, represents the impact attributable to the accretion of accumulated dividends on our Series C preferred stock, plus accumulated dividends on our Series A preferred stock prior to its conversion into common stock on March 31, 2007. The Series C preferred converted automatically into common stock on a one-for-one basis upon the closing of our IPO and our obligation to pay accumulated dividends was extinguished.
- (5)

For fiscal 2010, represents the impact of an accounting restatement from operating lease treatment to sales-type capital lease treatment for our OTA finance contracts. See Note B Restatement of Financial Statements to our consolidated financial statements for detailed information regarding the impact of the restatement on fiscal 2010.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes, included elsewhere in this Annual Report on Form 10-K. See also Forward-Looking Statements and Item 1A. Risk Factors. The information below has been adjusted to reflect the impact of the restatement of our financial results which is more fully described in Note B Restatement of Financial Statements to the consolidated financial statements contained in this Annual Report on Form 10-K and under the paragraph Restatement of Previously Issued Consolidated Financial Statements below and does not reflect any subsequent information or events occurring after the date of the filing of our reports originally presenting the financial information being restated or update any disclosure herein to reflect the passage of time since the date of such filings.

Restatement of Previously Issued Consolidated Financial Statements

As discussed above under Item 1, Restatement of Previously Issued Consolidated Financial Statements in this Annual Report on Form 10-K, we have restated our previously issued consolidated financial statements and related disclosures for the fiscal year ended March 31, 2010 and each of the quarterly consolidated financial statements for the periods ended June 30, 2009 through December 31, 2010 to account for our transactions under our Orion Throughput Agreements, or OTAs, as sales-type leases instead of as operating leases.

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

Generally, this change in accounting treatment has resulted in:

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

An increase in our revenue of \$2.8 million (3%) and \$2.7 million (4%) for our full fiscal years 2011 and 2010, respectively;

An increase in our net income of \$0.4 million (34%) and earnings per share of \$0.02 (40%) for our full fiscal year 2011 and a reduction in our net loss of \$0.7 million (17%) and loss per share of \$0.03 (16%) for our full fiscal year 2010;

An increase in our current assets of \$3.8 million (6%) and total assets of \$1.0 million (1%) and an increase in our total shareholders' equity of \$0.7 million (1%) for our fiscal year 2010 and an increase in our current assets of \$2.7 million (4%) and total assets of \$0.5 million (1%) and an increase in our total shareholders' equity of \$1.6 million (2%) and a decrease in our total liabilities of \$1.1 million (5%) for our fiscal year 2011; and

An increase in our net cash used in operating activities of \$2.4 million (38%), a decrease in net our cash used in investing activities of \$2.0 million (26%) and an increase in our net cash provided by financing activities of \$0.4 million (18%) for our fiscal year 2011 and an increase in our net cash used in operating activities of \$2.1 million (24%) and a decrease in net our cash used in investing activities of \$2.1 million (40%) for our fiscal year 2010; and

An increase in our revenue, net income and earnings per share for the first three quarters of each of our fiscal years 2011 and 2010 and a decrease in revenue, net income and earnings per share for the last quarter of our fiscal year 2010.

We do not plan to amend our previously filed Annual Report on Form 10-K for the fiscal year ended March 31, 2010 due to the restatement of our previously issued consolidated financial statements and related disclosures for the fiscal year ended March 31, 2010 contained herein. However, we plan to amend our Quarterly Reports on Form 10-Q for the periods ended June 30, 2009 through December 31, 2010 to reflect the restatements described in this Annual Report on Form 10-K. As a result of the restatement, the financial statements and related financial statement information contained in those reports should no longer be relied upon. Throughout this Annual Report

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

Overview

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

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

We have sold and installed more than 2,056,000 of our HIF lighting systems in over 6,800 facilities from December 1, 2001 through March 31, 2011. 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 fiscal years which ended on March 31, 2009, 2010 and 2011, fiscal 2009, fiscal 2010 and fiscal 2011, respectively. Our fiscal first quarter ends on June 30, our fiscal second quarter ends on September 30, our fiscal third quarter ends on December 31 and our fiscal fourth quarter ends on March 31.

Because of the recessed state of the global economy, especially as it impacted capital equipment manufacturers, our results for the first half of fiscal 2011 continued to be impacted by lengthened customer sales cycles and sluggish customer capital spending. During the second half of fiscal 2011, capital equipment purchases were slightly improved and we continue to remain optimistic regarding customer behaviors heading into 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.

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 back 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 within the State of Wisconsin passed earlier this fiscal year that recognized our solar Apollo light pipe as a renewable product offering and qualified it for incentives currently offered to other renewable technologies.

In August 2009, we created Orion Engineered Systems, a new operating division which has been offering our customers additional alternative renewable energy systems. In fiscal 2010, we sold and installed three solar

photovoltaic, or PV, electricity generating projects, completing our test analysis on two of the three in the fiscal 2010 third quarter, and executed our first cash sale and our first Power Purchase Agreement, or PPA, as a result of the successful testing of these systems. We completed the installation and customer acceptance of the third system, a cash sale, during our fiscal 2011 first quarter. During our fiscal 2011 second quarter, we received an \$8.2 million cash order for a solar PV generating system for which we recognized \$6.6 million of revenue in fiscal 2011.

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Additionally, Orion Engineered Systems is responsible for our project management activities and related service revenues for both HIF lighting and renewable technology projects.

During our fiscal 2011 third quarter, revenue from our Orion Engineered Systems group exceeded the quantitative threshold for GAAP segment accounting. We now report our Energy Management and Engineered Systems groups as separate segments. Our Energy Management division develops, manufactures 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 and provides technical services for the Company's sale of HIF lighting systems and energy management 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, financing program. Our OTA financing program provides for our customer's purchase of our energy management systems without an up-front capital outlay. The OTA is structured as a supply agreement in which we receive monthly rental payments over the life of the contract, typically 12 months, with an annual renewable agreement with a maximum term between two and five years. 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 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 PPAs 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 our partner network and through wholesale sales to electrical contractors and value-added resellers. We currently generate the substantial majority of our revenue from sales of HIF lighting systems and related services to commercial and industrial customers. While our services include comprehensive site assessment, site field verification, utility incentive and government subsidy management, engineering design, project management, installation and recycling in connection with our retrofit installations, we separately recognize service revenue only for our installation and recycling services. Our service revenues are recognized when services are complete and customer acceptance has been received. In fiscal 2010 and fiscal 2011, we increased our efforts to expand our value-added reseller channels, including through developing a partner standard operating procedural kit, providing our partners with product marketing materials and providing training to channel partners on our sales methodologies. These wholesale channels accounted for approximately 43% of our total revenue volume in fiscal 2010 and increased to 53% of total revenue contributed in fiscal 2011, not taking into consideration our renewable technologies revenue generated through our Orion Engineered Systems division.

Additionally, we offer our OTA sales-type financing program under which we finance the customer's purchase of our energy management systems. The OTA program was established to assist customers who are interested in purchasing our energy management systems but who have capital expenditure budget limitations. Our OTA contracts are capital leases under GAAP and we record revenue at the present value of the future payments at the time customer acceptance of the installed and operating system is complete. Our OTA contracts under this sales-type financing are either structured with a fixed term, typically 60 months, and a bargain purchase option at the end of 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 lighting fixtures under our OTA financing program is fixed and is based on the cost of the lighting fixtures and applicable profit margin. Our revenue from agreements entered into under this program is not dependent upon our customers' actual energy savings. Upon completion of the

installation, we may choose to sell the future cash flows and residual rights to the equipment on a non-recourse basis to an unrelated third party finance company in exchange for cash and future payments. We recognize revenue from OTA contracts at the net present value of the future cash flows at the completion date of the installation of the energy management systems and the customers acknowledgement that they system is operating as specified.

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In fiscal 2010, we recognized \$5.5 million of revenue from 85 completed OTA contracts. In fiscal 2011, we recognized \$10.7 million of revenue from 127 completed OTA contracts. In the future, we expect an increase in the volume of OTAs as our customers take advantage of our value proposition without incurring any up-front capital cost.

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 2010, we did not recognize any revenue from completed PPAs. In fiscal 2011, we recognized \$0.4 million of revenue from completed PPAs. As of March 31, 2011, we had signed one customer to two separate PPAs representing future potential discounted revenue streams of \$3.2 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 March 31, 2011 (in thousands):

Fiscal 2012	\$ 432
Fiscal 2013	432
Fiscal 2014	431
Fiscal 2015	431
Fiscal 2016	431
Beyond	998
Total expected future discounted revenue from PPAs	\$ 3,155

Other than for OTA and PPA revenue, 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.

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 36%, 29% and 38% of our total revenue for fiscal 2009, fiscal 2010 and fiscal 2011. No customer accounted for more than 10% of our total revenue in any of fiscal 2009, 2010 or 2011. 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) the number and timing of large retrofit and multi-facility retrofit, or roll-out, projects; (iii) the level of our wholesale sales; (iv) our ability to realize revenue from our services; (v) market conditions; (vi) our execution of our sales process; (vii) our ability to compete in a highly competitive market and our ability to respond successfully to market competition; (viii) the selling price of our products and services; (ix) changes in capital investment levels by our customers and prospects; and

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(x) 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.

Contracted Revenue. Although *Contracted Revenue* is not a term recognized under GAAP, since the volume of our OTA and PPA business is expected to continue to increase and because our OTA revenues are not recognized until project completion occurs and due to the long-term operating lease treatment of our PPA projects, we believe *Contracted Revenue* provides our management and investors with an informative measure of our relative order activity for any particular period. We define *Contracted Revenue* as the total contractual value of all firm purchase orders received for our products and services and the expected future potential gross revenue streams, including all renewal periods, for all OTAs upon the execution of the contract and the discounted value of future potential revenue from energy generation over the life of all PPAs along with the discounted value of revenue for renewable energy credits, or RECs, for as long as the REC programs are currently defined to be in existence with the governing body. For cash *Contracted Revenue*, we generally expect that we will begin to recognize GAAP revenue within 30 days from receipt of purchase order. For OTA *Contracted Revenue*, we generally expect that we will begin to recognize GAAP revenue under the terms of the agreements within 90-120 days from the firm contract date. For PPA *Contracted Revenue*, we generally expect that we will begin to recognize GAAP revenue under the terms of the PPAs within 180 days from the firm contract date. We believe that total *Contracted Revenues* are a key financial metric for evaluating and measuring our performance because the measure is an indicator of our success in our customers adoption and acceptance of our energy products and services as it measures firm contracted revenue value, regardless of the contract's cash or deferred financial structure and the related different GAAP revenue recognition treatment. In fiscal 2009, total *Contracted Revenue* was \$71.6 million, including \$1.5 million of expected gross cash flow streams associated with OTAs. In fiscal 2010, total *Contracted Revenue* was \$73.9 million, which included \$10.0 million of expected potential gross cash flow streams associated with OTAs and \$1.7 million of potential discounted revenue streams from PPAs. In fiscal 2011, total *Contracted Revenue* was \$103.9 million, an increase of 41% compared to fiscal 2010, which included \$14.6 million of expected potential gross cash flow streams associated with OTAs and \$1.9 million of potential discounted revenue streams from PPAs. A reconciliation of our contracted revenues to our GAAP revenues is as follows:

	Fiscal Year Ended March 31, 2010 (As Restated)	Fiscal Year Ended March 31, 2011
Total Contracted Revenues	\$ 73.9	\$ 103.9
Change in cash order backlog(1)	(0.4)	(4.6)
Change in OTA backlog(2)	(1.5)	(0.7)
Contracted Revenue from PPAs(3)	(1.7)	(1.9)
PPA GAAP revenue recognized	0.0	0.4
Other miscellaneous(4)	(2.2)	(4.6)
Revenue - GAAP basis	\$ 68.1	\$ 92.5

- (1) Change in backlog reflects the (increase) or decrease in cash orders at the end of the respective period where product delivery or service performance has not yet occurred. GAAP revenue will be recognized when the performance conditions have been satisfied, typically within 90 days from the end of the period.

- (2) Change in OTA backlog reflects the (increase) or decrease in OTA contracts at the end of the respective period where the project was in implementation. GAAP revenue will be recognized at the net present value of future cash flows upon completion of the installation and the customer acceptance of the technology.
- (3) Contracted Revenue from PPAs is subtracted to reconcile the GAAP revenue as recognition of GAAP revenue will occur in future periods.
- (4) Other miscellaneous includes a reduction from OTA contracted revenues measured at gross future cash flows and GAAP revenue measured at the net present value of future cash flows for completed OTA projects.

Backlog. We define backlog as the total contractual value of all firm orders received for our lighting products and services where delivery of product or completion of services has not yet occurred as of the end of any particular

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reporting period. Such orders must be evidenced by a signed proposal acceptance or purchase order from the customer. Our backlog does not include OTAs, 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 March 31, 2010, we had a backlog of firm purchase orders of approximately \$3.2 million. As of March 31, 2011, we had a backlog of firm purchase orders of approximately \$7.8 million, which included \$6.5 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 and our firm purchase order backlog related to solar PV systems to be recognized within the following two quarters. Principally as a result of 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 national and 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 19%, 26% and 34% of our total cost of revenue in fiscal 2009, fiscal 2010 and fiscal 2011. Our cost of revenue from OTA projects is recorded upon customer acceptance and acknowledgement that the system is operating as specified. Our production labor force is non-union and, as a result, our production labor costs have been relatively stable. We have been expanding our network of qualified third-party installers to realize efficiencies in the installation process. During fiscal 2010 and fiscal 2011, we reduced headcounts and improved production product flow through reengineering of our assembly stations.

Gross Margin. Our gross profit has been, and will continue to be, affected by the relative levels of our total revenue and our total cost of revenue, and as a result, our gross profit may be subject to quarterly variation. Our gross profit as a percentage of total revenue, or gross margin, is affected by a number of factors, including: (i) our level of solar PV sales which generally have substantially lower relative gross margins than our traditional energy management systems; (ii) our mix of large retrofit and multi-facility roll-out projects with national accounts; (iii) the level of our wholesale 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

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external sales commissions and bonuses; (iii) travel, lodging and other out-of-pocket expenses associated with our selling efforts; (iv) marketing programs; (v) pre-sales costs; and (vi) other related overhead.

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

In fiscal 2010, our operating expenses increased as a result of the completion of our new technology center and the related building occupancy costs. During fiscal 2011, we 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 \$1.6 million, \$1.5 million and \$1.3 million of stock-based compensation expense in fiscal 2009, fiscal 2010 and fiscal 2011. As a result of prior option grants, including option grants in fiscal 2011, we expect to recognize an additional \$4.0 million of stock-based compensation over a weighted average period of approximately seven years. These charges have been, and will continue to be, allocated to cost of product revenue, general and administrative expenses, sales and marketing expenses and research and development expenses based on the departments in which the personnel receiving such awards have primary responsibility. A substantial majority of these charges have been, and likely will continue to be, allocated to general and administrative expenses and sales and marketing expenses.

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

Loss on Sale of Receivable. Our loss on sale of receivables consists of losses associated with sales of receivables from OTA contracts to a third party and the discounted value of the long-term payments associated with such sale.

Dividend and Interest Income. Our dividend income consisted of dividends paid on preferred shares that we acquired in July 2006. The terms of these preferred shares provided for annual dividend payments to us of \$0.1 million. We sold the preferred shares back to the issuer in June 2008 and all dividends accrued were paid upon sale. We also report interest income earned from our financed OTA contracts and on our cash and cash equivalents and short term investments. For fiscal 2009, our interest income increased as a result of our investment of the net proceeds from our initial public offering in short-term, interest-bearing, money market funds, bank certificate of deposits and investment-grade securities. For fiscal 2010 and fiscal 2011, our interest income increased as a result of the increasing OTA finance contracts completed and the related interest charged to customers.

Income Taxes. As of March 31, 2011, we had net operating loss carryforwards of approximately \$8.1 million for federal tax purposes and \$4.8 million for state tax purposes. Included in these loss carryforwards were \$5.1 million for federal and \$2.6 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 \$0.8 million and state tax credits of \$0.6 million. A valuation allowance has been set up for the state tax credits due to our 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.

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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. There was no limitation that occurred for fiscal 2010 or fiscal 2011.

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:

	Fiscal Year Ended March 31,							
	2009		2010			2011		
	Amount	% of Revenue	Amount	% of Revenue	% Change (As Restated) (1)	Amount	% of Revenue	% Change
(Dollars in thousands)								
Product revenue	\$ 63,008	86.7%	\$ 60,882	89.4%	(3.4)%	\$ 86,443	93.5%	42.0%
Service revenue	9,626	13.3%	7,191	10.6%	(25.3)%	6,015	6.5%	(16.4)%
Total revenue	72,634	100.0%	68,073	100.0%	(6.3)%	92,458	100.0%	35.8%
Cost of product revenue	42,235	58.1%	40,063	58.9%	(5.1)%	58,251	63.0%	45.4%
Cost of service revenue	6,801	9.4%	5,266	7.7%	(22.6)%	4,499	4.9%	(14.6)%
Total cost of revenue	49,036	67.5%	45,329	66.6%	(7.6)%	62,750	67.9%	38.4%
Gross profit	23,598	32.5%	22,744	33.4%	(3.6)%	29,708	32.1%	30.6%
General and administrative expenses	10,451	14.4%	12,836	18.9%	22.8%	11,431	12.4%	(10.9)%
Sales and marketing expenses	11,261	15.5%	12,596	18.5%	11.9%	13,740	14.9%	9.1%
Research and development expenses	1,942	2.7%	1,891	2.8%	(2.6)%	2,333	2.5%	23.4%
Income (loss) from operations	(56)	(0.1)%	(4,579)	(6.7)%	NM	2,204	2.4%	148.1%
Interest expense	(167)	0.2%	(256)	(0.4)%	(53.3)%	(406)	(0.4)%	58.6%
		%	(561)	(0.8)%	NM	(1,012)	(1.1)%	80.4%

Loss on sale of receivable								
Extinguishment of debt		%	250	0.4%	100.0%		%	(100.0)%
Dividend and interest income	1,661	2.3%	670	1.0%	(59.7)%	571	0.6%	(14.8) %
Income (loss) before income tax	1,438	2.0%	(4,476)	(6.6)%	(411.3)%	1,357	1.5%	130.3%
Income tax expense (benefit)	927	1.3%	(1,003)	(1.5)%	(208.2)%	(243)	(0.2)%	75.8%
Net income (loss)	\$ 511	0.7%	\$ (3,473)	(5.1)%	(779.6)%	\$ 1,600	1.7%	146.1%

NM = Not meaningful

- (1) For fiscal 2010, represents the impact of an accounting change from operating lease treatment to sales-type capital lease treatment for our OTA finance contracts. See Note B Restatement of Financial Statements to our consolidated financial statements for detailed information regarding the impact of the restatement on fiscal 2010.

Consolidated

Fiscal 2011 Compared to Fiscal 2010

Contracted Revenue. Total contracted revenue increased from \$73.9 million for fiscal 2010 (which included \$10.0 million of future gross cash flow streams associated with OTAs and \$1.7 million of future potential revenue streams associated with PPAs) to \$103.9 million for fiscal 2011 (which included \$14.6 million of future gross cash flow streams associated with OTAs and \$1.9 million of future potential revenue streams associated with PPAs), an increase of \$30.0 million, or 41%. We attribute this improvement in contracted revenue to an increase in orders for renewable technologies through our Orion Engineered Systems division and an increase in new customer OTA contracts, along with increased order activity for our integrated lighting systems from an improved economic environment during the second half of fiscal 2011.

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Revenue. Product revenue increased from \$60.9 million for fiscal 2010 to \$86.4 million for fiscal 2011, an increase of \$25.5 million, or 42%. The increase in product revenue was due to \$14.3 million of revenue from cash sales of renewable energy photovoltaic systems, or PV, and increased revenue from the sale of energy goods and management systems through cash sales and OTA contracts. Service revenue decreased from \$7.2 million for fiscal 2010 to \$6.0 million for fiscal 2011, a decrease of \$1.2 million, or 17%. The decrease in service revenue was a result of the continued percentage increase of total revenue to our wholesale channels where services are not provided. We believe that the increase in our OTA revenues, \$10.7 million for fiscal 2011 compared to \$5.5 million for fiscal 2010, has helped to address our customers' capital spending constraints by providing an alternative to the up-front capital requirements of a cash purchase. Accordingly, we believe that our OTA financed business will continue to increase during fiscal 2012, accounting for approximately 15 to 20% of our anticipated total revenue.

Cost of Revenue and Gross Margin. Product cost of product revenue increased from \$40.1 million for fiscal 2010 to \$58.3 million for fiscal 2011, an increase of \$18.2 million, or 45%. Cost of service revenue decreased from \$5.3 million for fiscal 2010 to \$4.5 million for fiscal 2011, a decrease of \$0.8 million, or 15%. Total gross margins declined to 32.1% for fiscal 2011 from 33.4% for fiscal 2010. The decrease in total gross margin in fiscal 2011 was due to the higher mix of renewables revenue with gross margins of 20.2%. Gross margins from the sale of our HIF energy management systems were 34.4% for fiscal 2011. The negative impact from the product mix shift was partially offset by cost containment efforts through the reduction of direct and indirect headcounts, improved production efficiencies resulting from the reengineering of our assembly process, negotiated price decreases on raw materials and reductions in discretionary spending.

Operating Expenses

General and Administrative. Our general and administrative expenses decreased from \$12.8 million for fiscal 2010 to \$11.4 million for fiscal 2011, a decrease of \$1.4 million, or 11%. The decrease was a result of \$0.5 million in reduced compensation costs resulting from headcount reductions and reduced severance payments, a \$0.3 million reduction in bad debt expense from the prior year, a \$0.2 million decrease in legal expenses, a \$0.2 million decrease in consulting and auditing services and \$0.2 million in discretionary spending reductions.

Sales and Marketing. Our sales and marketing expenses increased from \$12.6 million for fiscal 2010 to \$13.7 million for fiscal 2011, an increase of \$1.1 million, or 9%. The increase was a result \$0.5 million in increased travel costs for customer site visits, a \$0.2 million increase in compensation costs related to headcount additions during the year, a \$0.2 million in business development expenses related to our efforts to expand our partner channels, a \$0.1 million increase for advertising and marketing expenses and \$0.1 million for additional technology costs.

Research and Development. Our research and development expenses increased from \$1.9 million for fiscal 2010 to \$2.3 million for fiscal 2011, an increase of \$0.4 million, or 21%. The increase in expense for fiscal 2011 was due to increased spending on the development of new product offerings, including our new exterior lighting and our LED product initiatives. We also incurred expenses improving our existing energy management control solutions, including our recent improvements to our dynamic control devices.

Interest Expense. Our interest expense increased from \$0.3 million for fiscal 2010 to \$0.4 million for fiscal 2011, an increase of \$0.1 million, or 33%. The increase in interest expense for fiscal 2011 was due to additional debt funding completed during fiscal 2011 for the purpose of financing our OTA projects. For fiscal 2010 and fiscal 2011, we capitalized \$21,000 and \$0 of interest for construction in progress, respectively.

Loss on sale of receivables. Our loss from the sale of receivables from our OTA contracts increased from \$0.6 million for fiscal 2010 to \$1.0 million for fiscal 2011, an increase of \$0.4 million, or 67%.

Dividend and Interest Income. Our interest income decreased from \$0.7 million for fiscal 2010 to \$0.6 million for fiscal 2011, a decrease of \$0.1 million, or 14%. Interest income earned from customer financed programs was \$0.5 million in fiscal 2011 compared to \$0.4 million in fiscal 2010. Interest income related to investments in fiscal 2011 decreased by \$0.2 million as a result of less cash invested and a decrease in interest rates on our short-term investments.

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Income Taxes. Our income tax benefit decreased from a benefit of \$1.0 million for fiscal year 2010 to a benefit of \$0.2 million for fiscal 2011. Our effective income tax rate for the fiscal year 2010 was a benefit rate of 22.4%, compared to a benefit rate of 17.9% for the fiscal year 2011. During the fourth quarter of fiscal 2011, we converted almost all of our existing incentive stock options, or ISOs, to non-qualified stock options, or NQSOs. This conversion was applied retrospectively allowing us to benefit from \$0.6 million of income tax expense related to non-deductible ISO stock compensation expense that was previously deferred for income tax purposes. The conversion reduced our effective tax rate for the full fiscal year to a benefit rate of 17.9% from a pre-conversion income tax expense rate of 27.2%. The conversion of ISOs to NQSOs will greatly reduce the effective tax rate volatility that we have historically experienced at nominal pre-tax earnings levels. The change in tax rate versus the prior fiscal year is due to the difference between taxable losses during fiscal 2010 and the related impact of the non-deductible stock compensation expense and taxable income during fiscal 2011, along with the impact of federal credits available to us.

Fiscal 2010 Compared to Fiscal 2009

Contracted Revenue. Total contracted revenue increased from \$71.6 million, which included \$1.5 million of future gross cash flow streams associated with OTA contracts, for fiscal 2009 to \$73.9 million, which included \$10.0 million of future gross cash flow streams associated with OTA contracts and \$1.7 million of discounted revenue streams from PPA contracts, for fiscal 2010, an increase of \$2.3 million or 3%.

Revenue. Product revenue decreased from \$63.0 million for fiscal 2009 to \$60.9 million for fiscal 2010, a decrease of \$2.1 million or 3%. The decrease was a result of decreased sales of our HIF lighting systems. Service revenue decreased from \$9.6 million for fiscal 2009 to \$7.2 million for fiscal 2010, a decrease of \$2.4 million, or 25%. The decrease in service revenue was a result of the decreased sales of our HIF lighting systems and the continued percentage increase of total revenues to our wholesale channels where services are not provided. Our fiscal 2010 revenues continued to be impacted by a general conservatism in the marketplace concerning capital spending and purchase decisions due to continuing adverse economic and credit market conditions. In the second half of fiscal 2010, we realized a slight improvement in our order volumes in relation to the first half of our fiscal 2010.

Cost of Revenue and Gross Margin. Our cost of product revenue decreased from \$42.2 million for fiscal 2009 to \$40.1 million for fiscal 2010, a decrease of \$2.1 million, or 5%. Our cost of service revenue decreased from \$6.8 million for fiscal 2009 to \$5.3 million for fiscal 2010, a decrease of \$1.5 million, or 23%. Total gross margin increased from 32.5% for fiscal 2009 to 33.4% for fiscal 2010. During fiscal 2010, we maintained improvements in our product gross margins, in spite of the volume decline, resulting from our efforts to reengineer our assembly processes, including the implementation of cell manufacturing stations, a reduction in headcount and a reduction in work hours, and reductions in discretionary spending and premium costs, like overtime.

Operating Expenses

General and Administrative. Our general and administrative expenses increased from \$10.5 million for fiscal 2009 to \$12.8 million for fiscal 2010, an increase of \$2.3 million or 23%. The increase was a result of : (i) \$1.2 million increase for occupancy costs related to the completion of our new technology center, including approximately \$0.1 million for one-time start-up charges; (ii) \$0.7 million for legal costs related to the defense and preliminary settlement of our securities class action litigation; (iii) \$0.6 million in severance compensation costs and headcount additions related to staff support in information technology and executive support staff in human resources and administrative functions; (iv) \$0.3 million in costs related to the write down of a long-term note receivable and bad debt charges on aged accounts receivable; and (v) \$0.4 million as a result of a one-time gain on asset disposal in the fiscal 2009 that did not recur in fiscal 2010. These cost increases were partially offset by \$0.9 million in decreased compensation costs resulting from headcount reductions and other discretionary spending reductions.

Sales and Marketing. Our sales and marketing expenses increased from \$11.2 million for fiscal 2009 to \$12.6 million for fiscal 2010, an increase of \$1.4 million, or 12%. The increase was a result of compensation and benefit costs for additional sales and marketing personnel. We increased our sales and marketing headcount to

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further develop opportunities for our exterior lighting products within the utility and governmental markets, expanded sales and sales support personnel dedicated to our in-market sales programs and added technical expertise for our wireless controls product lines and our renewable technology initiatives.

Research and Development. Our research and development expenses were substantially unchanged in fiscal 2010 from fiscal 2009, at approximately \$1.9 million. Expenses incurred in fiscal 2010 related to compensation costs for the development and support of new products, depreciation expenses for lab and research equipment and testing costs related to our new wireless controls, exterior lighting and LED product initiatives.

Interest Expense. Our interest expense increased from \$0.2 million in fiscal 2009 to \$0.3 million in fiscal 2010, an increase of \$0.1 million, or 50%. The increase in interest expense was due to the elimination of capitalized interest resulting from the completion of our corporate technology center. For fiscal 2009 and fiscal 2010, we capitalized \$215,000 and \$21,000 of interest for construction in progress, respectively.

Loss on sale of receivables. Our loss from the sale of receivables from our OTA contracts increased from \$0 for fiscal 2009 to \$0.6 million for fiscal 2010.

Extinguishment of Debt. In fiscal 2010, \$250,000 of debt under equipment loans from our local government was forgiven related to our creation and retention of certain types and numbers of jobs at our manufacturing facility.

Dividend and Interest Income. Our dividend and interest income decreased from fiscal 2009 to fiscal 2010 as a result of declining market interest rates and the reduction in our cash balances year over year due to cash used to finance our OTA program and our investment in wireless control inventory components.

Income Taxes. Our income tax expense decreased in fiscal 2010 from fiscal 2009 due to the reduction in our taxable income. Our effective income tax rate for fiscal 2009 was 64.5% compared to a benefit rate of (22.4)% for fiscal 2010. The change in our effective rate was due to a reduction of benefits for non-deductible stock compensation expense from prior ISO grants and the impact of an increase in our state valuation allowance reserve.

Energy Management Segment

The following table summarizes the Energy Management segment operating results:

	For the Year Ended March 31,	
	2010	2011
	(Dollars in thousands)	
Revenues	\$ 59,649	\$ 71,866
Operating income	1,203	5,754
Operating Margin	2.0%	8.0%

Energy Management segment revenue increased from \$59.6 million for fiscal 2010 to \$71.9 million for fiscal 2011, an increase of \$12.3 million, or 21%. The increase was due to increased sales of our HIF lighting systems to our national account and wholesale customers, increased revenue from a greater number of OTA contracts completed and increased revenue from new product offerings, including exterior lighting, dynamic wireless controls and LED fixtures.

Energy Management segment operating income increased from \$1.2 million for fiscal 2010 to \$5.8 million for fiscal 2011, an increase of \$4.6 million, or 383%. The increase in operating income for fiscal 2011 was a result of the increased revenue and improved gross margins on HIF lighting product sales due to cost reduction efforts to reduce manufacturing labor costs and plant reengineering of our manufacturing processes to improve production efficiencies.

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The following table summarizes the Engineered Systems segment operating results:

	For the Year Ended March 31,	
	2010	2011
	(Dollars in thousands)	
Revenues	\$ 8,423	\$ 20,592
Operating (loss) income	(471)	1,371
Operating Margin	(5.6)%	6.7%

Engineered Systems segment revenue increased from \$8.4 million for fiscal 2010 to \$20.6 million for fiscal 2011, an increase of \$12.2 million, or 144%. The increase was due to an increase in the number of and the relative size of the renewable PV systems sold during fiscal 2011 versus the prior year. During the first half of fiscal 2010, our Engineered Systems segment efforts were primarily focused on research of renewable technology products and understanding if there was a market for these technologies within our customer base.

Engineered Systems segment operating income increased from a \$0.5 million loss for fiscal 2010 to \$1.4 million of operating income for fiscal 2011, an increase of \$1.9 million, an increase of 391%. The increase in operating income for fiscal 2011 was a result of the increased revenue volume and resulting contribution margin from sales of solar renewable energy systems.

Corporate and Other

Corporate and other operating loss decreased from \$5.3 million for fiscal 2010 to \$4.9 million for fiscal 2011, a decrease of \$0.4 million, or 8%. The decrease in operating loss was primarily attributable to a reduction in legal expenses incurred.

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The following tables present our unaudited quarterly results of operations for the last eight fiscal quarters in the period ended March 31, 2011 (i) on an absolute dollar basis (in thousands) and (ii) as a percentage of total revenue for the applicable fiscal quarter. You should read the following tables in conjunction with our consolidated financial statements and related notes contained elsewhere in this Form 10-K. As described above in management's Discussion and Analysis of Financial Condition and Results of Operations and Note B—Restatement of Financial Statements to our consolidated financial statements, our audited consolidated financial statements for our fiscal year ended March 31, 2010 have been restated to reflect our change of accounting for our OTA contracts from operating lease treatment to sales-type capital lease treatment. In our opinion, the unaudited financial information presented below has been prepared on the same basis as our audited consolidated financial statements, and includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of our operating results for the fiscal quarters presented. We have restated each of the quarterly consolidated financial statements for the periods ended June 30, 2009 through December 31, 2010 to reclassify our transactions under our OTAs as sales-type leases instead of as operating leases. Operating results for any fiscal quarter are not necessarily indicative of the results for any future fiscal quarters or for a full fiscal year.

For the Three Months Ended

	June 30, 2009 (As Restated)	Sept. 30, 2009 (As Restated)	Dec. 31, 2009 (As Restated)	Mar. 31, 2010 (As Restated)	June 30, 2010 (As Restated)	Sept. 30, 2010 (As Restated)	Dec. 31, 2010 (As Restated)	Mar. 31, 2011
	(In thousands, unaudited)							
Product revenue	\$ 11,924	\$ 15,219	\$ 18,737	\$ 15,002	\$ 15,758	\$ 15,086	\$ 28,048	\$ 27,551
Service revenue	1,951	856	2,090	2,294	1,219	767	2,008	2,021
Total revenue	13,875	16,075	20,827	17,296	16,977	15,853	30,056	29,572
Cost of product revenue	8,748	10,122	11,860	9,333	10,307	9,745	19,228	18,971
Cost of service revenue	1,255	632	1,568	1,811	917	498	1,674	1,410
Total cost of revenue	10,003	10,754	13,428	11,144	11,224	10,243	20,902	20,381
Gross profit	3,872	5,321	7,399	6,152	5,753	5,610	9,154	9,191
General and administrative expenses	3,163	3,143	3,051	3,479	2,945	2,988	2,709	2,789
Sales and marketing expenses	3,152	2,962	3,063	3,420	3,590	3,299	3,235	3,616
Research and development expenses	419	491	404	576	610	573	614	536
	(2,862)	(1,275)	881	(1,323)	(1,392)	(1,250)	2,596	2,250

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Income (loss) from operations								
Interest expense	54	73	66	63	70	55	98	183
Loss on sale of asset				561				1,012
Extinguishment of debt				250				
Dividend and interest income	236	147	157	130	93	153	189	136
Income (loss) before income tax	(2,682)	(1,201)	972	(1,567)	(1,369)	(1,152)	2,687	1,191
Income tax expense (benefit)	(600)	(269)	218	(352)	(833)	(1,692)	1,931	351
Net income (loss)	\$ (2,080)	\$ (932)	\$ 754	\$ (1,215)	\$ (536)	\$ 540	\$ 756	\$ 840

	June 30, 2009 (As Restated)	Sept. 30, 2009 (As Restated)	Dec. 31, 2009 (As Restated)	Mar. 31, 2010 (As Restated)	June 30, 2010 (As Restated)	Sept. 30, 2010 (As Restated)	Dec. 31, 2010 (As Restated)	Mar. 31, 2011
Product revenue	85.9%	94.7%	90.0%	86.7%	92.8%	95.2%	93.3%	93.2%
Service revenue	14.1%	5.3%	10.0%	13.3%	7.2%	4.8%	6.7%	6.8%
Total revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100%
Cost of product revenue	63.0%	63.0%	56.9%	54.0%	60.7%	61.5%	64.0%	64.2%
Cost of service revenue	9.0%	3.9%	7.5%	10.4%	5.4%	3.1%	5.6%	4.8%
Total cost of revenue	72.0%	66.9%	64.5%	64.4%	66.1%	64.6%	69.5%	68.9%
Gross margin	28.0%	33.1%	35.5%	35.6%	33.9%	35.4%	30.5%	31.1%
General and administrative expenses	22.8%	19.6%	14.6%	20.1%	17.3%	18.8%	9.0%	9.4%
Sales and marketing expenses	22.8%	18.4%	14.7%	19.8%	21.1%	20.8%	10.8%	12.2%
Research and development expenses	3.0%	3.1%	1.9%	3.3%	3.6%	3.6%	2.0%	1.8%
	(20.6)%	(7.9)%	4.2%	(7.6) %	(8.2)%	(7.9) %	8.6%	7.6%

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Income (loss) from operations								
Interest expense	0.4%	0.5%	0.3%	0.4%	0.4%	0.3%	0.3%	0.6%
Loss on sale of asset	%	%	%	(3.2)%	%	%	%	(3.4)%
Extinguishment of debt	%	%	%	1.4%	%	%	%	%
Dividend and interest income	1.7%	0.9%	0.8%	0.7%	0.5%	0.9%	0.6%	0.4%
Income (loss) before income tax	(19.3)%	(7.5)%	4.7%	(9.1)%	(8.1)%	(7.3)%	8.9%	4.0%
Income tax expense (benefit)	(4.3)%	(1.7)%	1.0%	(2.1)%	(4.9)%	(10.7)%	6.4%	1.2%
Net income (loss)	(15.0)%	(5.8)%	3.7%	(7.0)%	(3.2)%	3.4%	2.5%	2.8%

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Our total revenue can fluctuate from quarter to quarter depending on the purchasing decisions of our customers and our overall level of sales activity. Historically, our customers have tended to increase their purchases near the beginning or end of their capital budget cycles, which tend to correspond to the beginning or end of the calendar year. As a result, we have in the past experienced lower relative total revenue in our fiscal first and second quarters and higher relative total revenue in our fiscal third quarter. These seasonal fluctuations have been largely offset by our customers' decisions to initiate multiple facility roll-outs. We expect that there may be future variations in our quarterly total revenue depending on our level of national account roll-out projects and wholesale sales. Our results for any particular fiscal quarter may not be indicative of results for other fiscal quarters or an entire fiscal year.

Liquidity and Capital Resources

Overview

On December 24, 2007, we completed our initial public offering, or IPO. Net proceeds to us from our IPO were approximately \$78.6 million in net proceeds (net of underwriting discounts and commissions and offering expenses). We invested the net proceeds from our IPO in money market funds and short-term government agency bonds, subsequently using approximately \$48.8 million of the net proceeds for working capital, capital expenditures and general corporate purposes, along with \$29.8 million used to repurchase shares of our common stock into treasury.

We had approximately \$11.6 million in cash and cash equivalents and \$1.0 million in short-term investments as of March 31, 2011 compared to \$23.4 million in cash and cash equivalents and \$1.0 million in short-term investments as of March 31, 2010. Our cash equivalents are invested in money market accounts and bank certificates of deposits 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 June 2011 and a yield of 0.5%.

During fiscal 2010 and fiscal 2011, we funded \$2.7 million and \$2.3 million, respectively, for our investment in company owned equipment under our PPA projects. We do not expect to use our own cash in the future to fund PPA project opportunities and are investigating financing options with third parties to fund future solar projects. We expect that our volume of OTA financed projects will continue to increase in the future and that the cash required to fund these projects will continue to increase as well. We also recognize that our ability to increase revenues through these finance programs will continue to deplete our cash resources if we do not secure additional funding sources. We are exploring potential financing alternatives to support the expected growth of our OTA contract volumes. In February 2011, we reengaged a third party finance company to underwrite and, upon successful completion and customer acceptance, purchase outright certain OTA customer contracts. This financing commitment will allow us to provide immediate capital for completed OTA projects. In fiscal 2011, we completed two separate debt financing transactions with a regional bank to provide funding for a pool of individual OTA contracts that we hold the contracts for. We believe that having multiple funding sources for our internally held OTA contracts will greatly reduce the cash strain created by funding these contracts ourselves.

The return to a recessionary state of the global economy could potentially have negative effects on our near-term liquidity and capital resources, including slower collections of receivables, delays of existing order deliveries and postponements of incoming orders. However, 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 the next 12 months. As of March 31, 2011, we were in a strong financial position with \$12.6 million in cash and short-term investments. For that reason, we do not anticipate drawing on our revolving line of credit nor do we expect to use significant amounts of our cash balances for operating activities during fiscal 2012. Our future working capital requirements thereafter will depend on many factors, including our rate of revenue, our rate of OTA growth and our ability to obtain funding for our OTA contracts, our rate of investment into our financed sales programs, our introduction of new products and services and enhancements to our existing energy

management system, the timing and extent of expansions of our sales force and other administrative and production personnel, the timing and extent of advertising and promotional campaigns, and our research and development activities.

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The following table summarizes our cash flows for our fiscal 2009, fiscal 2010 and fiscal 2011:

	Fiscal Year Ended March 31,		
	2010		
	2009	(As Restated)	2011
	(In thousands)		
Operating activities	\$ 3,239	\$ (10,718)	\$ (8,737)
Investing activities	(17,873)	(3,070)	(5,702)
Financing activities	(27,515)	989	2,635
Decrease in cash and cash equivalents	\$ (42,149)	\$ (12,799)	\$ (11,804)

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

Cash used in operating activities for fiscal 2011 was \$8.7 million and consisted of net cash of \$14.8 million used for working capital purposes offset by net income of \$1.6 million and adjusted for non-cash expense items of \$4.5 million. Cash used for working capital consisted of an increase of \$11.7 million in accounts receivable due to the increase in revenue and a \$3.5 million increase in inventory for purchases described in the section below titled

Working Capital. Cash provided by working capital included a \$4.7 million increase in accounts payable related to payment terms on inventory purchases during the fiscal 2011 fourth quarter.

Cash used in operating activities for fiscal 2010 was \$10.7 million and consisted of net cash of \$11.2 million used for working capital purposes and a net loss of \$3.5 million, offset by non-cash expense items of \$4.0 million. Cash used for working capital purposes consisted of an increase of \$4.6 million in trade receivables and a \$6.4 million increase in inventories resulting from purchases of ballast and wireless component inventories. We increased our level of inventory for these components due to longer lead times and supply availability concerns for inventory components shipping out of Asia. These amounts were offset by an increase of \$1.8 million in accrued expenses resulting from increases in accrued severance costs, increases in accrued legal expenses and increased deposit payments for OTA contracts.

Cash provided by operating activities for fiscal 2009 was \$3.2 million and consisted of net cash of \$1.1 million used for working capital purposes and net income adjusted non-cash expenses of \$4.3 million. The \$4.6 million increase in cash provided from operating activities in fiscal 2009 compared to fiscal 2008 was primarily due to improved collections of our accounts receivable.

Cash Flows Related to Investing Activities. Cash used in investing activities was \$17.9 million, \$3.1 million and \$5.7 million for fiscal 2009, 2010 and 2011, respectively. In fiscal 2011, we invested a net \$2.3 million in equipment related to our PPA finance programs, \$3.2 million for capital improvements related to our information technology systems, renewable technologies, manufacturing and tooling improvements and facility investments and \$0.2 million for patent investments. In fiscal 2010, we invested \$5.6 million in capital expenditures related to the completion of our new corporate technology center, operating and customer relationship software systems, a photovoltaic solar generated power system and for purchases of manufacturing equipment and tooling. Additionally, we invested

\$2.7 million in equipment related to our PPA finance programs and \$0.3 million for the development of our intellectual property. We generated cash flow from investing activities of \$5.5 million from the sale of short-term investments. In fiscal 2009, we invested \$13.1 million in capital expenditures in our new corporate technology center, operating software systems, improvements in our manufacturing facility and for purchases of equipment and tooling. We also invested \$4.1 million in short term certificate of deposits and spent \$1.0 million for the purchase of intellectual property rights from an executive, partially offset by net proceeds from the sale of an investment of \$0.5 million.

Cash Flows Related to Financing Activities. Cash provided by financing activities was \$2.6 million for fiscal 2011. This included \$3.7 million in new debt borrowings to fund OTA and capital projects, \$0.5 million received from stock option and warrant exercises and \$0.5 million for excess tax benefits from stock based compensation. Cash flows used in financing activities included \$2.0 million for repayment of long-term debt and \$0.1 million for costs related to our new credit agreement.

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Cash provided by financing activities was \$1.0 million for fiscal 2010. This included proceeds of \$2.0 million received from stock option and warrant exercises, \$0.2 million for proceeds from long-term debt and \$0.1 million for excess tax benefits from stock based compensation. Cash used in financing activities included \$0.8 million for debt principal payments and \$0.5 million used for common share repurchases.

Cash used in financing activities was \$27.5 million for fiscal 2009. The use of cash was due to \$29.3 million used for common share repurchases and \$0.9 million of debt principal payments, offset by \$1.5 million in proceeds from the exercise of common stock options and warrants and \$1.1 million for the impact of deferred taxes on our stock based compensation.

Working Capital

Our net working capital as of March 31, 2011, was \$56.9 million, consisting of \$73.1 million in current assets and \$16.2 million in current liabilities. Our net working capital as of March 31, 2010 was \$59.2 million, consisting of \$71.7 million in current assets and \$12.5 million in current liabilities. Our accounts receivables increased from our prior fiscal year end by \$11.7 million as a result of our increased revenues during the second half of fiscal year 2011, as well as an increase in finance receivables related to OTA contracts. Our inventories increased from our fiscal 2010 year end by \$3.5 million due to an increase in the level of our wireless control inventories of \$1.4 million based upon our wireless control initiatives and a \$2.6 million increase in ballast component inventories to avoid potential supply disruptions. The vast majority of our wireless components are assembled overseas and require longer delivery lead times. In addition, overseas suppliers require deposit payments at time of purchase order.

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 components market and believe that our current inventory levels are sufficient to protect us against the risk of being unable to deliver product as specified by our customers' requirements. We 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 also remain concerned that the recent tragic events in Japan could lead to additional supply chain disruptions of these important electronic components.

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

On June 30, 2010, we entered into a new credit agreement, which we refer to herein as the Credit Agreement, with JP Morgan Chase Bank, N.A., whom we refer to herein as JP Morgan. The Credit Agreement replaced our former credit agreement.

The Credit Agreement provides for a revolving credit facility, which we refer to herein as the Credit Facility, that matures on June 30, 2012. Borrowings under the Credit Facility are limited to (i) \$15.0 million or (ii) during periods in which the outstanding principal balance of outstanding loans under the Credit Facility is greater than \$5.0 million, the lesser of (A) \$15.0 million or (B) the sum of 75% of the outstanding principal balance of certain accounts receivable 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 March 31, 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 Facility as of March 31, 2011. We were in compliance with all of our covenants under the Credit Agreement as of March 31, 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

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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 March 31, 2011.

In addition to our Credit Facility, we also have other existing long-term indebtedness and obligations under various debt instruments, including pursuant to a bank term note, a bank first mortgage, a debenture to a community development organization, a federal block grant loan, two city industrial revolving loans and two notes for funding OTA contracts. As of March 31, 2011, the total amount of principal outstanding on these various obligations was \$5.4 million. These obligations have varying maturity dates between 2012 and 2024 and bear interest at annual rates of between 2.0% and 7.0%. The weighted average annual interest rate of such obligations as of March 31, 2011 was 5.7%. Based on interest rates in effect as of March 31, 2011, we expect that our total debt service payments on such obligations for fiscal 2012, including scheduled principal, lease and interest payments, but excluding any repayment of borrowings on the Credit Facility, will approximate \$1.4 million. All of these obligations are subject to security interests on our assets. Several of these obligations have covenants, such as customary financial and restrictive covenants, including maintenance of a minimum debt service coverage ratio; a minimum current ratio; quarterly rolling net income requirement; limitations on executive compensation and advances; limits on capital expenditures per year; limits on distributions; and restrictions on our ability to make loans, advances, extensions of credit, investments, capital contributions, incur additional indebtedness, create liens, guaranty obligations, merge or consolidate or undergo a change in control. As of March 31, 2011, we were in compliance with all such covenants, as amended.

Capital Spending

Over the past three fiscal years, we have made capital expenditures primarily for general corporate purposes for our corporate headquarters and technology center, production equipment and tooling and for information technology systems. Our capital expenditures totaled \$3.2 million, \$5.6 million, and \$13.1 million in fiscal 2011, 2010 and 2009, respectively. We plan to incur approximately \$2.5 to \$3.0 million in capital expenditures in fiscal 2012, excluding capital to support OTA contracts. 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 expect to finance these capital expenditures primarily through our existing cash, equipment secured loans and leases, to the extent needed, or by using our available capacity under our Credit Facility.

Contractual Obligations

Information regarding our known contractual obligations of the types described below as of March 31, 2011 is set forth in the following table:

Total	Payments Due By Period			More than 5 Years
	Less than 1 Year	1-3 Years	3-5 Years	

(In thousands)

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Bank debt obligations	\$ 5,362	\$ 1,137	\$ 2,168	\$ 1,427	\$ 630
Cash interest payments on debt	1,019	276	292	140	311
Operating lease obligations	9,325	1,748	2,284	1,797	3,496
Purchase order and capital expenditure commitments(1)	14,457	11,595	2,862		
Total	\$ 30,163	\$ 14,756	\$ 7,606	\$ 3,364	\$ 4,437

(1) Reflects non-cancellable purchase commitments in the amount of \$14.4 million for certain inventory items entered into in order to secure better pricing and ensure materials on hand.

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The table of contractual obligations and commitments does not include our unrecognized tax benefits which were \$0.4 million at March 31, 2011. We have a high degree of uncertainty regarding the timing of any adjustments to these unrecognized benefits. Furthermore, we believe that any negative impact from future tax audits would result in a minimal cash liability due to our net operating loss carryforwards.

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 below.

Revenue Recognition. We recognize revenue when the following criteria have been met: there is persuasive evidence of an arrangement; 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. The majority of our revenue is recognized when products are shipped to a customer or when services are completed and acceptance provisions, if any, have been met. In certain of our contracts, we provide multiple deliverables. We record the revenue associated with each element of these arrangements by allocating the total contract revenue to each element based on their relative selling prices. In such circumstances, we use a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (1) vendor-specific objective evidence, or VSOE, of fair value, if available, (2) third-party evidence, or TPE of selling price if VSOE is not available, and (3) best estimate of the selling price if neither VSOE nor TPE is available. We established VSOE of selling price for our HIF lighting and energy management system products using the price charged for a deliverable when sold separately. We determine the selling price for installation and recycling services and for solar renewable product and services using management's best estimate of selling price. We consider external and internal factors including, but not limited to, pricing practices, margin objectives, competition, geographies in which we offer our products and services, internal costs, and the scope and size of projects. Additionally, we offer our OTA sales-type financing program under which we finance the customer's purchase of our energy management systems. Our OTA contracts are sales-type capital leases under GAAP and we record revenue at the net present value of the future payments at the time customer acceptance of the installed and operating system is complete. Our OTA contracts under this sales-type financing are either structured with a fixed term, typically 60 months, and a bargain purchase option at the end of 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 lighting fixtures under our OTA financing program is fixed and is based on the cost of the lighting fixtures and applicable profit margin. Our revenue from agreements entered into under this program is not dependent upon our

customers' actual energy savings. Upon completion of the installation, we may choose to sell the future cash flows and residual rights to the equipment on a non-recourse basis to an unrelated third party finance company in exchange for cash and future payments.

Deferred revenue or deferred costs are recorded for project sales consisting of multiple elements, where the criteria for revenue recognition have not been met. The majority of our deferred revenue relates to investment tax grants received for solar asset projects, advance customer billings or to prepaid services to be provided at

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determined future dates. As of March 31, 2010 and 2011, our deferred revenue was \$0.5 million and \$2.0 million, respectively. Deferred costs on product are recorded as a current asset as project completions occur within a few months. As of March 31, 2010 and 2011, our deferred costs were \$1.0 million and \$0.5 million, respectively.

Inventories. Inventories are stated at the lower of cost or market value and include raw materials, work in process and finished goods. Items are removed from inventory using the first-in, first-out method. Work in process inventories are comprised of raw materials that have been converted into components for final assembly. Inventory amounts include the cost to manufacture the item, such as the cost of raw materials and related freight, labor and other applied overhead costs. We review our inventory for obsolescence and marketability. If the estimated market value, which is based upon assumptions about future demand and market conditions, falls below cost, then the inventory value is reduced to its market value. Our inventory obsolescence reserves at March 31, 2010 and 2011 were \$0.8 million and \$0.8 million.

Allowance for Doubtful Accounts. We perform ongoing evaluations of our customers and continuously monitor collections and payments and estimate an allowance for doubtful accounts based upon the aging of the underlying receivables, our historical experience with write-offs and specific customer collection issues that we have identified. While such credit losses have historically been within our expectations, and we believe appropriate reserves have been established, we may not adequately predict future credit losses. If the financial condition of our customers were to deteriorate and result in an impairment of their ability to make payments, additional allowances might be required which would result in additional general and administrative expense in the period such determination is made. Our allowance for doubtful accounts was \$0.4 million and \$0.4 million at March 31, 2010 and March 31, 2011.

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

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

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

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

As of March 31, 2010 and 2011, our financial assets were measured at fair value employing level 1 inputs.

Stock-Based Compensation. We have historically issued stock options to our employees, executive officers and directors. We adopted the provisions of ASC 718, *Compensation - Stock Compensation*, which requires us to expense the estimated fair value of employee stock options and similar awards based on the fair value of the award on the date of grant. Compensation costs for options granted are recognized in earnings, net of estimated forfeitures, on a straight-line basis over the requisite service period.

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The fair value of each option for financial reporting purposes was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants:

	Fiscal Year Ended March 31,		
	2009	2010	2011
Weighted average expected term	5.7 years	6.6 years	5.7 years
Risk-free interest rate	3.01%	2.68%	2.14%
Expected volatility	60%	60%	60%-74.8%
Expected forfeiture rate	2%	3%	11.4%

The Black-Scholes option-pricing model requires the use of certain assumptions, including fair value, expected term, risk-free interest rate, expected volatility, expected dividends, and expected forfeiture rate to calculate the fair value of stock-based payment awards.

We estimated the expected term of our stock options based on the vesting term of our options and expected exercise behavior.

Our risk-free interest rate was based on the implied yield available on United States treasury zero-coupon issues as of the option grant date with a remaining term approximately equal to the expected life of the option.

For fiscal 2009 and fiscal 2010, we determined volatility based on an analysis of a peer group of public companies due to a limited history of trading of our common stock. For fiscal 2011, we determined volatility based upon the volatility of our common share price as we determined that we now had sufficient information regarding the trading volatility of our common stock.

As required by our 2004 Stock and Incentive Awards Plan, since the closing of our IPO in December 2007, we have solely used the closing sale price of our common shares on the NYSE Amex or the NASDAQ Global Market on the date of grant to establish the exercise price of our stock options.

We recognized stock-based compensation expense under ASC 718 of \$1.6 million for fiscal 2009, \$1.5 million for fiscal 2010 and \$1.3 million for fiscal 2011. As of March 31, 2011, \$4.0 million of total stock option compensation cost was expected to be recognized by us over a weighted average period of 6.6 years. We expect to recognize \$1.3 million of stock-based compensation expense in fiscal 2012 based on our stock options outstanding as of March 31, 2011. This expense will increase further to the extent we have granted, or will grant, additional stock options in the future.

Common Stock Warrants. As of March 31, 2011, warrants were outstanding to purchase a total of 38,980 shares of our common stock at weighted average exercise prices of \$2.25 per share. These warrants were valued using a Black-Scholes option pricing model with the following assumptions: (i) contractual terms of five years; (ii) weighted average risk-free interest rates of 4.35% to 4.62%; (iii) expected volatility ranging between 50% and 60%; and (iv) dividend yields of 0%.

Accounting for Income Taxes. As part of the process of preparing our consolidated financial statements, we are required to determine our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax expenses, together with assessing temporary differences resulting from recognition of items for income tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be

recovered from future taxable income and, to the extent we believe that recovery is not likely, establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must reflect this increase as an expense within the tax provision in our statements of operations.

Our judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against our net deferred tax assets. We continue to monitor the realizability of our deferred tax assets and adjust the valuation allowance accordingly. For fiscal 2011, we determined that a valuation allowance against our net state deferred tax assets was necessary in the amount of \$378,000 due to our state apportioned income and the potential expiration of state tax credits due to the carryforward periods. In making

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this determination, we considered all available positive and negative evidence, including projected future taxable income, tax planning strategies, recent financial performance and ownership changes.

We believe that past issuances and transfers of our stock caused an ownership change in fiscal 2007 that affected the timing of the use of our net operating loss carryforwards, but we do not believe the ownership change affects the use of the full amount of the net operating loss carryforwards. As a result, our ability to use our 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 us.

As of March 31, 2011, we had net operating loss carryforwards of approximately \$8.1 million for federal tax purposes and \$4.8 million for state tax purposes. Included in these loss carryforwards were \$5.1 million for federal and \$2.6 million for state tax expenses that were associated with the exercise of non-qualified 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 first recognize tax benefits from current period stock option expenses against current period income. The remaining current period income is offset by net operating losses under the tax law ordering approach. Under this approach, we will utilize the net operating losses from stock option expenses last.

We also had federal tax credit carryforwards of \$0.8 million and state tax credit carryforwards of \$195,000, which is net of a \$378,000 valuation allowance. Both the net operating losses and tax credit carryforwards will begin to expire in varying amounts between 2014 and 2030. We recognize penalties and interest related to uncertain tax liabilities in income tax expense. Penalties and interest were immaterial as of the date of adoption and are included in unrecognized tax benefits. Due to the existence of net operating loss and credit carryforwards, all years since 2002 are open to examination by tax authorities.

By their nature, tax laws are often subject to interpretation. Further complicating matters is that in those cases where a tax position is open to interpretation, differences of opinion can result in differing conclusions as to the amount of tax benefits to be recognized under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*. ASC 740 utilizes a two-step approach for evaluating tax positions. Recognition (Step 1) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. Measurement (Step 2) is only addressed if Step 1 has been satisfied. Under Step 2, the tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis that is more likely than not to be realized upon ultimate settlement. Consequently, the level of evidence and documentation necessary to support a position prior to being given recognition and measurement within the financial statements is a matter of judgment that depends on all available evidence. As of March 31, 2011, the balance of gross unrecognized tax benefits was approximately \$0.4 million, all of which would reduce our effective tax rate if recognized. We believe that our estimates and judgments discussed herein are reasonable, however, actual results could differ, which could result in gains or losses that could be material.

Recent Accounting Pronouncements

See Note C – Summary of Significant Accounting Policies to our accompanying audited consolidated financial statements for a full description of recent accounting pronouncements including the respective expected dates of adoption and expected effects on results of operations and financial condition.

Item 7A *Quantitative and Qualitative Disclosure About Market Risk*

Market risk is the risk of loss related to changes in market prices, including interest rates, foreign exchange rates and commodity pricing that may adversely impact our consolidated financial position, results of operations or cash flows.

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

Foreign Exchange Risk. We face minimal exposure to adverse movements in foreign currency exchange rates. Our foreign currency losses for all reporting periods have been nominal.

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Interest Rate Risk. Our investments consist primarily of investments in money market funds and certificate of deposits. While the instruments we hold are subject to changes in the financial standing of the issuer of such securities, we do not believe that we are subject to any material risks arising from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices or other market changes that affect market risk sensitive instruments. It is our policy not to enter into interest rate derivative financial instruments. As a result, we do not currently have any significant interest rate exposure.

As of March 31, 2011, \$0.9 million of our \$5.4 million of outstanding debt was at floating interest rates. An increase of 1.0% in the prime rate would result in an increase in our interest expense of approximately \$8,500 per year.

Commodity Price Risk. We are exposed to certain commodity price risks associated with our purchases of raw materials, most significantly our aluminum purchases. We attempt to mitigate commodity price fluctuation for our aluminum through 12- to 24-month forward fixed-price purchase orders and minimum quantity purchase commitments with suppliers. We have currently locked pricing for our aluminum requirements through the first half of fiscal 2012. Additionally, we recycle legacy HID fixtures and recover the salvaged scrap value which we believe provides a raw materials cost hedge as commodity prices change.

Credit Risk. Credit risk refers to the potential for economic loss arising from the failure of our customers to meet their contractual agreements. Our financing program, the Orion Throughput Agreements, or OTA, is an installment based payment plan for our customers. This financing program subjects us to credit risk as poor credit decisions or customer defaults could result in increases to our allowances for doubtful accounts and/or write-offs of accounts receivable and could have material adverse effects on our results of operations and financial condition. These agreements and their increased use will require us to make significant investments of capital, whether we finance them internally or raise additional debt financing and/or equity capital to support the expansion. Our ability to accurately measure and manage credit risk will be integral to the profitability of our business and our capital adequacy.

ITEM 8. INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page Number
<u>Reports of Independent Registered Public Accounting Firm</u>	59
<u>Consolidated Balance Sheets</u>	61
<u>Consolidated Statements of Operations</u>	62
<u>Consolidated Statements of Shareholders' Equity</u>	63
<u>Consolidated Statements of Cash Flows</u>	64
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Orion Energy Systems, Inc.

We have audited the accompanying consolidated balance sheets of Orion Energy Systems, Inc. (a Wisconsin Corporation) and subsidiaries as of March 31, 2010 and 2011, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2011. Our audits of the basic financial statements included the financial statement schedule listed in the index appearing under item 15(b). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Orion Energy Systems, Inc and subsidiaries as of March 31, 2010 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note B, the 2010 financial statements have been restated to correct misstatements related to certain lease contracts.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of March 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated July 22, 2011 expressed an unqualified opinion.

/S/ GRANT THORNTON LLP

Milwaukee, Wisconsin
July 22, 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Orion Energy Systems, Inc.

We have audited Orion Energy Systems, Inc.'s (a Wisconsin Corporation) internal control over financial reporting as of March 31, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Orion Energy Systems Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on Orion Energy Systems Inc.'s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Orion Energy Systems, Inc. maintained, in all material respects, effective internal control over financial reporting as of March 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of March 31, 2010 and 2011, and the related consolidated statements of operations, temporary equity and shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2011 and our report dated July 22, 2011 expressed an unqualified opinion on those consolidated financial statements.

/s/ GRANT THORNTON LLP

Milwaukee, Wisconsin
July 22, 2011

Table of Contents**ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	March 31,	
	2010	2011
	(As Restated)	
	(In thousands, except share and per share amounts)	
Assets		
Cash and cash equivalents	\$ 23,364	\$ 11,560
Short-term investments	1,000	1,011
Accounts receivable, net of allowances of \$382 and \$436	15,991	27,618
Inventories, net	25,991	29,507
Deferred tax assets	1,244	947
Prepaid expenses and other current assets	4,112	2,499
Total current assets	71,702	73,142
Property and equipment, net	28,193	30,017
Patents and licenses, net	1,590	1,620
Deferred tax assets	974	2,112
Long-term accounts receivable	2,092	6,030
Other long-term assets	27	2,069
Total assets	\$ 104,578	\$ 114,990
Liabilities and Shareholders Equity		
Accounts payable	\$ 7,761	\$ 12,479
Accrued expenses	4,128	2,586
Current maturities of long-term debt	562	1,137
Total current liabilities	12,451	16,202
Long-term debt, less current maturities	3,156	4,225
Deferred revenue	186	1,777
Other long-term liabilities	398	399
Total liabilities	16,191	22,603
Commitments and contingencies (See Note G)		
Shareholders equity:		
Preferred stock, \$0.01 par value: Shares authorized: 30,000,000 shares at March 31, 2010 and 2011; no shares issued and outstanding at March 31, 2010 and 2011		
Common stock, no par value: Shares authorized: 200,000,000 at March 31, 2010 and 2011; shares issued: 29,911,203 and 30,312,758 at March 31, 2010 and 2011; shares outstanding: 22,442,380 and 22,893,803 at March 31, 2010 and 2011		
Additional paid-in capital	122,515	124,805

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Treasury stock: 7,468,823 common shares at March 31, 2010 and 7,431,897 at March 31, 2011	(32,011)	(31,708)
Shareholder notes receivable		(193)
Retained deficit	(2,117)	(517)
Total shareholders' equity	88,387	92,387
Total liabilities and shareholders' equity	\$ 104,578	\$ 114,990

Table of Contents**ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

	Fiscal Year Ended March 31,		
	2009	2010	2011
	(As Restated)		
	(In thousands, except share and per share amounts)		
Product revenue	\$ 63,008	60,882	\$ 86,443
Service revenue	9,626	7,191	6,015
Total revenue	72,634	68,073	92,458
Cost of product revenue	42,235	40,063	58,251
Cost of service revenue	6,801	5,266	4,499
Total cost of revenue	49,036	45,329	62,750
Gross profit	23,598	22,744	29,708
Operating expenses:			
General and administrative	10,451	12,836	11,431
Sales and marketing	11,261	12,596	13,740
Research and development	1,942	1,891	2,333
Total operating expenses	23,654	27,323	27,504
Income (loss) from operations	(56)	(4,579)	2,204
Other income (expense):			
Interest expense	(167)	(256)	(406)
Loss on sale of OTA contract receivables		(561)	(1,012)
Extinguishment of debt		250	
Dividend and interest income	1,661	670	571
Total other income (expense)	1,494	103	(847)
Income (loss) before income tax	1,438	(4,476)	1,357
Income tax expense (benefit)	927	(1,003)	(243)
Net income (loss)	\$ 511	\$ (3,473)	\$ 1,600
Basic net income (loss) per share attributable to common shareholders	\$ 0.02	\$ (0.16)	\$ 0.07
Weighted-average common shares outstanding	25,351,839	21,844,150	22,678,411
Diluted net income (loss) per share	\$ 0.02	\$ (0.16)	\$ 0.07
Weighted-average common shares and share equivalents outstanding	27,445,290	21,844,150	23,198,063

Table of Contents**ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES****STATEMENT OF SHAREHOLDERS EQUITY**

	Shares	Shareholders Equity					Total Shareholders Equity
		Common Stock Additional Paid-in Capital	Treasury Stock	Shareholder Notes Receivable	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	
		(In thousands, except share amounts)					
Balance, March 31, 2008	26,963,408	\$ 114,090	\$ (1,739)	\$	\$ (6)	\$ 845	\$ 113,190
Issuance of stock and warrants for services	16,627	105					105
Exercise of stock options and warrants for cash	1,519,838	2,032					2,032
Tax benefit from exercise of stock options		1,103					1,103
Stock-based compensation		1,577					1,577
Treasury stock purchase	(6,971,090)		(29,797)				(29,797)
Net income						511	511
Unrealized loss on short-term investments					(26)		(26)
Comprehensive income							485
Balance, March 31, 2009	21,528,783	\$ 118,907	\$ (31,536)	\$	\$ (32)	\$ 1,356	\$ 88,695
Issuance of stock and warrants for services	11,211	48					48
Exercise of stock options and warrants for cash	1,024,113	1,989					1,989
Tax benefit from exercise of stock options		80					80
Stock-based compensation		1,491					1,491
Treasury stock purchase	(121,727)		(475)				(475)
Net loss (As Restated)						(3,473)	(3,473)
Unrealized gain on short-term investments					32		32
Comprehensive Loss (As Restated)							(3,441)
Balance, March 31, 2010 (As Restated)	22,442,380	\$ 122,515	\$ (32,011)	\$	\$	\$ (2,117)	\$ 88,387
Issuance of stock and warrants for services	15,475	51					51
Exercise of stock options and warrants for cash	386,080	529					529
	65,776	(132)	353	(196)			25

Shares issued under Employee Stock Purchase Plan							
Tax benefit from exercise of stock options		541					541
Collection of shareholder notes receivable				3			3
Stock-based compensation		1,301					1,301
Treasury stock purchase	(15,908)		(50)				(50)
Net income						1,600	1,600
Comprehensive income							1,600
Balance, March 31, 2011	22,893,803	\$ 124,805	\$ (31,708)	\$ (193)	\$	\$ (517)	\$ 92,387

Table of Contents**ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Fiscal Year Ended March 31,		
	2009	2010	2011
		(As Restated)	
		(In thousands)	
Operating activities			
Net income (loss)	\$ 511	\$ (3,473)	\$ 1,600
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,841	2,673	2,867
Stock-based compensation expense	1,577	1,491	1,301
Deferred income tax (benefit) provision	145	(1,112)	(840)
Loss (gain) on sale of assets	(31)	546	999
Change in allowance for notes and accounts receivable	144	458	54
Extinguishment of debt		(139)	
Other	106	48	51
Accounts receivable	5,950	(4,579)	(11,681)
Inventories	(2,793)	(6,409)	(3,516)
Prepaid expenses and other assets	(2,580)	(1,979)	(2,748)
Accounts payable	296	(56)	4,718
Accrued expenses	(1,927)	1,813	(1,542)
Net cash provided by (used in) operating activities	3,239	(10,718)	(8,737)
Investing activities			
Purchase of property and equipment	(13,140)	(5,649)	(3,192)
Purchase of property and equipment leased to customers under PPAs		(2,651)	(2,343)
Purchase of short-term investments	(4,113)		(11)
Sale of short-term investments		5,522	
Additions to patents and licenses	(1,121)	(299)	(157)
Proceeds from sales of long term assets	858		
Gain on sale of long term investment	(361)		
Proceeds from disposal of equipment	4	7	1
Net cash used in investing activities	(17,873)	(3,070)	(5,702)
Financing activities			
Proceeds from issuance of long-term debt		200	3,721
Proceeds from shareholder notes			3
Deferred financing and offering costs			(57)
Repurchase of common stock into treasury	(29,340)	(475)	
Payment of long-term debt	(854)	(805)	(2,077)
Excess benefit for deferred taxes on stock-based compensation	1,103	80	541
Proceeds from issuance of common stock	1,576	1,989	504
Net cash provided by (used in) financing activities	(27,515)	989	2,635

Net increase (decrease) in cash and cash equivalents	(42,149)	(12,799)	(11,804)
Cash and cash equivalents at beginning of period	78,312	36,163	23,364
Cash and cash equivalents at end of period	\$ 36,163	\$ 23,364	\$ 11,560
Supplemental cash flow information:			
Cash paid for interest	\$ 350	\$ 277	\$ 368
Cash paid for income taxes	134	32	34
Supplemental disclosure of non-cash investing and financing activities:			
Shares issued from treasury for stock note receivable	\$	\$	\$ 196
Shares surrendered into treasury for stock option exercise	\$ 457	\$	\$ 50
Long-term note receivable received on sale of investment	297		

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ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO 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. During the quarter ended December 31, 2010, the new division exceeded the thresholds for segment reporting and, accordingly, the Company has introduced the presentation of operating segments in this quarter. See Note J Segment Reporting of these financial statements for further discussion of our reportable segments.

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

As previously disclosed in a Current Report on Form 8-K, on June 14, 2011, the Audit Committee of the Board of Directors of the Company concluded, following a preliminary determination by the Company's management, that the financial statements and related disclosures for the fiscal year ended March 31, 2010 and each of the quarterly unaudited condensed consolidated financial statements for the periods ended June 30, 2009 through December 31, 2010 should no longer be relied upon and must be restated to properly record revenue from its Orion Throughput Agreements, or OTAs, as sales-type capital lease contracts.

In accordance with ASC Topic 840 Leases, the Company's prior method of accounting for OTA transactions as operating leases deferred revenue recognition over the full term of the OTA contracts, only recognizing revenue on a monthly basis as customer payments became due. In connection with the audit for the fiscal year 2011, the Company concluded that Generally Accepted Accounting Principles, or GAAP, required the reclassification of transactions under the OTAs to sales-type leases instead of as operating leases. Accounting for OTA contracts as sales-type leases under GAAP requires the Company to record revenue at the net present value of the future payments at the time customer acceptance of the installed and operating energy management system is complete, rather than deferring revenue recognition over the full term of the OTA contracts.

Throughout this Annual Report on Form 10-K, all amounts presented from prior periods and prior period comparisons have been revised and 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 the Company's previously issued consolidated financial statements for the year ended March 31, 2010 are as follows (in thousands, except share and per share data):

Consolidated Balance Sheet as of March 31, 2010
As Previously

	Reported	Adjustments	As Restated
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ASSETS:

Accounts receivable	\$ 14,617	\$ 1,374	\$ 15,991
Deferred tax assets, current		1,244	1,244
Prepaid expenses and other current assets	2,974	1,138	4,112
Total current assets	67,946	3,756	71,702
Property and equipment, net	30,500	(2,307)	28,193
Deferred tax assets, long-term	2,610	(1,636)	974
Accounts receivable, long-term	975	1,144	2,119
Total assets	103,621	957	104,578

LIABILITIES AND STOCKHOLDERS' EQUITY:

Accrued expenses	3,844	285	4,129
Deferred tax liabilities, current	44	(44)	
Total current liabilities	12,211	241	12,452
Retained deficit	(2,834)	717	(2,117)

Consolidated Statement of Operations
Fiscal Year
Ended
March 31,
2010

	As Previously	Adjustments	As Restated
	Reported		

Total revenue	\$ 65,418	\$ 2,655	\$ 68,073
Total cost of sales	43,894	1,435	45,329
Gross Profit	21,524	1,220	22,744
Operating (loss) income	(5,799)	1,220	(4,579)
Loss on sale of receivables		(561)	(561)
Dividend and interest income	269	401	670
Income tax provision	(1,350)	347	(1,003)
Net (loss) income	(4,190)	717	(3,473)
Net loss per common share - basic and diluted	\$ (0.19)	\$ 0.03	\$ (0.16)
Weighted average common shares outstanding basic and diluted	21,844,150		21,844,150

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	Consolidated Statement of Cash Flows		
	Fiscal Year		
	Ended March 31,		
	2010		
	As Previously Reported	Adjustments	As Restated
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ (4,190)	\$ 717	\$ (3,473)
Depreciation and amortization	3,072	(399)	2,673
Loss (gain) on sale of assets	(16)	562	546
Deferred income tax (benefit) provision	(1,425)	313	(1,112)
Accounts receivable	(3,205)	(1,374)	(4,579)
Prepaid expenses and other	268	(2,247)	(1,979)
Accrued expenses	1,529	284	1,813
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment leased to customers under operating leases	(4,795)	2,144	(2,651)

NOTE C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***Principles of Consolidation***

The 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.

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.

Short-term investments available for sale

The amortized cost and fair value of short-term investments, with gross unrealized gains and losses, as of March 31, 2010 and 2011 were as follows (in thousands):

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

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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 certificates of deposit	1,011			1,011		1,011
Total	\$ 1,496	\$	\$	\$ 1,496	\$ 485	\$ 1,011

As of March 31, 2010 and 2011, the Company's financial assets described in the table above were measured at fair value on a recurring basis employing quoted prices in active markets for identical assets (level 1 inputs).

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

Fair value of financial instruments

The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, investments, accounts receivable, and accounts payable, approximate their respective fair values due to the relatively short-term nature of these instruments. Based upon interest rates currently available to the Company for debt with similar terms, the carrying value of the Company's long-term debt is also approximately equal to its fair value. 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, and wholesalers. Credit is extended based on an evaluation of a customer's financial condition. Generally, collateral is not required for end users; however, the payment of certain trade accounts receivable from wholesalers is secured by irrevocable standby letters of credit. Accounts receivable are 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.

Table of Contents***Financing receivables***

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

Age Analysis as of March 31, 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	\$ 1,190	\$ 17	\$ 5	\$ 22	\$ 1,212
Lease balances included in consolidated accounts receivable long-term	3,696				3,696
Total gross sales-type leases	4,886	17	5	22	4,908
Allowance			(2)	(2)	(2)
Total net sales-type leases	\$ 4,886	\$ 17	\$ 3	\$ 20	\$ 4,906

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 our customers and an analysis of historical bad debts and other adjustments. If there is a deterioration of a major customer's credit worthiness or 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 has not incurred any provision write-offs or credit losses against the OTA sales-lease receivable balances in either fiscal 2010 or fiscal 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 or systems, wireless energy management systems and accessories, such as lamps, meters and power supplies. All inventories are stated at the lower of cost or market value with cost determined using the first-in, first-out (FIFO) method. The Company reduces the carrying value of its inventories for differences between the cost and estimated net realizable value, taking into consideration usage in the preceding 12 months, expected demand, and other information

indicating obsolescence. The Company records as a charge to cost of product revenue the amount required to reduce the carrying value of inventory to net realizable value. As of March 31, 2010 and 2011, the Company had inventory obsolescence reserves of \$756,000 and \$811,000.

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

Inventories were comprised of the following (in thousands):

	March 31, 2010	March 31, 2011
Raw materials and components	\$ 11,107	\$ 12,005
Work in process	669	459
Finished goods	14,215	17,043
	\$ 25,991	\$ 29,507

Table of Contents***Prepaid Expenses and Other Current Assets***

Prepaid expenses and other current assets consist primarily of deferred costs related to in-process OTA projects, prepaid insurance premiums, prepaid license fees, purchase deposits, advance payments to contractors, prepaid taxes and miscellaneous receivables.

Property and Equipment

Property and equipment are stated at cost. Expenditures for additions and improvements are capitalized, while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are expensed as incurred. Properties sold, or otherwise disposed of, are removed from the property accounts, with gains or losses on disposal credited or charged to income from operations.

The Company periodically reviews the carrying values of property and equipment for impairment in accordance with ASC 360, *Property, Plant and Equipment*, if events or changes in circumstances indicate that the assets may be impaired. The estimated future undiscounted cash flows expected to result from the use of the assets and their eventual disposition are compared to the assets' carrying amount to determine if a write down to market value is required. No write downs were recorded in fiscal 2009, 2010 or 2011.

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

	March 31,	
	2010	2011
	(As Restated)	
Land and land improvements	\$ 1,436	\$ 1,474
Buildings	14,072	15,104
Furniture, fixtures and office equipment	6,615	8,323
Leasehold improvements		9
Equipment leased to customers under Power Purchase Agreements		4,994
Plant equipment	7,627	8,067
Construction in progress	5,774	2,272
	35,524	40,243
Less: accumulated depreciation and amortization	(7,331)	(10,226)
Net property and equipment	\$ 28,193	\$ 30,017

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

	March 31,	
	2010	2011
Equipment	\$ 25	\$

Less: accumulated amortization	(20)
Net equipment	\$ 5 \$

Depreciation is provided over the estimated useful lives of the respective assets, using the straight-line method. The Company recorded depreciation expense of \$1.8 million, \$2.6 million and \$2.7 million for the years ended March 31, 2009, 2010 and 2011, respectively. 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

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The Company capitalized \$21,000 and \$0, respectively, of the interest costs for construction in progress for the years ended March 31, 2010 and 2011. Included in construction in progress are costs related to Company-owned equipment leased to customers under solar power purchase agreements, or PPAs, of \$2.7 million and none as of March 31, 2010 and 2011.

Patents and Licenses

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

The Company capitalized \$1,121,000, \$299,000 and \$157,000 of costs associated with obtaining patents and licenses in fiscal 2009, 2010 and 2011. Amortization expense recorded to cost of revenue for fiscal 2009, 2010 and 2011 was \$105,000, \$113,000 and \$127,000. The costs and accumulated amortization for patents and licenses were \$1,905,000 and \$315,000 as of March 31, 2010; and \$2,062,000 and \$442,000 as of March 31, 2011. The average remaining useful life of the patents and licenses as of March 31, 2011 was approximately 12.8 years.

As of March 31, 2011, future amortization expense of the patents and licenses is estimated to be as follows (in thousands):

Fiscal 2012	\$ 122
Fiscal 2013	119
Fiscal 2014	118
Fiscal 2015	118
Fiscal 2016	117
Thereafter	1,026
	\$ 1,620

The Company's management periodically reviews the carrying value of patents and licenses for impairment. No write-offs were recorded in fiscal 2009, fiscal 2010 or fiscal 2011.

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.

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

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receivables are recorded at the present value of the future cash flows discounted at 11%. As of 2011, the following amounts were due from the third party finance company in future periods (in thousands):

Fiscal 2012	\$	
Fiscal 2013		955
Fiscal 2014		993
Fiscal 2015		936
Fiscal 2016		292
Total gross long-term receivable		3,176
Less: amount representing interest		(1,090)
Net long-term receivable	\$	2,086

Other Long-Term Assets

Other long-term assets include long-term security deposits, prepaid licensing costs and deferred financing costs. Other long-term assets include \$27,000 and \$55,000 of deferred financing costs as of March 31, 2010 and March 31, 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). For the years ended March 31, 2009, 2010 and 2011, the amortization was \$29,000, \$6,000 and \$29,000.

In June 2008, the Company sold its long-term investment consisting of 77,000 shares of preferred stock of a manufacturer of specialty aluminum products. The investment was originally acquired in July 2006 by exchanging products with a fair value of \$794,000. The Company received cash proceeds from the sale in the amount of \$986,000, which included accrued dividends of \$128,000, and also received a promissory note in the amount of \$298,000. During fiscal 2010, the specialty aluminum products company was placed into receivership and the assets of the Company sold. Proceeds from the sale were not sufficient to cover any portion of the promissory note, and therefore, the Company reserved for against the promissory note in full.

Accrued Expenses

Accrued expenses include warranty accruals, accrued wages, accrued vacations, accrued insurance, accrued interest, sales tax payable and other miscellaneous accruals. Accrued legal costs amounted to \$1,175,000 as of March 31, 2010. No accrued expenses exceeded 5% of current liabilities as of March 31, 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):

	March 31,
	2010 2011

Beginning of year	\$ 55	\$ 60
Provision to cost of revenue	80	114
Charges	(75)	(115)
End of year	\$ 60	\$ 59

Incentive Compensation

The Company's compensation committee approved an Executive Fiscal Year 2009 Annual Cash Incentive Program under its 2004 Stock and Incentive Awards Plan which became effective as of July 30, 2008. The plan called for performance and discretionary bonus payments ranging from 28-125% of the fiscal 2009 base salaries of the Company's named executive officers. The range of fiscal 2009 financial performance-based bonus guidelines under the approved plan began if the Company achieved a minimum of 1.125 times the fiscal 2008 revenue and/or

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up to 2.00 times the fiscal 2008 operating income, and correspondingly increased on a pro rata basis up to a maximum of 1.67 times those initial measures. Based upon the resu