As filed with the Securities and Exchange Commission on October 2, 2007

Registration No. 333-145569

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 1
TO
FORM S-1
REGISTRATION STATEMENT
Under
THE SECURITIES ACT OF 1933

Orion Energy Systems, Inc.
(Exact name of registrant as specified in its charter)

Wisconsin	**39-1847269**	**3646**
(State of other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*	*(Primary Standard Industrial Classification Code Number)*

1204 Pilgrim Road
Plymouth, WI 53073
(920) 892-9340
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Neal R. Verfuerth
President and Chief Executive Officer
Orion Energy Systems, Inc.
1204 Pilgrim Road
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(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) of the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) of the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) of the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(1)
Common Stock, no par value	$100,000,000	$3,070

(1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(o) under the Securities Act. Includes shares of common stock issuable upon exercise of the underwriters' over-allotment option.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED , 2007

PROSPECTUS

Shares
Common Stock

Orion Energy Systems, Inc. is selling shares of common stock and the selling shareholders identified in this prospectus are selling an additional shares. We will not receive any of the proceeds from the sale of the shares by the selling shareholders. We have granted the underwriters a 30-day option to purchase up to an additional shares from us to cover over-allotments, if any.

This is an initial public offering of our common stock. We currently expect the initial public offering price to be between $ and $ per share. We have applied to list our common stock on the Nasdaq Global Market under the symbol "OESX."

INVESTING IN OUR COMMON STOCK INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 10.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to us	$	$
Proceeds, before expenses, to the selling shareholders	$	$

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Thomas Weisel Partners LLC

Canaccord Adams

Pacific Growth Equities, LLC

The date of this prospectus is , 2007.

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[MAP OF CUSTOMER LOCATIONS]

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You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate as of the date of this document.

Dealer Prospectus Delivery Obligation

Until , (25 days after the commencement of this offering), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to their unsold allotments or subscriptions.

PROSPECTUS SUMMARY

This summary highlights information about our company and the offering contained elsewhere in this prospectus and is qualified in its entirety by the more detailed information and financial statements included elsewhere in this prospectus. You should read this entire prospectus carefully, including "Risk Factors" and our financial statements and related notes included elsewhere in this prospectus before making an investment decision. In this prospectus, unless otherwise specified or the context otherwise requires, the terms "Orion," "we," "us," "our," "our company," or "ours," refer to Orion Energy Systems, Inc. and its consolidated subsidiaries.

Our Business

We design, manufacture and implement energy management systems consisting primarily of high-performance, energy efficient lighting systems, controls and related services. 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 high intensity fluorescent, or 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 high intensity discharge, or HID, fixtures. We have sold and installed our high-performance HIF lighting systems in over 1,800 facilities across North America, representing over 451 million square feet of commercial and industrial building space, including for 73 Fortune 500 companies, such as General Electric Co., Kraft Foods Inc., Newell Rubbermaid Inc., OfficeMax, Inc., SYSCO Corp., and Toyota Motor Corp.

Our energy management system is comprised of: our HIF lighting system; our InteLite intelligent lighting controls; our Apollo Light Pipe, which collects and focuses daylight and consumes no electricity; and 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 electricity demand.

Our annual total revenue has increased from $12.4 million in fiscal 2004 to $48.2 million in fiscal 2007. For the three months ended June 30, 2007, we recognized total revenue of $16.7 million, compared to $9.7 million for the three months ended June 30, 2006. We estimate that the use of our HIF fixtures has resulted in cumulative electricity cost savings for our customers of approximately $224 million and has reduced base and peak load electricity demand by approximately 243 megawatts, or MW, through June 30, 2007. We estimate that this reduced electricity consumption has reduced associated indirect carbon dioxide emissions by approximately 2.8 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 prospectus, see notes (7) through (12) under "— Summary Historical Consolidated and Pro Forma Financial Data and Other Information."

Our Market Opportunity

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.

According to the Department of Energy, or DOE, lighting accounts for 22% of electric power consumption in the United States, with commercial and industrial lighting accounting for 65% of that amount. Based on this information, we estimate that the United States commercial and industrial sectors spent approximately $42 billion on electricity for lighting in 2005. Commercial and industrial facilities in the United States employ a variety of lighting technologies, including HID, traditional fluorescent and incandescent lighting fixtures. Our HIF lighting systems typically replace HID fixtures, which operate inefficiently due to higher wattages and operating temperatures. The Energy Information Administration, or EIA, estimates that as of 2003 there were 455,000 buildings in the United States representing 20.6 billion square feet that utilized HID fixtures.

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.

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 without considering utility incentives or government subsidies.

Comprehensive Energy Management Systems. In addition to our HIF lighting systems, our energy management system includes our InteLite intelligent lighting controls and our Apollo Light Pipe, which collects and focuses daylight without consuming electricity. We believe that implementation of our complete energy management system enables our customers to realize even further reduced electricity costs while permanently reducing base and peak load electricity demand.

Easy Installation, Implementation and Maintenance. Our HIF fixtures are designed with a lightweight construction and modular architecture that allows for fast and easy installation, facilitates maintenance and allows for easy integration of other components of our energy management system.

Base and Peak Load Relief for Utilities. Our energy management systems can substantially reduce electricity demand during peak and off-peak periods, which can reduce the need for utilities to invest in additional capacity, reduce the impact of peak demand periods on the electrical grid, and better enable utilities to provide reliable electric power to their customers.

Environmental Benefits. We estimate that the use of our HIF fixtures has reduced indirect carbon dioxide emissions by 2.8 million tons through June 30, 2007 by permanently reducing our customers' electricity consumption.

Our Competitive Strengths

Compelling Value Proposition. 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.

Large and Growing Customer Base. We have installed our products in over 1,800 commercial and industrial facilities across North America. As of June 30, 2007, we have completed or are in the process of completing retrofits in over 400 facilities for our 73 Fortune 500 customers, which we believe is a significant endorsement of our value proposition.

Systematized Sales Process. We primarily sell directly to our end user customers using a systematized multi-step sales process that focuses on our value proposition. We have also developed relationships with numerous electrical contractors, who often have significant influence over the choice of lighting solutions that their customers adopt.

Innovative Technology. We have developed a portfolio of 16 U.S. patents primarily covering elements of our HIF lighting systems and nine patents pending primarily covering elements of our InteLite controls and our Apollo Light Pipe.

Strong, Experienced Leadership Team. Our senior executive management team of seven individuals has a combined 40 years of experience with our company and a combined 77 years of experience in the lighting and energy management industries.

Efficient, Scalable Manufacturing Process. We have made significant investments in production efficiencies, automated processes and modern production equipment to increase our production capacity, reduce our cost of revenue, better control production quality and allow us to respond timely to customer needs.

Our Growth Strategies

Leverage Existing Customer Base. We are expanding our customer relationships from single-site facility implementations of our HIF lighting systems to comprehensive enterprise-wide roll-outs of our complete energy management systems for our existing customers.

Target Additional Customers. We are expanding our customer base by executing our systematized sales process, increasing our direct sales force, expanding our marketing efforts and developing relationships with electrical contractors, value-added resellers and their customers.

Provide Load Relief to Utilities and Grid Operators. As we increase our market penetration, we believe our systems will, in the aggregate, have a significant impact on reducing base and peak load electricity demand. We therefore intend to market our energy management systems directly to utilities and grid operators as a lower-cost, permanent alternative to capacity expansion to help them provide reliable electric power to their customers in a cost-effective and environmentally-friendly manner.

Continue to Improve Operational Efficiencies. We are focused on continually improving the efficiency of our operations by reducing our costs of materials, components, manufacturing and installation, as well as gaining additional leverage from our systematized multi-step sales process, in order to enhance the profitability of our business and allow us to continue to deliver our compelling value proposition.

Develop New Sources of Revenue. In addition to our recently introduced InteLite and Apollo Light Pipe products, we are continuing to develop new energy management products and services that can be utilized in connection with our current energy management systems.

Recent Developments

On August 3, 2007, we issued $10.6 million of 6% convertible subordinated notes (which we refer to as the Convertible Notes), to an indirect affiliate of GE Energy Financial Services, Inc. (which we refer to as GEEFS), Clean Technology Fund II, LP (which we refer to as Clean Technology) and affiliates of Capvest Venture Fund, LP (which we refer to as Capvest). The Convertible Notes will convert automatically upon closing of this offering into 2,360,802 shares of our common stock. Subject to certain exceptions and extensions, the holders of the Convertible Notes have agreed not to sell any of their common stock received upon conversion of the Convertible Notes in this offering or for 180 days after the date of this prospectus, although Clean Technology and Capvest have indicated their interest in selling certain of their previously acquired shares in this offering. See “Description of Capital Stock,” “Principal and Selling Shareholders” and “Underwriting.”

Risk Factors

The following risks, as well as the other risks described in “Risk Factors,” should be carefully considered before purchasing any of our shares in this offering:

- we have a limited operating history, have previously incurred net operating losses, and only recently achieved profitability;
- some of our competitors are larger, have long-standing customer relationships at existing commercial and industrial facilities, and have greater resources than we have;
- we are dependent on the skills, experience and efforts of our senior management;
- our success depends on market acceptance of our energy management products and services;
- our component parts and raw materials are subject to price fluctuations, potential shortages and interruptions of supply;
- we are dependent upon our intellectual property, and our inability to protect our intellectual property or enforce our rights could negatively affect our business and results of operations;
- if the price of electricity decreases, there may be less demand for our energy management products and services;

- we may fail to maintain adequate internal control over financial reporting; and
- our common stock has never traded publicly, and the market price of our common stock may fluctuate significantly.

Our Corporate Information

We were incorporated as a Wisconsin corporation in April 1996. Our headquarters are located at 1204 Pilgrim Road, Plymouth, Wisconsin 53073, and our telephone number is (920) 892-9340. Our approximately 266,000 square foot manufacturing facility is located in Manitowoc, Wisconsin. Our website is www.oriones.com. Information on, or accessible through, this website is not a part of, and is not incorporated into, this prospectus.

THE OFFERING

Issuer	Orion Energy Systems, Inc.
Common stock offered by us	shares (shares if the underwriters' over-allotment option is exercised in full)
Common stock offered by the selling shareholders	shares
Common stock to be outstanding after the offering	shares (shares if the underwriters' over-allotment option is exercised in full)
Use of proceeds	We estimate that the net proceeds to us from this offering will be approximately $ million (or $ million if the underwriters' over-allotment option is exercised in full), assuming an initial public offering price of $ per share, the midpoint of the range set forth on the cover page of this prospectus. The principal purpose of this offering is to generate funds for working capital and general corporate purposes to support our anticipated future growth, including to fund potential future acquisitions. We will not receive any proceeds from the sale of shares by the selling shareholders. See "Use of Proceeds."
Dividend policy	We currently do not intend to pay any cash dividends on our common stock.
Directed share program	The underwriters intend to reserve up to shares for sale at the initial public offering price to shareholders, employees, officers, directors and certain other persons associated with us who have expressed an interest in purchasing our common stock in this offering. See "Underwriting."
Risk factors	You should carefully read and consider the information set forth under "Risk Factors," together with all of the other information set forth in this prospectus, before deciding to invest in shares of our common stock.
Listing and trading symbol	We have applied to list our common stock on the Nasdaq Global Market under the symbol "OESX."

The number of shares of our common stock that will be outstanding after this offering includes 12,219,969 shares of common stock outstanding as of June 30, 2007. Unless otherwise indicated, all information in this prospectus, including the number of shares that will be outstanding after this offering and other share — related information:

- reflects the automatic conversion upon closing of this offering of all of our outstanding shares of Series B preferred stock on a one-for-one basis into 2,989,830 shares of common stock;
- reflects the automatic conversion upon closing of this offering of all of our outstanding shares of Series C preferred stock on a one-for-one basis into 1,818,182 shares of common stock;
- reflects the automatic conversion upon closing of this offering of the Convertible Notes into 2,360,802 shares of common stock;
- excludes 954,390 shares of common stock issuable upon the exercise of warrants outstanding as of June 30, 2007 with a weighted average exercise price of $2.24 per share;

- excludes 4,712,077 shares of common stock issuable upon the exercise of options outstanding as of June 30, 2007 with a weighted average exercise price of $1.57 per share;
- excludes 646,700 shares of common stock reserved for future issuance as of June 30, 2007 under our stock option plans;
- assumes an initial public offering price of $ per share, the midpoint of the range set forth on the cover page of this prospectus; and
- assumes no exercise of the underwriters' option to purchase from us up to   additional shares to cover over-allotments.

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SUMMARY HISTORICAL CONSOLIDATED AND PRO FORMA FINANCIAL DATA AND OTHER INFORMATION

The following tables set forth our summary historical consolidated and pro forma financial data and other information for the periods indicated. We prepared the summary historical consolidated financial data using our consolidated financial statements for each of the periods presented. The summary historical consolidated financial data for each fiscal year in the three-year period ended March 31, 2007 were derived from our audited consolidated financial statements appearing elsewhere in this prospectus, and the summary consolidated historical financial data for the three months ended June 30, 2006 and June 30, 2007 were derived from our unaudited consolidated financial statements appearing elsewhere in this prospectus. The unaudited consolidated financial statements include all adjustments which, in our opinion, are necessary for a fair presentation of our financial position and results of operations for these periods. You should read this financial data in conjunction with our audited and unaudited consolidated financial statements and related notes included elsewhere in this prospectus. See "Selected Historical Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." The summary historical consolidated financial data are not necessarily indicative of future results.

The summary unaudited pro forma and pro forma as adjusted financial data are presented for informational purposes only and do not represent what our financial condition would have been had the transactions described actually occurred on the dates indicated.

	Fiscal Year Ended March 31,			Three Months Ended June 30,	
	2005	2006	2007	2006	2007
				(Unaudited)	
	(in thousands, except per share data)				
Consolidated statements of operation data:					
Product revenue	$ 19,628	$ 29,671	$ 40,034	$ 8,570	$ 14,119
Service revenue	2,155	3,609	8,149	1,110	2,602
Total revenue	21,783	33,280	48,183	9,680	16,721
Cost of product revenue(1)	12,099	19,946	26,546	5,409	9,476
Cost of service revenue	1,944	2,578	5,941	846	1,642
Total cost of revenue	14,043	22,524	32,487	6,255	11,118
Gross profit	7,740	10,756	15,696	3,425	5,603
Operating expenses(1)	9,090	12,037	13,699	2,998	4,119
Income (loss) from operations	(1,350)	(1,281)	1,997	427	1,484
Other income (expense)	(567)	(1,046)	(843)	(252)	(255)
Income (loss) before income tax and cumulative effect of change in accounting principle	(1,917)	(2,327)	1,154	175	1,229
Income tax expense (benefit)	(702)	(762)	225	34	481
Income (loss) before cumulative change in accounting principle	(1,215)	(1,565)	929	141	748
Cumulative effect of change in accounting principle	(57)	—	—	—	—
Net income (loss)	(1,272)	(1,565)	929	141	748
Accretion of redeemable preferred stock and preferred stock dividends(2)	(104)	(3)	(201)	(1)	(75)
Conversion of preferred stock(3)	(972)	—	(83)	—	—
Participation rights of preferred stock in undistributed earnings(4)	—	—	(205)	(35)	(219)
Net income (loss) attributable to common shareholders	$ (2,348)	$ (1,568)	$ 440	$ 105	$ 454

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	Fiscal Year Ended March 31,			Three Months Ended June 30,	
	2005	2006	2007	2006	2007
				(Unaudited)	
	(in thousands, except per share data)				
Net income (loss) attributable to common shareholders:					
Basic	$ (0.36)	$ (0.18)	$ 0.05	$ 0.01	$ 0.05
Diluted	$ (0.36)	$ (0.18)	$ 0.05	$ 0.01	$ 0.04
Weighted average shares outstanding:					
Basic	6,470	8,524	9,080	8,999	9,950
Diluted	6,470	8,524	16,433	15,073	18,088

	As of June 30, 2007		
	Actual	Pro Forma(5)	Pro Forma As Adjusted(6)
	(in thousands, unaudited)		
Consolidated balance sheet data:			
Cash and cash equivalents	$ 696	$ 12,046	$
Total assets	37,719	49,069	
Long-term debt, less current maturities	9,998	9,998	
Convertible notes	—	10,600	
Temporary equity (Series C convertible redeemable preferred stock)	5,028	5,028	
Series B convertible preferred stock	5,959	5,959	
Treasury stock	(361)	(1,739)	
Shareholder notes receivable	(2,128)	—	
Shareholders' equity	$ 10,373	$ 11,123	$

	Cumulative From December 1, 2001 Through June 30, 2007
	(in thousands, unaudited)
Other information:	
HIF lighting systems sold(7)	853
Total units sold (including HIF lighting systems)	1,108
Customer kilowatt demand reduction(8)	243
Customer kilowatt hours saved(8)(9)	2,914,625
Customer electricity costs saved(10)	$ 224,426
Indirect carbon dioxide emission reductions from customers' energy savings (tons)(11)	2,842
Square footage retrofitted(12)	451,802

(1) Cost of product revenue includes stock-based compensation expense recognized under SFAS 123(R) of $24,000 and $21,000 for fiscal 2007 and our fiscal 2008 first quarter, respectively. Operating expenses include stock-based compensation expense recognized under SFAS 123(R) of $339,000 and $125,000 for fiscal 2007 and our fiscal 2008 first quarter, respectively. See note (1) under "Selected Historical Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates — Stock-Based Compensation."

(2) For fiscal 2007 and our fiscal 2008 first quarter, 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 stock will convert automatically into common stock on a one-for-one basis upon the closing of this offering and our obligation to pay accumulated dividends will be extinguished. For fiscal 2005 and 2006, represents accumulated dividends on our Series A preferred stock prior to its conversion into common stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Revenue and Expense Components — Accretion of Preferred Stock and Preferred Stock Dividends."

(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) Represents undistributed earnings allocated to participating preferred shareholders as described under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Revenue and Expense Components — Participation Rights of Preferred Stock in Undistributed Earnings." All of our preferred stock will convert automatically into common stock on a one-for-one basis upon the closing of this offering and, thereafter, we will no longer be required to allocated any undistributed earnings to our preferred shareholders.

(5) Gives effect to (i) the issuance of the Convertible Notes and the application of the gross proceeds therefrom to cash and cash equivalents and (ii) the repayment of approximately $2.1 million in aggregate principal amount of shareholder notes with $0.8 million in cash and 306,932 shares of common stock, as if each of these transactions had occurred on June 30, 2007. See "Related Party Transactions" and "Executive Compensation — Compensation Discussion and Analysis — Long-Term Equity Compensation."

(6) Gives effect to the pro forma adjustments described in note (5) and (i) the automatic conversion of the Convertible Notes into 2,360,802 shares of our common stock; (ii) the automatic conversion of 4,808,012 shares of our outstanding preferred stock into common stock on a one-for-one basis; and (iii) the receipt of estimated net proceeds of $ million from our sale of shares of common stock in this offering at an assumed initial public offering price of $ per share (the midpoint of the range set forth on the cover page of this prospectus), less estimated underwriting discounts and commissions and estimated offering expenses payable by us, as if each of these transactions had occurred on June 30, 2007.

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

(8) 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 1.1 million units).

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

(10) 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 2005, which is the most current full year for which this information is available, was $0.0814 per kilowatt hour according to the United States Energy Information Administration.

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

(12) Based on 1.1 million total units sold, which contain a total of approximately 6.0 million lamps. Each lamp illuminates approximately 75 square feet. The majority of our installed fixtures contain six lamps and typically illuminate approximately 450 square feet.

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully read and consider each of the risks and uncertainties described below together with the other information contained in this prospectus, including our financial statements and the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations," before deciding to invest in shares of our common stock. If any of these events actually occurs, then our business, financial condition, results of operations, and future growth prospects may suffer. As a result, the market price of our common stock could decline, and you may lose all or part of your investment.

Risks Relating to Our Business

We have a limited operating history, have previously incurred net losses, and only recently achieved profitability that we may not be able to sustain.

We began operating in April 1996 and first achieved a full fiscal year of profitability in fiscal 2003. However, we incurred net losses attributable to common shareholders of $2.3 million and $1.6 million in fiscal 2005 and 2006, respectively, before achieving net income attributable to common shareholders of $0.4 million in fiscal 2007. As of June 30, 2007, our accumulated deficit was $3.1 million. As a result of our limited operating history, we have limited financial data that can be used to evaluate our business, strategies, performance, prospects, revenue or profitability potential or an investment in our common stock. Any evaluation of our business and our prospects must be considered in light of our limited operating history and the risks and uncertainties encountered by companies at our stage of development and in our market.

Initially, our net losses were principally driven by start-up costs, the costs of developing our technology and research and development costs. More recently, our net losses have been principally driven by increased sales and marketing and general and administrative expenses, as well as inefficiencies due to excess manufacturing capacity in fiscal 2005 and 2006. We expect to incur increased general and administrative, sales and marketing, and research and development expenses in the near term. These increased operating costs may cause us to recognize reduced net income or incur net losses, and there can be no assurance that we will be able to increase our revenue, sustain our revenue growth rate, expand our customer base or remain profitable. Furthermore, increased cost of revenue, warranty claims, stock-based compensation costs or interest expense on our outstanding debt and on any debt that we incur in the future could contribute to reduced net income or net losses. As a result, even if we significantly increase our revenue, we may incur reduced net income or net losses in the future.

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 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. Verfuerth, our president, chief executive officer and principal founder. Mr. Verfuerth has major responsibilities with respect to sales, engineering, product development and executive administration. We do not have a formal succession plan in place for Mr. Verfuerth. Our employment agreement with Mr. Verfuerth does not guarantee his services for a specified period of time. All of the 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 any 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 Mr. Verfuerth 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 Mr. Verfuerth, 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 maintain profitable operations.

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

Our future success depends on 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 or maintain our revenue or profitability.

Sales of our products and services are dependent upon our customers' capital budgets.

We derive a substantial majority of our revenue from sales of HIF lighting systems to customers who may experience constraints in their capital spending due to other competing uses for capital or other factors. Our HIF lighting systems are typically purchased as capital assets and therefore are subject to review as part of a customer's capital budgeting process. Customers may decline or defer purchases of our products and our related services as a result of many factors, including mergers and acquisitions, regulatory decisions, rising interest rates, lower electricity costs, the availability of lower cost or other alternative products or solutions or general economic downturns. We have experienced, and may in the future experience, variability in our operating results, on both an annual and a quarterly basis, as a result of these factors.

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 may purchase quantities of these items that are in excess of our estimated near-term requirements. As a result, we may need 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 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 14% and 26% of our total cost of revenue in fiscal 2006 and fiscal 2007, 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 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 39%, 27%, and 35%, respectively, of our total revenue in fiscal 2007, 2006 and 2005, and 55% and 42%, respectively, of our fiscal 2008 and 2007 first quarter total revenue. No single customer accounted for more than 9% of our revenue in any of such fiscal years, although one customer accounted for approximately 20% of our fiscal 2008 first quarter total revenue. We expect large retrofit and roll-out projects to become a greater component of our total revenue in the near term. 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 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 make acquisitions of, or investments in, new product lines, businesses or technologies to expand our current capabilities. We may use a portion of the net proceeds from the sale of our common stock in this offering to fund such future acquisitions. 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 financial condition and results of operations. 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 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. 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 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 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, rebrand our company or products, any of which could have a material adverse effect on our business, financial condition or results of operations.

Some of the intellectual property we use in our business is owned by our chief executive officer.

Companies that develop technology generally require employees involved in research and development efforts to execute agreements acknowledging that the company owns the intellectual property developed by such employee within the scope of his or her employment and, if necessary, also assigning to the company such intellectual property. We generally enter into these types of agreements with all of our employees, except our president and chief executive officer, Neal R. Verfuerth. Under Mr. Verfuerth's employment agreement, all intellectual property (which includes all writings, documents, inventions, ideas, techniques, research, processes, procedures, designs, products, and marketing and business plans and all know-how, data and rights relating to such items, whether or not copyrightable or patentable) that Mr. Verfuerth makes, conceives, discovers or develops at any time during the term of his employment is the property of Mr. Verfuerth. For a further discussion of Mr. Verfuerth's employment agreement, see "Executive Compensation — Compensation Discussion and Analysis — Retirement and Other Benefits." We have the option to acquire any such intellectual property work product from Mr. Verfuerth. To date, we have acquired all rights, title and interest in and to all patents and patent applications (and the patents that may issue therefrom) on which Mr. Verfuerth is named as one of the inventors and from which we currently recognize revenue, but have not exercised our option with respect to any other intellectual property that is subject to his employment agreement.

If Mr. Verfuerth leaves our company, we would not own, or have the right to acquire, any of the intellectual property created by him unless we had previously exercised our option to acquire such intellectual property. The ownership, use and enforcement of such intellectual property may be necessary for, or desirable in the continued operation of, our business. If Mr. Verfuerth leaves our company, we may not be able to obtain sufficient rights to own, use or enforce such intellectual property, and if we are able to obtain such rights, we may be required to accept unfavorable terms. Even if we are able to obtain rights in such intellectual property, we could be required to pay substantial fees, and we may not be able to prevent our competitors from using such intellectual property. If we are unable to obtain sufficient rights in such intellectual property, we may have to cease offering certain products or otherwise have to change our business processes or strategies. Any of these events could have a material adverse effect on our results of operations or financial condition.

If the price of electricity decreases, there may be less demand for our products and services.

Demand for our products and services is highly dependent on the continued high cost of electricity. Increased competition in wholesale and retail electricity markets has resulted in greater price competition in those markets. If the price of electricity decreases, either regionally or nationally, then there may be less demand for our products and services, which could impact our ability to grow our business or increase or maintain our revenue or profitability and our results of operations could be materially adversely affected.

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

Several states 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, financial condition and results of operations 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. The failure of our information technology systems, our inability to successfully maintain and enhance 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.

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. As part of the transaction to purchase this facility, we agreed to hold the seller harmless from most claims for environmental remediation or contamination. Accordingly, if environmental contamination is discovered at our facility and we are required to remediate the property, our recourse against the prior owners may be limited. 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.

If we are unable to manage our anticipated revenue growth effectively, our operations, profitability and liquidity could be adversely affected.

We intend to undertake a number of strategies in an effort to grow our revenue. If we are successful, our revenue growth may place significant strain on our limited resources. To properly manage any future revenue growth, we must continue to improve our management, operational, administrative, accounting and financial reporting systems and expand, train and manage our employee base, which may involve significant expenditures and increased operating costs. Due to our limited resources and experience, we may not be able to effectively manage the expansion of our operations or recruit and adequately train additional qualified personnel. If we are unable to manage our anticipated revenue growth effectively, the quality of our customer care may suffer, we may experience customer dissatisfaction, reduced future revenue or increased warranty claims, and our expenses could substantially and disproportionately increase. Any of these circumstances could adversely affect our results of operations.

If we are unable to obtain additional capital as needed in the future, our ability to grow our revenue could be limited and we may be unable to pursue our current and future business strategies.

Our future capital requirements will depend on many factors, including the rate of our revenue growth, our introduction of new products and services and enhancements to existing products and services, and our expansion of sales, marketing and product development activities. In addition, we may consider acquisitions of product lines, businesses or technologies in an attempt to grow our business, which could require significant capital and could increase our capital expenditures related to future operation of the acquired business or technology. We may not be able to obtain additional financing on terms favorable to us, if at all, and, as a result, we may be unable to expand our business or continue to pursue our current and future business strategies. Additionally, if we raise funds through debt financing, we may become subject to additional covenant restrictions and incur increased interest expense and principal payments. If we raise additional funds through further issuances of equity or securities convertible into equity, our existing shareholders could suffer significant dilution, and any new securities we issue could have rights, preferences and privileges superior to those of holders of our common stock.

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 securities litigation.

Our quarterly revenue and operating results have fluctuated in the past and will likely vary from quarter to quarter in the future. 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 initial public offering price, we may be the target of 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 ability to use our net operating loss carryforwards will be subject to limitation.

As of March 31, 2007, we had aggregate federal and state net operating loss carryforwards of approximately $5.1 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 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 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.

Risks Relating to this Offering and Our Common Stock

Because there is no existing market for our common stock, our initial public offering price may not be indicative of the market price of our common stock after this offering, which may decrease significantly.

There is currently no public market for our common stock, and an active trading market may not develop or be sustained after this offering. Our initial public offering price has been determined through negotiation between us and the underwriters and may not be indicative of the market price for our common stock after this offering. We cannot predict the extent to which investor interest in our company will lead to the development of an active trading market on the Nasdaq Global Market or otherwise. The lack of an active market may reduce the value of your shares and impair your ability to sell your shares at the time or price at which you wish to sell them. An inactive market may also impair our ability to raise capital by selling our common stock and may impair our ability to acquire or invest in other companies, products or technologies by using our common stock as consideration.

The market price of our common stock could fluctuate significantly as a result of a number of factors, including:

- fluctuations in our financial performance;
- economic and stock market conditions generally and specifically as they may impact us, participants in our industry or comparable companies;
- changes in financial estimates and recommendations by securities analysts following our common stock or comparable companies;
- earnings and other announcements by, and changes in market evaluations of, us, participants in our industry or comparable companies;
- changes in business or regulatory conditions affecting us, participants in our industry or comparable companies;
- changes in accounting standards, policies, guidance, interpretations or principles;
- announcements or implementation by our competitors or us of acquisitions, technological innovations or new products, or other strategic actions by our competitors; or
- trading volume of our common stock or the sale of stock by our management team, directors or principal shareholders.

Purchasers of our common stock will experience immediate and substantial dilution.

Purchasers of our common stock in this offering will experience immediate and substantial dilution. Investors purchasing common stock in this offering will contribute approximately % of the total

amount invested by shareholders since our inception, but will only own approximately % of the shares of common stock outstanding upon the closing of this offering. In addition, following this offering, we will have a significant number of outstanding warrants and options to purchase our common stock having exercise prices significantly below the initial public offering price of our common stock. See “Shares Eligible for Future Sale.” You will incur further dilution to the extent outstanding warrants or options to purchase common stock are exercised.

In addition, we expect that our amended and restated articles of incorporation that will be in effect upon closing of this offering will allow us to issue significant numbers of additional shares, including “blank check” preferred stock. Upon the closing of this offering, we will also have the authority to issue a substantial number of additional shares of our common stock under our existing compensation plans. Issuance of such additional shares could result in further dilution to purchasers of our common stock in this offering and cause the market price of our common stock to decline. See “Dilution.”

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

Sales of a substantial number of shares of our common stock in the public market following this offering, or the perception that such sales might occur, could cause a decline in the market price of our common stock or could impair our ability to obtain capital through a subsequent offering of our equity securities or securities convertible into equity securities. Under our amended and restated articles of incorporation that will be in effect upon closing of this offering, we are authorized to issue up to 200 million shares of common stock, of which shares of common stock will be outstanding upon the closing of this offering. Of these shares, the shares of common stock sold in this offering will be freely transferable without restriction or further registration under the Securities Act of 1933, or the Securities Act, by persons other than our “affiliates,” as that term is defined in Rule 144 under the Securities Act. In addition, shares of common stock will become freely tradable after the termination of the 180-day lock-up agreements described below, including shares of common stock that may be acquired upon the exercise of outstanding options and warrants. shares of common stock, as well as shares of common stock that may be acquired upon the exercise of outstanding options and warrants, are not subject to the lock-up agreements and are currently freely tradable. See “Shares Eligible for Future Sale.”

We, our executive officers, directors and shareholders representing approximately % of our fully-diluted common stock (including shares issuable upon conversion of our preferred stock and the Convertible Notes and upon exercise of outstanding warrants and stock options) have entered into lock-up agreements described under the caption “Underwriting,” pursuant to which we and they have agreed, subject to certain exceptions and extensions, not to offer, sell, issue, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock, any securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into a transaction which would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock or publicly disclose the intention to make any such offer, sale, pledge or disposition, or to enter into any such transaction, swap, hedge or other arrangement for a period of 180 days from the date of this prospectus or, subject to certain exceptions and extensions, to make any demand or exercise any registration rights during such period with respect to such shares. However, after the lock-up period expires, or if the lock-up restrictions are waived by Thomas Weisel Partners LLC, such persons will be able to sell their shares and exercise registration rights to cause them to be registered. We cannot predict the size of future issuances of our common stock or the effect, if any, that future sales and issuances of shares of our common stock, or the perception of such sales or issuances, would have on the market price of our common stock. See “Shares Eligible for Future Sale.” After the lock-up period expires, or if the lock-up restrictions are waived by Thomas Weisel Partners LLC, certain of our shareholders will be able to cause us to register common stock that they own under the Securities Act pursuant to registration rights that are described in “Description of our Capital Stock — Registration Rights.” We also intend to register all shares of common stock relating to awards that we have granted or may grant under our outstanding equity incentive compensation plans as in effect on the date of this prospectus. See “Shares Eligible for Future Sale”.

Our failure to maintain adequate internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 or to prevent or detect material misstatements in our annual or interim consolidated financial statements in the future could result in inaccurate financial reporting, sanctions or securities litigation, or could otherwise harm our business.

As a public company, we will be required to comply with the standards adopted by the Public Company Accounting Oversight Board in compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley, regarding internal control over financial reporting. We are not currently in compliance with the requirements of Section 404, and the process of becoming compliant with Section 404 may divert internal resources and will take a significant amount of time and effort to complete. We may experience higher than anticipated operating expenses, as well as increased independent auditor fees during the implementation of these changes and thereafter. We are required to be compliant under Section 404 by the end of fiscal 2009, and at that time our management will be required to deliver a report that assesses the effectiveness of our internal control over financial reporting, and we will be required to deliver an attestation report of our auditors on our management's assessment of our internal controls. Completing documentation of our internal control system and financial processes, remediation of control deficiencies and management testing of internal controls will require substantial effort by us. We cannot assure you that we will be able to complete the required management assessment by our reporting deadline. Failure to implement these changes timely, effectively or efficiently, could harm our operations, financial reporting or financial results and could result in our being unable to obtain an unqualified report on internal controls from our independent auditors.

In connection with the audit of our fiscal 2007 consolidated financial statements, our independent registered public accounting firm identified certain significant deficiencies in our internal control over financial reporting. These identified significant deficiencies included (i) our lack of segregation of certain key duties; (ii) our policies, procedures, documentation and reporting of our equity transactions; (iii) our lack of certain documented accounting policies and procedures to clearly communicate the standards of how transactions should be recorded or handled; (iv) our controls in the area of information technology, especially regarding change control and restricted access; (v) our lack of a formal disaster recovery plan; (vi) our need for enhanced restrictions on user access to certain of our software programs; (vii) the necessity for us to implement an enhanced project tracking/deferred revenue accounting system to recognize the complexities of our business processes and, ultimately, the recognition of revenue and deferred revenue; (viii) our lack of a process for determining whether a lease should be accounted for as a capital or operating lease; (ix) our need for a formalized action plan to understand all of our existing tax liabilities (and opportunities) and properly account for them; and (x) our need for improved financial statement closing and reporting processes. A number of these significant deficiencies identified in connection with the audit of our fiscal 2007 consolidated financial statements were previously identified as material weaknesses or significant deficiencies in connection with the audit of our fiscal 2006 and 2005 consolidated financial statements. We may not be able to remediate these significant deficiencies in a timely manner, which may subject us to sanctions or investigation by regulatory authorities, including the Securities and Exchange Commission, or SEC, or the Nasdaq Global Market, and cause investors to lose confidence in our financial information, which in turn could cause the market price of our common stock to significantly decrease. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Internal Control over Financial Reporting."

In addition, in connection with preparing the registration statement of which this prospectus is a part, we identified certain errors in our prior year consolidated financial statements. These errors related to accounting for the induced conversion of our Series A preferred stock in fiscal 2005 and fiscal 2007 and for the exercise of a stock option through the issuance of a full recourse promissory note in fiscal 2006 that we subsequently determined was issued at a below market interest rate. These errors resulted in the restatement of our previously issued fiscal 2006 and 2007 consolidated financial statements.

If we are unable to maintain effective control over financial reporting, such conclusion would be disclosed in our Annual Report on Form 10-K for the year ending March 31, 2009. In the future, we may identify material weaknesses and significant deficiencies which we may not be able to remediate in a timely manner. If we fail to maintain effective internal control over financial reporting in accordance

with Section 404, we will not be able to conclude that we have and maintain effective internal control over financial reporting or our independent registered accounting firm may not be able to issue an unqualified report on the effectiveness of our internal control over financial reporting. As a result, our ability to report our financial results on a timely and accurate basis may be adversely affected, we may be subject to sanctions or investigation by regulatory authorities, including the SEC or the Nasdaq Global Market, and investors may lose confidence in our financial information, which in turn could cause the market price of our common stock to significantly decrease. We may also be required to restate our financial statements from prior periods.

We may pursue opportunities for future institutional investment, which could result in additional dilution to investors in this offering.

We may conduct discussions and negotiations with one or more institutional investors to invest in our company. Institutional investors may purchase different classes of securities and negotiate terms that differ from those provided to individual investors, such as favorable dividend, conversion and/or redemption rights, the right to attend board meetings or to receive additional information, favorable share prices, or anti-dilution clauses. We may decide to issue preferred stock or convertible debt or other securities to institutional investors and the terms of an institutional investment may be different from, or more favorable than, those provided in this offering. Any such investment made on more favorable pricing terms could initially result in additional dilution to investors in this offering. See "Dilution."

We have no plans to pay dividends on our common stock.

We have never declared or paid cash dividends on our common stock and do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain future earnings, if any, to finance our operations. Our future dividend policy is within the discretion of our board of directors and will depend upon various factors, including our business, financial condition, results of operations, capital requirements, investment opportunities and credit agreement restrictions. Further, after closing of this offering, the terms of our current revolving credit facility and our bank term loan and mortgage preclude us, and the terms of agreements covering any future indebtedness may preclude us, from paying dividends.

Anti-takeover provisions included in the Wisconsin Business Corporation Law and provisions in our amended and restated articles of incorporation or bylaws 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 Sections 180.1140 to 180.1144 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 that will be in effect upon closing of this offering, 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 acquirors 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. See "Description of Capital Stock." In addition, our employment arrangements that will be in effect upon closing of this offering with senior management provide for severance payments and accelerated vesting of benefits, including accelerated vesting of stock and options, upon a change of control. This offering will not constitute a change of control under such agreements. These provisions may discourage or prevent a change of control.

Our management will have broad discretion in allocating the net proceeds of this offering.

We expect to use the net proceeds from this offering for working capital and general corporate purposes, including to fund potential future acquisitions. Consequently, our management will have broad discretion in allocating the net proceeds of this offering. See "Use of Proceeds." You may not

agree with such uses and our use of the proceeds from this offering may not yield a significant return or any return at all for our shareholders. The failure by our management to apply these funds effectively could have a material adverse effect on our business, results of operations or financial condition.

The requirements of being a public company, including compliance with the reporting requirements of the Securities Exchange Act of 1934 and the Nasdaq Global Market, will require greater resources, increase our costs and distract our management, and we may be unable to comply with these requirements in a timely or cost-effective manner.

As a public company with equity securities expected to be listed on the Nasdaq Global Market, we will need to comply with statutes and regulations of the SEC, including the reporting requirements of the Securities Exchange Act of 1934, or Exchange Act, and requirements of the Nasdaq Global Market, with which we were not required to comply prior to the closing of this offering. Complying with these statutes, regulations and requirements will occupy a significant amount of the time of our board of directors and management and will substantially increase our costs and expenses. Our management team has no experience managing a public company. We also expect to incur substantial additional annual costs as a result of becoming a public company due to the anticipated increased legal, accounting, compliance and related costs. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Components of Revenue and Expenses — Operating Expenses.”

Also, as a public company we will need to:

- institute a comprehensive compliance function;
- prepare and distribute periodic and current public reports in compliance with our obligations under the federal securities laws;
- establish new internal policies, such as those relating to internal controls over financial reporting, disclosure controls and procedures and insider trading;
- maintain appropriate committees of our board of directors;
- prepare public reports of our audit and finance committee and our compensation committee;
- involve and retain to a greater degree outside counsel and accountants in the above activities; and
- establish and maintain an investor relations function, including the provision of certain information on our website.

These factors could make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit and finance committee and our compensation committee.

Insiders will continue to have substantial control over us after this offering, which could delay or prevent a change of corporate control or result in the entrenchment of management and/or the board of directors.

After this offering, our directors, executive officers and principal shareholders, together with their affiliates and related persons, will beneficially own, in the aggregate, approximately % of our outstanding common stock. As a result, these shareholders, if acting together, will have substantial influence over the outcome of matters submitted to our shareholders for approval, including the election and removal of directors and any merger, consolidation, or sale of all or substantially all of our assets. In addition, these persons, if acting together, will have the ability to substantially influence the management and affairs of our company. Accordingly, this concentration of ownership may harm the market price of our common stock by, among other things:

- delaying, deferring, or preventing a change of control, even at a per share price that is in excess of the then current price of our common stock;
- impeding a merger, consolidation, takeover, or other business combination involving us, even at a per share price that is in excess of the then current price of our common stock; or

- discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, even at a per share price that is in excess of the then current price of our common stock.

In addition, Wisconsin corporate law limits the protection afforded minority shareholders, and we have not enacted provisions that may be beneficial to minority shareholders, such as cumulative voting, preemptive rights or majority voting for directors.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements that are based on our beliefs and assumptions and on information currently available to us. The forward-looking statements are contained principally in the sections entitled "Prospectus Summary," "Risk Factors," "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business." When used in this prospectus, the words "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "should," "will," "would," and similar expressions 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 prospectus. Important factors that could cause actual results to differ materially from our forward-looking statements are set forth in this prospectus, including under the heading "Risk Factors." 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 prospectus. 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 prospectus. These forward-looking statements include, among other things, statements relating to:

- our estimates regarding our future revenue, cost of revenue, gross margin, expenses, capital requirements, liquidity and borrowing capacity and our needs for additional financing;
- our estimates of market sizes and anticipated uses of and benefits from our products and services;
- our ability to market and achieve market acceptance for our products and services;
- our anticipated use of the net proceeds of this offering and of our Convertible Notes placement;
- our business strategy and our underlying assumptions about trends in our industry and about market data, including the relative demand for and cost of energy;
- our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others; and
- management's goals, expectations and objectives and other similar expressions concerning matters that are not historical facts.

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:

- our limited operating history;
- our ability to compete in a highly competitive market;
- our ability to respond successfully to market competition;
- the retention of our senior management;
- the market acceptance of our products and services;
- our dependence on our customers' capital budgets to generate sales of our products and services;
- price fluctuations, shortages or interruptions of component supplies and raw materials used to manufacture our products;
- loss of one or more key customers;
- delivery of satisfactory components by our current suppliers;
- loss of one or more key suppliers;

- warranty and product liability claims;
- our ability to develop new products and services;
- the success of potential acquisitions or investments in new product lines;
- our ability to protect our intellectual property or to respond to any intellectual property litigation brought by others;
- exercising our option to acquire intellectual property rights owned by our chief executive officer;
- 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 subsidiaries and utility incentive programs;
- the failure of our information technology systems;
- the discovery of environmental contamination at our manufacturing facility or the expenses and responsibility associated with disposal of hazardous materials;
- our ability to effectively manage our anticipated growth;
- our ability to obtain additional capital;
- fluctuations in our quarterly results;
- our ability to use our net operating losses;
- the costs associated with being a public company and our ability to comply with the internal control and financial reporting obligations of the SEC and Sarbanes-Oxley; and
- other factors discussed in more detail under “Risk Factors.”

You are urged to carefully consider these factors and the other factors described under “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.

INDUSTRY AND MARKET DATA AND FORECASTS

This prospectus includes market and industry data and industry forecasts that we obtained from publicly available sources, including information from governmental agencies such as the United States Energy Information Administration, the United States Department of Energy and the United States Environmental Protection Agency, and industry publications and surveys from a variety of sources, including the American Council for an Energy Efficient Economy, the National Electric Reliability Council, the Electric Power Research Institute and the International Energy Agency. Certain market and industry data included in this prospectus are also based on our own internal estimates and assumptions. Unless otherwise noted, statements based on the above-mentioned third party data and internal analysis, estimates or assumptions are as of the date of this prospectus.

Although we believe the industry and market data and forecasts included in this prospectus are reliable as of the date of this prospectus, we have not independently verified such data and such data could prove inaccurate. Industry and market data may be incorrect because of the method by which sources obtained their data and because information cannot always be verified with certainty due to the limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties. In addition, we do not know all of the assumptions regarding the size of our market, future energy demands and pricing, general economic conditions or growth that were used in preparing the forecasts from sources cited herein.

USE OF PROCEEDS

We estimate that the net proceeds to us from this offering, assuming an initial public offering price of $ per share (the midpoint of the range set forth on the cover page of this prospectus), will be approximately $ million ($ million if the underwriters' over-allotment option is exercised in full), after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. We will not receive any proceeds from the sale of shares by the selling shareholders.

A 10% change in the number of shares of common stock sold by us in this offering would result in a change in our net proceeds of $ million, assuming an initial public offering price of $ per share (the midpoint of the range set forth on the cover page of this prospectus). A $1.00 increase (decrease) in the assumed initial public offering price of $ per share would increase (decrease) the net proceeds to us from this offering by $ million, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us (assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same).

The principal purpose for this offering is to generate funds for working capital and general corporate purposes to support our anticipated future growth, including to fund potential future acquisitions. As of the date of this prospectus, we have not entered into any agreements, understandings or commitments with respect to any acquisitions.

We will have broad discretion in the way that we use the net proceeds of this offering. Pending the final application of the net proceeds of this offering, we intend to invest the net proceeds of this offering in short-term, interest-bearing, investment-grade securities. See "Risk Factors — Risks Related to Our Business — Our management team will have broad discretion in allocating the net proceeds of this offering."

DIVIDEND POLICY

We have never paid or declared 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. Any future determination to pay dividends will be at the discretion of our board of directors and will depend upon various factors, including our results of operations, financial condition, capital requirements, investment opportunities, and other factors that our board of directors deems relevant. After the closing of this offering, the terms of our current revolving credit facility and our bank term loan and mortgage preclude us, and the terms of any agreements governing any future indebtedness may preclude us, from paying dividends. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Indebtedness."

CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2007:

- on an actual basis;
- on a pro forma basis to give effect to (i) the issuance of the Convertible Notes and (ii) the repayment of approximately $2.1 million in aggregate principal amount of shareholder notes with $0.8 million in cash and 306,932 shares of common stock (see “Related Party Transactions” and “Executive Compensation — Compensation Discussion and Analysis — Long-Term Equity Compensation”); and
- on a pro forma as adjusted basis to give effect to the pro forma adjustments above, as well as (i) the automatic conversion of the Convertible Notes into 2,360,802 shares of our common stock; (ii) the automatic conversion of 4,808,012 shares of our outstanding preferred stock into common stock on a one-for-one basis; and (iii) the receipt of estimated net proceeds of $ million from our sale of shares of common stock in this offering at an assumed initial public offering price of $ per share (the midpoint of the range set forth on the cover of this prospectus), less the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

A 10% change in the number of shares of common stock sold by us in this offering would result in a change in our net proceeds of $ million, assuming an initial public offering price of $ per share (the midpoint of the range set forth on the cover page of this prospectus), which would result in an equal change to each of total shareholders’ equity and total capitalization. A $1.00 increase (decrease) in the initial public offering price would change each of the total shareholders’ equity and total capitalization line items by approximately $ million, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us (assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same).

You should read this table in conjunction with “Use of Proceeds,” “Selected Historical Consolidated Financial Data,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the notes thereto included elsewhere in this prospectus.

	As of June 30, 2007		
	Actual	Pro Forma	Pro Forma As Adjusted
	(in thousands, except share and per share data, unaudited)		
Long-term debt, less current maturities	$ 9,998	$ 9,998	$
Convertible notes	—	10,600	
Temporary equity:			
Series C convertible redeemable preferred stock ($0.01 par value 1,818,182 shares issued and outstanding, actual and pro forma; no shares issued and outstanding, pro forma as adjusted)	5,028	5,028	
Shareholders' equity:			
Series B convertible preferred stock ($0.01 par value 2,989,830 shares issued and outstanding, actual and pro forma; no shares issued and outstanding, pro forma as adjusted)	5,959	5,959	
Common stock (no par value 80,000,000 shares authorized and 12,219,969 shares outstanding, actual; 80,000,000 shares authorized and 11,913,037 shares outstanding, pro forma; 200,000,000 shares authorized and shares outstanding, pro forma as adjusted)	—	—	
Additional paid-in capital	9,993	9,993	
Treasury stock	(361)	(1,739)	
Shareholder notes receivable	(2,128)	—	
Accumulated deficit	(3,090)	(3,090)	
Total shareholders' equity	10,373	11,123	
Total capitalization	$ 25,399	$ 36,749	$

The shares outstanding data in the preceding table excludes as of June 30, 2007:

- 954,390 shares of common stock issuable upon the exercise of outstanding warrants with a weighted average exercise price of $2.24 per share;
- 4,712,077 shares of common stock issuable upon the exercise of outstanding options with a weighted average exercise price of $1.57 per share; and
- 646,700 shares of common stock reserved for future issuance under our stock option plans.

DILUTION

If you invest in our common stock, your economic interest will be diluted to the extent of the difference between the initial public offering price per share of our common stock and the net tangible book value per share of our common stock immediately after the closing of this offering. Dilution results from the fact that the initial public offering price per share of the common stock is substantially in excess of the book value per share attributable to our existing shareholders for our presently outstanding stock.

As of June 30, 2007, our net tangible book value would have been approximately $15.8 million, or approximately $0.83 per share of common stock, on a pro forma basis after giving effect to (i) the issuance of the Convertible Notes and the automatic conversion of the Convertible Notes into 2,360,802 shares of our common stock; (ii) the repayment of approximately $2.1 million in aggregate principal amount of shareholder notes with $0.8 million in cash and of 306,932 shares of common stock (see “Related Party Transactions” and “Executive Compensation — Compensation Discussion and Analysis — Long-Term Equity Compensation”); and (iii) the automatic conversion of 4,808,012 shares of our outstanding preferred stock into common stock on a one-for-one basis. Net tangible book value per share represents the amount of our total tangible assets less our total liabilities, divided by the number of our shares of common stock outstanding.

Our pro forma as adjusted net tangible book value as of June 30, 2007 would have been approximately $ million, or $ per share, after giving effect to (i) the pro forma adjustments described above and (ii) the receipt of estimated net proceeds of $ million from our sale of shares of common stock in this offering at an assumed initial public offering price of $ per share (the midpoint of the range set forth on the cover page of this prospectus), less the estimated underwriting discounts and commissions and estimated offering expenses payable by us. This represents an immediate increase in pro forma as adjusted net tangible book value of $ per share to our existing shareholders and an immediate dilution of $ per share to new investors purchasing common stock in this offering.

The following table illustrates this dilution to new investors on a per share basis:

Assumed initial public offering price per share		$
Pro forma net tangible book value as of June 30, 2007	$ 0.83	
Increase in pro forma net tangible book value per share attributable to new investors in this offering	$	
Pro forma as adjusted net tangible book value after this offering		$
Dilution per share to new investors		

A 10% change in the number of shares of common stock sold by us in this offering would result in dilution per share to new investors of $, assuming an initial public offering price of $ per share (the midpoint of the range set forth on the cover page of this prospectus). A $1.00 increase (decrease) in the initial public offering price would increase (decrease) dilution per share to new investors by approximately $, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us (assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same).

The following table summarizes, as of June 30, 2007, the differences between the number of shares of common stock owned by existing shareholders and to be owned by new public investors, the aggregate cash consideration paid to us and the average price per share paid by our existing shareholders and to be paid by new public investors purchasing shares of common stock in this offering at an estimated initial public offering price of $ per share (the midpoint of the range set forth on the cover page of this prospectus). All information in the row titled "Existing shareholders" in the following table is presented on a pro forma basis assuming (i) the conversion of 4,808,012 shares of our outstanding preferred stock into common stock on a one-for-one basis; (ii) the conversion of the Convertible Notes into 2,360,802 shares of our common stock; and (iii) the repayment of certain shareholder notes with 306,932 shares of common stock (see "Related Party Transactions" and "Executive Compensation — Compensation Discussion and Analysis — Long-Term Equity Compensation").

	Shares Purchased(1)		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing shareholders		%		%	$
New public investors		%		%	$
Total		100%		100%	

(1) The number of shares for existing shareholders includes shares being sold by the selling shareholders in this offering. The number of shares disclosed for the new public investors does not include the shares being purchased by the new public investors from the selling shareholders in this offering.

The discussion and tables above assume no exercise of the 4,712,077 options to purchase shares of common stock at a weighted average exercise price of $1.57 outstanding as of June 30, 2007, or the 954,390 warrants to purchase common stock at a weighted average exercise price of $2.24 outstanding as of June 30, 2007, all of which are "in-the-money" compared to the mid-point of the range set forth on the cover page of this prospectus. To the extent any of these options or warrants outstanding as of June 30, 2007 is exercised, there will be further dilution to new public investors. If all of our options and warrants outstanding as of June 30, 2007 are exercised, you will experience additional dilution of $ per share.

If the underwriters exercise their over-allotment option in full, the number of shares of common stock held by new public investors will increase to approximately shares, or approximately % of the total number of shares of our common stock to be outstanding upon the closing of this offering, our existing shareholders would own approximately % of the total number of shares of our common stock to be outstanding upon the closing this offering, the pro forma as adjusted net tangible book value per share of common stock would be approximately $ and the dilution in pro forma as adjusted net tangible book value per share of common stock to new public investors would be $.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following tables set forth our selected historical consolidated financial data for the periods indicated. We prepared the selected historical consolidated financial data using our consolidated financial statements for each of the periods presented. The selected historical consolidated financial data for each year in the three-year period ended March 31, 2007 were derived from our audited historical consolidated financial statements appearing elsewhere in this prospectus, the selected historical consolidated financial data for each year in the two-year period ended March 31, 2004 were derived from our historical consolidated financial statements not appearing in this prospectus, and the selected historical consolidated financial data for the three months ended June 30, 2006 and June 30, 2007 were derived from our unaudited historical consolidated financial statements appearing elsewhere in this prospectus. The unaudited historical consolidated financial statements include all adjustments, which, in our opinion, are necessary for a fair presentation of our financial position and results of operations for these periods. You should read this selected historical financial data in conjunction with our audited and unaudited historical consolidated financial statements and related notes, "Prospectus Summary — Summary Historical Consolidated and Pro Forma Financial Data and Other Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus. The selected historical consolidated financial data are not necessarily indicative of future results.

	Fiscal Year Ended March 31,					Three Months Ended June 30,	
	2003	2004	2005	2006	2007	2006	2007
						(Unaudited)	
	(in thousands, except per share amounts)						
Consolidated statements of operations data:							
Product revenue	$ 9,018	$ 12,031	$ 19,628	$ 29,671	$ 40,034	$ 8,570	$ 14,119
Service revenue		392	2,155	3,609	8,149	1,110	2,602
Total revenue	9,018	12,423	21,783	33,280	48,183	9,680	16,721
Cost of product revenue(1)	5,091	7,016	12,099	19,946	26,546	5,409	9,476
Cost of service revenue	—	360	1,944	2,578	5,941	846	1,642
Total cost of revenue	5,091	7,376	14,043	22,524	32,487	6,255	11,118
Gross profit	3,927	5,047	7,740	10,756	15,696	3,425	5,603
General and administrative expenses(1)	1,434	1,927	3,461	4,875	6,162	1,269	1,571
Sales and marketing expenses(1)	1,772	2,381	5,416	5,991	6,459	1,518	2,111
Research and development expenses(1)	139	261	213	1,171	1,078	211	437
Income (loss) from operations	582	478	(1,350)	(1,281)	1,997	427	1,484
Interest expense	108	222	570	1,051	1,044	253	295
Dividend and interest income	—	—	3	5	201	1	40
Income (loss) before income tax and cumulative effect of change in accounting principle	474	256	(1,917)	(2,327)	1,154	175	1,229
Income tax expense (benefit)	173	102	(702)	(762)	225	34	481
Income (loss) before cumulative change in accounting principle	301	154	(1,215)	(1,565)	929	141	748
Cumulative effect of change in accounting principle	—	—	(57)	—	—	—	—

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	Fiscal Year Ended March 31,					Three Months Ended June 30,	
	2003	2004	2005	2006	2007	2006	2007
						(Unaudited)	
	(in thousands, except per share amounts)						
Net income (loss)	301	154	(1,272)	(1,565)	929	141	748
Accretion of redeemable preferred stock and preferred stock dividends(2)	(122)	(122)	(104)	(3)	(201)	(1)	(75)
Conversion of preferred stock(3)	—	—	(972)	—	(83)	—	—
Participation rights of preferred stock in undistributed earnings(4)	(35)	(6)	—	—	(205)	(35)	(219)
Net income (loss) attributable to common shareholders	$ 144	$ 26	$ (2,348)	$ (1,568)	$ 440	$ 105	$ 454
Net income (loss) attributable to common shareholders:							
Basic	$ 0.02	$ 0.00	$ (0.36)	$ (0.18)	$ 0.05	$ 0.01	$ 0.05
Diluted	$ 0.02	$ 0.00	$ (0.36)	$ (0.18)	$ 0.05	$ 0.01	$ 0.04
Weighted average shares outstanding:							
Basic	5,964	6,197	6,470	8,524	9,080	8,999	9,950
Diluted	9,169	10,218	6,470	8,524	16,433	15,073	18,088

	As of March 31,					As of June 30, 2007
	2003	2004	2005	2006	2007	(Unaudited)
	(in thousands)					
Consolidated balance sheet data:						
Cash and cash equivalents	$ 175	$ 107	$ 493	$ 1,089	$ 285	$ 696
Total assets	6,397	11,147	21,397	24,738	33,583	37,719
Long-term debt, less current maturities	1,058	4,796	7,921	10,492	10,603	9,998
Temporary equity (Series C convertible redeemable preferred stock)	—	—	—	—	4,953	5,028
Series A convertible preferred stock	1,007	1,007	116	116	—	—
Series B convertible preferred stock	—	779	4,167	5,591	5,959	5,959
Shareholder notes receivable	(105)	(104)	(246)	(398)	(2,128)	(2,128)
Shareholders' equity	$ 2,192	$ 3,448	$ 5,699	$ 6,622	$ 9,355	$ 10,373

(1) Includes stock-based compensation expense recognized under SFAS 123(R) as follows:

	Fiscal Year Ended March 31, 2007	Three Months Ended June 30, 2007
		(Unaudited)
	(in thousands)	
Cost of product revenue	$ 24	$ 21
General and administrative expenses	154	65
Sales and marketing expenses	153	52
Research and development expenses	32	8
Total stock-based compensation expense	$363	$146

(2) For fiscal 2007 and our fiscal 2008 first quarter, 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 stock will convert automatically into common stock on a one-for-one basis upon the closing of this offering and our obligation to pay accumulated dividends will be extinguished. For fiscal 2005 and 2006, represents accumulated dividends on our Series A preferred stock prior to its conversion into common stock. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Revenue and Expense Components — Accretion of Preferred Stock and Preferred Stock Dividends.”

(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) Represents undistributed earnings allocated to participating preferred shareholders as described under “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Revenue and Expense Components — Participation Rights of Preferred Stock in Undistributed Earnings.” All of our preferred stock will convert automatically into common stock on a one for-one basis upon the closing of this offering and, thereafter, we will no longer be required to allocated any undistributed earnings to our preferred shareholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion together with the financial statements and the notes thereto included elsewhere in this prospectus. This discussion contains forward-looking statements that are based on our current expectations, estimates and projections about our business and operations. The cautionary statements made in this prospectus should be read as applying to all related forward-looking statements wherever they appear in this prospectus. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those we discuss under "Risk Factors" and elsewhere in this prospectus. You should read "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements."

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 850,000 of our HIF lighting systems in over 1,800 facilities from December 1, 2001 through June 30, 2007. We have sold our products to 73 Fortune 500 companies, many of which have installed our HIF lighting systems in multiple facilities. Our top customers by revenue in fiscal 2007 included General Electric Co., Kraft Foods Inc., Newell Rubbermaid Inc., OfficeMax, Inc., SYSCO Corp. and Toyota Motors Corp.

Our fiscal year ends on March 31. We call our fiscal years ended March 31, 2005, 2006 and 2007, "fiscal 2005," "fiscal 2006" and "fiscal 2007," respectively. We call our current fiscal year, which will end on March 31, 2008, "fiscal 2008." 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.

Revenue and Expense Components

Revenue. We sell our energy management products and services directly to commercial and industrial customers, and indirectly to end users through wholesale sales to electrical contractors and value-added resellers. We currently generate the substantial majority of our revenue from sales of HIF lighting systems and related services to commercial and industrial customers. While our services include comprehensive site assessment, site field verification, utility incentive and government subsidy management, engineering design, project management, installation and recycling in connection with our retrofit installations, we separately recognize service revenue only for our installation and recycling services. Except for our installation and recycling services, all other services historically have been completed prior to product shipment and revenue from such services was included in product revenue because evidence of fair value for these services did not exist. Wholesale sales to electrical contractors and value-added resellers, which have historically accounted for only a relatively small percentage of our total revenue, are expected to continue to constitute a relatively small percentage of our total 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 separate the project into separate units of accounting based on their relative fair values for revenue recognition purposes. Additionally, the deferral of revenue on a delivered element may be required if such revenue is contingent upon the delivery of the remaining undelivered elements. We recognize revenue at the time of product shipment on product sales and on services completed prior to product shipment. We recognize revenue associated with services provided after product shipment, based on their fair value,

when the services are completed and once 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. We also offer our products under a sales-type financing program where we finance our customer's purchase. The contractual future cash flows and residual rights to the related equipment are then sold without recourse to a third party finance company. We recognize revenue for the net present value of the future payments from the finance company upon completion of the project. See "— Critical Accounting Policies and Estimates." Revenue recognized from our sales-type financing program has historically been immaterial as a percentage of our total revenue.

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 35%, 27%, and 39%, respectively, of our total revenue in fiscal 2005, 2006 and 2007, and 42% and 55%, respectively, of our fiscal 2007 and 2008 first quarter total revenue. No single customer accounted for more than 9% of our total revenue in any of such fiscal years, although one customer accounted for approximately 20% of our fiscal 2008 first quarter total revenue. As 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 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; (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 and our sales-type financing program; (v) our execution of our sales process; (vi) the selling price of our products and services; (vii) changes in capital investment levels by our customers and prospects; and (viii) customer sales cycles. As a result, our total revenue may be subject to quarterly variations and our total revenue for any particular fiscal quarter may not be indicative of future results. See "— Quarterly Results of Operations." We expect our total revenue to increase in fiscal 2008 primarily as we solicit new customers, expand our joint lead generation and sales initiative with electrical contractors and value-added resellers, expand our sales force and sales locations, roll-out our products and services to multiple customer locations and attempt to expand implementation of all aspects of our energy management system for existing national customers.

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 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 14% of our total cost of revenue in fiscal 2006 and 26% in fiscal 2007. Our production labor force is non-union and, as a result, our production labor costs have been relatively stable. We anticipate adding additional production personnel to support our anticipated increase in sales volumes, although we are attempting to achieve efficiencies in our cost of revenue by implementing more highly systematized production processes. We are also expanding our network of qualified third-party installers to realize efficiencies in the installation process.

Gross Margin. Our gross profit has been and will continue to be, affected by the relative levels of our total revenue and our total cost of revenue, and as a result, our gross profit may be subject to quarterly variation. Our gross profit as a percentage of total revenue, or gross margin, is affected by a number of factors, including: (i) our mix of large retrofit and multi-facility roll-out projects with national

accounts; (ii) the level of our wholesale sales (which generally have historically resulted in higher relative gross margins, but lower relative net margins, than our sales to direct customers); (iii) our realization rate on our billable services (which generally have recently resulted in higher relative gross margins than product revenue); (iv) our project pricing; (v) our level of warranty claims; (vi) our level of utilization of our manufacturing facilities and related absorption of our manufacturing overhead costs; (vii) our level of efficiencies in our manufacturing operations; and (viii) our level of efficiencies from our subcontracted installation service providers. As a result, our gross margin may be subject to quarterly variation.

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 and we expect these costs to increase on an absolute dollar basis in fiscal 2008 as a result of our planned expansion of our sales force, as well as contemplated additions to our personnel infrastructure, as we attempt to generate and support additional revenue growth.

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) occupancy expenses; (iii) professional services fees; (iv) technology related costs and amortization; and (v) corporate-related travel.

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

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

In addition to expected increased administrative personnel costs, we expect to incur increased general and administrative expenses in connection with becoming a public company, including increased accounting, audit, legal and support services and Sarbanes-Oxley compliance fees and expenses. We also expect our sales and marketing expenses to substantially increase in the near term as we further increase the number of our sales people and sales locations and market our products, brands and trade names, including our planned expanded advertising and promotional campaign. Additionally, we expense all pre-sale costs incurred in connection with our sales process prior to obtaining a purchase order. These pre-sale costs may reduce our net income in a given period prior to recognizing any corresponding revenue. We also intend to continue to invest in our research and development of new and enhanced energy management products and services.

In fiscal 2007, we began recognizing compensation expense for the fair value of our stock option awards granted over their related vesting period using the modified prospective method of adoption under the provisions of the Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*. Prior to fiscal 2007, we accounted for our stock option awards under the intrinsic value method under the provisions of Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees*, and we did not recognize the fair value expense of our stock option awards in our statements of operations, although we did report our pro forma stock option award fair value expense in the footnotes to our financial statements. We recognized $0.4 million of stock-based compensation expense in fiscal 2007 and $0.1 million in our fiscal 2008 first quarter. As a result of prior option grants, including option grants in fiscal 2008 through the date of this prospectus, we expect to recognize a total of $3.9 million of stock-based compensation over a weighted average period of three years, including $1.0 million in fiscal 2008. 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. See "— Critical Accounting Policies — Stock-Based Compensation" and the notes to our financial statements included elsewhere in this prospectus.

Interest Expense. Our interest expense is comprised primarily of interest expense on outstanding borrowings under our revolving credit facility and our other long-term debt obligations described under "— Liquidity and Capital Resources — Indebtedness" below, including the amortization of previously incurred financing costs. Our interest expense also has historically included guarantee fees previously paid to our chief executive officer in connection with his guarantees of various of our debt obligations. These guarantees have been released. We amortize deferred financing costs to interest expense over the life of the related debt instrument, ranging from six to fifteen years.

Dividend and Interest Income. Our dividend income consists of dividends paid on preferred shares that we acquired in July 2006. The terms of these preferred shares provide for annual dividend payments to us of $0.1 million. We also report interest income earned on our cash and cash equivalents. We expect our interest income to increase in fiscal 2008 as a result of our investment of the net proceeds from our recent placement of convertible subordinated notes and from this offering in short-term, interest-bearing, investment-grade securities until final application of such net proceeds.

Income Taxes. As of March 31, 2007, we had net operating loss carryforwards of approximately $5.1 million for both federal and state tax purposes. Included in the $5.1 million loss carryforward were $3.0 million 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 been recognized 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 and state credit carryforwards of approximately $0.3 million and $0.4 million, respectively, as of March 31, 2007. 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 2016 and 2027. Our income before income tax in fiscal 2007 was $1.2 million. If we maintain this level of income before income tax in future fiscal years, we would expect to utilize our federal net operating loss carryforwards in less than six fiscal years, or over a shorter period if our income before income tax increases further. State net operating loss carryforwards would be utilized over approximately 10 fiscal years or a shorter period if our income before income taxes increases further.

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. 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. 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.

A valuation allowance against our deferred tax assets as of June 30, 2007 has not been provided because we believe that it is more likely than not that our deferred tax assets will be fully realized. The factors included in this assessment were: (i) our recognition of income before taxes of $1.2 million in each of our fiscal 2008 first quarter and fiscal 2007; (ii) our anticipated fiscal 2008 revenue growth due to our backlog of orders as of June 30, 2007; and (iii) our previous profitability in fiscal 2003 and 2004 that preceded our planned efforts in fiscal 2005 and 2006 to increase our manufacturing capacity and sales and marketing efforts to increase our revenue.

Our effective tax rate of 19.5% in fiscal 2007 was favorably impacted by federal research and development tax credits, as well as state income tax credits from jobs creation. These benefits were partially offset by the impact of state income taxes. We do not expect to generate state credits in fiscal 2008 and our federal research credits will decline, resulting in our effective tax rate increasing in fiscal 2008 to the federal statutory rate plus state income taxes.

Accretion of Preferred Stock and Preferred Stock Dividends. Our accretion of redeemable preferred stock and preferred stock dividends consists of accumulated unpaid dividends on our Series A and

Series C preferred stock during the periods that such shares remain outstanding. The terms of our Series C preferred stock provide for a 6% per annum cumulative dividend unless we complete a qualified initial public offering or sale. As a result, the carrying amount of our Series C preferred stock has been increased each period to reflect the accretion of accumulated unpaid dividends. The obligation to pay these accumulated unpaid dividends will be extinguished upon conversion of the Series C preferred stock because this offering will constitute a qualified initial public offering under the terms of our Series C preferred stock. The Series C preferred stock will automatically convert into common stock upon closing of this offering, and the carrying amount of our Series C preferred stock, along with accumulated unpaid dividends, will be credited to additional paid-in capital at that time. Our Series A preferred stock was issued beginning in fiscal 2000 and provided for a 12% per annum cumulative dividend. Our Series A preferred stock was converted into shares of our common stock in fiscal 2005 and fiscal 2007 as described under "— Conversion of Preferred Stock."

Conversion of Preferred Stock. In fiscal 2005, we offered our holders of then outstanding Series A preferred stock the opportunity to convert each of their Series A preferred shares, together with the accumulated unpaid dividends thereon and their other rights and preferences related thereto, into three shares of our common stock. Since the Series A preferred shareholders had the existing right to convert each of their Series A preferred shares into two shares of common stock, we determined that the increase in the conversion ratio from two to three shares of common stock was an inducement offer. As a result, we accounted for the value of the change in this conversion ratio as an increase to additional paid-in capital and a charge to our accumulated deficit at the time of conversion. In fiscal 2005, 648,010 outstanding Series A preferred shares were converted into shares of our common stock. The remaining 20,000 outstanding Series A preferred shares were converted into shares of our common stock on March 31, 2007. The premium amount recorded for the inducement, calculated using the number of additional common shares offered multiplied by the estimated fair market value of our common stock at the time of conversion, was $1.0 million for fiscal 2005 and $83,000 for fiscal 2007.

Participation Rights of Preferred Stock in Undistributed Earnings. Because all series of our preferred stock participate in all undistributed earnings with the common stock, we allocated earnings to the common shareholders and participating preferred shareholders under the two-class method as required by Emerging Issues Task Force Issue No. 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128*. The two-class method is an earnings allocation method under which basic net income per share is calculated for our common stock and participating preferred stock considering both accrued preferred stock dividends and participation rights in undistributed earnings as if all such earnings had been distributed during the year. Because our participating preferred stock was not contractually required to share in our losses, in applying the two-class method to compute basic net income per common share, we did not make any allocation to our preferred stock if a net loss existed or if an undistributed net loss resulted from reducing net income by the accrued preferred stock dividends. All of our preferred stock will convert automatically into common stock on a one-for-one basis upon the closing of this offering and, thereafter, we will no longer be required to allocate any undistributed earnings to our preferred shareholders.

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 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,								Three Months Ended June 30,				
	2005		2006			2007			2006		2007		
	Amount	% of Revenue	Amount	% of Revenue	% Change	Amount	% of Revenue	% Change	Amount	% of Revenue	Amount (Unaudited)	% of Revenue	% Change
	(dollars in thousands)												
Product revenue	$ 19,628	90.1%	$ 29,671	89.2%	51.2%	$ 40,034	83.1%	34.9%	$ 8,570	88.5%	$ 14,119	84.4%	64.7%
Service revenue	2,155	9.9%	3,609	10.8%	67.5%	8,149	16.9%	125.8%	1,110	11.5%	2,602	15.6%	134.4%
Total revenue	21,783	100.0%	33,280	100.0%	52.8%	48,183	100.0%	44.8%	9,680	100.0%	16,721	100.0%	72.7%
Cost of product revenue	12,099	55.5%	19,946	59.9%	64.9%	26,546	55.1%	33.1%	5,409	55.9%	9,476	56.7%	75.2%
Cost of service revenue	1,944	8.9%	2,578	7.7%	32.6%	5,941	12.3%	130.4%	846	8.7%	1,642	9.8%	94.1%
Total cost of revenue	14,043	64.5%	22,524	67.7%	60.4%	32,487	67.4%	44.2%	6,255	64.6%	11,118	66.5%	77.7%
Gross profit	7,740	35.5%	10,756	32.3%	39.0%	15,696	32.6%	45.9%	3,425	35.4%	5,603	33.5%	63.6%
General and administrative expenses	3,461	15.9%	4,875	14.6%	40.9%	6,162	12.8%	26.4%	1,269	13.1%	1,571	9.4%	23.8%
Sales and marketing expenses	5,416	24.9%	5,991	18.0%	10.6%	6,459	13.4%	7.8%	1,5181	5.7%	2,111	12.6%	39.1%
Research and development expenses	213	1.0%	1,171	3.5%	449.8%	1,078	2.2%	(7.9)%	211	2.2%	437	2.6%	107.1%
Income (loss) from operations	(1,350)	(6.2)%	(1,281)	(3.8)%	5.1%	1,997	4.1%	NM	427	4.4%	1,484	8.9%	247.5%
Interest expense	570	2.6%	1,051	3.2%	84.4%	1,044	2.2%	0.7%	253	2.6%	295	1.8%	16.6%
Dividend and interest income	3	0.0%	5	0.0%	66.7%	201	0.4%	NM	1	0.0%	40	0.2%	NM
Income (loss) before income taxes and cumulative effect of change in accounting principle	(1,917)	(8.8)%	(2,327)	(7.0)%	(21.4)%	1,154	2.4%	NM	175	1.8%	1,229	7.4%	602.3%
Income tax expense (benefit)	(702)	(3.2)%	(762)	(2.3)%	8.5%	225	0.5%	NM	34	0.4%	481	2.9%	NM
Net income (loss) before cumulative change in accounting principle	(1,215)	(5.6)%	(1,565)	(4.7)%	(28.8)%	929	1.9%	NM	141	1.5%	748	4.5%	430.5%
Cumulative effect of change in accounting principle, net of tax	(57)	(0.3)%	—	0.0%	100.0%	—	0.0%	NM	—	0.0%	—	0.0%	—
Net income (loss)	(1,272)	(5.8)%	(1,565)	(4.7)%	(23.0)%	929	1.9%	NM	141	1.5%	748	4.5%	430.5%
Accretion of redeemable preferred stock and preferred stock dividends	(104)	(0.5)%	(3)	(0.0)%	97.1%	(201)	(0.4)%	NM	(1)	(0.0)%	(75)	(0.4)%	NM
Conversion of preferred stock	(972)	(4.5)%	—	0.0%	100.0%	(83)	(0.2)%	100%	—	0.0%	—	0.0%	0.0%
Participation rights of preferred stock in undistributed earnings	—	0%	—	0%	0%	(205)	(0.4)%	NM	(35)	(0.4)%	(219)	(1.3)%	(525.7)%
Net income (loss) attributable to common shareholders	$ (2,348)	(10.8)%	$ (1,568)	(4.7)%	33.2%	$ 440	0.9%	NM	$ 105	1.1%	$ 454	2.7%	332.4%

NM = Not meaningful

Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006

Revenue. Our product revenue and service revenue each increased for our fiscal 2008 first quarter from our fiscal 2007 first quarter primarily as a result of increased sales of our HIF lighting systems and related services. The relative increase in our service revenue was also the result of our increased emphasis on achieving higher billing rates for our services. As of June 30, 2007, we had a backlog of firm purchase orders of approximately $11.3 million, compared to approximately $10.1 million as of March 31, 2007. We generally expect this level of firm purchase order backlog to be converted into revenue within the following quarter. Principally as a result of the continued shortening of our customer sales cycles, 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 product and services revenue increased for our fiscal 2008 first quarter compared to our fiscal 2007 first quarter principally because of our higher sales volumes, as well as increased production personnel costs as we increased the number of our production employees to support our sales growth.

Gross Margin. Our gross profit increased for our fiscal 2008 first quarter from our fiscal 2007 first quarter as a result of our increased total revenue. Our gross margin decreased for our fiscal 2008 first quarter from our fiscal 2007 first quarter, although it was higher than our full year fiscal 2007 gross margin, principally as a result of our increased higher gross margin service revenue. We experienced a higher than normal gross margin in our fiscal 2007 first quarter due to several large projects completed at higher margins in that quarter as compared to our historical patterns. Our fiscal 2008 first quarter gross margin was negatively impacted by a significant number of national customer projects that included more favorable pricing terms for these customers.

Operating Expenses

General and Administrative. Our general and administrative expenses increased for our fiscal 2008 first quarter from our fiscal 2007 first quarter on an absolute dollar basis principally as a result of: (i) increased travel expenses and compensation costs related to hiring additional employees in our accounting and administration departments; (ii) additional legal expenses; and (iii) increased consulting costs for technology, audit and tax support. We also incurred increased stock-based compensation expenses. As a percentage of total revenue, our general and administrative expenses decreased as our revenue growth exceeded growth in our general and administrative expenses.

Sales and Marketing. Our sales and marketing expenses increased for our fiscal 2008 first quarter compared to our fiscal 2007 first quarter on an absolute dollar basis primarily as a result of increased employee compensation and commission expenses resulting from our hiring additional sales personnel and our payment of higher sales commissions in conjunction with our increased sales volume. Travel expenses increased in support of generating our revenue growth. Our marketing costs increased as a result of our efforts to increase our brand awareness and participation in national trade shows. We also incurred increased stock-based compensation expenses. As a percentage of total revenue, our sales and marketing expenses decreased as a result of our revenue growth and improved efficiencies from better executing our sales process.

Research and Development. Our research and development expenses increased for our fiscal 2008 first quarter from our fiscal 2007 first quarter on an absolute dollar basis as a result of increased engineering and consulting expenses and from pursuing regulatory and legislative initiatives, including efforts relating to the promotion of energy efficiency policies, in support of our energy management products and services. As a percentage of total revenue, research and development expenses decreased as our revenue growth exceeded growth in our research and development expenses.

Interest Expense. Our interest expense was substantially the same for our fiscal 2008 first quarter as for our fiscal 2007 first quarter.

Dividend and Interest Income. Dividend and interest income increased for our fiscal 2008 first quarter from our fiscal 2007 first quarter. We did not recognize dividend income in our fiscal 2007 first quarter because we did not complete our preferred stock investment until our fiscal 2007 second quarter.

Income Taxes. Our income tax expense increased for our fiscal 2008 first quarter compared to our fiscal 2007 first quarter due to our increased profitability and because of our utilization in our fiscal 2007 first quarter of state job tax and federal research credits. Our effective income tax rate for our fiscal 2008 first quarter was 39.1% compared to 19.4% for our fiscal 2007 first quarter.

Accretion of Preferred Stock and Preferred Stock Dividends. We recognized accretion of accumulated unpaid dividends on our Series C redeemable preferred stock during our fiscal 2008 first quarter. We did not accrete Series C dividends in our fiscal 2007 first quarter because we did not complete our Series C preferred stock placement until the second quarter of fiscal 2007.

Fiscal Year Ended March 31, 2007 Compared to Fiscal Year Ended March 31, 2006

Revenue. Our fiscal 2007 total revenue increased from our fiscal 2006 total revenue primarily as a result of increased sales of our HIF lighting systems and related services, including a substantial increase in our retrofit project sales to multiple location large commercial and industrial end users as we began to recognize the benefits of our sales process. The relative increase in our service revenue in fiscal 2007 was the result of our emphasis on increasing our relative level of billing rates for our services.

Cost of Revenue. Our fiscal 2007 total cost of revenue increased from fiscal 2006 primarily due to our higher sales volume.

Gross Margin. Our gross profit increased in fiscal 2007 from fiscal 2006 as a result of our increased total revenue. Our fiscal 2007 gross margin was positively impacted by an improved mix of higher margin retrofit projects and improved project pricing, especially as a result of our increased billing realization on our services. Additionally, in fiscal 2007, our gross margin benefited from our improved leveraging of our manufacturing facility and related fixed operating costs and implementing manufacturing process improvements.

Operating Expenses

General and Administrative. Our general and administrative expenses increased in fiscal 2007 from fiscal 2006 on an absolute dollar basis primarily due to increased compensation and travel expenses related to hiring additional employees and initiating technology improvement consulting projects. Our fiscal 2007 general and administrative costs included a $0.2 million non-cash charge for stock-based compensation expenses as a result of our April 1, 2006 adoption of SFAS 123(R). As a percentage of total revenue, our general and administrative expenses decreased as our revenue growth exceeded growth in our general and administrative expenses.

Sales and Marketing. Our sales and marketing expenses increased in fiscal 2007 compared to fiscal 2006 on an absolute dollar basis as a result of increased marketing costs associated with our advertising and promotional campaigns. These increased marketing costs were partially offset by decreased employee compensation and commission expenses resulting from the streamlining of our internal sales force. Our fiscal 2007 sales and marketing expenses included a $0.2 million non-cash charge for stock-based compensation expenses as a result of our adoption of SFAS 123(R). As a percentage of total revenue, our sales and marketing expenses decreased in fiscal 2007 compared to fiscal 2006 as a result of our increased revenue and improved efficiencies from better execution of our sales process.

Research and Development. Our research and development expenses in fiscal 2007 decreased from fiscal 2006 on an absolute dollar basis primarily due to the termination of a consulting agreement with a third party developer. As a percentage of total revenue, our research and development expenses decreased as a result of our decreased expenses and increased revenue.

Interest Expense. Our interest expense in fiscal 2007 was comparable to fiscal 2006 due to our retirement of long-term debt obligations, offset by increased revolving credit facility borrowings.

Dividend and Interest Income. We began receiving dividend income in fiscal 2007 related to our July 2006 preferred stock investment. We did not receive dividend income prior to fiscal 2007 and our interest income in 2007 was not material.

Income Taxes. As a result of our profitability in fiscal 2007 compared to our net loss in fiscal 2006, we recognized an income tax expense in fiscal 2007 compared to an income tax benefit in fiscal 2006.

Our effective tax rate was 19.5% in fiscal 2007 compared to a negative 32.7% in fiscal 2006. Our effective tax rate in fiscal 2007 was favorably impacted by federal research and development tax credits, as well as state income tax credits from jobs creation. These benefits were partially offset by the impact of state income taxes.

Accretion of Preferred Stock and Preferred Stock Dividends. We recognized the accretion of accumulated unpaid dividends on our Series C redeemable preferred stock in fiscal 2007 from our issuance date in the second quarter of fiscal 2007. We did not recognize accretion on our Series C preferred stock prior to fiscal 2007. We recognized a nominal amount of accumulated unpaid dividends on our remaining 20,000 outstanding shares of Series A preferred stock in both fiscal 2007 and 2006.

Conversion of Preferred Stock. In fiscal 2007, we recognized the estimated fair market value of the premium paid to holders of Series A preferred shares upon the induced conversion into shares of our common stock. There were no conversions of Series A preferred shares in fiscal 2006.

Fiscal Year Ended March 31, 2006 Compared to Fiscal Year Ended March 31, 2005

Revenue. Our total revenue increased in fiscal 2006 from fiscal 2005 principally because of an increase in our sales to direct end user customers, which constituted the substantial majority of our total revenue in each fiscal year. We also recognized significant increases in our wholesale sales. Service revenue in each fiscal year was only approximately 10% of our total revenue.

Cost of Revenue. Our total cost of revenue increased in fiscal 2006 from fiscal 2005 primarily as a result of our increased total revenue.

Gross Margin. Our gross profit increased in fiscal 2006 from fiscal 2005 as a result of our increased total revenue. Our gross margin for fiscal 2006 decreased from fiscal 2005 primarily due to our increased volume of large multiple facility retrofit projects for national customers that included lower billing realization for our services. Our fiscal 2006 gross margin was also negatively impacted by a full fiscal year of recognizing facility costs relating to our manufacturing facility that we purchased in early fiscal 2005. In fiscal 2006, we also incurred $0.7 million of warranty charges, which further negatively impacted our fiscal 2006 gross margin.

Operating Expenses

General and Administrative. Our general and administrative expenses increased in fiscal 2006 compared to fiscal 2005 on an absolute dollar basis primarily as the result of a significant increase in compensation expense related to our hiring additional employees. We also recognized (i) $0.5 million of additional compensation expense in fiscal 2006 in connection with a director's exercise of stock options through the issuance of a recourse promissory note with a below market interest rate and (ii) $0.2 million of expense in fiscal 2006 in connection with the loss on the sale of an asset. As a percentage of total revenue, our general and administrative expenses decreased in fiscal 2006 compared to fiscal 2005 because our revenue growth exceeded the growth in our general and administrative expenses.

Sales and Marketing. Our sales and marketing expenses increased in fiscal 2006 compared to fiscal 2005 on an absolute dollar basis because of an increase in our employee compensation and commission expenses due to additions to our sales force. As a percentage of total revenue, our sales and marketing expenses decreased in fiscal 2006 compared to fiscal 2005, reflecting our increased revenue and the leveraging of our sales force over a significantly greater revenue base.

Research and Development. Our research and development expenses for fiscal 2006 increased compared to fiscal 2005 on an absolute dollar basis, primarily due to additional employee costs for product design and engineering, consulting costs incurred to research new markets and product testing. As a percentage of total revenue, our research and development expenses decreased in fiscal 2006 compared to fiscal 2005 as our revenue growth exceeded the growth in our research and development expenses.

Interest Expense. Our interest expense increased in fiscal 2006 from fiscal 2005 due to increased borrowings under our revolving credit facility.

Income Taxes. We recognized an income tax benefit in both fiscal 2006 and 2005 as a result of our loss before income tax in each fiscal year.

Accretion of Preferred Stock Dividends. Our accretion of accumulated unpaid dividends on our Series A preferred stock decreased significantly in fiscal 2006 from fiscal 2005 as a result of the induced conversion in fiscal 2005 of a substantial majority of our then outstanding Series A preferred stock into shares of our common stock.

Conversion of Preferred Stock. No Series A preferred shares were converted into common shares in fiscal 2006. In fiscal 2005, we recognized $1.0 million in the estimated fair market value of the premium paid to holders of Series A preferred shares upon the induced conversion into shares of our common stock.

Quarterly Results of Operations

The following tables present our unaudited quarterly results of operations for the last nine fiscal quarters in the period ended June 30, 2007 (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 prospectus. 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. 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 (In thousands, unaudited)								
	June 30, 2005	Sept. 30, 2005	Dec. 31, 2005	Mar. 31, 2006	June 30, 2006	Sept. 30, 2006	Dec. 31, 2006	Mar. 31, 2007	June 30, 2007
Product revenue	$ 4,706	$ 6,959	$ 7,947	$ 10,058	$ 8,570	$ 8,662	$ 10,686	$ 12,116	$ 14,119
Service revenue	298	1,025	951	1,336	1,110	1,969	2,877	2,193	2,602
Total revenue	5,004	7,984	8,898	11,394	9,680	10,631	13,563	14,309	16,721
Cost of product revenue	3,568	4,811	4,963	6,604	5,409	5,935	7,082	8,121	9,476
Cost of service revenue	231	698	796	853	846	1,443	2,118	1,533	1,642
Total cost of revenue	3,799	5,509	5,759	7,457	6,255	7,378	9,200	9,654	11,118
Gross profit	1,205	2,475	3,139	3,937	3,425	3,253	4,363	4,655	5,603
General and administrative expenses	966	1,100	1,509	1,300	1,269	1,336	1,614	1,943	1,571
Sales and marketing expenses	1,690	1,376	1,369	1,556	1,518	1,608	1,551	1,782	2,111
Research and development expenses	239	330	269	333	211	229	257	381	437
Income (loss) from operations	(1,690)	(331)	(8)	748	427	80	941	549	1,484
Interest expense	215	228	376	232	253	260	261	270	295
Dividend and interest income	—	—	1	4	1	11	16	173	40
Income (loss) before income taxes	(1,905)	(559)	(383)	520	175	(169)	696	452	1,229
Income tax expense (benefit)	(623)	(183)	(126)	170	34	(33)	136	88	481
Net income (loss)	(1,282)	(376)	(257)	350	141	(136)	560	364	748

	For the Three Months Ended								
	June 30, 2005	Sept. 30, 2005	Dec. 31, 2005	Mar. 31, 2006	June 30, 2006	Sept. 30, 2006	Dec. 31, 2006	Mar. 31, 2007	June 30, 2007
	(In thousands, unaudited)								
Accretion of redeemable preferred stock and preferred stock dividends	0	(1)	(1)	(1)	(1)	(45)	(79)	(76)	(75)
Conversion of preferred stock	—	—	—	—	—	—	—	(83)	—
Participation rights of preferred stock in undistributed earnings	—	—	—	(79)	(35)	—	(168)	(71)	(219)
Net income (loss) attributable to common shareholders	$ (1,282)	$ (377)	$ (258)	$ 270	$ 105	$ (181)	$ 313	$ 134	$ 454

	For the Three Months Ended								
	June 30, 2005	Sept. 30, 2005	Dec. 31, 2005	Mar. 31, 2006	June 30, 2006	Sept. 30, 2006	Dec. 31, 2006	Mar. 31, 2007	June 30, 2007
	(Unaudited)								
Product revenue	94.0%	87.2%	89.3%	88.3%	88.5%	81.5%	78.8%	84.7%	84.4%
Service revenue	6.0%	12.8%	10.7%	11.7%	11.5%	18.5%	21.2%	15.3%	15.6%
Total revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of product revenue	71.3%	60.3%	55.8%	58.0%	55.9%	55.8%	52.2%	56.7%	56.7%
Cost of service revenue	4.6%	8.7%	8.9%	7.5%	8.7%	13.6%	15.6%	10.7%	9.8%
Total cost of revenue	75.9%	69.0%	64.7%	65.4%	64.6%	69.4%	67.8%	67.4%	66.5%
Gross margin	24.1%	31.0%	35.3%	34.6%	35.4%	30.6%	32.2%	32.6%	33.5%
General and administrative expenses	19.3%	13.8%	17.0%	11.4%	13.1%	12.6%	11.9%	13.6%	9.4%
Sales and marketing expenses	33.8%	17.2%	15.4%	13.7%	15.7%	15.1%	11.4%	12.5%	12.6%
Research and development expenses	4.8%	4.1%	3.0%	2.9%	2.2%	2.1%	1.9%	2.7%	2.6%
Income (loss) from operations	(33.8)%	(4.1)%	(0.1)%	6.6%	4.4%	0.8%	6.9%	3.8%	8.9%
Interest expense	4.3%	2.9%	4.2%	2.0%	2.6%	2.4%	1.9%	1.8%	1.7%
Dividend and interest income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.2%	0.2%
Income (loss) before income taxes	(38.1)%	(7.0)%	(4.3)%	4.6%	1.8%	(1.6)%	5.1%	3.2%	7.4%
Income tax expense (benefit)	(12.5)%	(2.3)%	(1.4)%	1.5%	0.3%	(0.3)%	1.0%	0.7%	2.9%

	For the Three Months Ended								
	June 30, 2005	Sept. 30, 2005	Dec. 31, 2005	Mar. 31, 2006	June 30, 2006 (Unaudited)	Sept. 30, 2006	Dec. 31, 2006	Mar. 31, 2007	June 30, 2007
Net income (loss)	(25.6)%	(4.7)%	(2.9)%	3.1%	1.5%	(1.3)%	4.1%	2.5%	4.5%
Accretion of redeemable preferred stock and preferred stock dividends	0.0%	(0.0)%	(0.0)%	(0.0)%	(0.0)%	(0.4)%	(0.6)%	(0.5)%	(0.5)%
Conversion of preferred stock	—	—	—	—	—	—	—	(0.6)%	—
Participation rights in preferred stock in undistributed earnings	0.0%	0.0%	0.0%	(0.7)%	(0.4)%	0.0%	(1.2)%	(0.5)%	(1.3)%
Net income (loss) attributable to common shareholders	(25.6)%	(4.7)%	(2.9)%	2.4%	1.1%	(1.7)%	2.3%	0.9%	2.7%

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 and fourth quarters. 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.

We experienced a higher than normal gross margin in our fiscal 2007 first quarter due to several large projects completed at higher margins in that quarter as compared to our historical patterns. In our fiscal 2006 third quarter, we experienced higher than normal (i) interest expense due to transaction costs associated with our restructuring certain long-term debt obligations as part of obtaining our revolving credit facility and (ii) general and administrative expenses resulting from the $0.5 million of compensation expense recognized from our director's exercise of a stock option with a below market interest rate promissory note.

Liquidity and Capital Resources

Overview

We have historically funded our operations and capital expenditures primarily through issuances of an aggregate of $5.4 million common stock, an aggregate of $10.8 million of preferred stock and borrowings under our revolving credit facility and the other debt instruments and obligations described under "— Indebtedness" below. We applied the net proceeds from these offerings and borrowings to fund (i) our operations and capital expenditures as well as our product development and research capabilities; (ii) the purchase of our manufacturing facility and related investments in equipment and personnel; and (iii) expenses relating to the development of our management, sales and marketing teams.

On August 3, 2007, we completed a placement of $10.6 million of 6% convertible subordinated notes with an indirect affiliate of GEEFS, Clean Technology and affiliates of Capvest. We intend to use the net proceeds of this placement to (i) finance our growing need for additional working capital to support our anticipated revenue growth; (ii) further expand our national customer account relationships, sales and marketing force and production and distribution capabilities; and (iii) enhance our liquidity and reduce our dependency on obtaining additional debt financing.

We intend to use the net proceeds of this offering for working capital and general corporate purposes, including to fund potential future acquisitions. As of the date of this prospectus, we have no current agreement, commitment or understanding regarding any specific acquisition. Pending the final application of the net proceeds of our convertible note placement and this offering, we intend to invest these net proceeds in short-term, interest-bearing, investment-grade securities. See "Use of Proceeds."

Cash Flows

The following table summarizes our cash flows for our fiscal 2005, fiscal 2006 and fiscal 2007 and for our fiscal 2007 and 2008 first quarters:

	Fiscal Year Ended March 31,			Three Months Ended June 30,	
	2005	2006	2007	2006	2007
				(Unaudited)	
			(in thousands)		
Operating activities	$ (863)	$ (3,401)	$ (6,234)	$ (755)	$ 1,822
Investing activities	(5,888)	(162)	(969)	(209)	(706)
Financing activities	7,137	4,159	6,399	181	(705)
Increase (decrease) in cash and cash equivalents	$ 386	$ 596	$ (804)	$ (783)	$ 411

Cash Flows Related to Operating Activities. Cash provided from operating activities was $1.8 million for our fiscal 2008 first quarter compared to cash used of $0.8 million for our fiscal 2007 first quarter. The $2.6 million change was primarily due to increased net income and a $1.2 million change in net working capital. The net working capital change was due to increased payables related to increased inventory purchases to support our revenue growth and our increased use of installation service vendors.

Cash used in operating activities was $6.2 million, $3.4 million, and $0.9 million for fiscal 2007, fiscal 2006 and fiscal 2005, respectively. The $2.8 million increase in cash used in operating activities in fiscal 2007 compared to fiscal 2006 resulted primarily from an increase in our net working capital of $5.9 million to support our revenue and order backlog growth, partially offset by our change from a net loss of $1.6 million in fiscal 2006 to net income of $0.9 million in fiscal 2007. Cash used in our operating activities for fiscal 2006 increased $2.5 million compared to fiscal 2005. This increase was due to an increase of $3.3 million in our net working capital to fund increased inventory levels required to support our revenue growth.

Cash Flows Related to Investing Activities. Cash used in investing activities was $0.7 million for our fiscal 2008 first quarter compared to $0.2 million for our fiscal 2007 first quarter. This increase was due to purchases of processing equipment for capacity and cost improvement measures and the continued development of our intellectual property.

Cash used in investing activities was $1.0 million, $0.2 million, and $5.9 million for fiscal 2007, fiscal 2006 and fiscal 2005, respectively. Our principal cash investments were for purchases of real property and processing equipment, improvements to our facility and continued development of our intellectual property. In fiscal 2007, we invested $1.1 million to improve our facility infrastructure, purchase technology assets, and purchase operating equipment and tooling as a result of our production design changes, offset by proceeds of $0.3 million from an asset sale. In fiscal 2006, we invested $0.9 million to increase our manufacturing capacity, offset by proceeds of $0.7 million from an asset sale. In fiscal 2005, we invested $5.8 million to acquire our manufacturing facility and purchase new equipment to increase our manufacturing and distribution capacities and to transition from outsourcing our manufactured components to internally manufacturing these components.

Cash Flows Related to Financing Activities. Cash used in financing activities was $0.7 million for our fiscal 2008 first quarter compared to cash provided by financing activities of $0.2 million for our fiscal 2007 first quarter. This change was due to $0.7 million of payments on our long-term debt and revolving credit facility, offset by $0.4 million in net proceeds from common stock option and warrant exercises.

Cash flows provided by financing activities in fiscal 2007 were $6.4 million, primarily consisting of: (i) the sale of our Series C preferred stock, resulting in net proceeds of $4.8 million; (ii) the exercise of common stock options, resulting in net proceeds of $0.8 million; (iii) the sale of our Series B preferred

stock, resulting in net proceeds of $0.4 million; (iv) borrowings under our revolving credit agreement, resulting in net proceeds of $1.2 million; and (v) the impact of deferred taxes on our stock-based compensation, resulting in a tax benefit of $0.4 million. These cash flows were partially offset by $1.2 million of long-term debt repayments.

Cash flows provided by financing activities in fiscal 2006 were $4.2 million, primarily consisting of: (i) the sale of our Series B preferred stock, resulting in net proceeds of $1.5 million; (ii) borrowings under our revolving credit facility, resulting in proceeds of $4.9 million, net of financing costs of $0.1 million to secure our revolving credit facility; (iii) the exercise of common stock options and collection of shareholder notes, resulting in net proceeds of $0.2 million; and (iv) debt proceeds used to finance capital assets, resulting in net proceeds of $0.1 million. These cash flows were partially offset by $2.5 million of long-term debt repayments.

Cash flows provided by financing activities in fiscal 2005 were $7.1 million, primarily consisting of: (i) the sale of our Series B preferred stock, resulting in net proceeds of $3.9 million; (ii) debt proceeds used for the acquisition of our manufacturing facility and equipment and to retire prior long-term debt, resulting in net proceeds of $10.1 million; and (iii) the exercise of common stock options and collection of shareholder notes, resulting in net proceeds of $0.1 million. These cash flows were partially offset by payments to retire long-term debt of $5.9 million and $0.3 million to repurchase treasury shares.

Working Capital

Our net working capital as of June 30, 2007 was $14.3 million, consisting of $26.5 million in current assets and $12.1 million in current liabilities. Our net working capital as of March 31, 2007 was $14.1 million, consisting of $22.6 million in current assets and $8.5 million in current liabilities. Our working capital changes in our fiscal 2008 first quarter were due to an increase of $2.0 million in accounts receivable as a result of revenue growth, a $1.2 million increase in inventories required to support our current backlog, a $2.5 million increase in accounts payable resulting from additional inventory purchases and a $1.1 million increase in accrued expenses for service costs accrued as a result of increasing installation service revenue. We expect to continue to increase our inventories of raw materials and components to support our anticipated increase in sales volumes and to reduce our risk of unexpected raw material or component shortages or supply interruptions. We attempt to maintain a two month supply of on-hand inventory of purchased components and raw materials to meet anticipated demand. We also expect that our accounts receivable and payables will continue to increase as a result of our anticipated revenue growth and increased inventory levels. We had available borrowing capacity under our revolving credit facility of $5.8 million as of June 30, 2007, based upon our revolving credit facility borrowing base formula described below. The net proceeds of our recent convertible note placement will help support our ongoing working capital needs, as will the net proceeds from this offering. Pending final application, these net proceeds will be invested in short-term, interest-bearing, investment-grade securities. See “Use of Proceeds.”

We believe that our existing cash and cash equivalents, our anticipated cash flows from operating activities, our borrowing capacity under our revolving credit facility and the net proceeds from our recent convertible subordinated note placement and this offering will be sufficient to meet our anticipated cash needs for at least the remainder of fiscal 2008. Our future working capital requirements for the remainder of fiscal 2008 and thereafter on a longer-term basis will depend on many factors, including the rate of our anticipated revenue growth, our introduction of new products and services and enhancements to our existing energy management system, the timing and extent of our planned expansion of our sales force and other administrative and production personnel, the timing and extent of our planned advertising and promotional campaign, and our research and development activities. To the extent that our cash and cash equivalents, cash flows from operating activities and net proceeds from our recent convertible subordinated note placement and this offering are insufficient to fund our future activities, we may need to raise additional funds through additional public or private equity or debt financings. We also may need to raise additional funds in the event we decide to acquire product lines, businesses or technologies. In the event additional funding is required, we may not be able to obtain the financing on terms acceptable to us, or at all.

Indebtedness

On December 22, 2005, we entered into a credit and security agreement, as amended, with Wells Fargo Bank, N.A. to provide us with up to $25.0 million of financing to fund our working capital requirements. Availability under this revolving credit facility is subject to a borrowing base that is calculated as a percentage of eligible accounts receivable and eligible inventory, less certain collateral or business valuation reserves and reserves for certain other credit exposures. As of June 30, 2007, there were $5.6 million of borrowings outstanding under our revolving credit facility, and our borrowing availability was $5.8 million. This revolving credit facility matures in December 2008. Borrowings under this revolving credit facility bear interest at prime plus 1.0% per annum, plus annual fees and minimum monthly interest costs, if applicable. Borrowings under this revolving credit facility are secured by a first priority security interest in our accounts receivable, inventory and intangible assets. Our revolving credit facility contains customary financial and restrictive covenants, including minimum net worth requirements; minimum net income requirements; restrictions on capital expenditures over $4.0 million in the aggregate per year; and restrictions on our ability to incur indebtedness, create liens, guaranty obligations, make loans or advances, invest or acquire interests in other persons or companies, pay dividends or make other shareholder distributions. We were in compliance with all covenants under our revolving credit facility as of June 30, 2007.

In addition to our revolving credit facility, we also have other existing long-term indebtedness and obligations under various debt instruments and capital lease obligations, including pursuant to a bank term note, a bank first mortgage, a debenture to a community development organization, a federal block grant loan, a city industrial revolving loan and various capital leases and equipment purchase notes. As of June 30, 2007, the total amount of principal outstanding on these various obligations was $5.1 million. These obligations have varying maturity dates between 2010 and 2024 and bear interest at annual rates of between 2.0% and 16.2%. The weighted average annual interest rate of such obligations as of June 30, 2007 was 8.1%. Based on interest rates in effect as of June 30, 2007, we expect that our total debt service payments on such obligations for fiscal 2008, including scheduled principal, lease and interest payments, will approximate $1.0 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; minimum net worth requirements; limitations on executive compensation and advances; limits on capital expenditures over $4.0 million in the aggregate 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 June 30, 2007, we were in compliance with all such covenants, as amended.

On August 3, 2007, we completed a placement of $10.6 million of 6% convertible subordinated notes with an indirect affiliate of GEEFS, Clean Technology and affiliates of Capvest. Interest on these notes until they are repaid or converted into our common stock is payable quarterly in arrears at the annual rate of 6%. The convertible notes mature in August 2012. See “Description of Capital Stock” for a detailed description of the terms of our Convertible Notes and our common stock.

Capital Spending

We expect to incur approximately $3.0 million in capital expenditures during the final three fiscal quarters of fiscal 2008 to add production equipment to increase our production capacity, as well as to further develop our internal capacity to perform certain processes previously performed by our suppliers. We expect to finance these capital expenditures primarily through equipment secured loans and leases, to the extent needed, and by using our available capacity under our revolving credit facility.

Contractual Obligations

Information regarding our known contractual obligations of the types described below as of March 31, 2007 is set forth in the following table:

	Payments Due By Period				
	Total	Less than 1 Year	1-3 Years (in thousands)	3-5 Years	More than 5 Years
Debt and capital leases, including interest(1)(2)	$ 13,338	$ 1,290	$ 8,186	$ 1,346	$ 2,516
Operating leases	1,503	853	412	238	—
Non-cancellable purchase commitments(3)	3,021	3,021	—	—	—
Total	$ 17,862	$ 5,164	$ 8,598	$ 1,584	$ 2,516

(1) Does not include any payment amounts under our 6% convertible subordinated notes issued on August 3, 2007, which notes will convert automatically upon the closing of this offering into shares of our common stock. See "Description of Capital Stock."

(2) Debt and capital leases includes fixed contractual interest payments by period of $554,000 (less than 1 year); $667,000 (1-3 years); $346,000 (3-5) years); and $324,000 (more than 5 years).

(3) Reflects non-cancellable purchase commitments for certain inventory items and capital expenditure commitments entered into in order to secure better pricing and ensure materials on hand.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Internal Control Over Financial Reporting

In connection with the audit of our fiscal 2006 and 2005 consolidated financial statements, our independent registered public accounting firm identified certain significant deficiencies and material weaknesses in our internal control over financial reporting. In connection with the audit of our fiscal 2007 consolidated financial statements, our independent registered public accounting firm identified certain significant deficiencies in our internal control over financial reporting. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects a company's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the company's financial statements that is more than inconsequential will not be prevented or detected by the company's internal control. A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

The following significant deficiencies were identified in connection with the audit of our fiscal 2007 consolidated financial statements: (i) our lack of segregation of certain key duties; (ii) our policies, procedures, documentation and reporting of our equity transactions; (iii) our lack of certain documented accounting policies and procedures to clearly communicate the standards of how transactions should be recorded or handled; (iv) our controls in the area of information technology, especially regarding change control and restricted access; (v) our lack of a formal disaster recovery plan; (vi) our need for enhanced restrictions on user access to certain of our software programs; (vii) the necessity for us to implement an enhanced project tracking/deferred revenue accounting system to recognize the complexities of our business processes and, ultimately, the recognition of revenue and deferred revenue; (viii) our lack of a process for determining whether a lease should be accounted for as a capital or operating lease; (ix) our need for a formalized action plan to understand all of our existing tax liabilities (and opportunities) and properly account for them; and (x) our need for improved financial statement closing and reporting processes.

A number of these significant deficiencies identified in connection with the audit of our fiscal 2007 consolidated financial statements were previously identified as material weaknesses or significant

deficiencies in connection with the audit of our fiscal 2006 and 2005 consolidated financial statements, including numbers (i), (ii), (v), (vii), (x) in the foregoing paragraph.

In connection with the filing of the registration statement of which this prospectus is a part, we identified certain errors in our prior year consolidated financial statements. These errors related to accounting for the induced conversion of our Series A preferred stock in fiscal 2005 and fiscal 2007 and for the exercise of a stock option through the issuance of a full recourse promissory note in fiscal 2006 that we subsequently determined was issued at a below market interest rate. These errors resulted in the restatement of our previously issued fiscal 2006 and 2007 consolidated financial statements. Specifically, prior to fiscal 2006, we offered our Series A preferred shareholders the opportunity to exchange each share of their Series A preferred stock for three shares of our common stock instead of the two shares of our common stock to which they were otherwise entitled. We had previously reported this transaction as a reclassification to paid-in capital for the historical carrying value of the Series A preferred stock at the time of conversion. We subsequently determined that we had incorrectly applied accounting principles generally accepted in the United States to these conversions because, under the guidance provided in Statement of Financial Accounting Standards No. 84, *Induced Conversions of Convertible Debt* (SFAS 84), the fair value of the inducement offer should have been accounted for as an increase to common stock and a charge to accumulated deficit at the time of conversion. We determined the fair values of the inducement offers in fiscal 2005 and fiscal 2007 to be $972,000 and $83,000, respectively. Additionally, in November 2005, we received a full recourse below market interest rate promissory note in connection with the exercise of a stock option by Patrick J. Trotter, one of our directors. We had previously reported this transaction as an event that did not result in additional stock-based compensation. We subsequently determined that we had incorrectly applied accounting principles generally accepted in the United States to this transaction because, under EITF 00-23, *Issues Related to the Accounting for Stock Compensation Under APB Opinion No. 25 and FASB Interpretation No. 44* (EITF 00-23), the exercise of the option through payment with a below market interest rate full recourse promissory note was effectively a repricing of the option and resulted in the recognition of a variable accounting adjustment for the award on the date the note was issued and the option was exercised, in the amount of the intrinsic value difference between the then current fair value of our common stock and the exercise price of the option. This adjustment resulted in an increase of $0.5 million to operating expenses in fiscal 2006. Since a material weakness had already been identified with respect to our accounting for equity transactions, no further material weakness was identified by our independent registered public accounting firm in connection with these corrections.

To improve our internal control over our financial reporting process and remediate and correct the significant deficiencies identified in connection with our fiscal 2007 audit, we have hired a director of business risk who has experience with the requirements of Section 404 of Sarbanes-Oxley and we are in the process of hiring an internal audit manager. In order to comply with Section 404, we have already started to review our processes and implement new systems and controls to help us remediate the significant deficiencies noted above and we are interviewing independent accounting firms to assist us in overseeing our Section 404 compliance process. In particular, we have begun performing system process evaluation and testing of our internal controls over financial reporting to better allow our management and auditors to assess the effectiveness of our internal controls over financial reporting so that our independent auditors can deliver a report to us addressing these assessments. We are not required to be compliant under Section 404 of Sarbanes-Oxley until the audit of our fiscal 2009 consolidated financial statements. See “Risk Factors — Risks Relating to the Offering — Our failure to maintain adequate internal control over financial reporting in accordance with Section 404 of Sarbanes-Oxley or to prevent or detect material misstatements in our annual or interim consolidated financial statements in the future could result in inaccurate financial reporting, sanctions or securities litigation or otherwise harm our business.”

We may in the future identify further material weaknesses in our control over financial reporting. Accordingly, material weaknesses may exist when we report on the effectiveness of our internal control over financing reporting for purposes of our attestation required by reporting requirements under the Exchange Act or Section 404 of Sarbanes-Oxley after this offering. The existence of one or more material weaknesses precludes a conclusion that we maintain effective internal control over financial reporting. Such conclusion would be required to be disclosed in our future Annual Reports on Form 10-K and may impact the accuracy and timing of our financial reporting and the reliability of our internal control over financial reporting.

Inflation

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

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.

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.

Interest Rate Risk. As of June 30, 2007, $6.7 million of our $10.7 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 $67,000 per year.

Commodity Price Risk. We are exposed to certain commodity price risks associated with our purchases of raw materials, most significantly our aluminum. We attempt to mitigate commodity price fluctuation for our aluminum through six- to 12-month forward fixed-price, minimum quantity purchase commitments.

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 collectibility of receivables, stock-based compensation 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 price is fixed and determinable and no further obligation exists; and collectibility 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 based on its fair value, which is generally the price charged for the element when sold on a standalone basis. Since we contract with vendors for installation services to our customers, which includes recycling of old fixtures, we determine the fair value of our installation services based on negotiated pricing with such vendors. Additionally, we offer a sales-type financing program under which we finance the customer's purchase. Our contracts under this sales-type financing program are typically one year in duration and, at the completion of the initial one-year term, provide for (i) 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. Upon completion of the installation, we sell the future lease 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 based on the net present value of the future payments from the third party finance company upon completion of the project. Revenue recognized from our sales-type financing program has not been material to our recent results of operations.

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 prepaid services to be provided at determined future dates. As of June 30, 2006 and 2007, our deferred revenue was $0.1 million and $0.2 million, respectively. In the event that a customer project contains multiple elements that are not sold on a standalone basis, we defer all related revenue and

costs until the project is complete. Deferred costs on product are recorded as a current asset as project completions occur within a few months. As of June 30, 2006 and 2007, our deferred costs were $0.4 million and $0.3 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 were $0.4 million, $0.4 million and $0.5 million at March 31, 2006, March 31, 2007 and June 30, 2007, respectively.

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 $38,000, $0.1 million and $0.1 million at March 31, 2006, March 31, 2007 and June 30, 2007, respectively.

Stock-Based Compensation. We have historically issued stock options to our employees, executive officers and directors. Prior to April 1, 2006, we accounted for these option grants under the recognition and measurement principles of Accounting Principles Board, or APB, Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, and applied the disclosure provisions of Statement of Financial Accounting Standards, or SFAS, No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure — an Amendment of Financial Accounting Standards Board, or FASB, Statement No. 123*. This accounting treatment resulted in a pro forma stock option expense that was reported in the footnotes to our consolidated financial statements for those years.

For options granted prior to April 1, 2006, we recorded stock-based compensation expense, typically associated with options granted to employees, executive officers or directors, based upon the difference, if any, between the estimated fair market value of common stock underlying the options on the date of grant and the option exercise price. For purposes of establishing the exercise price of options granted prior to April 1, 2006 our compensation committee and board of directors used (i) known independent third-party sales of our common stock and (ii) the per share prices at which we issued shares of our common and preferred stock to third-party investors. In fiscal 2006, in accordance with APB No. 25, we recognized $33,000 of stock-based compensation expense, excluding the $0.5 million compensation charge associated with a director's exercise of a stock option with a full recourse below market interest rate promissory note. In fiscal 2005, no stock-based compensation expense was recognized.

Effective April 1, 2006, we adopted the provisions of SFAS No. 123(R), *Share-Based Payment*, 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. We adopted SFAS 123(R) using the modified prospective method. Under this transition method, compensation cost recognized for fiscal 2007 included the current period's cost for all stock options granted prior to, but not yet vested as of, April 1, 2006. This cost was based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123. The cost for all stock options granted subsequent to March 31, 2006 represented the grant date fair value that was estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated. Compensation cost for options granted after March 31, 2006 has been and will be recognized in earnings, net of estimated forfeitures, on a straight-line basis over the requisite service period.

Both prior to and following our April 1, 2006 adoption of SFAS 123(R), 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,			Three Months Ended
	2005	2006	2007	June 30, 2007
Expected term	6 Years	6 Years	6.6 Years	7.6 Years
Risk-free interest rate	4.32%	4.35%	4.62%	4.58%
Estimated volatility	39%	50%	60%	60%
Estimated forfeiture rate	N/A	N/A	6%	6%
Expected dividend yield	0%	0%	0%	0%

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.

In fiscal 2005 and 2006, we estimated volatility based upon an internal computation analyzing historical volatility based on our share transaction data and share valuations established by our compensation committee and board of directors, which we believe collectively provided us with a reasonable basis for estimating volatility. In fiscal 2007, we determined volatility based on an analysis of a peer group of public companies. We intend to continue to consistently use the same methodology and group of publicly traded peer companies as we used in fiscal 2007 to determine volatility in the future until sufficient information regarding the volatility of our share price becomes available or the selected companies are no longer suitable for this purpose.

We have not paid dividends in the past and we do not expect to declare dividends in the future, resulting in a dividend yield of 0%.

Our estimated pre-vesting forfeiture rate was based on our historical experience and the composition of our option plan participants, among other factors, and reduces our compensation expense recognized. If our actual forfeitures differ from our estimates, adjustments to our compensation expense may be required in future periods.

The following table sets forth our stock option grants made since April 1, 2006 through the date of this prospectus:

Date of Grant	Number of Shares Underlying Options Granted	Exercise Price Per Share(1)	Fair Market Value Per Share(2)	Financial Reporting Intrinsic Value Per Share(3)
April 2006	40,000	$ 2.25-2.50	$ 2.20	$ —
May 2006	40,000	2.50	2.20	—
June 2006	150,000	2.50	2.20	—
July 2006	27,000	2.50	2.20	—
August 2006	5,000	2.50	2.20	—
September 2006	2,000	2.75	2.20	—
October 2006	2,000	2.75	2.20	—
November 2006	35,000	2.75	2.20	—
December 2006	920,000	2.20	2.20	—
March 2007	436,500	2.20	4.15	1.95
April 2007	50,000	2.20	4.15	1.95
July 2007	429,432	4.49	4.49	—

(1) The exercise price per share was at least equal to the fair market value of our common stock on each applicable stock option grant date as determined by our compensation committee and board of

directors on the basis described in the paragraphs below. For option grants made between April 2006 and November 2006, the per share exercise price was established principally based on the per share issuance price of our then recent preferred stock placements to third-party investors and, in our opinion, such per share exercise prices were above the then current fair market value of our common stock.

(2) The fair market value per share was determined by our compensation committee and board of directors on each applicable stock option grant date on the basis described in the paragraphs below. However, for option grants in March and April 2007, fair market value per share was reassessed subsequent to the grant dates for financial statement reporting purposes as described in the paragraphs below.

(3) The financial reporting intrinsic value per share is the difference between the subsequently reassessed fair value per share for financial statement reporting purposes as described in the paragraphs below and the fair market value exercise price per share as established on each applicable stock grant date by our compensation committee and board of directors on the basis described in the paragraphs below.

For options granted between April 2006 and November 2006, our compensation committee and board of directors established the exercise price of such stock options principally based on the per share issuance price of our then recent preferred stock placements to third-party investors and, in our opinion, such per share exercise prices were above the then current fair market value of our common stock otherwise reflected in independent third party sales of our common stock.

We engaged Wipfli LLP, an independent third party valuation firm, or Wipfli to perform an independent valuation analysis of the fair market value of our common stock as of November 30, 2006. Wipfli's report assessed the fair market value of our common stock at $2.20 per share as of such date. Wipfli's analysis was prepared in accordance with the methodology prescribed by the AICPA Practice Aid *Valuation of Privately-Held Company Equity Securities Issued as Compensation*, or the AICPA Practice Aid. Specifically, Wipfli's valuation placed particular emphasis on the publicly traded guideline company method and the discounted cash flow method, as well as referencing company stock transactions. The results from the discounted cash flow method were weighted higher by Wipfli than the publicly traded guideline company method, and various company stock transactions provided corroborating support for Wipfli's conclusion. The Wipfli report took into account our issuance in July and September 2006 of a total of 1.8 million shares of our Series C preferred stock at a price of $2.75 per share. Wipfli recognized that the Series C preferred stock provided for certain rights and preferences not otherwise available to shareholders of our common stock, including a 6% cumulative dividend, a senior liquidation preference to our Series B preferred stock and common stock, a conversion right on a share-for-share basis into common stock at the holders' option or upon certain qualified events, and a redemption right if certain liquidity events were not achieved within five years. Wipfli's assessment noted that recent transactions had taken place involving the sale of common and preferred stock among our shareholders, as well as our issuances of new shares, at prices between $2.00 and $3.00 per share. The report took into account that our sales had increased significantly over the past four years, but that our profitability had decreased significantly in fiscal 2005 and 2006, resulting in net losses in both fiscal years. However, the report noted that we had shown an increase in profitability for the 12 months prior to November 30, 2006. Wipfli noted that we had experienced difficulty obtaining our revolving credit facility in fiscal 2006, but that our financial situation had improved in fiscal 2007. Wipfli believed that, due to the borrowing base limitations in our revolving credit facility, we could continue to experience cash flow difficulties as we continued to grow, depending upon our level of profitability and working capital needs. Based on our financial condition and growth potential, our outlook from a financial perspective was deemed neutral by Wipfli. Since we were only in the very early stages during the last quarter of calendar 2006 of investigating the possibility of potentially pursuing an initial public offering or similar transaction, no reliable information was then available for Wipfli to assess or provide any relative probability or quantification to any such scenario for purposes of supplementing the private company valuation conclusions otherwise reached by Wipfli as described above.

For options granted from December 2006 to the June 18, 2007 release date of Wipfli's April 30, 2007 valuation described below, our compensation committee and board of directors considered various sources to establish the fair market value of our common stock for purposes of establishing the exercise price of such stock options, including: (i) independent third-party sales of our common stock; (ii) transactions in which we issued shares of our common and preferred stock to third-party investors;

and (iii) Wipfli's November 30, 2006 independent valuation described above. Our compensation committee and our board determined that there were no other significant events that had occurred during this period that would have given rise to a change in the fair market value of our common stock from these indicia of fair market value and that the exercise prices of stock options granted during this period were at least equal to our common stock's fair market value on each applicable grant date.

We engaged Wipfli to perform another valuation analysis of the fair value of our common stock as of April 30, 2007. Wipfli's analysis was prepared in accordance with the methodology prescribed by the AICPA Practice Aid. Wipfli considered a variety of valuation methodologies and economic outcomes and calculated its final valuation using the Probability Weighted Expected Return Method. Specifically, Wipfli's valuation again placed particular emphasis on the publicly traded guideline company method and the discounted cash flow method, as well as referencing pending company stock transactions. The valuation results from utilizing these private company enterprise methods were then supplemented by Wipfli assessing additional scenarios to reflect the increased possibility of our pursuing a potential initial public offering or similar transaction. The Wipfli analysis took into account that, in April 2007, we had signed an arm's-length negotiated letter of intent to issue a new series of preferred stock to institutional investors on terms similar to our Series C preferred stock, contemplating gross proceeds of approximately $9.0 million at a per share price of $4.49. Wipfli's analysis stated that the proposed per share price of the new series of preferred stock reflected liquidation preferences and dividend rights not otherwise available to our shareholders of common stock. The analysis also noted that transactions involving the sale of our common stock among shareholders within the prior six months had occurred at prices between $2.50 and $3.00 per share. Wipfli's analysis took into account that we had experienced liquidity and profitability difficulties in fiscal 2005 and 2006, but that we had recovered in fiscal 2007 and that, based on our financial condition and growth potential, our outlook from a financial perspective had improved from neutral to positive. Based on the foregoing criteria, Wipfli concluded that a private company enterprise fair value for our common stock as of April 30, 2007 was $3.50 per share. In accordance with the AICPA Practice Aid, and unlike Wipfli's November 2006 valuation, which only considered private company enterprise valuation approaches, Wipfli's valuation then gave further supplementary recognition and quantification to our increasingly likely consideration of a potential initial public offering, while also considering the economic value of other potential strategic alternatives or economic outcomes that might occur. In this regard, Wipfli analyzed various preliminary valuation data received in May 2007 by our board of directors in connection with our potential initial public offering. Wipfli assessed our probability of an initial public offering at 50%, our probability of completing a strategic alternative at 40%, and our probability of our remaining a private company at 10%. Based on such relative probabilities and (i) preliminary indications of the potential increase in value of our common stock resulting from a potential initial public offering; (ii) the potential increase in value of our common stock from other potential strategic alternatives; (iii) the value of our common stock resulting from remaining a privately-held company; and (iv) the per share value implied by the arm's-length negotiated letter of intent related to our proposed new series of preferred stock, Wipfli concluded that the fair value of our common stock as of April 30, 2007 was $4.15 per share.

Upon release of the April 30, 2007 Wipfli valuation on June 18, 2007, we determined that it was appropriate to reassess the fair market value of our stock options granted in March and April 2007 and use the $4.15 per share fair market value as set forth in Wipfli's April 30, 2007 valuation solely for financial statement reporting purposes for such stock option grants. Due to the proximity of Wipfli's November 30, 2006 independent valuation to our December 2006 option grants, we believe that the $2.20 per share exercise price established by our compensation committee and board of directors for such stock option grants appropriately represented fair market value on the date of grant for financial reporting purposes. Based on this reassessment for financial statement reporting purposes, we will recognize additional stock-based compensation expense of $0.8 million over the three-year weighted-average term of such stock options, including $0.1 million in fiscal 2008.

On July 27, 2007, we granted stock options for 429,432 shares at an exercise price of $4.49 per share. Our compensation committee and board of directors determined that the exercise price of such stock options was at least equal to the fair market value of our common stock as of such date primarily based on the $4.49 per share conversion price of our substantially simultaneous subordinated convertible note placement. Our compensation committee and board of directors based this determination on the fact that the valuation of our common stock reflected in such conversion price was the result of significant arm's- length negotiations with sophisticated institutional investors, led by an indirect affiliate of GEEFS, and took

into account the possibility of our potential near-term initial public offering. In determining that such exercise price was at least equal to the fair market value of our common stock on such date, our compensation committee and board of directors also took into account Wipfli's April 30, 2007 valuation of our common stock at $4.15 per share, which also took into account Wipfli's assessed 50% possibility of our potential initial public offering and the potential resulting value of our common stock. Our compensation committee and board of directors determined that there were no other significant events that had occurred during this period that would have given rise to a change in the fair market value of our common stock and that, despite the increasing possibility of a near-term initial public offering, such potential offering remained contingent upon many variable factors, including: (i) our financial results; (ii) investor interest in our company; (iii) economic and stock market conditions generally and specifically as they may impact us, participants in our industry or comparable companies; (iv) changes in financial estimates and recommendations by securities analysts following participants in our industry or comparable companies; (v) earnings and other announcements by, and changes in market evaluations of, us, participants in our industry or comparable companies; (vi) changes in business or regulatory conditions affecting us, participants in our industry or comparable companies; and (vii) announcements or implementation by our competitors or us of acquisitions, technological innovations or new products.

After the closing of this offering, we will solely use the closing sale price of our common shares on the Nasdaq Global Market (or other applicable stock exchange on which our shares are then traded) on the date of grant to establish the exercise price of our stock options, as required by our 2004 Stock and Incentive Awards Plan.

We recognized stock-based compensation expense related to the adoption of SFAS 123(R) of $0.4 million for fiscal 2007 and $0.1 million for our fiscal 2008 first quarter. As of March 31, 2007, $3.0 million of total stock option compensation cost was expected to be recognized by us over a weighted average period of three years. We expect to recognize $0.7 million of stock-based compensation expense in fiscal 2008 based on our stock options outstanding as of March 31, 2007. This expense will increase further to the extent we have granted, or will grant, additional stock options in fiscal 2008, as described above. Taking into account our stock options granted during fiscal 2008 through the date of this prospectus, a total of $3.9 million of stock option compensation cost is expected to be recognized by us over a weighted average period of three years, including $1.0 million fiscal 2008.

Common Stock Warrants. We issued common stock warrants to placement agents in connection with our various stock offerings and services rendered in fiscal 2005, 2006 and 2007. The value of warrants recorded as offering costs was $0.4 million, $30,000 and $18,000 in fiscal 2005, 2006 and 2007, respectively. The value of warrants recorded for services was $6,000 in fiscal 2006. As of March 31, 2007 and June 30, 2007, warrants were outstanding to purchase a total of 1,109,390 and 954,390 shares of our common stock at weighted average exercise prices of $2.24 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 4.32% to 4.62%; (iii) expected volatility ranging between 39% 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. We have determined that a valuation allowance against our net deferred tax assets was not necessary as of March 31, 2006 or 2007. In making 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 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 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, 2007, our federal and state net operating loss carryforwards were $5.1 million. Included in the $5.1 million loss carryforwards are $3.0 million of federal and $2.7 million of state expenses that are associated with the exercise of non-qualified stock options. The benefit from the net operating losses created from these expenses will be recorded as a reduction in taxes payable and an increase in additional paid in capital when the benefits are realized.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109*, or FIN 48, which became effective for us on April 1, 2007. FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The adoption of FIN 48 resulted in an increase to our accumulated deficit of $0.2 million at June 30, 2007. As of the adoption date, the balance of gross unrecognized tax benefits was $1.6 million, $0.3 million of which would impact our effective tax rate if recognized. Of this amount, $60,000 and $0.3 million were recorded as current and deferred tax liabilities, respectively. The remaining amount of unrecognized tax benefits of $1.2 million relates to net operating loss carryforwards created by the exercise of non-qualified stock options. The benefit from the net operating losses created from these expenses will be recorded as a reduction in taxes payable and a credit to additional paid-in capital in the period in which the benefits are realized. The amount of unrecognized tax benefits did not materially change as of June 30, 2007. It is expected that the amount of unrecognized tax benefits may change in the next 12 months if we generate sufficient taxable income to realize some or all of the $1.2 million of tax benefits. The remaining $0.4 million of gross unrecognized tax benefits is comprised of $0.3 million for expenses that may not be deductible for federal income tax purposes and $0.1 million for potential state income tax liabilities. 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 2000 are open to examination by tax authorities.

Recent Accounting Pronouncements

SFAS No. 157, Fair Value Measurements. In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, or SFAS 157. SFAS 157 provides a common definition of fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. SFAS 157 also requires expanded disclosures to provide information about the extent to which fair value, and the effect of fair value measures on earnings. SFAS 157 is effective for years beginning after November 15, 2007. We are currently evaluating the potential effect of SFAS 157 on our financial statements.

SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. On February 15, 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, or SFAS 159. Under this standard, we may elect to report financial instruments and certain other items at fair value on a contract-by-contract basis with changes in value reported in earnings. This election is irrevocable. SFAS 159 is effective for years beginning after November 15, 2007. We are currently evaluating the potential effect of SFAS 159 on our financial statements.

EITF No. 07-3, Accounting for Advance Payments for Goods or Services to Be Used in Future Research and Development Activities. In June 2007, the FASB ratified Emerging Issues Task Force ("EITF") Issue No. 07-3, *Accounting for Advance Payments for Goods or Services to Be Used in Future Research and Development Activities*, or EITF 07-3. This requires that nonrefundable advance payments for future research and development activities be deferred and capitalized. EITF 07-3 is effective as of the beginning of an entity's first fiscal year that begins after December 15, 2007. We are currently evaluating the potential effect of EITF 07-3 on our financial statements.

BUSINESS

Overview

We design, manufacture and implement energy management systems consisting primarily of high-performance, energy efficient lighting systems, controls and related services. 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 cut our customers' lighting-related electricity costs by approximately 50%, while increasing their quantity of light by approximately 50% and improving lighting quality when replacing 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 1,800 facilities across North America, representing over 451 million square feet of commercial and industrial building space, including for 73 Fortune 500 companies, such as General Electric Co., Kraft Foods Inc., Newell Rubbermaid Inc., OfficeMax, Inc., SYSCO Corp., and Toyota Motor Corp.

Our energy management system is comprised of: our HIF lighting system; our InteLite intelligent lighting controls; our Apollo Light Pipe, which collects and focuses daylight and consumes no electricity; and 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 electricity demand. From December 1, 2001 through June 30, 2007, we have installed over 850,000 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 are also expanding our customer base by executing our systematized, multi-step sales process.

Our annual total revenue has increased from $12.4 million in fiscal 2004 to $48.2 million in fiscal 2007. For the three months ended June 30, 2007, we recognized total revenue of $16.7 million, compared to $9.7 million for the three months ended June 30, 2006. We estimate that the use of our HIF fixtures has resulted in cumulative electricity cost savings for our customers of approximately $224 million and has reduced base and peak load electricity demand by approximately 243 MW through June 30, 2007. We estimate that this reduced electricity consumption has reduced associated indirect carbon dioxide emissions by approximately 2.8 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 prospectus, see notes (7) through (12) under "Summary Historical Consolidated and Pro Forma Financial Data and Other Information."

Our Industry

As a company focused on providing energy management systems, our market opportunity is created by growing electricity capacity shortages, underinvestment in 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 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. 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 EIA, $298 billion was spent on electricity in 2005 in the United States, up from $203 billion in 1994, an increase of 47%. Additionally, the EIA predicts consumption will increase from 3,821 billion kWh in 2005

to 5,478 billion kWh in 2030, or approximately 43%. As a result of this rapidly growing demand, the National Electric Reliability Council, or NERC, expects capacity margins to drop below minimum target levels in Texas, New England, the Mid-Atlantic, the Midwest and the Rocky Mountain area within the next two to three years. 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 estimates that the United States will require 292 GW of new generating capacity between 2006 and 2030 (the equivalent of 584 power plants rated at an average of 500 MW each). According to data provided by the International Energy Agency, or IEA, we estimate that new generating capacity and associated T&D investment will cost approximately $2.2 million per MW.

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, global energy-related carbon dioxide emissions in 2030 are expected to exceed 2003 levels by 52%, with power generation expected to contribute to about half of this increase. Coal-fired plants, which generate significant emissions of carbon dioxide and other pollutants, are projected by the EIA to account for 54% of the power generation capacity expansion expected in the United States between 2006 and 2030. 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 36% of total required domestic capacity additions, natural gas production has recently leveled off, which may make it difficult to fuel significant numbers of additional plants, and 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. As a result, we do not believe that renewable energy sources will account for a meaningful percentage of overall electricity supply growth in the near term. 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 DOE, the majority of U.S. transmission lines, transformers and circuit breakers — the backbone of the U.S. 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 U.S. T&D system, the Electric Power Research Institute, or EPRI, estimates that the United States will need to invest over $110 billion, or $5.5 billion per year, by 2025. This underinvestment is projected to become more pronounced as electricity demand grows. According to NERC, electricity demand is expected to increase by 19% between 2006 and 2015, while transmission capacity is expected to increase by only 7%.

High Electricity Costs. The price of one kWh of electricity (in nominal dollars, including the effects of inflation) has reached historic highs, according to the EIA. Rising electricity prices, coupled with increasing electricity consumption, are resulting in increasing electricity costs, particularly for businesses. Based on the most recent EIA electricity rate and consumption data available, we estimate that commercial and industrial electricity expenditures rose 74% and 21%, respectively, from 1994 to 2005, and rose 9% and 6%, respectively, in comparing monthly expenditures in April 2006 and April 2007. As a result, we believe that electricity costs are an increasingly significant 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, estimates that the United States can save up to 24% of its estimated electricity usage from 2000 to 2020 by deploying currently available energy efficiency

products and technologies across all sectors, the equivalent of over $70 billion per year in energy savings.

As a result, we believe governments, utilities and businesses are increasingly focused on demand reduction through energy efficiency and demand management programs. For example:

- Thirty-two states have, through legislation or regulation, ordered utilities to design and fund programs that promote or deliver energy efficiency.
- Twelve states have implemented, or are in the process of implementing, Energy Efficiency Resource Standards, which generally require utilities to allocate funds to energy efficiency programs to meet near-term savings targets set by state governments or regulatory authorities. These states include California, Texas, Colorado, New Jersey and Illinois.
- 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. To date, nearly half of all states have adopted or are adopting forms of decoupling for gas or 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 typically reduce consumption for only up to 100 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 number of hours that are 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

According to the DOE, lighting accounts for 22% of electric power consumption in the United States, with commercial and industrial lighting accounting for 65% of that amount. Based on this information, we estimate that approximately $42 billion was spent on electricity for lighting in the United States commercial and industrial sectors in 2005. Commercial and industrial facilities in the United States employ a variety of lighting technologies, including HID, traditional fluorescents and incandescent lighting fixtures. Our HIF lighting systems usually replace HID fixtures, which operate inefficiently and, according to EPRI, only convert approximately 36% of the energy they consume into visible light. The EIA estimates that as of 2003 there were 455,000 buildings in the United States representing 20.6 billion square feet that utilized HID lighting.

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 June 30, 2007, we believe that the use of our HIF fixtures has saved our customers $224 million in electricity costs and reduced their energy consumption by 2.9 billion kWh.

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).

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 line of motion control and ambient light sensors. This gives our customers the ability to control and adjust lighting and energy use levels for additional cost savings. Finally, we offer a further permanent reduction in electricity consumption through the installation and integration of our Apollo Light Pipe, which is a lens-based device that collects and focuses daylight without consuming electricity. By integrating our Apollo 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.

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.

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 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 June 30, 2007 have had the effect of reducing base and peak load demand by approximately 243 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 emissions by approximately 1.8 tons per year. Based on these figures, we estimate that the use of our HIF fixtures has reduced indirect carbon dioxide emissions by 2.8 million tons through June 30, 2007.

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.

Large and Growing Customer Base. We have developed a large and growing national customer base, and have installed our products in over 1,800 commercial and industrial facilities across North America. As of June 30, 2007, we have completed or are in the process of completing retrofits in over 400 facilities for our 73 Fortune 500 customers. 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 primarily 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. In addition, we have developed relationships with numerous electrical contractors, who often have significant influence over the choice of lighting solutions that their customers adopt.

Innovative Technology. We have developed a portfolio of 16 U.S. patents primarily covering various elements of our HIF fixtures. We also have nine patents pending that primarily cover various elements of our InteLite controls and our Apollo 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. We believe that our demonstrated ability to innovate provides us with significant competitive advantages.

Strong, Experienced Leadership Team. We have a strong and experienced senior management team led by our president and chief executive officer, Neal R. Verfuerth, 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 40 years of experience with our company and a combined 77 years of experience in the lighting and energy management industries.

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 expect 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 allowing us to be responsive to customer needs on a timely basis.

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. For the quarter ended as of June 30, 2007, we had completed or were in the process of completing retrofits at over 100 facilities for our top five customers by revenue for that quarter. We also intend to leverage our large installed base of HIF lighting systems to implement all aspects of our energy management system for our existing customers.

Target Additional Customers. We are expanding our base of commercial and industrial customers by executing our systematized sales process and by increasing our direct sales force. We focus our sales efforts in geographic locations where we already have existing customer sites. We plan to increase the visibility of our brand name and raise awareness of our value proposition by expanding our marketing efforts. In addition, we are implementing a sales and marketing program to leverage existing and develop new relationships with electrical contractors and their customers.

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 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 $2.2 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 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 by aligning with regional installers to achieve volume discounts. 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 and allow us to continue to deliver our compelling value proposition.

Develop New Sources of Revenue. We recently introduced our InteLite and Apollo Light Pipe 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, direct solar solutions, comprehensive lighting management software and controls and additional consulting services. We are also exploring opportunities to monetize emissions offsets based on our customers' electricity savings from implementation of our energy management systems, and executed our first sale of indirect carbon dioxide emissions offset credits in fiscal 2007.

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 system, which we primarily sell under the Compact Modular brand name. We offer our customers the option to build on our core HIF lighting system by adding our InteLite controls and Apollo Light Pipe. 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.

We currently generate, and have generated for the last three fiscal years, the substantial majority of our revenue from sales of our core HIF lighting systems and related services to commercial and industrial customers.

Products

The following is a description of our primary products:

The Compact Modular. Our primary product category 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 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.

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, which further reduces installation and maintenance costs.

InteLite Motion Control and Ambient Light Sensors. Our InteLite products include motion control and ambient light sensors which can be programmed to turn individual fixtures on and off based on user-defined parameters regarding motion and/or light levels in a given area. Our InteLite products can

be added to our HIF lighting systems at or after installation on a “plug and play” basis by coupling the sensors directly to the modular power pack. Because of their modular design, our InteLite 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.

Apollo Light Pipe. Our Apollo Light Pipe is a lens-based device that collects and focuses daylight, bringing natural light indoors without consuming electricity. Our Apollo 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 Light Pipe produces maximum lighting “power” in peak summer months and during peak daylight hours, when electricity is most expensive. By integrating our Apollo Light Pipe with our HIF lighting systems and InteLite 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 Light Pipe to offer further energy savings for our customers.

Wireless Controls. We are currently in the final stages of testing our wireless control devices. These devices will allow our customers to remotely communicate with and give commands to individual light fixtures through web-based software, and will allow the customer to configure and easily change the control parameters of each individual sensor based on a variety of inputs and conditions. We expect to begin selling these products in fiscal 2008.

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 and private label resale.

The installation of our products generally requires the services of qualified and licensed professionals trained to deal with electrical components and systems.

Services

We are expanding the scope of our fee-based lighting-relating energy management services. We provide our customers with, and derive revenue from, energy management services, such as:

- 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;
- installation services, 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.

In addition, we have begun to place more emphasis on offering our products under a sales-type financing program, under which our customer’s purchase of our energy management systems may be financed by paying us a specified amount over time based on a predetermined measure of the reduction in their electricity consumption resulting from the use of our products.

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 claims, including inquiries and claims relating to ballast and lamp components, through our customer service department. Additionally, we sometimes satisfy our warranty claims even if they are not covered by our warranty policy as a customer accommodation.

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.

Our Customers

We primarily target commercial and industrial end users who have warehousing and manufacturing facilities. As of June 30, 2007, we have installed our products in 1,800 commercial and industrial facilities across North America, including for 73 Fortune 500 companies. We have completed or are in the process of completing installations at over 400 facilities for these Fortune 500 customers. Our diversified customer base includes:

American Standard International Inc.	Gap, Inc.	OfficeMax, Inc.	SYSCO Corp.
Avery Dennison Corporation	General Electric Co.	Pepsi Americas Inc.	Textron, Inc.
Big Lots Inc.	Kraft Foods Inc.	Sealed Air Corp.	Toyota Motor Corp.
Blyth Inc.	Newell Rubbermaid Inc.	Sherwin-Williams Co.	United Stationers Inc.
Ecolab, Inc			

Sales and Marketing

We primarily 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. We intend to significantly expand our sales force in fiscal 2008.

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. 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.

We are implementing a joint marketing initiative with electrical contractors designed to generate additional sales. We believe these relationships will allow us to increase penetration into the lighting retrofit market because electrical contractors often have significant influence over their customers' lighting product selections.

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 organizations and energy management seminars. We intend to launch an expanded advertising and marketing campaign to increase the visibility of our brand name and raise awareness of our value proposition.

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 customer relationships, price, quality, 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., 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.

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

We have been issued 16 United States patents, and have applied for nine 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.
- Our ballast assembly method is patent pending.
- Our light pipe technology and its manufacturing methods are patent pending.
- Our wireless lighting control system is patent pending.
- The technology and methodology of our sales-type financing program is patent pending.

Our 16 United States patents have expiration dates ranging from 2015 to 2024, with slightly less than half of these patents having expiration dates of 2021 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 60-day supply of raw material and purchased component inventory. We manufacture products to order and are typically able to ship most orders within 30 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. Most recently

we have focused our research and developments efforts on the development and testing of our InteLite controls and Apollo Light Pipe, and we are currently finalizing testing on our wireless control products and software. We are also in the process of developing intelligent HVAC integration controls, direct solar solutions and comprehensive lighting management software. Our research and development expenditures were $1.1 million during fiscal 2007 and $0.4 million during our fiscal 2008 first quarter.

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.

Employees

As of June 30, 2007, we had approximately 180 full-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.

Properties

We own our approximately 266,000 square foot manufacturing and distribution facility in Manitowoc, Wisconsin. We own our approximately 23,000 square foot corporate headquarters in Plymouth, Wisconsin. This facility houses our executive and corporate services offices, sales and implementation team, custom fabrication facilities and warehouse space.

Legal Proceedings

From time to time, we are subject to various claims and legal proceedings arising in the ordinary course of our business. We are not currently subject to any material litigation.

Our History and Development

At the inception of our business in 1996, we were a distributor of compact fluorescent energy-efficient lighting products for the hospitality and agricultural markets. We developed and sold a fluorescent-based lighting fixture for agricultural applications under the Orion brand name in the late 1990s. Beginning in 2000, we began development of a high-performance lighting fixture for application in commercial and industrial facilities. In December 2001, we began manufacturing our HIF fixtures and sold our first Orion brand energy-efficient lighting fixture by marketing directly to end-users. In early fiscal 2005, we significantly expanded our production capabilities with the acquisition and equipping of our manufacturing center in Manitowoc. In fiscal 2005 and 2006, we focused on significantly increasing our sales volumes, particularly to Fortune 500 companies.

MANAGEMENT

Executive Officers and Directors

The following table sets forth information as of June 30, 2007 regarding our current executive officers and directors:

Name	Age	Position
Neal R. Verfuerth	48	President, Chief Executive Officer and Director
Daniel J. Waibel	47	Chief Financial Officer and Treasurer
Michael J. Potts	43	Executive Vice President and Director
Eric von Estorff	42	Vice President, General Counsel and Secretary
Patricia A. Verfuerth	48	Vice President of Operations
John H. Scribante	42	Senior Vice President of Business Development
Erik G. Birkerts	40	Vice President of Strategic Initiatives
Thomas A. Quadracci	59	Chairman of the Board
Diana Propper de Callejon	44	Director
James R. Kackley	65	Director
Eckhart G. Grohmann	71	Director
Patrick J. Trotter	51	Director

The following biographies describe the business experience of our executive officers and directors:

Neal R. Verfuerth has been our president and a director since 1998, and our chief executive officer since 2005. He co-founded our company in 1996 and served until 1998 as our vice president. From 1993 to 1996, he was employed as director of sales/marketing and product development of Lights of America, Inc., a manufacturer and distributor of compact fluorescent lighting technology. Prior to that time, Mr. Verfuerth served as president of Energy 2000/Virtus Corp., a solar heating and energy efficient lighting business. Mr. Verfuerth has invented many of our products, principally our Compact Modular energy efficient lighting system, and other related energy control technologies used by our company. He is married to our vice president of operations, Patricia A. Verfuerth.

Daniel J. Waibel has been our chief financial officer and treasurer since 2001. Mr. Waibel has over 19 years of financial management experience, and is a certified public accountant and a certified management accountant. From 1998 to 2001, he was employed by Radius Capital Partners, LLC, a venture capital and business formation firm, as a principal and chief financial officer. From 1994 through 1998, Mr. Waibel was chief financial officer of Ryko Corporation, an independent recording music label. From 1992 to 1994, Mr. Waibel was controller and general manager of Chippewa Springs, Ltd., a premium beverage company. From 1990 to 1992, Mr. Waibel was director of internal audit for Musicland Stores Corporation, a music retailer. Mr. Waibel was employed by Arthur Andersen, LLP from 1982 to 1990 as an audit manager.

Michael J. Potts has been our executive vice president since 2003 and has served as a director since 2001. Mr. Potts joined our company as our vice president — technical services in 2001. From 1988 through 2001, Mr. Potts was employed by Kohler Co., one of the world's largest manufacturers of plumbing products. From 1990 through 1999 he held the position of supervising engineer — energy in Kohler's energy and utilities department. In 2000, Mr. Potts assumed the position of supervisor — energy management group of Kohler's entire corporate energy portfolio, as well as the position of general manager of its natural gas subsidiary. Mr. Potts is licensed as a professional engineer in Wisconsin.

Eric von Estorff has been our vice president, general counsel and secretary since 2003. From 1997 to 2003, Mr. von Estorff was employed as corporate counsel and corporate secretary of Quad/Graphics, Inc. one of the United States' largest commercial printing companies, where he concentrated in the areas of acquisitions and strategic combinations, complex contracts and business transactions, finance and lending agreements, real estate and litigation management. Prior to his employment at Quad/Graphics, Inc., Mr. von Estorff was associated with a Milwaukee, Wisconsin-based law firm from 1994 to 1997.

Patricia A. Verfuerth has been our vice president of operations since 1997 and served as corporate secretary of our company from 1998 through mid-2003. Ms. Verfuerth was employed by Lights of America, Inc., a manufacturer and distributor of compact fluorescent lighting technology, from 1991 to 1997. At Lights of America, Inc., Ms. Verfuerth was responsible for recruiting and training of staff and as liaison to investor-owned utilities for their residential demand side management initiatives. From 1989 to 1992, she was operations manager for Energy 2000/Virtus Corp, a solar heating and energy efficient lighting business. She is married to our president and chief executive officer, Neal R. Verfuerth.

John H. Scribante has been our senior vice president of business development since 2007. Mr. Scribante served as our vice president of sales from 2004 until 2007. Prior to joining our company, Mr. Scribante co-founded and served as chief executive officer of Xe Energy, LLC, a distribution company that specialized in marketing energy reduction technologies, from 2003 to 2004. From 1996 to 2003, he co-founded and served as president of Innovize, LLC, a company that provided outsourcing services to mid-market manufacturing companies.

Erik G. Birkerts has been our vice president of strategic initiatives since March 2007. Mr. Birkerts founded and served as president of The Prairie Partners Group LLC, a business strategy consulting firm that worked with Fortune 500 and middle-market companies to create sales strategies, from 2000 through February 2007. Mr. Birkerts was the general manager of strategic development for Network Commerce, a technology company, from 1999 to 2000. From 1997 to 1999, he was a management consultant with Frank Lynn & Associates, a marketing consulting firm. Mr. Birkerts also worked as a bank examiner with the Federal Reserve Bank of New York from 1989 to 1994.

Thomas A. Quadracci has served as chairman of our board since 2006. Mr. Quadracci was executive chairman of Quad/Graphics, Inc., one of the United States' largest commercial printing companies that he co-founded in 1971, until January 1, 2007, where he also served at various times as executive vice president, president and chief executive officer, and chairman and chief executive officer. Mr. Quadracci also founded and served as President of Quad/Tech, Inc., a manufacturer and marketer of industrial controls, until 2002.

Diana Propper de Callejon has served as a director since January 2007. Since 2003, Ms. Propper de Callejon has been a general partner of Expansion Capital Partners, LLC, a venture capital firm focused on investing in clean technologies. Prior to joining Expansion Capital Partners, LLC, Ms. Propper de Callejon co-founded and was managing director of EA Capital, a financial services firm focused on clean technologies. Ms. Propper de Callejon is currently the managing member of Expansion Capital Partners II — General Partner, LLC, the general partner of Expansion Capital Partners II, LP, the general partner of Clean Technology Fund II, LP, which is one of our principal shareholders. See "Principal and Selling Shareholders." She is also a director and member of the compensation committee of Tiger Optics, LLC, an optical sensors company that is a portfolio company of Clean Technology Fund II, LP.

James R. Kackley has served as a director since 2005. Mr. Kackley practiced as a public accountant for Arthur Andersen, LLP from 1963 to 1999. From 1974 to 1999, he was an audit partner for the firm. In addition, in 1998 and 1999, he served as chief financial officer for Andersen Worldwide. From June 1999 to May 2002, Mr. Kackley served as an adjunct professor at the Kellstadt School of Management at DePaul University. Mr. Kackley serves as a director, a member of the executive committee and the audit committee chairman of Herman Miller, Inc., as a director and a member of the nominating and governance committee and the audit committee of Ryerson, Inc., and as a director and member of the management resources and compensation committee and audit committee of PepsiAmericas, Inc.

Eckhart G. Grohmann has served as a director since 2004. Mr. Grohmann is president and chairman of Aluminum Casting & Engineering Co., Inc., an aluminum foundry company with over 300 employees. Mr. Grohmann is currently serving as a director of the Wisconsin Cast Metals Association and previously served as the Wisconsin president and national director of the American Foundrymen's Society. Mr. Grohmann has also served as a regent of the Milwaukee School of Engineering since 1990.

Patrick J. Trotter has served as a director since 1996. From 1998 to 2006, Mr. Trotter served as chairman of our board of directors. From our inception to 1998, he was president of our company. Mr. Trotter is currently president of Health Solutions, Ltd, a national health care consulting company. He has over 30 years of senior leadership experience in the American health care system and holds a

masters degree in health care administration. Mr. Trotter is a fellow in the American College of Healthcare Executives.

Our executive officers are elected by, and serve at the discretion of, our board of directors.

Board of Directors

Our board of directors immediately following closing of this offering will consist of seven members divided into three classes, with each class holding office for staggered three-year terms. Upon expiration of the term of a class of directors, directors of that class will be elected for three-year terms at the annual meeting of shareholders in the year in which their term expires. Following the closing of this offering, the terms of office of the Class I directors, consisting of Ms. Propper de Callejon and Messrs. Quadracci and Potts, will expire upon our 2008 annual meeting of shareholders. The terms of office of the Class II directors, consisting of Messrs. Trotter and Grohmann, will expire upon our 2009 annual meeting of shareholders. The terms of office of the Class III directors, consisting of Messrs. Kackley and Verfuerth, will expire upon our 2010 annual meeting of shareholders.

Our amended and restated bylaws immediately following closing of this offering will provide that any vacancies in our board of directors and newly-created directorships may be filled for their remaining terms only by our remaining board of directors and the authorized number of directors may be changed only by our board of directors.

Ms. Propper de Callejon and Messrs. Quadracci, Trotter, Kackley and Grohmann are independent directors under the independence standards applicable to us under Nasdaq Global Market rules.

Board Committees

Our board of directors has established an audit and finance committee, a compensation committee and a nominating and corporate governance committee. Our board may establish other committees from time to time to facilitate our corporate governance.

Our audit and finance committee is comprised of Messrs. Kackley, Trotter and Grohmann. Mr. Kackley chairs the audit and finance committee and is an audit committee financial expert, as defined under SEC rules implementing Section 407 of Sarbanes-Oxley. The principal responsibilities and functions of our audit and finance committee are to (i) oversee the reliability of our financial reporting, the effectiveness of our internal control over financial reporting, and the independence of our internal and external auditors and audit functions and (ii) oversee the capital structure of our company and assist our board of directors in assuring that appropriate capital is available for operations and strategic initiatives. In carrying out its accounting and financial reporting oversight responsibilities and functions, our audit and finance committee, among other things, oversees and interacts with our independent auditors regarding the auditors' engagement and/or dismissal, duties, compensation, qualifications and performance; reviews and discusses with our independent auditors the scope of audits and our accounting principles, policies and practices; reviews and discusses our audited annual financial statements with our independent auditors and management; and reviews and approves or ratifies (if appropriate) related party transactions. Our audit and finance committee also is directly responsible for the appointment, compensation, retention and oversight of our independent auditors. Our audit and finance committee meets the requirements for independence under the current Nasdaq Global Market and SEC rules, as Messrs. Kackley, Trotter and Grohmann are independent directors for such purposes.

Our compensation committee is comprised of Ms. Propper de Callejon and Messrs. Quadracci, Trotter and Grohmann, with Mr. Quadracci acting as the chair. The principal functions of our compensation committee include (i) administering our incentive compensation plans; (ii) establishing performance criteria for, and evaluating the performance of, our executive officers; (iii) annually setting salary and other compensation for our executive officers; and (iv) annually reviewing the compensation paid to our non-employee directors. Our compensation committee meets the requirements for independence under the current Nasdaq Global Market and SEC rules, as Ms. Propper de Callejon and Messrs. Quadracci, Trotter and Grohmann are independent directors for such purposes.

Our nominating and corporate governance committee is comprised of Messrs. Grohmann, Kackley and Quadracci, with Mr. Grohmann acting as the chair. The principal functions of our nominating and

corporate governance committee are, among other things, to (i) establish and communicate to shareholders a method of recommending potential director nominees for the committee's consideration; (ii) develop criteria for selection of director nominees, (iii) identify and recommend persons to be selected by our board of directors as nominees for election as directors; (iv) plan for continuity on our board of directors; (v) recommend action to our board of directors upon any vacancies on the board; and (vi) consider and recommend to our board other actions relating to our board of directors, its members and its committees. Our nominating and corporate governance committee meets the requirements for independence under the current Nasdaq Global Market and SEC rules, as Messrs. Grohmann, Kackley and Quadracci are independent directors for such purposes.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This compensation discussion and analysis describes the material elements of compensation awarded to, earned by, or paid to each of our named executive officers, whom we refer to as our "NEOs," during fiscal 2007 and describes our policies and decisions made with respect to the information contained in the following tables, related footnotes and narrative for fiscal 2007. We also describe actions regarding compensation taken before or after fiscal 2007 when it enhances the understanding of our executive compensation program, particularly with respect to our executive and director compensation programs that will be effective upon the closing of this offering.

Overview of Our Executive Compensation Philosophy and Design

We believe that a skilled, experienced and dedicated senior management team is essential to the future success of our company and to building shareholder value. We have sought to establish competitive compensation programs that enable us to attract and retain executive officers with these qualities. The other objectives of our compensation programs for our executive officers are the following:

- to motivate our executive officers to achieve strong financial performance, particularly sales, profitability growth and increased shareholder value;
- to provide stability during our development stage; and
- to align the interests of our executive officers with the interests of our shareholders.

In light of these objectives, we have sought to reward our NEOs for achieving performance goals, creating value for our shareholders, and loyalty to our company. We also seek to reward initiative, innovation and creation of new products, technologies, business methods and applications since we believe our continued success depends in part on our ability to continue to create new competitive products and services.

Setting Executive Compensation

Our board of directors, our compensation committee and our chief executive officer each play a role in setting the compensation of our NEOs. Our board of directors appoints the members of our compensation committee and delegates to the compensation committee the direct responsibility for overseeing the design and administration of our executive compensation program. Our compensation committee currently is comprised of Ms. Propper de Callejon and Messrs. Quadracci, Trotter and Grohmann, each of whom is an "outside director" for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended, or IRC, and a "non-employee director" for purposes of Rule 16b-3 under the Exchange Act.

During fiscal 2007 and in previous years, our compensation committee's role was limited to setting compensation for, and negotiating employment agreements with, our chief executive officer, and to determining and approving equity awards for all of our NEOs. Historically, our chief executive officer set base salaries and performance targets, to the extent applicable, for our executive officers other than himself, including the base salary of his wife, who is our vice president of operations. Our chief executive officer also negotiated employment agreements with those executive officers who received such agreements, and made recommendations to our compensation committee concerning equity awards for our executive officers other than himself, including his wife. For fiscal 2008 and future years, our compensation committee will have primary responsibility for, among other things, determining our compensation philosophy, evaluating the performance of our executive officers, setting the compensation and other benefits of our executive officers, and administering our incentive compensation plans. Our chief executive officer will make recommendations to our compensation committee regarding the compensation of other executive officers, including his wife, and may attend meetings of our compensation committee at which our compensation committee considers the compensation of other executives.

Holders of our Series C preferred stock have had, and holders of our Series C preferred stock and the Convertible Notes currently have, a potential role in determining compensation of our NEOs. Under certain of the agreements governing their investments prior to August 3, 2007, we were not permitted to increase materially the salary, bonuses, benefits or other compensation of our management without prior written consent from the holders of a majority of our Series C preferred stock. Currently, we are not permitted to increase materially the salary, bonuses, benefits or other compensation of our management without prior written consent from the holders of a majority of our Series C preferred stock and our Convertible Notes. These provisions will terminate upon the automatic conversion of Series C preferred stock and Convertible Notes into common stock upon the closing of this offering. We regularly provide information relating to the compensation of our executive officers to GEEFS, which owns indirectly a majority of the Convertible Notes, and Ms. Propper de Callejon, who is associated with Clean Technology, which owns a majority of our Series C preferred stock, and is a member of our compensation committee.

For fiscal 2007, we did not engage in a formal benchmarking process for our compensation programs for NEOs. We based compensation levels on the collective experience of the members of our compensation committee and our chief executive officer, their business judgment and our experiences in recruiting and retaining executives. In anticipation of our becoming a public company and to develop our executive compensation program that will take effect upon the closing of this offering, our compensation committee has engaged Towers Perrin, a nationally-recognized compensation consulting firm, to provide recommendations and advice on our executive and director compensation programs to benchmark our NEOs' and directors' compensation, to provide advice on change-of-control severance provisions, and to provide advice regarding initial public offering bonuses for our NEOs. Our compensation committee expects to consider this guidance prior to the closing of this offering.

Pursuant to its engagement, Towers Perrin provided our compensation committee with certain benchmarking data for salaries, annual bonuses, long-term incentive compensation, total compensation, IPO bonuses and chairman of the board compensation. In compiling the benchmarking data, Towers Perrin relied on the Towers Perrin 2007 Long-Term Incentive Survey, the Towers Perrin 2007 Executive Compensation Survey, the Watson Wyatt 2006/2007 Top Management Compensation Survey and the Watson Wyatt 2007/2008 Middle Management Compensation Survey. To approximate our labor market, Towers Perrin used market results corresponding to the 96 participating companies in the surveys who are in the electrical equipment and supplies industry or, to the extent such results were not available for a position, results corresponding to participating companies in the durable goods manufacturing industry. Towers Perrin used regression analysis to adjust the survey data to compensate for differences among the revenue sizes of the companies in the survey and our revenue size. Our compensation committee continues to consider the Towers Perrin benchmarking data in connection with the proposed changes to our compensation programs described below.

Changes to Executive Compensation in Connection with Our Initial Public Offering

In fiscal 2008, in connection with, and subject to the closing of, this offering, we are implementing several changes to our compensation programs and policies, with the goal of establishing compensation programs and policies appropriate for a public company. The changes include the following:

- We propose to enter into new, standardized employment agreements with our NEOs. The agreements will outline the executive's position, base salary and incentive and benefit plan participation during a specified term. The agreements will automatically renew unless either party gives written notice in advance of the expiration of the term. The agreements also will provide for employment protections and severance benefits in the event of certain terminations, and for enhanced protections and benefits following a change of control. Our compensation committee's goals in putting these agreements in place are to secure and retain our executive officers and to ensure stability and structure during our development stage, particularly as a new public company. These employment agreements would replace the existing employment agreements we have with certain of our NEOs.

- We have amended and restated our 2004 Equity Incentive Plan, which will be renamed the Orion Energy Systems, Inc. 2004 Stock and Incentive Awards Plan. Among other things, the amendment and restatement does the following:
  - Increases the shares available under the plan from 1.0 million to 3.5 million shares;
  - Replaces the authority of our chief executive officer to make grants of awards with the ability of our board of directors to delegate to another committee of the board, including a committee comprised solely of our chief executive officer, the ability to make grants of awards, subject to various restrictions and limitations on such delegated authority;
  - Expands the list of performance goals that may be used for IRC Section 162(m) awards;
  - Permits the grant of annual and long-term cash bonus awards for IRC Section 162(m) purposes;
  - Includes a provision requiring that awards be adjusted in certain circumstances, such as in the event of a stock split, to avoid potential adverse accounting consequences;
  - Imposes a 10-year limit on the term of a stock option;
  - Permits cashless exercises of stock options through a broker-dealer;
  - Adds restricted stock units as a form of award available under the plan;
  - Caps the amount of an award that may vest or be paid upon a change of control to the extent needed to preserve our deduction under the IRC “excess parachute payment” rules;
  - Permits awards to be assumed under the plan in the event we acquire another entity;
  - Prohibits the repricing or backdating of stock options and stock appreciation rights; and
  - Expands the list of plan provisions that may be amended only with shareholder approval.
- We have revised and amended our compensation committee charter to reflect our compliance with current rules and guidelines of the Nasdaq Global Market, the Exchange Act, and Sarbanes Oxley.
- We are considering a management cash bonus program connected to the closing of this offering and the post-offering price performance of our common stock.

Elements of Compensation

Our current compensation program for our NEOs consists of the following elements:

- Base salary;
- Short-term incentive cash bonus compensation and other cash bonus compensation;
- Long-term equity incentive compensation; and
- Retirement and other benefits.

Base Salary

We pay our NEOs a base salary to compensate them for services rendered and to provide them with a steady source of income for living expenses throughout the year. We set the base salaries of our NEOs initially through an arm’s-length negotiation with each individual executive during the hiring process, and based upon the individual’s level of responsibility and our assessment of the individual’s experience, skills and knowledge. Our chief executive officer and our compensation committee review the base salaries of our NEOs (other than our chief executive officer) for potential increases once per year. Our chief executive officer recommends changes in base salaries, and our compensation committee accepts, modifies or rejects our chief executive officer’s recommendation, based upon various factors, including the individual NEO’s experience, level of responsibility, skills, knowledge, base salary in prior years, contributions to our company in prior years and compensation received through elements other than base salary. Pursuant to the terms of our chief executive officer’s employment agreement, his base salary is subject to a guaranteed increase of 8% each year, so the compensation committee did not review his base salary for potential increases along with the other NEOs. Under the terms of our proposed new

employment agreement with our chief executive officer, the compensation committee may increase our chief executive officer's base salary from time to time in its discretion, and there is no guaranteed annual increase in his salary. We generally pay lower base salaries than what we believe our competitors may pay for similar positions, based on our compensation committee's general industry experience and knowledge, and offer what we believe to be comparatively higher levels of short-term and long-term incentive compensation in order to better link pay with performance.

In fiscal 2007, we increased the base salary of Mr. Scribante from $135,000 to $150,000 in recognition of his increasing responsibilities, including leadership of our sales function, which was significantly responsible for a substantial part of our increased revenue in fiscal 2007, development of internal sales tracking tools, responsibility for an increasing number of national accounts, and in recognition of his experience, knowledge, skill and past and expected future contributions to our company. In fiscal 2007, we also increased Mr. Verfuerth's base salary by 8%, from $250,000 to $270,000 and, effective at the beginning of fiscal 2008, we increased Mr. Verfuerth's base salary from $270,000 to $291,600, in each case pursuant to the terms of his existing employment agreement. In fiscal 2008, we increased the base salaries of Ms. Verfuerth and Messrs. Waibel and Potts by $15,000 each, to $165,000. We increased Ms. Verfuerth's base salary in light of the length of time since her base salary had last been adjusted and her increasing responsibilities associated with our growth, including her oversight of increasingly significant transactions with vendors and complex scheduling and production issues. We increased Mr. Waibel's base salary in light of the length of time since his base salary had last been adjusted and his increasing responsibilities associated with our growth, including his oversight of the growing capital needs of our company. We increased Mr. Potts's base salary in light of the length of time since his base salary had last been adjusted and his increasing responsibilities associated with our growth, including his oversight of the formalization and systematization of our company's management procedures and processes.

Short-Term Cash Bonus Incentive Compensation and Other Cash Bonus Compensation

In fiscal 2007, we provided certain of our NEOs with performance-based cash incentive bonus opportunities to provide them with competitive compensation packages and to reward achievement of our performance objectives. We also granted discretionary cash bonuses to other NEOs to reward them for high levels of individual performance during fiscal 2007. The NEOs who participated in performance-based cash incentive bonus opportunities in fiscal 2007 were Messrs. Verfuerth, Scribante and Wadman, and the NEOs who received discretionary cash bonuses were Ms. Verfuerth and Messrs. Waibel and Potts.

We provided Mr. Verfuerth's bonus opportunity pursuant to his employment agreement, and established the performance measures and targets applicable to the bonus opportunity at the time we entered into his agreement in fiscal 2006. Under his agreement, Mr. Verfuerth's bonus opportunity for fiscal 2007 was tied to achievement of the following company-wide financial performance targets, which were calculated in accordance with GAAP, to the extent applicable, and with the related bonus payments based on a percentage of his base salary for fiscal 2007: (i) a revenue target of $70 million, which corresponded to a potential bonus payment of 35% of base salary; (ii) an EBITDA target of $12 million, which corresponded to a potential bonus payment of 35% of base salary; (iii) a capital raising target of $20 million, which corresponded to a potential bonus payment of 15% of base salary; and (iv) a share price target of $10 per share, which corresponded to a potential bonus payment of 15% of base salary.

Our compensation committee based Mr. Verfuerth's target performance levels on our business plan, setting the targets at what it considered a "stretch" level at the time of grant. Our compensation committee viewed achievement of 75% of the designated targets as more likely to be achieved than target performance. Our compensation committee selected the four performance metrics described above as appropriate measures of key elements of our company's financial performance that were consistent with the overall goals and objectives of our executive compensation program. The committee allocated Mr. Verfuerth's bonus potential among the metrics seeking to balance metrics relating to growth and profitability in order to reflect the relative importance of each metric to what the committee considered the desired performance of our company consistent with our executive compensation philosophy.

If we had achieved target performance for all of the measures, Mr. Verfuerth would have been eligible to receive a cash bonus equal to 100% of his base salary for fiscal 2007. Our compensation committee viewed a target payout of 100% of base salary as appropriate for Mr. Verfuerth as part of a competitive compensation package and in light of his skills, experience, past performance and expected contributions to our company in the future. Mr. Verfuerth's employment agreement also specified that our board had discretion to award a bonus ranging from 0% to 60% of the amount due for target performance related to any measure for which we achieved performance equal to 75% or more of the specified target.

Any short-term incentive compensation earned by Mr. Verfuerth could, under the terms of his existing employment agreement, be paid in cash, equity or a combination of the two, as determined by our board in consultation with Mr. Verfuerth. We did not achieve 75% or more of any of the specified performance targets in fiscal 2007, so Mr. Verfuerth did not receive a bonus payment for fiscal 2007.

Mr. Scribante's existing employment agreement provided for a bonus of up to 100% of his base salary if our company achieved $70 million in revenue for fiscal 2007. The agreement also specified that our board had discretion to award a bonus, ranging from 0% to 60% of Mr. Scribante's base salary, if we achieved performance equal to 75% or more of the revenue target. We set Mr. Scribante's target payout at 100% of his base salary to provide competitive compensation and in view of the importance of his position to our growth strategies. We did not achieve 75% or more of the revenue target for fiscal 2007. However, in view of Mr. Scribante's significant contributions in fiscal 2007 to the success of our company, including his contributions to our revenue growth in fiscal 2007, his development of substantial national account opportunities and his importance to our continued success, our compensation committee authorized a discretionary cash bonus to be paid to Mr. Scribante. Our compensation committee based the amount of Mr. Scribante's bonus, which was $50,000, on our chief executive officer's subjective evaluation of Mr. Scribante's contributions to our company's success in fiscal 2007 and our chief executive officer's corresponding recommendations.

Our compensation committee also awarded discretionary cash bonuses of $20,000 each to Ms. Verfuerth and Messrs. Waibel and Potts in light of their high levels of performance and significant contributions to our company in fiscal 2007. Our compensation committee based the amounts of these bonuses on our chief executive officer's subjective evaluation of the recipients' contributions to our company's success in fiscal 2007 and his corresponding recommendation.

Mr. Wadman was eligible under the terms of his employment agreement for a bonus equal to 30% of his base salary based on achievement of the same performance targets applicable to Mr. Verfuerth's bonus opportunity. Because those targets were not achieved, Mr. Wadman did not receive any bonus payment for fiscal 2007. Mr. Wadman's employment with us ended on February 19, 2007. We describe the terms of his separation agreement below under "— Payments upon Termination or Change of Control."

Beginning upon the closing of this offering, and based on the recommendations of Towers Perrin, we intend to implement a new short-term cash bonus incentive compensation program under our new 2004 Stock and Incentive Awards Plan that will, in connection with the new employment agreements we propose to enter into with our NEOs, supersede the existing short-term incentive compensation arrangements for Messrs. Verfuerth and Scribante. Our compensation committee has not yet taken action with respect to a short-term cash bonus incentive compensation program for fiscal 2008.

Our compensation committee is also currently seeking the recommendations of Towers Perrin relating to the implementation of a management cash bonus program connected to the closing of this offering and the post-offering price performance of our common stock.

Long-Term Equity Incentive Compensation

We provide the opportunity for our NEOs to earn long-term equity incentive awards under our 2003 Stock Option Plan and our 2004 Equity Incentive Plan, which will be replaced by our new 2004 Stock and Incentive Awards Plan effective after this offering. Our employees, officers, directors and consultants are eligible to participate in these plans. We believe that long-term equity incentive awards enhance the alignment of the interests of our NEOs and the interests of our shareholders and provide our NEOs with incentives to remain in our employment. For these reasons, in fiscal 2007, as in previous years, we

provided a significant component of our NEOs' compensation through means of long-term equity incentive awards.

We have generally granted long-term equity incentive awards in the form of options to purchase shares of our common stock, which are initially subject to forfeiture if the executive's employment terminates for any reason. The options generally vest and become exercisable ratably over five years, contingent on the executive's continued employment. In the past, we have granted both incentive stock options and non-qualified stock options to our NEOs. We use time-vesting stock options as our primary source of long-term equity incentive compensation to our NEOs because we believe that (i) stock options help to align the interests of our NEOs with the interests of our shareholders by linking their compensation with the increase in value of our common stock over time, (ii) stock options conserve our cash resources for use in growing our business and (iii) vesting requirements on stock options and the limited liquidity of our stock provide our NEOs with incentive to continue their employment with us which, in turn, provides us with greater stability.

Our compensation committee made awards for fiscal 2007 in December 2006, when we granted time-vesting stock options to Ms. Verfuerth and Messrs. Verfuerth, Waibel and Potts under our 2004 Equity Incentive Plan. To determine the number of options granted to Mr. Verfuerth, our compensation committee took into account for comparative purposes the past grants in fiscal 2001 and fiscal 2002 of options to purchase, in each case, 500,000 shares. Our compensation committee also considered the scope of Mr. Verfuerth's increasing responsibilities, his past performance and anticipated future contributions to our company's performance, both with respect to operations and our organization, prior option grants (including the vesting schedule of such prior grants) to Mr. Verfuerth, Mr. Verfuerth's total cash compensation and the desirability of retaining Mr. Verfuerth, and determined that a grant of an option to purchase 250,000 shares was appropriate. Based on this number as a starting point, our compensation committee determined the proportionately smaller numbers of option shares that it considered appropriate for grants to our other executives, including our other NEOs, based directly on the compensation committee's perception of each NEO's respective importance to our company's ongoing performance. Our compensation committee granted Mr. Waibel an option to purchase 100,000 shares, Mr. Potts an option to purchase 75,000 shares, and Ms. Verfuerth an option to purchase 50,000 shares, in each case at an exercise price of $2.20 per share. Following approval of the grants by our compensation committee, our board of directors ratified and approved the compensation committee's actions.

All of the options that we granted to our NEOs in December 2006 are subject to ratable vesting over five years of continuous employment, measured from the grant date, and have an exercise price equal to the fair market value of our common stock on the date of grant as determined at the time of grant by our compensation committee and board of directors. Our compensation committee and board of directors used various sources to determine the fair market value of our common stock for purposes of establishing the exercise price of stock options, including (i) independent third-party sales of our common stock; (ii) transactions in which we issued shares of our common and preferred stock to third-party investors; and (iii) independent valuations of the fair market value of our common stock. For the options we granted to our NEOs in December 2006, our compensation committee and board of directors determined the fair market value or our common stock primarily in reliance on a November 30, 2006 independent valuation of the fair market value of our common stock performed by Wipfli LLP, an independent third-party valuation firm that we retained to perform such valuation. See "Management's Discussion and Analysis of Financial Condition and Results of Operation — Critical Accounting Policies and Estimates — Stock-Based Compensation."

In June 2006, we granted Mr. Scribante an option to purchase 100,000 shares of our common stock in connection with his entering into his new employment agreement. We granted Mr. Scribante this option in view of his increasing responsibilities and his past and expected future contributions to our financial performance. The option is subject to ratable vesting over five years of continuous employment, measured from March 31, 2006, and has an exercise price of $2.50 per share, the price at which we offered shares in our most recent offering of our Series B preferred stock at the time of the option grant. We determined the number of options granted to Mr. Scribante through an arm's-length negotiation over the terms of his employment agreement and with a goal of providing compensation commensurate with his responsibilities and position within our company.

In March 2007, Mr. Verfuerth and Ms. Verfuerth exercised previously granted non-qualified stock options for 1,000,000 and 750,000 shares of our common stock, respectively, and paid the exercise price of such options in the form of a promissory note in the principal amount of $812,500 and $565,625, respectively. Under Sarbanes-Oxley, a company may not have loans outstanding to its executive officers at the time it files its registration statement for an initial public offering with the SEC. As a result, in order to extinguish these outstanding loans to Mr. Verfuerth and Ms. Verfuerth prior to the filing with the SEC of the registration statement of which this prospectus is a part, effective on July 27, 2007, Mr. Verfuerth surrendered 180,958 shares of common stock to us in satisfaction of the $812,500 outstanding principal amount under his March 2007 promissory note. He paid the accrued interest on such note to us in cash on August 2, 2007. Similarly, effective on July 27, 2007, Ms. Verfuerth surrendered 125,974 shares of common stock to us in satisfaction of the $565,625 outstanding principal amount under her March 2007 promissory note. She paid the accrued interest on such note to us in cash on August 2, 2007. We redeemed Mr. Verfuerth's and Ms. Verfuerth's shares using a fair market value of $4.49 per share, which is the same value as the per share conversion price of the Convertible Notes issued to an indirect affiliate of GEEFS, Clean Technology and affiliates of Capvest on August 3, 2007. At the same time in order not to economically penalize Mr. Verfuerth and Ms. Verfuerth in connection with such share redemptions, our compensation committee granted Mr. Verfuerth and Ms. Verfuerth a non-qualified stock option to purchase 180,958 and 125,974 shares of our common stock, respectively. The options have an exercise price of $4.49 per share, a one-year vesting period and a four-year term. The options granted were designated as non-qualified stock options instead of incentive stock options in order to provide our company with a tax deduction for the difference between the fair market value of such shares on the date of option exercise and their exercise price. The one-year vesting period was determined to be important by our committee to enhance the retention benefits to our company of granting such options. The four-year exercise period is shorter than our more typical option exercise period because our compensation committee decided to carry over the then remaining exercise period that was applicable to the stock options that were exercised by Mr. Verfuerth and Ms. Verfuerth in March 2007. Our compensation committee determined that this method of satisfying Mr. Verfuerth's and Ms. Verfuerth's outstanding loans was fair to our company and its shareholders because it (i) allowed us to proceed with this initial public offering; (ii) was not dilutive to our shareholders; (iii) provided us with additional retention benefits; and (iv) provided approximately the same economic consequences to Mr. Verfuerth and Ms. Verfuerth as originally contemplated, although Mr. Verfuerth and Ms. Verfuerth will recognize certain originally unintended adverse tax consequences, and we will recognize certain originally unintended tax benefits, upon their ultimate exercise of the stock options granted.

We made all of the option grants to our NEOs in fiscal 2007 under our 2004 Equity Incentive Plan. As required by the 2004 Equity Incentive Plan, all options granted in fiscal 2007 to our NEOs had an exercise price equal to or higher than the fair market value of our common stock on the date of grant as determined at the time of grant by our compensation committee and our board of directors. An exercise price equal to or higher than the fair market value of our common stock on the date of grant is also required to prevent the options from being classified as "deferred compensation" subject to the election and payment timing requirements of Section 409A of the IRC. The number of shares of our common stock covered by the options granted to each of our NEOs in fiscal 2007 is reflected in the Grants of Plan-Based Awards table below. Except as described above, the options expire to the extent unexercised on the earliest of the tenth anniversary of the grant date, a termination of employment for cause, three months following a termination other than for cause or due to death, retirement or disability and one year following a termination of employment due to death or disability. See " — Payments upon Termination or Change of Control" for a description of the terms of the options relating to a change of control of our company.

Our compensation committee intends to award long-term equity incentives to our executives on an annual basis, although more frequent awards may be made at the discretion of our compensation committee on other occasions. Future awards will be made under our 2004 Stock and Incentive Awards Plan, which we have modified as described above under "Changes to Executive Compensation in Connection with Our Initial Public Offering" and which will become effective upon closing of this offering.

Retirement and Other Benefits

Welfare and Retirement Benefits. As part of a competitive compensation package, we sponsor a welfare benefit plan that offers health, life and disability insurance coverage to participating employees. In addition, to help our employees prepare for retirement, we sponsor the Orion Energy Systems Ltd 401(k) Plan and match employee contributions at a rate of 3% of the first $5,000 of an employee's contributions. Our NEOs participate in the broad-based welfare plans and the 401(k) Plan on the same basis as our other employees. We also provide enhanced life and disability insurance benefits for our NEOs. Under our enhanced life insurance benefit, we pay the full cost of premiums for life insurance policies for our NEOs. The amounts of the premiums are reflected in the Summary Compensation Table below. Our enhanced disability insurance benefit includes a higher maximum benefit level than under our broad-based plan, cost of living adjustments and a portability feature.

Perquisites and Other Personal Benefits. We provide perquisites and other personal benefits that we believe are reasonable and consistent with our overall compensation program to better enable our executives to perform their duties and to enable us to attract and retain employees for key positions. Under their employment agreements, we provided Mr. Verfuerth and, until his termination of employment, Mr. Wadman with a car allowance of $1,000 per month. We also provide Ms. Verfuerth and Messrs. Waibel and Potts with a car allowance of $1,000 per month, and we provided Mr. Scribante with a similar car allowance for the first part of fiscal 2007, until we discontinued the allowance with respect to all of our sales group members in May 2006. Mr. Scribante now participates in a program under which we provide mileage reimbursement for business travel.

In connection with the formation of our company, we loaned Mr. Verfuerth $47,069 to purchase common stock. This note bore interest at 1.46% and was payable upon demand. Interest of $19,883 had accrued on the note through June 30, 2007. Mr. Verfuerth paid this note and all accrued interest in cash on August 2, 2007. In addition, from time to time, we advanced Mr. Verfuerth and Ms. Verfuerth amounts net of payment of the guarantee fees described below. Pursuant to Mr. Verfuerth's existing employment agreement, we forgave $36,667 of these outstanding advances in fiscal 2007, as reflected in the Summary Compensation Table. The outstanding advances were $229,307 as of June 30, 2007 and did not bear interest. Mr. Verfuerth paid the balance outstanding, net of amounts that we forgave pursuant to his existing employment agreement, in cash on August 2, 2007.

Mr. Verfuerth's existing employment agreement entitled him to a guarantee fee of 1% of portions of our indebtedness that he personally guaranteed. We determined the amount of the guarantee fee as a result of an arm's length negotiation with Mr. Verfuerth and based on our compensation committee's and our management's collective experience with third-party debt obligation guarantee fees in other contexts indicating that 1% was generally a reasonable approximation of a market rate for such fees. Historically, we used this arrangement to permit us to borrow money at lower interest rates. These guarantees have been released. In fiscal 2007, we paid Mr. Verfuerth $77,880 in related guarantee fees, as reflected in the Summary Compensation Table. Mr. Verfuerth's existing employment agreement also entitles him to ownership of any intellectual property work product he creates during the term of his agreement, but requires him to disclose to us, and give us the option to acquire, all such work product. Under his existing employment agreement, the price of such patented or patent pending work product is subject to negotiation, but may not exceed $1,500 per month per item of work product during the period in which we significantly used or rely upon the item. The existing employment agreement entitles us to acquire all of Mr. Verfuerth's intellectual property work product with respect to which he does not intend to file a patent for a single flat fee of $1,000. The agreement also requires Mr. Verfuerth to communicate with us regarding any of his intellectual property work product that we acquired and to provide reasonable assistance to us in enforcing our rights in any such work product. We provided this arrangement to give Mr. Verfuerth an incentive to create potentially valuable intellectual property for use in our business, to compensate him for any such intellectual property he might create and to ensure that we would have the option to acquire any such intellectual property. In fiscal 2007, we paid Mr. Verfuerth $27,000 in intellectual property fees for intellectual property work product that we acquired, as reflected in the Summary Compensation Table.

Severance and Change of Control Arrangements

Under our proposed new employment agreements with our NEOs, we will provide certain protections to our NEOs in the event of certain terminations of their employment, including enhanced protections for certain terminations that may occur after a change of control of our company after this offering. In general, under the proposed new employment agreements, our NEOs would become entitled to severance benefits on the occurrence of an involuntary termination without cause or a voluntary termination with good reason, and these benefits would be enhanced following a change of control of our company after this offering. Our NEOs would only receive the enhanced severance benefits following a change in control, however, if their employment terminates without cause or for good reason. We describe this type of arrangement as subject to a "double trigger." Subject to receiving the recommendations and advice of Towers Perrin, under the proposed employment agreements, all payments, including any double trigger payments, to be made to our NEOs in connection with a change of control under the employment agreements and any other of our agreements or plans are proposed to be subject to a potential "cut-back" in the event any such payments or other benefits become subject to non-deductibility or excise taxes as "excess parachute payments" under Code Section 280G or 4999. The proposed cut-back provisions would be structured such that all amounts payable under the employment agreement and other of our agreements or plans that constitute change of control payments would be cut back to one dollar less than three times the executive's "base amount," as defined by Code Section 280G, unless the executive would retain a greater amount by receiving the full amount of the payment and paying the related excise taxes.

Our 2003 Stock Option Plan and our 2004 Equity Incentive Plan also provide potential protections to our NEOs in the event of certain changes of control. Under these plans, our NEOs' stock options that are unvested at the time of a change of control may become vested on an accelerated basis in the event of certain changes of control. This offering will not constitute a "change in control" under our plans.

We have selected these triggering events to afford our NEOs some protection in the event of a termination of their employment, particularly after a change of control, that might occur after the closing of this offering. We believe these types of protections better enable them to focus their efforts on behalf of our company. We also provide severance benefits in order to obtain from our NEOs certain concessions that protect our interests, including their agreement to confidentiality, intellectual property rights waiver, non-solicitation and non-competition provisions. See below under the heading "Payments upon Termination or Change of Control" for a description of the specific circumstances that would trigger payment or the provision of other benefits under these arrangements, as well as a description, explanation and quantification of the payments and benefits under each circumstance. This offering will not constitute a "change in control" under the proposed new employment agreements.

In connection with the termination of employment of Messrs. Wadman and Prange in fiscal 2007, we entered into separation agreements providing for certain payments and other benefits. The terms of the separation agreements are described below under "Payments upon Termination or Change of Control." We agreed to provide these payments and other benefits in order to obtain certain protections for our company, including a release of claims and certain restrictive covenants, and to settle any disputes that might otherwise arise in connection with the termination of employment.

Other Policies

Policies On Timing of Option Grants. As a privately-owned company, there has been no public market for our common stock. Accordingly, in fiscal 2007, we did not have a policy on the timing of option grants appropriate for a public company. In connection with this offering, our compensation committee and board of directors adopted such a policy, under which our compensation committee generally will make option grants effective as of the date two business days after our next quarterly (or year-end) earnings release following the decision to make the grant, regardless of the timing of the decision. Our compensation committee has elected to grant and price option awards shortly following our earnings releases so that options are priced at a point in time when the most important information about our company then known to management and our board is likely to have been disseminated in the market.

Our board of directors has also delegated limited authority to our chief executive officer, acting as a subcommittee of our compensation committee, to grant equity-based awards under our 2004 Stock and Incentive Awards Plan. Our chief executive officer may grant awards covering up to 250,000 shares of our common stock per year to certain non-executive officers in connection with offers of employment, promotions and certain other circumstances. Under this delegation of authority, any options or stock appreciation rights granted by our chief executive officer must have an effective grant date on the first business day of the month following the event giving rise to the award.

As amended and restated in connection with this offering, our 2004 Stock and Incentive Awards Plan will not permit awards of stock options or stock appreciation rights with an effective grant date prior to the date our compensation committee or our chief executive officer takes action to approve the award.

Tax and Accounting Considerations. In setting compensation for our NEOs, our compensation committee considers the deductibility of compensation under the IRC. As a private company, we were able to deduct all compensation that we paid to our NEOs as long as it was reasonable. After the closing of this offering, we will be subject to the provisions of Section 162(m) of the IRC. Section 162(m) prohibits us from taking a tax deduction for compensation in excess of $1.0 million that is paid to our chief executive officer and our NEOs, excluding our chief financial officer, and that is not considered "performance-based" compensation under Section 162(m). However, certain transition rules of Section 162(m) permit us to treat as performance-based compensation that is not subject to the $1.0 million cap (i) the compensation resulting from the exercise of stock options that we granted prior to this offering; (ii) the compensation payable under bonus arrangements that were in place prior to this offering; and (iii) compensation resulting from the exercise of stock options and stock appreciation rights, or the vesting of restricted stock, that we may grant during the period that begins after the closing of this offering and generally ends on the date of our annual shareholders meeting that occurs in 2011. Effective upon closing of this offering, our amended and restated 2004 Stock and Incentive Awards Plan will provide for the grant of performance-based compensation under Section 162(m). Our compensation committee may, however, approve compensation that will not meet the requirements of Section 162(m) in order to ensure competitive levels of total compensation for our executive officers.

Effective April 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards 123(R), *Share Based Payment*, or "SFAS 123(R)," 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. Prior to fiscal 2007, we accounted for our stock option awards under the intrinsic value method under the provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock issued to Employees*, and we did not recognize the fair value expense of our stock option awards in our statement of operations, although we did report our pro forma stock option award fair value expense in the footnotes to our financial statements. The new method of expensing share-based payments will result generally in an increase in the near-term expense associated with awards of stock options. We recognized $0.4 million of stock-based compensation expense in fiscal 2007. As of March 31, 2007, we expected to recognize $3.0 million of total unrecognized stock option compensation cost over a weighted average period of three years. We expect to recognize $0.7 million of stock-based compensation expense in fiscal 2008 based on our stock options outstanding as of March 31, 2007. This expense will increase further to the extent we have granted additional stock options in fiscal 2008. Taking into account our stock options granted during fiscal 2008 through the date of this prospectus, a total of $3.9 million of stock option compensation is expected to be recognized by us over a weighted average period of three years, including $1.0 million in fiscal 2008. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates — Stock-Based Compensation." Despite these charges, we continue to believe that stock options are an effective method of compensation and we anticipate that we will continue to use stock options as an integral part of our compensation program.

In fiscal 2007, as in past years, we granted incentive stock options to our NEOs under our 2004 Equity Incentive Plan. We have also granted non-qualified stock options under our equity-based plans. We intend for the incentive stock options that we grant to qualify under Section 422 of the IRC, which would result in favorable tax treatment to the recipient of the option if the recipient complies with various restrictions and disposes of the stock acquired under the option in a so-called "qualifying" disposition. Our company does not receive an income tax deduction with respect to incentive stock

options unless there is a disqualifying disposition of the stock acquired under the option. Our compensation committee believes that the favorable tax treatment of incentive stock options to the recipient is a valuable tool in our efforts to provide competitive compensation to attract and retain excellent employees for key positions and therefore, despite the potential loss of income tax deductions to our company, may continue to grant incentive stock options to our executives.

We maintain certain deferred compensation arrangements for our employees and non-employee directors that are potentially subject to IRC Section 409A. If such an arrangement is neither exempt from the application of IRC Section 409A nor complies with the provisions of IRC Section 409A, then the employee or non-employee director participant in such arrangement is considered to have taxable income when the deferred compensation vests, even if not paid at such time, and such income is subject to an additional 20% income tax. In such event, we are obligated to report such taxable income to the IRS and, for employees, withhold both regular income taxes and the 20% additional income tax. If we fail to do so, we could be liable for the withholding taxes and interest and penalties thereon. Stock options with an exercise price lower than the fair market value of our common stock on the date of grant are not exempt from coverage under IRC Section 409A. We believe that all of our stock option grants are exempt from coverage under IRC Section 409A. Our deferred compensation arrangements are intended to either qualify for an exemption from, or to comply with, IRC Section 409A.

Summary Compensation Table for Fiscal 2007

The following table sets forth for our NEOs: (i) the dollar amount of base salary earned during fiscal 2007; (ii) the dollar value of bonuses earned during fiscal 2007; (iii) the dollar value of our SFAS 123(R) expense during fiscal 2007 for all equity-based awards held by our NEOs; (iv) all other compensation for fiscal 2007; and (v) the dollar value of total compensation for fiscal 2007.

Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Option Awards ($)(1)	All Other Compensation ($)	Total ($)
Neal R. Verfuerth President and Chief Executive Officer	2007	270,000	—	18,572	156,739(2)	445,311
Daniel J. Waibel Chief Financial Officer & Treasurer	2007	150,000	20,000	18,562	13,014(3)	201,576
John H. Scribante Senior Vice President of Business Development	2007	149,375	50,000	53,291	15,764(4)	268,430
Michael J. Potts Executive Vice President	2007	150,000	20,000	16,705	15,053(3)	201,758
Patricia A. Verfuerth Vice President of Operations	2007	150,000	20,000	14,848	12,366(5)	197,214
Bruce Wadman Former Chief Operating Officer(6)	2007	160,413	—	17,042	112,589	290,044
James L. Prange Former Vice President of Business Development(7)	2007	126,500	—	13,419	40,306	180,225

(1) Represents the amount of expense recognized for financial accounting purposes pursuant to SFAS 123(R) for fiscal 2007 in our financial statements included elsewhere in this prospectus. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions.

(2) Includes (i) $77,880 in guarantee fees we paid to Mr. Verfuerth in exchange for his personal guarantee of certain of our outstanding indebtedness (see “Related Party Transactions”); (ii) $36,667 in forgiveness of outstanding indebtedness pursuant to Mr. Verfuerth’s existing employment agreement (see “Related Party Transactions”); (iii) $27,000 in intellectual property fees we paid to Mr. Verfuerth pursuant to his existing employment agreement; (iv) an automobile allowance of $12,000; and (v) $3,192 in life insurance premiums and health club membership dues.

(3) Includes (i) an automobile allowance of $12,000; (ii) matching contributions under our 401(k) Plan; and (iii) life insurance premiums.

(4) Includes (i) an automobile allowance of $1,000; (ii) life insurance premiums; and (iii) reimbursement of health and disability insurance premiums pursuant to the terms of Mr. Scribante's employment agreement.

(5) Includes (i) an automobile allowance of $12,000 and (ii) life insurance premiums.

(6) Mr. Wadman's employment with us ended on February 19, 2007. The amounts shown in "All Other Compensation" include (i) $101,439 of payments and other benefits pursuant to a separation agreement that we entered into in connection with Mr. Wadman's termination of employment (see "Payments upon Termination or Change of Control"); (ii) $11,000 as an automobile allowance; and (iii) matching contributions under our 401(k) Plan.

(7) Mr. Prange's employment with us ended on March 12, 2007. The amounts shown in "All Other Compensation" consist of payments for services rendered in fiscal years prior to fiscal 2007 that we made to Mr. Prange pursuant to a separation agreement in connection with the termination of his employment (see "Payments upon Termination or Change of Control").

Grants of Plan-Based Awards for Fiscal 2007

As described above in the Compensation Discussion and Analysis, under our current 2004 Equity Incentive Plan and employment agreements with certain of our NEOs, we granted stock options and non-equity incentive awards (i.e., cash bonuses) to our NEOs in fiscal 2007. The following table sets forth information regarding all such stock options and awards.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			All Other Option Awards: Number of Securities Underlying Options (#)(2)	Exercise Price of Option Awards ($/Sh)	Grant Date Fair Value of Option Awards ($)(3)
		Threshold ($)	Target ($)	Max ($)			
Neal R. Verfuerth	—	162,000(4)	270,000	270,000			
	12/20/2006	—	—	—	250,000	2.20(5)	329,965
Daniel J. Waibel	12/20/2006	—	—	—	100,000	2.20(5)	131,986
John H. Scribante	—	90,000(4)	150,000	150,000	—	—	—
	6/2/2006	—	—	—	100,000	2.50(6)	126,697
Michael J. Potts	12/20/2006	—	—	—	75,000	2.20(5)	98,990
Patricia A. Verfuerth	12/20/2006	—	—	—	50,000	2.20(5)	65,993
Bruce Wadman	—	—	52,499	—	—	—	—
James L. Prange	—	—	—	—	—	—	—

(1) Amounts in the three columns below represent possible payments for the cash bonus incentive compensation awards that we granted with respect to the performance period of fiscal 2007. No amounts were actually earned under these awards, although we did pay Messrs. Scribante, Potts and Waibel and Ms. Verfuerth discretionary bonuses of $50,000, $20,000, $20,000 and $20,000, respectively.

(2) We granted the stock options listed in this column under our 2004 Equity Incentive Plan in fiscal 2007. As described under "Compensation Discussion and Analysis — Elements of Compensation — Long-Term Equity Incentive Compensation" we granted stock options on July 27, 2007 to Mr. Verfuerth and Ms. Verfuerth for 180,958 shares and 125,974 shares, respectively, at an exercise price of $4.49 per share, in connection with their satisfaction of certain loans from us through their surrender of an equal number of shares of our common stock.

(3) Represents the grant date fair value of the stock options computed in accordance with SFAS 123(R).

(4) Represents the maximum discretionary payout of 60% of the target payout for achievement of 75% of target performance with respect to each performance measure under the award.

(5) The exercise price per share was equal to the fair market value of a share of our common stock on the grant date, as determined by our compensation committee and board of directors.

(6) The exercise price per share of $2.50 was equal to the price at which we offered shares in our most recent offering of our Series B preferred stock at the time of the option grant.

Outstanding Equity Awards at Fiscal 2007 Year End

The following table sets out information on outstanding stock option awards held by our NEOs as of March 31, 2007, including the number of shares underlying both exercisable and unexercisable portions of each stock option, as well as the exercise price and expiration date of each outstanding option.

	Other Awards			
Name	Number of Shares Underlying Unexercised Options (#) Exercisable	Number of Shares Underlying Unexercised Options (#) Unexercisable(1)	Option Exercise Price ($)	Option Expiration Date
Neal R. Verfuerth	—	250,000(1)(2)	2.20	12/20/2016
Daniel J. Waibel	—	100,000(3)	2.20	12/20/2016
John H. Scribante	20,000	80,000(4)	2.50	06/02/2016
	50,000	125,000(5)	2.25	07/31/2014
	24,000	16,000(6)	2.25	03/24/2014
Michael J. Potts	—	75,000(7)	2.20	12/20/2016
	250,000	—	0.938	10/01/2011
	340,318	—	0.688	06/01/2011
Patricia A. Verfuerth	—	50,000(1)(8)	2.20	12/20/2016
	50,000	—	0.938	10/01/2011
	16,666	—	0.688	10/01/2011
Bruce Wadman(9)	20,000	—	2.25	05/20/2007
James L. Prange(10)	172,222	—	0.688	06/10/2007

(1) Does not reflect the July 27, 2007 grant of options to purchase 180,958 and 125,974 shares of our common stock, respectively, to Mr. Verfuerth and Ms. Verfuerth described above under “Compensation Discussion and Analysis — Elements of Compensation — Long-Term Equity Incentive Compensation,” because such stock options were not outstanding as of March 31, 2007.

(2) The option will vest with respect to 50,000 shares on December 20 of each of 2007, 2008, 2009, 2010 and 2011, contingent on Mr. Verfuerth’s continued employment through the applicable vesting date.

(3) The option will vest with respect to 20,000 shares on December 20 of each of 2007, 2008, 2009, 2010 and 2011, contingent on Mr. Waibel’s continued employment through the applicable vesting date.

(4) The option will vest with respect to 20,000 shares on March 31 of each of 2008, 2009, 2010 and 2011, contingent on Mr. Scribante’s continued employment through the applicable vesting date.

(5) The option will vest with respect to 50,000 shares on March 31 of each of 2008 and 2009, and with respect to 25,000 shares on March 31, 2010, contingent on Mr. Scribante’s continued employment through the applicable vesting date.

(6) The option will vest with respect to 8,000 shares on March 31 of each of 2008 and 2009, contingent on Mr. Scribante’s continued employment through the applicable vesting date.

(7) The option will vest with respect to 15,000 shares on December 20 of each of 2007, 2008, 2009, 2010 and 2011, contingent on Mr. Potts’s continued employment through the applicable vesting date.

(8) The option will vest with respect to 10,000 shares on December 20 of each of 2007, 2008, 2009, 2010 and 2011, contingent on Ms. Verfuerth’s continued employment through the applicable vesting date.

(9) Subsequent to March 31, 2007, in connection with Mr. Wadman’s termination of employment, we entered into a separation agreement with Mr. Wadman in which we agreed to amend his option agreement to permit Mr. Wadman to exercise the option with respect to an additional 20,000 shares during a nine-month period between June 30, 2009 and March 31, 2010, so long as he complies with his obligations under his separation agreement. The amendment also extends the exercise period of the option with respect to the original 20,000 shares beyond the normal expiration date of the option.

(10) Subsequent to March 31, 2007, in connection with Mr. Prange's termination of employment, we entered into a separation agreement with Mr. Prange in which we agreed to amend his existing option agreement covering 220,222 shares of our common stock, which was exercisable with respect to 172,222 shares of common stock on the date of termination, to permit Mr. Prange to exercise the option with respect to the 48,000 shares not otherwise exercisable during a 90-day period following the effective date of his separation agreement. We also agreed to amend Mr. Prange's option agreement to permit him to exercise his option with respect to 17,222 shares for a 90-day period commencing on the closing of our initial public offering, and to exercise his option with respect to the remaining 172,222 shares (less any of the 17,222 shares he acquires following our initial public offering) between March 12, 2009 and June 10, 2009, in each case so long as Mr. Prange complies with his obligations under his separation agreement.

Option Exercises and Stock Vested for Fiscal 2007

The following table sets forth information regarding the exercise of stock options that occurred during fiscal 2007 for each of our NEOs on an aggregated basis.

	Option Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)(1)
Neal R. Verfuerth	1,000,000	1,387,500
Daniel J. Waibel	650,000	920,625
John H. Scribante	75,000	—
Michael J. Potts	59,682	90,239
Patricia A. Verfuerth	783,334	1,134,776
Bruce Wadman	—	—
James L. Prange	—	—

(1) Represents the difference, if any, between the fair market value on the date of exercise of the shares purchased as determined by our compensation committee and our board of directors and the aggregate exercise price paid by the executive.

Payments Upon Termination or Change of Control

Arrangements in Effect Prior to this Offering

Under Mr. Verfuerth's employment agreement, in the event of a termination other than for cause, he would be entitled to a severance payment equal to 150% of his then-current base salary, paid in a lump sum within 30 days of his termination of employment, and a pro rated bonus, paid in a lump sum within 90 days after the close of the otherwise applicable bonus period. If Mr. Verfuerth's employment had terminated on the last day of fiscal 2007, other than for cause, his employment agreement would have entitled him to a lump sum severance payment of $405,000.

Mr. Wadman's employment with us terminated on February 19, 2007. In connection with Mr. Wadman's termination of employment, we entered into a separation agreement, effective July 5, 2007, pursuant to which we agreed to provide him with six months' severance pay and COBRA coverage at our expense for six months. The severance pay was equal to $87,500 in the aggregate, and the value of the COBRA coverage was approximately $5,435. We also agreed to amend Mr. Wadman's existing option agreement, which was exercisable with respect to 20,000 shares of common stock on the date of termination, to permit Mr. Wadman to exercise the option with respect to an additional 20,000 shares during a nine-month period between June 30, 2009 and March 31, 2010 so long as he complies with his obligations under his separation agreement. The amendment also extends the exercise period of the option with respect to the original 20,000 shares beyond the normal expiration date of the option. Based on an assumed initial public offering price of $ per share (the mid-point of the range set forth on the cover page of this prospectus), we estimate the value of the amendment to his option to be $. In exchange for these benefits, Mr. Wadman agreed to a release of claims and to certain restrictive covenants, including mutual non-disparagement, confidentiality and customary non-competition and

non-solicitation restrictions for a period of 20 months following the effective date of his separation agreement. The 20-month period will expire on March 5, 2009.

In connection with Mr. Prange's termination of employment effective March 12, 2007, we entered into a separation agreement, effective July 18, 2007, pursuant to which we agreed to provide him with approximately $40,306 in allegedly owed back pay and approximately $7,725 in business expenses. We also agreed to amend Mr. Prange's existing option agreement, which was exercisable with respect to 172,222 shares of common stock on the date of termination, to permit Mr. Prange to exercise the option with respect to the 48,000 shares not otherwise exercisable under his option during a 90-day period following the effective date of his separation agreement. We also agreed to amend Mr. Prange's option agreement to permit him to exercise his option with respect to 17,222 shares for a 90-day period commencing upon the closing of our initial public offering, and to exercise his option with respect to the remaining 172,222 shares (less any of the 17,222 shares he acquires following our initial public offering) between March 12, 2009 and June 10, 2009, in each case so long as Mr. Prange complies with his obligations under his separation agreement. Based on an assumed initial public offering price of $ per share (the mid-point of the range set forth on the cover page of this prospectus), we estimate the value of the amendment to his option to be $. In exchange for these benefits, Mr. Prange agreed to a release of claims and certain restrictive covenants, including mutual non-disparagement, confidentiality and customary non-competition and non-solicitation restrictions for a period of 24 months following the date of his termination of employment. The 24-month period will end on March 12, 2009.

New Employment Agreements

Subject to the recommendations of Towers Perrin, our proposed new employment agreements with our NEOs, which, if adopted, would become effective upon the closing of this offering, will provide that our NEOs become entitled to certain severance payments and other benefits on a qualifying employment termination, including certain enhanced protections under such circumstances occurring after a change in control of our company. If the executive's employment is terminated without "cause" or for "good reason" prior to the end of the employment period, the executive will be entitled to a lump sum severance benefit equal to a multiple (indicated in the table below) of the sum of his base salary plus the average of the prior three years' bonuses; a pro rata bonus for the year of the termination; and COBRA premiums at the active employee rate for the duration of the executive's COBRA continuation coverage period.

"Cause" is defined in the new employment agreements as a good faith finding by our board of directors that the executive has (i) failed, neglected, or refused to perform the lawful employment duties related to his position or that we assigned to him (other than due to disability); (ii) committed any willful, intentional, or grossly negligent act having the effect of materially injuring our interests, business, or reputation; (iii) violated or failed to comply in any material respect with our published rules, regulations, or policies; (iv) committed an act constituting a felony or misdemeanor involving moral turpitude, fraud, theft, or dishonesty; (v) misappropriated or embezzled any of our property (whether or not an act constituting a felony or misdemeanor); or (vi) breached any material provision of the employment agreement or any other applicable confidentiality, non-compete, non-solicit, general release, covenant not-to-sue, or other agreement with us.

"Good reason" is defined in the new employment agreements as the occurrence of any of the following without the executive's consent: (i) a material diminution in the executive's base salary; (ii) a material diminution in the executive's authority, duties or responsibilities; (iii) a material diminution in the authority, duties or responsibilities of the supervisor to whom the executive is required to report; (iv) a material diminution in the budget over which the executive retains authority; (v) a material change in the geographic location at which the executive must perform services; or (vi) a material breach by us of any provision of the employment agreement.

The severance multiples, employment and renewal terms and restrictive covenants under the proposed new employment agreements, prior to any change of control occurring after this offering, are as follows:

Executive	Severance	Employment Term	Renewal Term	Noncompete and Confidentiality
Chief executive officer	2 × Salary + Avg. Bonus	2 Years	2 Years	Yes
Chief financial officer General counsel	1 × Salary + Avg. Bonus	1 Year	1 Year	Yes
Executive vice presidents Vice presidents	1/2 × Salary + Avg. Bonus	1 Year	1 Year	Yes

We set the severance multiples, employment and renewal terms and restrictive covenants under the proposed new employment agreements based on advice from Towers Perrin and outside legal advisors that such amounts and terms are consistent with market practice and our belief that these amounts and terms were necessary to provide our NEOs with competitive compensation arrangements. The severance multiples and employment and renewal terms vary among our individual NEOs according to position as a result of our consistency with market practice.

The proposed new employment agreements would also provide enhanced benefits for our NEOs following a change of control after closing of this offering. Upon a change of control, the executive's employment term would automatically be extended for a specified period, which would vary based upon the executive's position, as shown in the chart below. Following the change of control, the executive would be guaranteed the same base salary and a bonus opportunity at least equal to 100% of the prior year's target award and with the same general probability of achieving performance goals as was in effect prior to the change of control. In addition, the executive would be guaranteed participation in salaried and executive benefit plans that provide benefits, in the aggregate, at least as great as the benefits being provided prior to the change of control.

The severance provisions would remain the same as in the pre-change of control context as described above, except that the multiplier used to determine the severance amount and the post change of control employment term would increase, as is shown in the table below. The table also indicates the provisions in the proposed employment agreements regarding triggering events and the treatment of payments under the agreements if the non-deductibility and excise tax provisions of Code Sections 280G and 4999 were triggered, as discussed below.

Executive	Severance	Post Change of Control Employment Term	Trigger	Excise Tax Gross-Up	Valley
Chief executive officer Chief financial officer	3 × Salary + Avg. Bonus	3 Years	Double	No	Yes
General counsel Executive vice presidents	2 × Salary + Avg. Bonus	2 Years	Double	No	Yes
Vice presidents	1 × Salary + Avg. Bonus	1 Year	Double	No	Yes

We set the post change of control severance multiples and employment terms under the proposed new employment agreements based on our belief that these amounts and terms will provide appropriate levels of protection for our NEOs to enable them to focus their efforts on behalf of our company without undue concern for their employment following a change in control and based on advice from Towers Perrin and outside legal advisors that such amounts and terms are consistent with market practice.

A change of control under the proposed new employment agreements would generally occur when a third party acquires 20% or more of our outstanding stock, there is a hostile board election, a merger occurs in which our shareholders cease to own 50% of the equity of the successor, or we are liquidated or dissolved, or substantially all of our assets are sold, in each case after the closing of this offering. We have agreed to treat these events as triggering events under the new employment agreements because such events would represent significant changes in the ownership of our company and could signal

potential uncertainty regarding the job security of our NEOs, and we believe these types of protections better enable them to focus their efforts on behalf of our company during such times of uncertainty.

The proposed new employment agreements contain a "valley" excise tax provision to address the issue of Code Sections 280G and 4999 non-deductibility and excise taxes on "excess parachute payments." Code Sections 280G and 4999 may affect the deductibility of, and impose additional excise taxes on, certain payments that are made upon or in connection with a change of control. The valley provision provides that all amounts payable under the employment agreement and any other of our agreements or plans that constitute change of control payments will be cut back to one dollar less than three times the executive's "base amount," as defined by Code Section 280G, unless the executive would retain a greater amount by receiving the full amount of the payment and personally paying the excise taxes. Under the proposed new employment agreements, we would not be obligated to gross up executives for any excise taxes imposed on excess parachute payments under Code Section 280G or 4999.

The proposed new employment agreements were not in effect as of March 31, 2007, and the payments and other benefits, if any, to which our NEOs would have been entitled if a triggering event had occurred on March 31, 2007 under their existing employment agreements are summarized above under "— Arrangements in Effect Prior to this Offering." The following table summarizes the estimated value of certain payments and other benefits to which our currently-serving NEOs would be entitled under the proposed new employment agreements upon certain terminations of employment, assuming, solely for purposes of calculation, that (i) the triggering event or events occurred on June 30, 2007; (ii) the proposed new employment agreements were then in effect; (iii) in the case of a change of control, the vesting of all stock options held by our NEOs was accelerated; and (iv) the value of a share of our common stock as of such change of control was $ per share (the mid-point of the range set forth on the cover page of this prospectus), which impacts the amounts receivable by the NEOs upon the acceleration of non-vested stock options as a result of the change of control as set forth below under "Equity Plans" and therefore affects the amounts set forth in the column below entitled "After Application of 'Valley' Provision":

			After Change in Control Without Cause or for Good Reason	
Name	**Benefit**	**Before Change in Control Without Cause or for Good Reason ($)**	**Before Application of "Valley" Provision ($)(1)**	**After Application of "Valley" Provision ($)(1)**
Neal R. Verfuerth	Severance	583,200	874,800	
	Pro Rata Target Bonus	71,901	71,901	
	Benefits	11,029	11,029	
	Total	666,130	957,730	
Daniel J. Waibel	Severance	171,667	336,667	
	Pro Rata Target Bonus	—	—	
	Benefits	16,304	16,304	
	Total	187,971	352,971	
John H. Scribante	Severance	166,667	316,667	
	Pro Rata Target Bonus	36,986	36,986	
	Benefits	—	—	
	Total	203,653	353,653	
Michael J. Potts	Severance	171,667	336,667	
	Pro Rata Target Bonus	—	—	
	Benefits	16,304	16,304	
	Total	187,971	352,971	
Patricia A. Verfuerth	Severance	171,667	336,667	
	Pro Rata Target Bonus	—	—	
	Benefits	11,029	11,029	
	Total	182,696	347,969	
Total for all NEOs		1,428,421	2,365,021	

(1) The valley provision in the proposed new employment agreements provides that all amounts payable under the employment agreement and any other of our agreements or plans that constitute change of control payments will be cut back to one dollar less than three times the executive's "base amount," as defined by Code Section 280G, unless the executive would retain a greater amount by receiving the full amount of the payment and paying the excise taxes.

Equity Plans

Our equity plans provide for certain benefits in the event of certain changes of control. Under both our existing 2003 Stock Option Plan and our 2004 Equity Incentive Plan, and under our amended and restated 2004 Stock and Incentive Awards Plan, if there is a change of control, our compensation committee may, among other things, accelerate the exercisability of all outstanding stock options and/or require that all outstanding options be cashed out. Our 2003 Stock Option Plan defines a change of control as the occurrence of any of the following:

- With certain exceptions, any "person" (as such term is used in sections 13(d) and l4(d) of the Exchange Act), becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities representing more than 50% of the voting power of our then outstanding securities.
- Our shareholders approve (or, if shareholder approval is not required, our board approves) an agreement providing for (i) our merger or consolidation with another entity where our shareholders immediately prior to the merger or consolidation will not beneficially own, immediately after the merger or consolidation, securities of the surviving entity representing more than 50% of the voting power of the then outstanding securities of the surviving entity, (ii) the sale or other disposition of all or substantially all of our assets, or (iii) our liquidation or dissolution.
- Any person has commenced a tender offer or exchange offer for 30% or more of the voting power of our then outstanding shares.
- Directors are elected such that a majority of the members of our board shall have been members of our board for less than two years, unless the election or nomination for election of each new director who was not a director at the beginning of such two-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period.

Following this offering, a change of control under our 2004 Stock and Incentive Awards Plan would generally occur when a third party acquires 20% or more of our outstanding stock, there is a hostile board election, a merger occurs in which our shareholders cease to own 50% of the equity of the successor, or we are liquidated or dissolved or substantially all of our assets are sold. We have agreed to treat these events as triggering events under the new employment agreements because such events would represent significant changes in the ownership of our company and could signal potential uncertainty regarding the job security of our NEOs, and we believe these types of protections will better enable our NEOs to focus their efforts on behalf of our company during such times of uncertainty.

If a change of control had occurred on March 31, 2007, and our compensation committee had cashed out all of the stock options then held by our NEOs, whether or not vested, for a payment equal to the product of (i) the number of shares underlying such options and (ii) the difference between an assumed initial public offering price of $ per share (the mid-point of the range set forth on the cover page of

this prospectus), and the exercise price per share of such options, our currently-serving NEOs would have received approximately the following benefits:

Name	Number of Option Shares Cashed Out (#)	Weighted Average Exercise Price per Option Share ($)	Value Realized ($)
Neal R. Verfuerth(1)	250,000	2.20	
Daniel J. Waibel	100,000	2.20	
John H. Scribante	315,000	2.33	
Michael J. Potts	665,318	0.952	
Patricia A. Verfuerth(2)	116,666	1.44	

(1) The option shares shown in this table for Mr. Verfuerth do not reflect his receipt of the July 27, 2007 grant of options to purchase 180,958 shares of our common stock at an exercise price of $4.49 per share, which is described above under “Compensation Discussion and Analysis — Elements of Compensation — Long-Term Equity Incentive Compensation,” because such stock options were not outstanding as of March 31, 2007. If the stock options granted to Mr. Verfuerth on July 27, 2007 were reflected in the table, his total value realized would be $.

(2) The option shares shown in this table for Ms. Verfuerth do not reflect her receipt of the July 27, 2007 grant of options to purchase 125,974 shares of our common stock at an exercise price of $4.49 per share, which is described above under “Compensation Discussion and Analysis — Elements of Compensation — Long-Term Equity Incentive Compensation,” because such stock options were not outstanding as of March 31, 2007. If the stock options granted to Ms. Verfuerth on July 27, 2007 were reflected in the table, her total value realized would be $.

Director Compensation

We currently compensate our non-employee directors pursuant to our directors compensation policy, under which we pay each non-employee director a monthly retainer fee of $500, plus an additional monthly retainer fee of $500 for non-employee directors who also serve as chairman of our board or a committee (subject to a $1,500 monthly maximum for a director who chairs both our board and a committee). Our current policy also calls for grants of options to our non-employee directors representing 5,000 shares of our common stock per year of service. In early fiscal 2006, in accordance with this policy, we granted each non-employee director (other than Mr. Kackley) an option to purchase 20,000 shares of our common stock at an exercise price of $0.75 per share. In light of his commitment and contributions as chairman of our audit and finance committee, we granted Mr. Kackley an option to purchase 100,000 shares of our common stock in early fiscal 2006 at an exercise price of $0.75 per share. These option grants were intended in part to acknowledge our directors’ service for periods prior to fiscal 2006 and in part to compensate our directors for future services. We intended the amounts of the grants to approximate the amounts that we believed would be appropriate for four years’ worth of service, and the options were subject to vesting in four equal installments on March 31 of each of 2006, 2007, 2008 and 2009. We therefore made no option grants in fiscal 2007 to our non-employee directors, other than to Mr. Kackley, as described below. Since these options represented four years’ worth of options, the per share exercise price was determined based on an approximation of the fair market value of our common stock over the prior four-year period. We recognized $33,000 of stock-based compensation expense in fiscal 2006 as a result of these grants.

On December 20, 2006, we granted Mr. Kackley an additional option to purchase 60,000 more shares of our common stock to compensate him for his significant time commitment and substantial contributions in his capacity as chairman of our audit and finance committee. The exercise price per share of the option was $2.20, which was the fair market value of a share of our common stock on the date of grant as determined by our compensation committee and board of directors based principally on the November 30, 2006 independent valuation of the fair market value of our common stock prepared by Wipfli LLP.

In October 2006, we paid Messrs. Kackley and Trotter $5,000 each in respect of consulting services they provided us in connection with our evaluation in early fiscal 2007 of our personnel and management structure and related governing and reporting processes. Messrs. Kackley and Trotter

conducted extensive interviews with employees and a detailed evaluation of our company's practices in the areas under consideration for restructuring, and summarized their conclusions in a report to our board of directors. We made the payments, and Messrs. Kackley and Trotter rendered the consulting services, pursuant to written agreements.

In connection with this offering, our compensation committee retained Towers Perrin to provide it with recommendations regarding our compensation program for non-employee directors subsequent to this offering, and is currently considering changes to our non-employee director compensation policies and programs based on such recommendations. In addition, in recognition that our director compensation program has not adequately compensated our directors for their role in and commitment to date, and in consideration of the substantial additional time commitments and increased liability associated with our becoming a public company, on July 27, 2007, our board of directors granted options for 10,000 shares each to the non-employee chairmen of our various committees, Messrs. Kackley, Quadracci and Grohmann, and 5,000 each to our two other non-employee directors, Ms. Propper de Callejon and Mr. Trotter. Our board of directors established the exercise price of the options at $4.49 per share based on the $4.49 per share conversion price of the Convertible Notes issued on August 3, 2007. The options become exercisable after one year and have a 10-year term.

Director Compensation for Fiscal 2007

The following table summarizes the compensation of our non-employee directors for fiscal 2007. As employee directors, none of Richard J. Olsen, our vice president of technical services and former director, Mr. Verfuerth nor Mr. Potts received any compensation for their service as directors, and they are therefore omitted from the table. Mr. Olsen retired from our board on July 28, 2007 in connection with this offering to reduce the number of employee directors on our board. We reimbursed each of our directors, including our employee directors, for expenses incurred in connection with attendance at meetings of our board and its committees.

Name	Fees Earned or Paid in Cash ($)	Option Awards ($)(1)(2)	All Other Compensation ($)	Total ($)
Thomas A. Quadracci	7,000	—	—	7,000
James R. Kackley	12,000	26,827	5,000	43,827
Eckhart G. Grohmann	6,000	5,225	—	11,225
Patrick J. Trotter	9,000	4,180	5,000	18,180
Diana Propper de Callejon(3)	—	—	—	—

(1) Represents the amount of expense recognized for financial accounting purposes pursuant to SFAS 123(R) for fiscal 2007 as reflected in our financial statements included elsewhere in this prospectus. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions.

(2) The aggregate number of option awards outstanding as of March 31, 2007 for each director was as follows: Mr. Kackley held options to purchase an aggregate of 114,000 shares of our common stock at a weighted average exercise price of $1.44 per share; Mr. Grohmann held an option to purchase 20,000 shares of our common stock at an exercise price of $0.75 per share; and Mr. Trotter held an option to purchase 20,000 shares of our common stock at an exercise price of $0.75 per share. The grant date fair value of our special fiscal 2007 option grant to Mr. Kackley, computed in accordance with SFAS 123(R), was $53,110. We also granted our non-employee directors additional stock options on July 27, 2007, as follows: Messrs. Kackley, Quadracci and Grohmann each received an option to purchase 10,000 shares of our common stock, and Ms. Propper de Callejon and Mr. Trotter each received an option to purchase 5,000 shares of our common stock. All of the options granted on July 27, 2007 have an exercise price of $4.49 per share.

(3) Ms. Propper de Callejon, who is associated with Clean Technology Fund II, LP, one of our principal shareholders, received no additional compensation in fiscal 2007 for her service as a director.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership of our common stock and the shares beneficially owned by all principal and selling shareholders as of June 30, 2007, and as adjusted to reflect the sale of our common stock offered by this prospectus, by:

- each person (or group of affiliated persons) known to us to be the beneficial owner of more than 5% of our common stock (assuming the conversion of all of our preferred stock into 4,808,012 shares of common stock on a one-for-one basis and the conversion of our Convertible Notes into 2,360,802 shares of common stock upon closing of this offering);
- each of our named executive officers;
- each of our directors;
- all of our directors and current and certain former executive officers as a group; and
- all selling shareholders.

Beneficial ownership is determined in accordance with the rules of the SEC and includes any shares over which a person exercises sole or shared voting or investment power. Under these rules, beneficial ownership also includes any shares as to which the individual or entity has the right to acquire beneficial ownership of within 60 days of June 30, 2007 through the exercise of any warrant, stock option or other right. Except as noted by footnote, and subject to community property laws where applicable, we believe that the shareholders named in the table below have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

As of June 30, 2007, there were 12,219,969 shares of common stock and 4,808,012 shares of Series B and Series C preferred stock outstanding (with each such share of preferred stock converting automatically into shares of common stock on a one-for-one basis upon closing of this offering). See “Description of Capital Stock.”

On August 3, 2007, we issued the Convertible Notes to an indirect affiliate of GEEFS, Clean Technology and affiliates of Capvest. The Convertible Notes will convert automatically upon closing of this offering into 2,360,802 shares of our common stock. Neither GEEFS nor any of its indirect or direct affiliates owned any shares of our common stock or securities convertible into shares of our common stock prior to the issuance of the Convertible Notes. See “Description of Capital Stock.”

The percentage of beneficial ownership set forth in the table below is based on (i) prior to this offering, 19,388,783 shares of common stock outstanding (assuming the conversion of all outstanding shares of preferred stock and the Convertible Notes); and (ii) after this offering,   shares of common stock (assuming the conversion of all outstanding shares of preferred stock and the Convertible Notes).

In addition to the selling shareholders named in the following table,   shareholders are offering an aggregate of   shares of common stock. The number of shares of common stock being offered by each such shareholder ranges from   to   .

Except as set forth below, the address of all shareholders is c/o Orion Energy Systems, Inc. 1204 Pilgrim Road, Plymouth, WI 53073.

	Number of Shares Beneficially Owned		Number of Shares to be Sold in Offering	Percentage of Shares Beneficially Owned		
	Before Offering	After Offering		Before Offering	After Offering	After Offering if Over-Allotment is Exercised
Directors and current and certain former executive officers						
Neal R. Verfuerth(1)	3,341,993			17.2%		
Daniel J. Waibel(2)	1,050,000			5.4		
Michael J. Potts(3)	806,986			64.0		
John Scribante(4)	270,340			1.4		

	Number of Shares Beneficially Owned		Number of Shares to be Sold in Offering	Percentage of Shares Beneficially Owned		
	Before Offering	After Offering		Before Offering	After Offering	After Offering if Over-Allotment is Exercised
Patricia A. Verfuerth(5)	3,341,993			17.2		
Thomas A. Quadracci(6)	36,409			*		
Diana Propper de Callejon(7)	2,193,157			11.3		
James R. Kackley(8)	211,000			1.1		
Eckhart G. Grohmann(9)	1,270,000			6.5		
Patrick J. Trotter(10)	514,790			2.7		
Bruce Wadman(11)	20,000			*		
James L. Prange(12)	72,023			*		
All directors and current and certain former executive officers as a group (14 individuals)	9,906,698			48.2%		
Principal shareholders						
Clean Technology Affiliates(13)	2,193,157			11.3%		
GEEFS Indirect Affiliate(14)	1,781,737			9.2		
Richard J. Olsen(15)	1,011,639			5.2		
Other selling shareholders(16)						

* Indicates less than 1%.

(1) Includes (i) 2,534,328 shares of common stock, 75,000 of which have been pledged as security for a personal loan; (ii) 750,000 shares of common stock held by Mr. Verfuerth's wife, Patricia A. Verfuerth; and (iii) 57,665 shares of common stock issuable upon the exercise of vested and exercisable options held by Mr. Verfuerth's wife, Patricia A. Verfuerth. The number does not reflect 250,000 shares of common stock subject to options held by Mr. Verfuerth on June 30, 2007 that will not become exercisable within 60 days. The number also does not reflect Mr. Verfuerth's redemption of 180,958 shares in repayment of the principal amount of a loan or the offsetting grant of an option to purchase 180,958 shares, each effective on July 27, 2007. See "Executive Compensation — Compensation Discussion and Analysis — Elements of Compensation — Long-Term Equity Incentive Compensation." Additionally, the number does not reflect Mr. Verfuerth's gift of 125,974 shares to Ms. Verfuerth in connection with the repayment of the principal amount of a loan. See note (5) below.

(2) Does not include 100,000 shares of common stock subject to an option held by Mr. Waibel that will not become exercisable within 60 days.

(3) Includes (i) 216,668 shares of common stock and (ii) 590,318 shares of common stock issuable upon the exercise of vested and exercisable options. The number does not include 75,000 shares of common stock subject to options that will not become exercisable within 60 days.

(4) Includes (i) 157,110 shares of common stock; (ii) 19,230 shares of common stock issuable upon the conversion of Series B preferred stock; and (iii) 94,000 shares of common stock issuable upon the exercise of vested and exercisable options. The number does not include 221,000 shares of common stock subject to an option that will not become exercisable within 60 days.

(5) Includes (i) 750,000 shares of common stock; (ii) 2,534,328 shares of common stock held by Ms. Verfuerth's husband, Neal R. Verfuerth, 75,000 of which have been pledged as security for a loan; and (iii) 57,665 shares of common stock issuable upon the exercise of vested and exercisable options. The number does not reflect 50,000 shares of common stock subject to options held by Ms. Verfuerth on June 30, 2007 that will not become exercisable within 60 days. The number also does not reflect Ms. Verfuerth's receipt of 125,974 shares gifted from Mr. Verfuerth. See note (1) above. Additionally, the number does not reflect Ms. Verfuerth's redemption of such shares in repayment of the principal amount of a loan, or the offsetting grant of an option to purchase 125,974 shares, each effective on July 27, 2007. See "Executive Compensation — Compensation Discussion and Analysis — Elements of Compensation — Long-Term Equity Incentive Compensation."

(6) Excludes an option of 10,000 shares granted on July 27, 2007.

(7) Includes (i) 1,636,364 shares of common stock issuable upon the conversion of Series C preferred stock owned by Clean Technology and (ii) 556,793 shares of common stock issuable upon the conversion of the Convertible Note held by Clean Technology. Ms. Propper de Callejon is the managing member of Expansion Capital Partners II — General Partner, LLC, which is the general partner of Expansion Capital Partners II, LP, which is the general partner of Clean Technology. Ms. Propper de Callejon disclaims beneficial ownership of the shares held by Clean Technology, except to the extent of her pecuniary interest therein. The address of Clean Technology is 90 Park Avenue, Suite 1700, New York, NY 10016. Excludes an option of 5,000 shares granted on July 27, 2007.

(8) Includes (i) 207,000 shares of common stock and (ii) 4,000 shares of common stock issuable upon the exercise of options that are vested and exercisable or that will become vested and exercisable in the next 60 days. The number does not include 104,000 shares of common stock subject to an option held by Mr. Kackley on June 30, 2007 that will not become exercisable within 60 days. Excludes an option of 10,000 shares granted on July 27, 2007.

(9) Includes (i) 620,000 shares of common stock; (ii) 480,000 shares of common stock issuable upon the conversion of Series B preferred stock; (iii) 160,000 shares of common stock issuable upon the exercise of warrants; and (iv) 10,000 shares of common stock issuable upon the exercise of vested and exercisable options. The number does not include 10,000 shares of common stock subject to an option held by Mr. Grohmann on June 30, 2007 that will not become exercisable within 60 days, or the July 27, 2007 option grant for 10,000 shares.

(10) Includes (i) 504,790 shares of common stock and (ii) 10,000 shares of common stock issuable upon the exercise of vested and exercisable options. The number does not include 10,000 shares of common stock subject to an option held by Mr. Trotter on June 30, 2007 that will not become exercisable within 60 days. Excludes an option of 5,000 shares granted on July 27, 2007.

(11) Includes 20,000 shares of common stock issuable upon the exercise of vested and exercisable options. The number does not include 20,000 shares of common stock subject to an option held by Mr. Wadman that will not become exercisable within 60 days.

(12) Includes (i) 6,801 shares of common stock; (ii) 48,000 shares of common stock issuable upon the exercise of vested and exercisable options; and (iii) 17,222 shares of common stock subject to an option that will become exercisable during a 90-day period commencing upon the closing of this offering. The number does not include 155,000 shares of common stock subject to an option that will not become exercisable within 60 days.

(13) Includes (i) 1,636,364 shares of common stock issuable upon the conversion of Series C preferred stock and (ii) 556,793 shares of common stock issuable upon the conversion of the Convertible Notes. Clean Technology is the name we use for Clean Technology Fund II, LP. The address of Clean Technology is 90 Park Avenue, Suite 1700, New York, NY 10016.

(14) Includes 1,781,737 shares of common stock issuable upon the conversion of its Convertible Note. GEEFS is the name we use for GE Capital Equity Investments, Inc., an indirect affiliate of GE Energy Financial Services, Inc. GEEFS' indirect affiliate, GE Capital Equity Investments, Inc., is the holder of the Convertible Note. The address of GEEFS is c/o GE Capital Equity Investments, Inc., 201 Merritt 7, P.O. Box 5201, Norwalk, Connecticut 06851.

(15) Does not include 50,000 shares of common stock subject to an option held by Mr. Olsen that will not become exercisable within 60 days. Mr. Olsen is our vice president of technical services and a former director.

(16) None of the other selling shareholders will beneficially own more than 1% of our outstanding common stock after this offering or have a significant role in our management after this offering.

RELATED PARTY TRANSACTIONS

Our policy is to enter into transactions with related persons on terms that, on the whole, are no less favorable to us than those available from unaffiliated third parties. In June 2007, our board of directors adopted written policies and procedures regarding related person transactions. For purposes of these policies and procedures:

- a "related person" means any of our directors, executive officers, nominees for director, holder of 5% or more of our common stock or any of their immediate family members; and
- a "related person transaction" generally is a transaction (including any indebtedness or a guarantee of indebtedness) in which we were or are to be a participant and the amount involved exceeds $120,000, and in which a related person had or will have a direct or indirect material interest.

Each of our executive officers, directors or nominees for director is required to disclose to our audit and finance committee certain information relating to related person transactions for review, approval or ratification by our audit and finance committee. In making a determination about approval or ratification of a related person transaction, our audit and finance committee will consider the information provided regarding the related person transaction and whether consummation of the transaction is believed by the committee to be in our best interests. Our audit and finance committee may take into account the effect of a director's related person transaction on the director's status as an independent member of our board of directors and eligibility to serve on committees of our board under SEC rules and the listing standards of the Nasdaq Global Market. Any related person transaction must be disclosed to our full board of directors.

Set forth below are certain transactions that have occurred in our fiscal years 2005, 2006 and 2007, and in our fiscal year 2008 through the date of this prospectus. Based on our experience in the business sectors in which we participate and the terms of our transactions with unaffiliated third persons, we believe that all of the transactions set forth below (i) were on terms and conditions that were not materially less favorable to us than could have been obtained from unaffiliated third parties and (ii) complied with the terms of our new policies and procedures regarding related person transactions. All of the transactions set forth below have been ratified by our audit and finance committee.

Clean Technology Fund II, LP and Diana Propper de Callejon

On August 3, 2007, we issued a $2.5 million Convertible Note to Clean Technology as part of our $10.6 Convertible Note placement described under "Description of Capital Stock." All material economic terms and conditions of the Convertible Note issued to Clean Technology are the same as those negotiated with and provided to an indirect affiliate of GEEFS, and Ms. Propper de Callejon did not participate in such negotiations. The Convertible Note issued to Clean Technology will convert automatically upon closing of this offering into 556,793 shares of our common stock.

Ms. Propper de Callejon is the managing member of Expansion Capital Partners II — General Partner, LLC, the general partner of Expansion Capital Partners II, LP, the general partner of Clean Technology. Ms. Propper de Callejon is one of our directors and a member of our compensation committee. Ms. Propper de Callejon was recused from all of our board of director decisions regarding this transaction.

Clean Technology also is a holder of 1,636,364 shares of our Series C preferred stock, which will automatically convert into shares of our common stock on a one-for-one basis upon closing of this offering. Clean Technology purchased its Series C preferred shares from us in a private placement on July 31, 2006 at a purchase price of $2.75 per share. Holders of Series C preferred shares are entitled to certain registration rights with respect to the common stock issuable upon conversion of those Series C preferred shares according to the terms of an agreement between us and the Series C holders. Clean Technology has indicated its interest in selling certain of its previously acquired shares in this offering. See "Description of Capital Stock."

GEEFS

On August 3, 2007, we issued an $8.0 million Convertible Note to an indirect affiliate of GEEFS as part of our $10.6 Convertible Note placement described under "Description of Capital Stock." This Convertible Note will convert automatically upon closing of this offering into 1,781,738 shares of our common stock.

GEEFS is an indirect affiliate of General Electric Co. Neither GEEFS nor any other affiliates of General Electric Co. owned any interest in our company prior to the issuance of the Convertible Note.

During fiscal 2005, 2006 and 2007, we recognized an aggregate of $9,000, $1.0 million, and $3.7 million, respectively, in revenue for products and services we sold to certain operating affiliates of General Electric Co. In addition, during fiscal 2005, 2006 and 2007, we purchased an aggregate of $2.5 million, $3.2 million and $8.4 million, respectively, of component parts from a different operating affiliate of General Electric Co. GEEFS and the indirect affiliate of GEEFS that was issued the Convertible Note are principally financial investment affiliates of General Electric Co. Neither GEEFS nor the indirect affiliate of GEEFS that was issued the Convertible Note were involved in negotiating the terms or conditions of our ongoing business relationships with the operating affiliates of General Electronic Co. with which we conduct business. Similarly, such operating affiliates of General Electric Co. were not involved in negotiating the terms and conditions of the Convertible Note. We do not believe that the investment in us represented by the Convertible Note issued to the indirect affiliate of GEEFS will result in any change or modification to the terms and conditions of our purchases from, or sales to, any operating affiliate of General Electric Co.

Richard J. Olsen

Richard J. Olsen is our vice president of technical services, a former director and one of our principal shareholders. We paid Mr. Olsen approximately $157,000 in cash and equity compensation for his service as our vice president of technical services in fiscal 2007. We did not provide Mr. Olsen any additional compensation for his service as a director, but reimbursed him for expenses incurred in connection with his attendance at meetings of our board on the same basis as the rest of our directors. We also lease, on a month-to-month basis, an aircraft owned by an entity controlled by Mr. Olsen. In fiscal 2005, 2006 and 2007, we paid that entity $102,191, $106,715 and $94,225, respectively, for use of the aircraft.

During fiscal 2007, we held a note receivable due from Mr. Olsen in the principal amount of $375,000, bearing interest at 7.65% per annum. This note was fully repaid on August 2, 2007. This note was recorded as a shareholder note receivable in our consolidated financial statements.

Thomas A. Quadracci

During fiscal 2005, 2006 and 2007, we received an aggregate of $209,996, $90,639 and $31,767, respectively, for products and services we sold to Quad/Graphics, Inc. Thomas A. Quadracci, our chairman of the board, was the executive chairman of Quad/Graphics, Inc. until January 1, 2007 and is a shareholder of Quad/Graphics, Inc.

Patrick J. Trotter

During fiscal 2006, we received a promissory note from Patrick J. Trotter, one of our directors, in the principal amount of $375,000 to purchase 400,000 shares of common stock through his exercise of vested stock options. The note bore interest at 4.23% per annum. During fiscal 2007, Mr. Trotter paid $15,862 in interest on this note by surrendering 7,210 shares of common stock to us at a value of $2.20 per share. The principal and all accrued interest on the note were fully repaid in cash on August 2, 2007. This note was recorded as a shareholder note receivable in our consolidated financial statements.

Neal and Patricia Verfuerth

We provided certain non-interest bearing advances to Neal R. Verfuerth, our president and chief executive officer, and/or Patricia Verfuerth, our vice president of operations, during fiscal 2005, 2006 and 2007. The largest aggregate amount of principal advances outstanding at the end of any month during fiscal 2005, 2006 and 2007 was $124,640, $159,912 and $167,690, respectively. During fiscal 2005, 2006 and 2007, Mr. Verfuerth paid $46,500, $74,604 and $125,880 in principal on these advances, respectively. All such advances have been fully repaid as of August 2, 2007.

We also held an unsecured note receivable due from Mr. Verfuerth in fiscal 2005, 2006 and 2007 bearing interest at 1.46% per annum. The largest aggregate amount of principal outstanding on this note during fiscal 2005, 2006 and 2007, including accrued interest, was $63,344, $65,849 and $66,780,

respectively. The note was fully repaid on August 2, 2007. During fiscal 2007, we also held a note receivable due from Mr. Verfuerth in the aggregate principal amount of $812,500 and a note receivable due from Ms. Verfuerth in the aggregate principal amount of $565,625, each bearing interest at 7.65% per annum. These notes were fully repaid as described under "Executive Compensation — Compensation Discussion and Analysis — Long-Term Equity Compensation." These notes were recorded as shareholder notes receivable in our consolidated financial statements.

As part of our employment agreement with Mr. Verfuerth, we paid guarantee fees to Mr. Verfuerth of $146,069, $109,808 and $77,880 in fiscal 2005, 2006 and 2007, respectively, as consideration for guaranteeing certain of our notes payable and accounts payable, as described below. These fees were based on a percentage applied to the monthly outstanding balances or revolving credit commitments. These guarantees related to the following debt arrangements:

- In December 2004, we refinanced a mortgage loan agreement with a local bank to provide a $1.1 million note, as amended, for the purpose of acquiring our manufacturing facility. The note expires in September 2014 and bears interest a prime plus 2.0% per annum. The note is secured by a first mortgage on our manufacturing facility and was previously secured by a personal guarantee of Mr. Verfuerth, which was released effective August 15, 2007. As of March 31, 2007, the remaining note balance was $1.1 million.
- In December 2004, we entered into a debenture payable issued by a certified development company to provide $1.0 million for the purpose of acquiring our manufacturing and warehousing facility. The instrument expires in December 2024 and carries an effective interest rate, including service fees, of 6.18% per annum. The note is guaranteed by the United States Small Business Administration 504 program and is secured by a second mortgage position on our manufacturing facility. Mr. Verfuerth previously personally guaranteed the note, which guarantee was released effective August 2, 2007. As of March 31, 2007, the remaining balance on the note was $1.0 million.
- In March 2005, we entered into a loan and security agreement with the State of Wisconsin to provide a $0.5 million federal block grant loan to be used for the purchase of manufacturing equipment. The loan expires in October 2012 and bears interest at a rate of 2.0% per annum. The loan is secured by a purchase money security interest and was previously secured by a personal guarantee of Mr. Verfuerth, which was released effective June 25, 2007. As of March 31, 2007, the remaining balance on the loan was $0.4 million.
- In September 2005, we entered into an agreement with the Industrial Development Corporation of the City of Manitowoc to provide a $0.5 million loan for the purpose of acquiring manufacturing equipment for our manufacturing facility. The loan expires in October 2011 and bears interest a fixed rate of 2.925% per annum. The loan is secured by a purchase money security interest and was also previously secured by a personal guarantee of Mr. Verfuerth, which was released effective July 5, 2007. As of March 31, 2007, the remaining balance on the loan was $0.4 million.
- In March 2004, we received a secured note from a local bank to provide a $3.3 million loan for working capital purposes. We pay principal and interest payments of $24,755 per month on the note, which are payable through the expiration of the note in February 2014. The note bears interest at a fixed rate of 6.9% per annum. The note is 75% guaranteed by the United States Department of Agriculture Rural Development Association and was also previously guaranteed by a personal guarantee of Mr. Verfuerth, which was released effective August 15, 2007. As of March 31, 2007, the remaining balance on the note was $1.6 million.

In May 2004, we entered into an agreement with Mr. Verfuerth and Ms. Verfuerth to indemnify them for all liabilities and expenses they may incur in connection with their guarantees of our indebtedness, and to pay them a fee in consideration of these guarantees. To secure our obligations to Mr. Verfuerth and Ms. Verfuerth under this agreement, in July 2006, we granted them a security interest in all of our assets and in our real estate located in Plymouth, Wisconsin. This security interest was junior to the security interests held by our other lenders. The indemnification agreement and the security agreements were terminated in August 2007, after the termination of the Verfuerths' guarantees of our indebtedness.

During fiscal 2006 and 2007, we forgave $36,942 and $36,667, respectively, of indebtedness owed to us by Mr. Verfuerth as part of his existing employment agreement. In fiscal 2008, we forgave $33,667 of indebtedness owed to us under this arrangement. This loan was fully repaid effective August 2, 2007.

In fiscal 2005, 2006 and 2007, Josh Kurtz and Zach Kurtz, two of our national account managers, each received $109,661, $113,400 and $127,300, respectively, of compensation from us in their capacities as employees. Messrs. Kurtz and Kurtz are the sons of Patricia A. Verfuerth and the stepsons of Neal R. Verfuerth.

DESCRIPTION OF CAPITAL STOCK

Upon closing of this offering and the effectiveness of our amended and restated articles of incorporation, we will be authorized to issue up to 200 million shares of common stock, no par value per share, and up to 30 million shares of preferred stock, par value $.01 per share. The description below summarizes the material terms of our common stock, preferred stock, and options and warrants to purchase our common stock, the Convertible Notes that will be converted into our common stock, and provisions of our amended and restated articles of incorporation and amended and restated bylaws that will be effective upon the closing of this offering. This description is only a summary. For more detailed information, you should refer to our amended and restated articles of incorporation and bylaws filed with this registration statement.

Common Stock

Holders of our common stock are entitled to one vote for each share held on all matters submitted to a vote of shareholders and do not have cumulative voting rights. Holders of common stock are entitled to receive proportionately any dividends as may be declared by our board of directors, subject to any preferential dividend rights of outstanding preferred stock. Upon our liquidation, dissolution or winding up, the holders of common stock are entitled to receive proportionately our net assets available after the payment of all debts and other liabilities and subject to the prior rights of any outstanding preferred stock. Holders of common stock have no preemptive, subscription, redemption or conversion rights. Our outstanding shares of common stock are, and the shares offered by us in this offering will be, when issued and paid for, fully paid and nonassessable. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future.

As of June 30, 2007, there were 12,219,969 shares of our common stock outstanding held by approximately 365 shareholders.

Preferred Stock

Effective immediately upon closing of this offering and the conversion of our 4,808,012 shares of preferred stock outstanding into shares of common stock, there will be no shares of preferred stock outstanding. Upon closing of this offering and the effectiveness of our amended and restated articles of incorporation, our board of directors will be authorized to issue from time to time up to 30 million shares of preferred stock in one or more series without shareholder approval. Our board of directors will have the discretion to determine the rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, of each series of preferred stock. It is not possible to state the actual effect of the issuance of any shares of preferred stock on the rights of holders of common stock until our board of directors determines the specific rights associated with that preferred stock. Although we have no current plans to issue shares of preferred stock, the effects of issuing preferred stock could include one or more of the following:

- decreasing the amount of earnings and assets available for distribution to holders of common stock;
- restricting dividends on the common stock;
- diluting the voting power of the common stock;
- impairing the liquidation rights of the common stock; or
- delaying, deferring or preventing changes in our control or management.

As of June 30, 2007, there were outstanding 2,989,830 shares of Series B preferred stock held by approximately 135 shareholders and 1,818,182 shares of Series C preferred stock held by two shareholders. No shares of Series A preferred stock were outstanding as of June 30, 2007.

Warrants

As of June 30, 2007, there were outstanding warrants, issued in connection with our offerings of common stock and Series B preferred stock, to purchase 954,390 shares of our common stock at exercise prices ranging between $1.50 and $2.60 per share, with a weighted average exercise price of

$2.24 per share. These warrants were held by approximately 130 holders and expire in various periods from December 31, 2007 through December 31, 2014.

Stock Options

As of June 30, 2007, we had granted options to purchase a total of 4,712,077 shares of common stock at a weighted average exercise price of $1.57 per share. Of this total, 2,530,777 options have vested and 2,181,300 remain unvested. As of June 30, 2007, an additional 646,700 shares of common stock were available for future option grants under our 2003 Stock Option and 2004 Equity Incentive Plans. Upon the closing of this offering, an additional 2.5 million shares of our common stock will be available for future option grants under our 2004 Stock and Incentive Awards Plan.

Convertible Notes

On August 3, 2007, we completed a placement of $10.6 million in aggregate principal amount of Convertible Notes to an indirect affiliate of GEEFS, Clean Technology and affiliates of Capvest. The Convertible Notes are subordinated to our current and future outstanding indebtedness and bear interest at 6% per annum.

The Convertible Notes contain customary terms and conditions, including: (i) automatic conversion into 2,360,802 shares of our common stock upon a qualified initial public offering resulting in at least $30.0 million of proceeds to us at an offering price of at least $11.23 per share; (ii) information and observation rights; (iii) customary restrictions and/or approval rights with respect to, incurring additional indebtedness, acquiring additional assets, issuing new securities, paying dividends on or repurchasing our equity securities, selling our assets, merging, or undergoing a change in control, making material increases in compensation to our management, incurring liens, making certain investments, entering into transactions with our affiliates, amending our articles of incorporation or bylaws (except in connection with this offering), commencing or consenting to bankruptcy events or entering non-core lines of business; (iv) customary events of default; (v) customary anti-dilution and preemptive rights protections; (vi) various registration rights with respect to the shares of our common stock received upon conversion of the notes (see "— Registration Rights"); and (viii) tag along and first offer rights with respect to sales of any of our equity securities by certain of our management members (other than in connection with this offering). These terms and conditions are each subject to customary exceptions and limitations.

All of these terms and conditions (other than the registration rights related to the shares of our common stock received upon conversion), will terminate upon conversion of the Convertible Notes into common stock. Subject to certain exceptions and extensions, the holders of the Convertible Notes have agreed not to offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any of their shares of our common stock, enter into any transaction which would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any economic consequences of ownership of our common stock received upon conversion of the Convertible Notes in this offering or for 180 days after the date of this prospectus, although Clean Technology and Capvest may sell certain of their previously acquired shares in this offering. However, if certain individual members of our management individually sell more than 15% of their respective fully-diluted beneficially owned shares in this offering, then the holders of the Convertible Notes may sell any or all of their shares in this offering, subject to their lock-up agreements with the underwriters and any other limitations imposed by our underwriters. See "Principal and Selling Shareholders."

Registration Rights

Upon closing of this offering, all outstanding shares of our convertible preferred stock will be automatically converted into shares of our common stock on a one-for-one basis according to our current articles of incorporation. The shares of our Series C preferred stock, which we call our Series C shares, will be automatically converted into 1,818,182 shares of our common stock. Holders of Series C shares are entitled to certain registration rights with respect to common stock issuable upon conversion of those Series C preferred shares according to the terms of an agreement between us and the Series C holders. Additionally, the holders of our Convertible Notes will also be entitled to certain registration rights with respect to their shares of common stock received upon conversion of the Convertible Notes according to the terms of an agreement between us and the holders of the Convertible Notes. We are

generally required to pay all expenses incurred in connection with registrations effected in connection with the exercise of these registration rights, excluding underwriting discounts and commissions, and fees and expenses of counsel to the Series C holders in excess of $50,000 per offering.

The holders of the Convertible Notes may not exercise these registration rights for their shares of our common stock received upon conversion of the Convertible Notes in connection with this offering unless certain members of our management individually determine to sell more than 15% of their fully-diluted beneficially owned shares in this offering. Based on discussions with such management members, we do not believe that any of them will sell more than 15% of their full-diluted beneficially owned shares in this offering.

The holders of our Series C preferred stock and the Convertible Notes have entered into lock-up agreements described under the caption “Underwriting,” pursuant to which they have agreed, subject to certain exceptions and extensions, not to offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock, enter into any transaction which would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any economic consequences of their ownership of our common stock for a period of 180 days from the date of this prospectus or to exercise registration rights during such period with respect to such shares, although they may sell certain shares in this offering.

Demand Rights

At any time beginning six months after the closing date of this offering, subject to specified limitations, any Series C holder may require that we register all or a portion of their common shares received upon conversion of their Series C shares for sale under the Securities Act, if the anticipated gross proceeds from the sale of such shares would be at least $10 million. We may be required to effect up to two such registrations. Series C holders with these registration rights who are not part of an initial registration demand are entitled to notice and are entitled to include their own shares of common stock in such registration.

Also, at any time beginning six months after the closing date of this offering, the holders of the Convertible Notes may require, subject to specified limitations, that we register all or a portion of their common shares received upon conversion of the Convertible Notes for sale under the Securities Act, other than on Form S-3, if the anticipated aggregate gross proceeds from the sale of such shares would be at least $5 million.

Piggyback Rights

If we propose to register any of our equity securities under the Securities Act, other than in connection with this offering (if the underwriters make the determination that not all of the Series C shares to be registered can be included in the offering), the Series C holders are entitled to notice of such registration and are entitled to include their shares of common stock in such registration. Clean Technology and Capvest have indicated their interest in selling certain of their previously acquired shares in this offering. Under certain circumstances, the underwriters in any future offering may limit the number of shares sold by selling shareholders in such offering, in which case the Series C holders will have the first right to participate in such offering as selling shareholders. The Series C holders have agreed, subject to certain exceptions and extensions, not to offer, sell, contract to sell or otherwise dispose of, directly or indirectly, any of their common stock received upon conversion of their preferred stock or enter into any transaction which would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any economic consequences of their ownership of our common stock for 180 days after the date of this prospectus, although they may sell certain shares in this offering. See “Principal and Selling Shareholders.”

At any time beginning six months after the closing of this offering, if we propose to register any of our equity securities under the Securities Act, the holders of the common shares received upon conversion of the Convertible Notes are entitled to notice of such registration and are entitled to include their shares of common stock in such registration. Such holders have agreed not to exercise this right in connection with this offering and, subject to certain exceptions and extensions described below, have agreed not to

sell any of their common stock received upon conversion of the Convertible Notes in this offering or for 180 days after the date of this prospectus.

In the event that certain of our management members elect to sell more than 15% of his or her fully-diluted beneficially owned common stock in this offering, the holders of the Convertible Notes may sell any or all of their common stock in this offering, subject to any limitations that may be imposed by the underwriters in this offering. In this case, registration rights of the holders of the Convertible Notes will be senior to any other selling shareholder, except for Series C holders and sales of shares by any individual management member in this offering that do not exceed 15% of his or her fully-diluted beneficial holdings. Based on our discussions with such management members, we do not currently believe that any such management members will sell more than 15% of his or her fully-diluted shares beneficially owned of common stock in this offering.

Form S-3 Rights

If we become eligible to file registration statements on Form S-3 (which cannot occur until at least 12 months after the closing of this offering), subject to specified limitations, the Series C holders of not less than 25% of the converted Series C preferred stock, and the holders of the common shares received upon conversion of the Convertible Notes, can require us to register all or a portion of the these shares on Form S-3. Shareholders with these registration rights who are not part of an initial registration demand are entitled to notice and are entitled to include their shares of common stock in the registration.

Wisconsin Anti-Takeover Law and Certain Articles of Incorporation and Bylaw Provisions

Wisconsin law and our amended and restated articles of incorporation and amended and restated bylaws that will be effective upon closing of this offering contain provisions that could delay or prevent a change of control of our company or changes in our board of directors that our shareholders might consider favorable. The following is a summary of these provisions.

Amended and Restated Articles of Incorporation and Amended and Restated Bylaws

Classified board of directors; removal of directors for cause. Our amended and restated articles of incorporation and amended and restated bylaws that will be effective upon closing of this offering provide that our board of directors will be divided into three classes, with the term of office of the first class to expire at the 2008 annual meeting of shareholders, the term of office of the second class to expire at the 2009 annual meeting of shareholders, and the term of office of the third class to expire at the 2010 annual meeting of shareholders. At each annual meeting of shareholders, each director will be elected for a term ending on the date of the third annual shareholders' meeting following the annual shareholders' meeting at which such director was elected and until his or her successor shall be elected and shall qualify, subject to prior death, resignation or removal from office. Our amended and restated articles of incorporation also provide that the affirmative vote of shareholders possessing at least 75% of the voting power of the then outstanding shares of our capital stock is required to amend, alter, change or repeal, or to adopt any provision inconsistent with, the relevant sections of the bylaws establishing the classified board; provided that the board of directors may amend, alter, change or repeal, or adopt any provision inconsistent with such sections without the vote of the shareholders by resolution adopted by the affirmative vote of at least two-thirds of the directors then in office plus one director. Our amended and restated articles of incorporation also provide that the affirmative vote of shareholders possessing at least 75% of the voting power of the then outstanding shares of our capital stock is required to amend, alter, change or repeal, or adopt any provision inconsistent with, the provisions of the amended and restated articles of incorporation concerning the classified board. The board of directors (or its remaining members, even if less than a quorum) is also empowered to fill vacancies on the board of directors occurring for any reason for the remainder of the term of the class of directors in which the vacancy occurred, unless the vacancy was caused by the action of shareholders (in which event such vacancy will be filled by the shareholders and may not be filled by the directors).

Members of the board of directors may be removed only for cause at a meeting of the shareholders called for the purpose of removing the director, and the meeting notice must state that the purpose, or

one of the purposes, of the meeting is removal of the director and must state the alleged cause upon which the director's removal would be based.

These provisions are likely to increase the time required for shareholders to change the composition of our board of directors. For example, in general, at least two annual meetings will be necessary for shareholders to effect a change in a majority of the members of our board of directors.

Advance notice provisions for shareholder proposals and shareholder nominations of directors. Our amended and restated bylaws that will become effective upon closing of this offering provide that, for nominations to the board of directors or for other business to be properly brought by a shareholder before a meeting of shareholders, the shareholder must first have given timely notice of the proposal in writing to our secretary. For an annual meeting, a shareholder's notice generally must be delivered on or before December 31 of the year immediately preceding the annual meeting, unless the date of the annual meeting is on or after May 1 in any year, in which case notice must be received not later than the close of business on the day which is determined by adding to December 31 of the year immediately preceding such annual meeting the number of days starting with May 1 and ending on the date of the annual meeting in such year. Detailed requirements as to the form of the notice and information required in the notice are specified in the amended and restated bylaws. If it is determined that business was not properly brought before a meeting in accordance with our amended and restated bylaws, such business will not be conducted at the meeting.

Wisconsin Business Corporation Law

We are subject to the provisions of the Wisconsin Business Corporation Law.

Business Combination Statute. Wisconsin law regulates a broad range of business combinations between a "resident domestic corporation" and an "interested shareholder."

A business combination is defined to include any of the following transactions:

- a merger or share exchange;
- a sale, lease, exchange, mortgage, pledge, transfer or other disposition of assets equal to 5% or more of the market value of the stock or consolidated assets of the resident domestic corporation or 10% of its consolidated earning power or income;
- the issuance of stock or rights to purchase stock with a market value equal to 5% or more of the outstanding stock of the resident domestic corporation;
- the adoption of a plan of liquidation or dissolution; or
- certain other transactions involving an interested shareholder.

A "resident domestic corporation" is defined to mean a Wisconsin corporation that has a class of voting stock that is registered or traded on a national securities exchange or that is registered under Section 12(g) of the Exchange Act and that, as of the relevant date, satisfies any of the following:

- its principal offices are located in Wisconsin;
- it has significant business operations located in Wisconsin;
- more than 10% of the holders of record of its shares are residents of Wisconsin; or
- more than 10% of its shares are held of record by residents of Wisconsin.

Following the closing of this offering, we will be considered a resident domestic corporation for purposes of these statutory provisions.

An "interested shareholder" is defined to mean a person who beneficially owns, directly or indirectly, 10% or more of the voting power of the outstanding voting stock of a resident domestic corporation or who is an affiliate or associate of the resident domestic corporation and beneficially owned 10% or more of the voting power of its then outstanding voting stock within the last three years.

Under Wisconsin law, a resident domestic corporation cannot engage in a business combination with an interested shareholder for a period of three years following the date such person becomes an

interested shareholder, unless the board of directors approved the business combination or the acquisition of the stock that resulted in the person becoming an interested shareholder before such acquisition. A resident domestic corporation may engage in a business combination with an interested shareholder after the three-year period with respect to that shareholder expires only if one or more of the following conditions is satisfied:

- the board of directors approved the acquisition of the stock prior to such shareholder's acquisition date;
- the business combination is approved by a majority of the outstanding voting stock not beneficially owned by the interested shareholder; or
- the consideration to be received by shareholders meets certain fair price requirements of the statute with respect to form and amount.

Fair Price Statute. The Wisconsin law also provides that certain mergers, share exchanges or sales, leases, exchanges or other dispositions of assets in a transaction involving a significant shareholder and a resident domestic corporation require a supermajority vote of shareholders in addition to any approval otherwise required, unless shareholders receive a fair price for their shares that satisfies a statutory formula. A "significant shareholder" for this purpose is defined as a person or group who beneficially owns, directly or indirectly, 10% or more of the voting stock of the resident domestic corporation, or is an affiliate of the resident domestic corporation and beneficially owned, directly or indirectly, 10% or more of the voting stock of the resident domestic corporation within the last two years. Any such business combination must be approved by 80% of the voting power of the resident domestic corporation's stock and at least two-thirds of the voting power of its stock not beneficially owned by the significant shareholder who is party to the relevant transaction or any of its affiliates or associates, in each case voting together as a single group, unless the following fair price standards have been met:

- the aggregate value of the per share consideration is equal to the highest of:
  - the highest price paid for any common shares of the corporation by the significant shareholder in the transaction in which it became a significant shareholder or within two years before the date of the business combination;
  - the market value of the corporation's shares on the date of commencement of any tender offer by the significant shareholder, the date on which the person became a significant shareholder or the date of the first public announcement of the proposed business combination, whichever is higher; or
  - the highest preferential liquidation or dissolution distribution to which holders of the shares would be entitled; and
- either cash, or the form of consideration used by the significant shareholder to acquire the largest number of shares, is offered.

Limitations of Directors' Liability and Indemnification

Our amended and restated bylaws, which will become effective upon closing of this offering, provide that, to the fullest extent permitted or required by Wisconsin law, we will indemnify all of our directors and officers, any trustee of any of our employee benefit plans, and person who is serving at our request as a director, officer, employee or agent of another entity, against certain liabilities and losses incurred in connection with these positions or services. We will indemnify these parties to the extent the parties are successful in the defense of a proceeding and in proceedings in which the party is not successful in defense of the proceeding unless, in the latter case only, it is determined that the party breached or failed to perform his or her duties to us and this breach or failure constituted:

- a willful failure to deal fairly with us or our shareholders in connection with a matter in which the director or officer has a material conflict of interest;
- a violation of criminal law, unless the director or officer had reasonable cause to believe his or her conduct was unlawful;

- a transaction from which the director or officer derived an improper personal profit; or
- willful misconduct.

Our amended and restated bylaws provide that we are required to indemnify our directors and executive officers and may indemnify our employees and other agents to the fullest extent required or permitted by Wisconsin law. Additionally, our amended and restated bylaws require us under certain circumstances to advance reasonable expenses incurred by a director or officer who is a party to a proceeding for which indemnification may be available.

Wisconsin law further provides that it is the public policy of the State of Wisconsin to require or permit indemnification, allowance of expenses and insurance to the extent required or permitted under Wisconsin law for any liability incurred in connection with a proceeding involving a federal or state statute, rule or regulation regulating the offer, sale or purchase of securities.

Under Wisconsin law, a director is not personally liable for breach of any duty resulting solely from his or her status as a director, unless it is proved that the director's conduct constituted conduct described in the bullet points above. In addition, we intend to obtain directors' and officers' liability insurance that will insure against certain liabilities, subject to applicable restrictions.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Wells Fargo Shareowner Services.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no market for our common stock and a significant public market for our common stock may not develop or be sustained after this offering. Future sales of substantial amounts of our common stock in the public market, or the perception that such sales may occur, could adversely affect prevailing market prices of our common stock. Furthermore, since only a limited number of shares will be available for sale shortly after this offering because of certain contractual and legal restrictions on resale described below, sales of substantial amounts of our common stock in the public market after the restrictions lapse could also adversely affect the market price of our common stock and our ability to raise equity capital in the future. See “Risk Factors.”

Eligibility of Restricted Shares for Resale in the Public Markets

Upon closing of this offering, we will have outstanding an aggregate of shares of common stock, assuming no exercise of options or warrants that were outstanding as of June 30, 2007 and that the underwriters do not exercise their over-allotment option. Of these shares, the shares sold in this offering will be freely transferable without restriction or registration under the Securities Act, except for any shares purchased by one of our existing “affiliates,” as that term is defined in Rule 144 under the Securities Act, who may sell only the volume of shares described below and whose sales would be subject to additional restrictions described below. The remaining shares of common stock will be held by our existing shareholders and will be considered “restricted securities” as defined in Rule 144. Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rules 144, 144(k) or 701 of the Securities Act, as described below.

Taking into account the lock-up agreements described below and the provisions of Rules 144, 144(k) and 701, the number of shares of common stock that will be available for sale in the public market is as follows:

- shares, which are not subject to the 180-day lock-up period described under the caption “Underwriting”, may be sold immediately upon the date of this prospectus;
- shares, which are not subject to the 180-day lock-up period described under the caption “Underwriting”, may be sold beginning 90 days after the date of this prospectus;
- additional shares may be sold upon expiration of the 180-day lock-up period described under the caption “Underwriting”, of which would be subject to volume, manner of sale and other limitations under Rule 144; and
- the remaining shares will be eligible for resale pursuant to Rule 144 upon the expiration of various one-year holding periods during the six months following the expiration of the 180-day lock-up period.

In addition, the shares underlying options and warrants will become available for resale into the public markets as described below under “— Stock Options” and “— Warrants.”

Lock-up Agreements

We, our executive officers, directors and shareholders representing approximately % of our outstanding common stock have entered into lock-up agreements with the underwriters described under the caption “Underwriting.”

Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the effective date of this prospectus, a person, or persons whose shares are aggregated, who owns shares that were purchased from us or an affiliate of us at least one year previously, is entitled to sell within any three-month period a number of shares that does not exceed the greater of:

- one percent of our then-outstanding shares of common stock, which is expected to equal approximately shares immediately after this offering; and

- the average weekly trading volume of our common stock on the Nasdaq Global Market during the four calendar weeks preceding the filing of a notice of the sale on Form 144.

Sales under Rule 144 are also subject to manner of sale provisions, notice requirements and the availability of current public information about us. Rule 144 also provides that our affiliates that are selling shares of our common stock that are not restricted shares must nonetheless comply with the same restrictions applicable to restricted shares, other than the holding period requirement. We are unable to estimate the number of shares that will be sold under Rule 144 since this will depend on the market price for our common stock, the personal circumstances of the shareholder and other factors.

Rule 144(k)

Under Rule 144(k), a person who is not deemed to have been one of our affiliates at any time during the 90 days preceding a sale and who has beneficially owned the shares proposed to be sold for at least two years, including the holding period of any prior owner other than an affiliate, is entitled to sell those shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

Rule 701

In general, under Rule 701, any of our employees, directors, officers, consultants or advisors who acquires common stock from us in connection with a compensatory stock or option plan or other written agreement before the effective date of this offering, to the extent not subject to a lock-up agreement, is entitled to resell such shares 90 days after the effective date of this offering in reliance on Rule 144.

The SEC has indicated that Rule 701 will apply to typical stock options granted by an issuer before it becomes subject to the reporting requirements of the Exchange Act, along with the shares acquired upon exercise of such options, including exercises after the date of this prospectus. Securities issued in reliance on Rule 701 are restricted securities and, subject to the lock-up agreements described above, beginning 90 days after the date of this prospectus, may be sold by persons other than affiliates, as defined in Rule 144, subject only to the manner of sale provisions of Rule 144 and by affiliates under Rule 144 without compliance with its one-year minimum holding period requirement.

Stock Options

As of June 30, 2007, we had granted options to purchase a total of 4,712,077 shares of common stock at a weighted average exercise price of $1.57 per share. As of June 30, 2007, an additional 646,700 shares of common stock were available for future option grants under our 2003 Stock Option and 2004 Equity Incentive Plans. Upon the closing of this offering, an additional 2.5 million shares of our common stock will be available for future option grants under our 2004 Stock and Equity Awards Plan.

We intend to file one or more registration statements on Form S-8 under the Securities Act following closing of this offering to register all shares of our common stock relating to awards that we have granted or may grant under our outstanding equity incentive compensation plans as in effect on the date of this prospectus. These registration statements are expected to become effective upon filing. Subject to Rule 144 volume limitations applicable to affiliates and restrictions imposed by lock-up agreements, the amount of shares referenced above, once registered under any registration statements, will be immediately available for sale in the open market, except to the extent that the shares are subject to vesting restrictions with us or the lock-up agreements described under the caption "Underwriting."

Warrants

As of June 30, 2007, there were outstanding warrants to purchase 954,390 shares of our common stock at exercise prices ranging between $1.50 and $2.60 per share, with a weighted average exercise price of $2.24 per share. These warrants expire in various periods from December 31, 2007 through December 31, 2014. Any purchase of our common shares by affiliates pursuant to the exercise of warrants will be subject to the one-year holding period under Rule 144, which holding period will begin on the date of the exercise of any warrant.

Rule 10b5-1 Trading Plans

Upon closing of this offering, certain of our directors and executive officers may adopt written plans, known as Rule 10b5-1 plans, in which they will contract with a broker to buy or sell shares of our common stock on a periodic basis. Under these Rule 10b5-1 plans, a broker may execute trades pursuant to parameters established by the director or executive officer when entering into the plan, without further direction from such director or executive officer. Such sales would not commence until expiration of the applicable lock-up agreements entered into by such directors and executive officers in connection with this offering. Any director or executive officer party to a Rule 10b5-1 plan may amend or terminate it in some circumstances. Our directors and executive officers may also buy or sell additional shares outside of a Rule 10b5-1 plan in accordance with our insider trading plan.

MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS FOR NON-UNITED STATES HOLDERS OF OUR COMMON STOCK

The following is a general discussion of the material United States federal income and estate tax considerations applicable to a non-United States holder with respect to such holder's acquisition, ownership and disposition of shares of our common stock. For purposes of this discussion, a non-United States holder means a beneficial owner of our common stock who is not for United States federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation, partnership or any other organization taxable as a corporation or partnership for United States federal income tax purposes, created or organized in the United States or under the laws of the United States or of any state thereof or the District of Columbia;
- an estate, the income of which is included in gross income for United States federal income tax purposes regardless of its source; or
- a trust (A) if (i) a United States court is able to exercise primary supervision over the trust's administration and (ii) one or more United States persons have the authority to control all of the trust's substantial decisions or (B) that has a valid election in effect under applicable United States Treasury Regulations to be treated as a United States person.

If a partnership (or any other entity treated as a partnership for United States federal income tax purposes) holds shares of our common stock, the tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner and partnership should consult its tax advisor as to its tax consequences.

This discussion is based on current provisions of the IRC, existing, proposed and temporary United States Treasury Regulations promulgated thereunder, current administrative rulings and judicial decisions, in each case as in effect and available as of the date of this prospectus, all of which are subject to change or to differing interpretation, possibly with retroactive effect. Any change could alter the tax consequences to non-United States holders described in this prospectus.

This description addresses only the United States federal income tax considerations of non-United States holders that are initial purchasers of our common stock pursuant to the offering and that will hold our common stock as capital assets. This discussion does not address all aspects of United States federal income and estate taxation that may be relevant to a particular non-United States holder in light of that non-United States holder's individual circumstances nor does it address any aspects of United States state or local or non-United States taxation. This discussion also does not consider any specific facts or circumstances that may apply to a non-United States holder and does not address the special tax rules applicable to particular non-United States holders, such as:

- insurance companies;
- real estate investment companies, regulated investment companies or grantor trusts;
- corporations that accumulate earnings to avoid United States federal income tax;
- tax-exempt organizations;
- financial institutions;
- brokers or dealers in securities or currencies;
- partnerships and other pass-through entities;
- pension plans;
- holders that own or are deemed to own more than 5% of our common stock;
- owners that hold our common stock as part of a straddle, hedge, conversion transaction, synthetic security or other integrated investment;
- persons that received our common stock as compensation for performance of services;

- persons that have a functional currency other than the United States dollar; and
- certain former citizens or residents of the United States.

Moreover, except as set forth below, this description does not address the United States federal estate and gift or alternative minimum tax consequences of the acquisition, ownership and disposition of our common stock.

There can be no assurance that the Internal Revenue Service, referred to as the IRS, will not challenge one or more of the tax consequences described herein or that any such contrary position would not be sustained by a court, and we have not obtained, nor do we intend to obtain, an opinion of counsel or ruling from the IRS with respect to the United States federal income or estate tax consequences to a non-United States holder of the acquisition, ownership, or disposition of our common stock.

We urge you to consult with your own tax advisor regarding the United States federal, state, local and non-United States income and other tax considerations of acquiring, holding and disposing of shares of our common stock.

Distributions on Our Common Stock

We have not declared or paid distributions on our common stock since our inception and do not intend to pay any distributions on our common stock in the foreseeable future. In the event we do pay distributions on our common stock, however, these distributions generally will constitute dividends for United States federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under United States federal income tax principles. If a distribution exceeds our current and accumulated earnings and profits as determined under United States federal income tax principles, the excess will be treated first as a tax-free return of your adjusted tax basis in our common stock and thereafter as capital gain.

Generally, but subject to the discussions below under “Status as United States Real Property Holding Corporation” and “Backup Withholding and Information Reporting,” distributions of cash or property paid to you generally will be subject to withholding of United States federal income tax at a 30% rate or such lower rate as may be provided by an applicable United States income tax treaty. You are urged to consult your own tax advisor regarding your entitlement to benefits under a relevant United States income tax treaty. If we determine, at a time reasonably close to the date of payment of a distribution on our common stock, that the distribution will not constitute a dividend because we do not anticipate having current or accumulated earnings and profits as determined under United States federal income tax principles, we intend not to withhold any United States federal income tax on the distribution as permitted by United States Treasury Regulations.

Except as may be otherwise provided in an applicable United States income tax treaty, if you conduct a trade or business within the United States, you generally will be taxed at graduated United States federal income tax rates applicable to United States persons (on a net income basis) on dividends that are effectively connected with the conduct of such trade or business and such dividends will not be subject to the withholding described above. If you are a corporation, you may also be subject to a 30% “branch profits tax” unless you qualify for a lower rate under an applicable United States income tax treaty.

To claim the benefit of any applicable United States tax treaty or an exemption from withholding because the income is effectively connected with your conduct of a trade or business in the United States, you must provide a properly executed IRS Form W-8BEN certifying your qualification for a reduced rate under an applicable treaty or IRS Form W-8ECI certifying that the dividends are effectively connected with your conduct of a trade or business within the United States (or such successor form as the IRS designates), before the distributions are made. These forms must be periodically updated. You may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS. You should consult your tax advisors regarding any applicable tax treaties that may provide for different rules.

Sale, Exchange or Other Taxable Disposition of Our Common Stock

Generally, but subject to the discussions below under "Status as United States Real Property Holding Corporation" and "Backup Withholding and Information Reporting," you will not be subject to United States federal income tax or withholding tax on any gain realized on the sale, exchange or other taxable disposition of shares of our common stock unless:

- the gain is effectively connected with your conduct of a trade or business in the United States (and if an applicable United States income tax treaty so provides, is also attributable to a permanent establishment or a fixed base in the United States maintained by you), in which case you generally (unless an applicable tax treaty provides otherwise) will be taxed at the graduated United States federal income tax rates applicable to United States persons and, if you are a corporation, the additional branch profits tax described above in "Distributions on Our Common Stock" may apply; or
- you are an individual who is present in the United States for 183 days or more in the taxable year of the sale, exchange or disposition and certain other conditions are met, in which case you will be subject to a 30% tax on the net gain derived from the disposition, which may be offset by your United States source capital losses, if any.

Status as a United States Real Property Holding Corporation

Under certain circumstances, gain recognized on the sale, exchange or other disposition of, and certain distributions in excess of basis with respect to, our common stock would be subject to United States federal income tax, notwithstanding your lack of other connections with the United States, if we are or have been, at any time during the shorter of (i) your holding period of our common stock or (ii) the five-year period ending on the date of such sale, exchange or other disposition (or distribution in excess of basis) a "United States real property holding corporation" for United States federal income tax purposes, unless our common stock is regularly traded on an established securities market and you actually or constructively hold no more than 5% of our outstanding common stock. If we are determined to be a United States real property holding corporation and the foregoing exception does not apply, then a purchaser must withhold 10% of the proceeds payable to you from your sale or other taxable disposition of our common stock (unless our common stock is regularly traded on an established securities market), and you generally will be taxed on the net gain derived from the disposition at the graduated United States federal income tax rates applicable to United States persons. Generally, a corporation is a United States real property holding corporation only if the fair market value of its United States real property interests equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests plus its other assets used or held for use in a trade or business. Although there can be no assurance, currently we do not believe that we are, or have been, a United States real property holding corporation, or that we are likely to become one in the future. Furthermore, no assurance can be provided that our stock will be regularly traded on an established securities market for purposes of the rules described above.

United States Federal Estate Tax

Shares of our common stock owned or treated as owned at the time of death by an individual who is not a citizen or resident of the United States, as specifically defined for United States federal estate tax purposes, will be considered United States situs assets and will be included in the individual's gross estate for United States federal estate tax purposes. Such shares, therefore, may be subject to United States federal estate tax, unless an applicable estate tax or other treaty provides otherwise.

Backup Withholding and Information Reporting

We must report annually to the IRS and to each non-United States holder the amount of dividends on our common stock paid to such holder and the amount of any tax withheld with respect to those dividends, together with other information. These information reporting requirements apply even if no withholding was required because the dividends were effectively connected with the holder's conduct of a United States trade or business, or withholding was reduced or eliminated by an applicable tax treaty. This information also may be made available under a specific treaty or agreement to the tax authorities

of the country in which the non-United States holder resides or is established. Under certain circumstances, the Code imposes a backup withholding obligation (currently at a rate of 28%) on certain reportable payments. However, backup withholding generally will not apply to payments of dividends to a non-United States holder of our common stock provided the non-United States holder furnishes to us or our paying agent the required certification as to its non-United States status, such as by providing a valid IRS Form W-8BEN or W-8ECI, or otherwise establishes an exemption.

Payments of the proceeds from a disposition by a non-United States holder of our common stock made by or through a non-United States office of a broker generally will not be subject to information reporting or backup withholding. However, information reporting (but not backup withholding) will apply to those payments if the broker is a United States person, a controlled foreign corporation for United States federal income tax purposes, a foreign person 50% or more of whose gross income is effectively connected with a United States trade or business for a specified three-year period or a foreign partnership if at any time during its tax year (1) one or more of its partners are United States persons who hold in the aggregate more than 50 percent of the income or capital interest in such partnership or (2) it is engaged in the conduct of a United States trade or business, unless the broker has documentary evidence that the beneficial owner is a non-United States holder or an exemption is otherwise established, provided that the broker does not have actual knowledge or reason to know that the holder is a United States person or that the conditions of any other exemption are not, in fact, satisfied.

Payment of the proceeds from a non-United States holder’s disposition of our common stock made by or through the United States office of a broker may be subject to information reporting. Backup withholding will apply unless the non-United States holder certifies as to its non-United States holder status under penalties of perjury, such as by providing a valid IRS Form W-8BEN or W-8ECI, or otherwise establishes an exemption, provided that the broker does not have actual knowledge or reason to know that the holder is a United States person or that the conditions of any other exemption are not, in fact, satisfied. Non-United States holders should consult their tax advisors on the application of information reporting and backup withholding to them in their particular circumstances.

Backup withholding tax is not an additional tax. Any amounts withheld under the backup withholding tax rules from a payment to a non-United States holder can be refunded or credited against the non-United States holder’s United States federal income tax liability, if any, provided that the required information is furnished to the IRS in a timely manner.

The above description is not intended to constitute a complete analysis of all tax consequences relating to acquisition, ownership and disposition of our common stock. You should consult your own tax advisor concerning the tax consequences of your particular situation.

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UNDERWRITING

Subject to the terms and conditions set forth in the underwriting agreement, each of the underwriters named below has severally agreed to purchase from us and the selling shareholders the aggregate number of shares of common stock set forth opposite its name below:

Underwriter	Number of Shares
Thomas Weisel Partners LLC	
Canaccord Adams Inc.	
Pacific Growth Equities, LLC	
Total	

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of common stock in the offering if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

We have granted to the underwriters a 30-day option to purchase on a pro rata basis up to additional shares from us at the initial public offering price less the underwriting discounts and commissions. The option may be exercised only to cover any over-allotments of common stock.

The underwriters propose to offer the shares of common stock initially at the public offering price on the cover page of this prospectus and to selling group members at that price less a selling concession of $ per share. The underwriters and selling group members may allow a discount of $ per share on sales to other broker/dealers. After the initial public offering, the underwriters may change the public offering price and concession and discount to broker/dealers.

The following table summarizes the compensation to be paid to the underwriters by us and the selling shareholders and the proceeds, before expenses, payable to us and the selling stockholders:

	Per Share	Total	
		With Over-Allotment	Without Over-Allotment
Public offering price			
Underwriting discount			
Proceeds, before expenses, to us			
Proceeds, before expenses, to the selling shareholders			

The underwriters have informed us that they do not expect sales to accounts over which the underwriters have discretionary authority to exceed 5% of the shares of common stock being offered.

We have agreed that we will not (i) offer, sell, issue contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or any securities convertible into or exchangeable or exercisable for any shares of our common stock; (ii) offer, sell, issue, contract to sell, contract to purchase or grant any option, right or warrant to purchase shares of our common stock or any securities convertible into or exchangeable for shares of our common stock; (iii) enter into any swap, hedge or any other agreement that transfers, in whole or in part, the economic consequences of ownership of shares of our common stock or any securities convertible or exchangeable into shares of our common stock; (iv) establish or increase a put equivalent position or liquidate or decrease a call equivalent position in shares of our common stock or any securities convertible or exchangeable into shares of our common stock within the meaning of Section 16 of the Exchange Act or (v) file with the SEC a registration statement under the Securities Act relating to shares of our common stock or any securities convertible into or exchangeable for shares of our common stock, or publicly disclose the intention to take any such action, in each case, without the prior written consent of Thomas Weisel Partners LLC, for a period of 180 days after the date of this prospectus except for issuances pursuant to or the conversion of convertible securities, options or warrants outstanding on the date of this prospectus and the filing of a registration statement on Form S-8 for shares of common stock relating to awards that we have granted or may grant under our outstanding equity incentive compensation plans, as in effect on the date of this prospectus. However, in the event that either (1) during the last 17 days of the

"lock-up" period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the "lock-up" period, we announce that we will release earnings results during the 16-day period beginning on the last day of the "lock-up" period, then in each case the "lock-up" period will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of the material news or material event, as applicable, unless Thomas Weisel Partners LLC waives, in writing, such extension.

Our officers, directors and shareholders representing % of our outstanding common stock have agreed that, subject to certain exceptions, they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any of these transactions are to be settled by delivery of our common stock or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Thomas Weisel Partners LLC for a period of 180 days after the date of this prospectus. In addition, our officers, directors and these shareholders agree that, without the prior written consent of Thomas Weisel Partners LLC, they will not, during the period of the lock-up period, make any demand for or exercise any right with respect to, the registration of our common stock or any security convertible into or exercisable or exchangeable for our common stock. However, in the event that either (1) during the last 17 days of the "lock-up" period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the "lock-up" period, we announce that we will release earnings results during the 16-day period beginning on the last day of the "lock-up" period, then in each case the "lock-up" period will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of the material news or event, as applicable, unless Thomas Weisel Partners LLC waives, in writing, such an extension.

Notwithstanding the foregoing, the restrictions described in the paragraph above will not apply to transfers to a family member or trust, provided the transferee agrees to be bound in writing by the terms of the lock up agreement prior to such transfer, such transfer shall not involve a disposition for value and no filing by any party (donor, donee, transferor or transferee) under the Exchange Act is required or voluntarily made in connection with such transfer (other than a filing on a Form 5 made after the expiration of the "lock up" period).

The underwriters have reserved for sale at the initial public offering price up to shares, or % of the total number of shares offered in this prospectus by the company, of the common stock for employees, directors, customers, vendors and other persons associated with us who have expressed an interest in purchasing common stock in the offering. The number of shares available for sale to the general public in the offering will be reduced to the extent these persons purchase the reserved shares. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same terms as the other shares.

We and the selling shareholders have agreed to indemnify the underwriters against liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in that respect.

We have applied to list the shares of common stock on the Nasdaq Global Market under the symbol "OESX."

In connection with the offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions, and penalty bids in accordance with Regulation M under the Exchange Act.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase

in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing shares in the open market.

Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions. Stabilization and syndicate covering transactions may cause the price of the shares to be higher than it would be in the absence of these transactions. The imposition of a penalty bid might also have an effect on the price of the shares if it discourages presale of the shares.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the Nasdaq Global Market or otherwise and, if commenced, may be discontinued at any time.

Prior to this offering, there has been no public market for our common stock. The initial public offering price will be determined by negotiations between us and the underwriters. Among the factors to be considered in determining the initial public offering price will be our future prospects and those of our industry in general, our financial operating information in recent periods, and market prices of securities and financial and operating information of companies engaged in activities similar to ours. There can be no assurance that the initial public offering price will correspond to the price at which our common stock will trade in the public market subsequent to this offering or that an active trading market will develop and continue after this offering.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), each Underwriter has represented and agreed that, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date), it has not made and will not make an offer of shares to the public in that Relevant Member State prior to the publication of a prospectus in relation to the shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of shares to the public in that Relevant Member State at any time:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(c) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of shares to the public" in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe the shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus

Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Each of the underwriters has represented and agreed that:

(a) it has not made or will not make an offer of shares to the public in the United Kingdom within the meaning of section 102B of the Financial Services and Markets Act 2000 (as amended), or FSMA except to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities or otherwise in circumstances which do not require the publication by us of a prospectus pursuant to the Prospectus Rules of the Financial Services Authority, or FSA;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) to persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or in circumstances in which section 21 of FSMA does not apply to us; and

(c) it has complied with, and will comply with, all applicable provisions of FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

The underwriters will not offer or sell any of our shares directly or indirectly in Japan or to, or for the benefit of any Japanese person or to others, for re-offering or re-sale directly or indirectly in Japan or to any Japanese person, except in each case pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law of Japan and any other applicable laws and regulations of Japan. For purposes of this paragraph, “Japanese person” means any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

The underwriters and each of their affiliates have not (i) offered or sold, and will not offer or sell, in Hong Kong, by means of any document, our shares other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance or (ii) issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere any advertisement, invitation or document relating to our shares which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to our shares which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance any rules made under that Ordinance. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

This prospectus or any other offering material relating to our shares has not been and will not be registered as a prospectus with the Monetary Authority of Singapore, and the shares will be offered in Singapore pursuant to exemptions under Section 274 and Section 275 of the Securities and Futures Act, Chapter 289 of Singapore, or the Securities and Futures Act. Accordingly our shares may not be offered or sold, or be the subject of an invitation for subscription or purchase, nor may this prospectus or any other offering material relating to our shares be circulated or distributed, whether directly or indirectly, to the public or any member of the public in Singapore other than (a) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act, (b) to a sophisticated investor, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

In the ordinary course, the underwriters and their affiliates may in the future provide investment banking, commercial banking, investment management, or other financial services to us and our affiliates for which services they may receive compensation in the future.

LEGAL MATTERS

The validity of the issuance of the common stock offered by us in this offering will be passed upon for us by the law firm of Foley & Lardner LLP. Certain legal matters in connection with this offering will be passed upon for the underwriters by the law firm of Latham & Watkins LLP, New York, New York.

EXPERTS

Grant Thornton LLP, independent registered public accounting firm, has audited our financial statements as of March 31, 2006 and 2007 and for each of the three years in the period ended March 31, 2007 appearing in this prospectus and the related registration statement, as set forth in their report thereon appearing elsewhere herein, and are included in reliance on such report given on the authority of such firm as experts in accounting and auditing.

Wipfli LLP, acted as an independent third party evaluator and provided a valuation of the fair value of our common stock as of April 30, 2007 and as of November 30, 2006, in each case in connection with the board of directors determination of stock value for financial reporting of stock option grants.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act, with respect to our common stock offered hereby. This prospectus, which forms part of the registration statement, does not contain all of the information set forth in the registration statement and the exhibits and schedules to the registration statement. This prospectus omits information contained in the registration statement as permitted by the rules and regulations of the SEC. For further information about us and our common stock, we refer you to the registration statement and the exhibits and schedules to the registration statement filed as part of the registration statement. Statements contained in this prospectus as to the contents of any contract or other document filed as an exhibit are qualified in all respects by reference to the actual text of the exhibit. You may read and copy the registration statement, including the exhibits and schedules to the registration statement, at the SEC's Public Reference Room at 100 F. Street, N.E., Room 1580, Washington, D.C. 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at www.sec.gov, from which you can electronically access the registration statement, including the exhibits and schedules to the registration statement.

Upon the closing of this offering, we will become subject to the informational and reporting requirements of the Exchange Act and we intend to file periodic reports and other information with the SEC. After the closing of this offering, our future SEC filings will be available to you on our website at www.oriones.com. Information on, or accessible through, our website is not a part of, and is not incorporated into, this prospectus.

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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. and Subsidiaries (the Company) as of March 31, 2006 and 2007, 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, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements 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. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 the Company as of March 31, 2006 and 2007, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A, effective April 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*.

/s/ Grant Thornton LLP

Milwaukee, Wisconsin
August 16, 2007

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	March 31, 2006	March 31, 2007	June 30, 2007 (Unaudited)
Assets			
Cash and cash equivalents	$ 1,089	$ 285	$ 696
Accounts receivable, net of allowances of $38, $89 and $83 (unaudited)	6,051	11,197	13,172
Inventories	6,167	9,496	10,672
Deferred tax assets	419	345	458
Prepaid expenses and other current assets	745	1,296	1,457
Total current assets	14,471	22,619	26,455
Property and equipment, net	8,106	7,588	7,946
Patents and licenses, net	194	243	316
Investment	—	794	794
Deferred tax assets	1,607	1,907	1,354
Other long-term assets	360	432	854
Total assets	$ 24,738	$ 33,583	$ 37,719
Liabilities, Temporary Equity and Shareholders' Equity			
Accounts payable	$ 4,767	$ 5,607	$ 8,116
Accrued expenses	1,889	2,196	3,326
Current maturities of long-term debt	859	736	707
Total current liabilities	7,515	8,539	12,149
Long-term debt, less current maturities	10,492	10,603	9,998
Other long-term liabilities	109	133	171
Total liabilities	18,116	19,275	22,318
Commitments and contingencies (See Note E)			
Temporary equity:			
Series C convertible redeemable preferred stock, $0.01 par value: zero shares issued and outstanding at March 31, 2006 and 1,818,182 at March 31, 2007 and June 30, 2007 (unaudited)	—	4,953	5,028
Shareholders' equity:			
Preferred stock, $0.01 par value: Shares authorized including Series C convertible redeemable preferred stock: 20,000,000 at March 31, 2006 and 2007 and June 30, 2007 (unaudited)			
Series A convertible preferred stock, $0.01 par value: 20,000 shares issued and outstanding at March 31, 2006 and none at March 31, 2007 and June 30, 2007 (unaudited)	116	—	—
Series B convertible preferred stock, $0.01 par value: 2,847,400, 2,989,830 and 2,989,830 shares issued and outstanding at March 31, 2006 and 2007 and June 30, 2007 (unaudited)	5,591	5,959	5,959
Common stock, no par value: Shares authorized: 80,000,000 as of March 31, 2006 and 2007 and June 30, 2007 (unaudited); shares issued: 8,982,764, 12,107,573 and 12,289,043 as of March 31, 2006 and 2007 and June 30, 2007 (unaudited); shares outstanding: 8,920,900, 12,038,499 and 12,219,969 as of March 31, 2006 and 2007 and June 30, 2007 (unaudited)	—	—	—
Additional paid-in capital	5,859	9,438	9,993
Treasury stock: 61,864, 69,074 and 69,074 common shares as of March 31, 2006 and 2007 and June 30, 2007 (unaudited)	(345)	(361)	(361)
Shareholder notes receivable	(398)	(2,128)	(2,128)
Accumulated deficit	(4,201)	(3,553)	(3,090)
Total shareholders' equity	6,622	9,355	10,373
Total liabilities, temporary equity and shareholders' equity	$ 24,738	$ 33,583	$ 37,719

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

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)

	Fiscal Year Ended March 31,			Three Months Ended June 30,	
	2005	2006	2007	2006	2007
				(Unaudited)	
Product revenue	$ 19,628	$ 29,671	$ 40,034	$ 8,570	$ 14,119
Service revenue	2,155	3,609	8,149	1,110	2,602
Total revenue	21,783	33,280	48,183	9,680	16,721
Cost of product revenue	12,099	19,946	26,546	5,409	9,476
Cost of service revenue	1,944	2,578	5,941	846	1,642
Total cost of revenue	14,043	22,524	32,487	6,255	11,118
Gross profit	7,740	10,756	15,696	3,425	5,603
Operating expenses:					
General and administrative	3,461	4,875	6,162	1,269	1,571
Sales and marketing	5,416	5,991	6,459	1,518	2,111
Research and development	213	1,171	1,078	211	437
Total operating expenses	9,090	12,037	13,699	2,998	4,119
Income (loss) from operations	(1,350)	(1,281)	1,997	427	1,484
Other income (expense):					
Interest expense	(570)	(1,051)	(1,044)	(253)	(295)
Dividend and interest income	3	5	201	1	40
Total other income (expense)	(567)	(1,046)	(843)	(252)	(255)
Income (loss) before income tax and cumulative effect of change in accounting principle	(1,917)	(2,327)	1,154	175	1,229
Income tax expense (benefit)	(702)	(762)	225	34	481
Income (loss) before cumulative change in accounting principle	(1,215)	(1,565)	929	141	748
Cumulative effect of change in accounting principle, net of income tax benefit of $38	(57)	—	—	—	—
Net income (loss)	(1,272)	(1,565)	929	141	748
Accretion of redeemable preferred stock and preferred stock dividends	(104)	(3)	(201)	(1)	(75)
Conversion of preferred stock	(972)	—	(83)	—	—
Participation rights of preferred stock in undistributed earnings	—	—	(205)	(35)	(219)
Net income (loss) attributable to common shareholders	$ (2,348)	$ (1,568)	$ 440	$ 105	$ 454
Basic net income (loss) per share attributable to common shareholders	$ (0.36)	$ (0.18)	$ 0.05	$ 0.01	$ 0.05
Weighted-average common shares outstanding	6,470,413	8,524,012	9,080,461	8,998,944	9,950,486
Diluted net income (loss) per share attributable to common shareholders	$ (0.36)	$ (0.18)	$ 0.05	$ 0.01	$ 0.04
Weighted-average common shares and share equivalents outstanding	6,470,413	8,524,012	16,432,647	15,072,660	18,087,951

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

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ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF TEMPORARY EQUITY AND SHAREHOLDERS' EQUITY
(in thousands, except share amounts)

	Temporary Equity		Preferred Stock				Common Stock					
	Series C Redeemable Preferred Stock		Series A		Series B			Additional Paid-in Capital	Treasury Shares	Shareholder Notes Receivable	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares					
Balance, March 31, 2004	—	$ —	732,010	$ 1,007	392,000	$ 710	6,355,776	$ 2,229	$ —	$ —	$ (392)	$ 3,554
Issuance of stock	—	—	—	—	1,842,400	3,457	119,802	551	—	(63)	—	3,945
Conversion of Series A shares to common stock	—	—	(648,010)	(891)	—	—	1,944,030	1,863	—	—	(972)	—
Purchase of stock for treasury	—	—	(64,000)	—	—	—	(61,864)	—	(345)	—	—	(345)
Changes in shareholder notes receivable	—	—	—	—	—	—	—	—	—	5	—	5
Net loss	—	—	—	—	—	—	—	—	—	—	(1,272)	(1,272)
Balance, March 31, 2005	—	$ —	20,000	$ 116	2,234,400	$ 4,167	8,357,744	$ 4,643	$ (345)	$ (58)	$ (2,636)	$ 5,887
Issuance of stock and warrants	—	—	—	—	613,000	1,424	55,778	153	—	—	—	1,577
Exercise of stock options and warrants for cash and notes	—	—	—	—	—	—	483,378	445	—	(375)	—	70
Stock-based compensation	—	—	—	—	—	—	—	558	—	—	—	558
Changes in shareholder notes receivable	—	—	—	—	—	—	—	—	—	35	—	35
Issuance of common stock and warrants for services	—	—	—	—	—	—	24,000	60	—	—	—	60
Net loss	—	—	—	—	—	—	—	—	—	—	(1,565)	(1,565)
Balance, March 31, 2006	—	$ —	20,000	$ 116	2,847,400	$ 5,591	8,920,900	$ 5,859	$ (345)	$ (398)	$ (4,201)	$ 6,622
Issuance of stock and warrants	1,818,182	4,755	—	—	142,430	368	—	—	—	—	—	368
Exercise of stock options and warrants for cash and notes	—	—	—	—	—	—	3,064,809	2,582	—	(1,753)	—	829
Conversion to common stock	—	—	(20,000)	(116)	—	—	60,000	199	—	—	(83)	—
Tax benefit from exercise of stock options	—	—	—	—	—	—	—	435	—	—	—	435
Treasury stock purchase	—	—	—	—	—	—	(7,210)	—	(16)	—	—	(16)
Stock-based compensation	—	—	—	—	—	—	—	363	—	—	—	363
Changes in shareholder notes receivable	—	—	—	—	—	—	—	—	—	23	—	23
Accretion of redeemable preferred stock	—	198	—	—	—	—	—	—	—	—	(198)	(198)
Net income	—	—	—	—	—	—	—	—	—	—	929	929
Balance, March 31, 2007	1,818,182	$ 4,953	—	$ —	2,989,830	$ 5,959	12,038,499	$ 9,438	$ (361)	$ (2,128)	$ (3,553)	$ 9,355
Exercise of stock options and warrants for cash and notes (unaudited)	—	—	—	—	—	—	181,470	376	—	—	—	376
Tax benefit from exercise of stock options (unaudited)	—	—	—	—	—	—	—	33	—	—	—	33
Stock-based compensation (unaudited)	—	—	—	—	—	—	—	146	—	—	—	146
Accretion of preferred stock (unaudited)	—	75	—	—	—	—	—	—	—	—	(75)	(75)
Changes in shareholder notes receivable (unaudited)	—	—	—	—	—	—	—	—	—	—	—	—
Adoption of FIN 48 (unaudited)											(210)	(210)
Net income (unaudited)	—	—	—	—	—	—	—	—	—	—	748	748
Balance, June 30, 2007 (unaudited)	1,818,182	$ 5,028	—	$ —	2,989,830	$ 5,959	12,219,969	$ 9,993	$ (361)	$ (2,128)	$ (3,090)	$ 10,373

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

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Fiscal Year Ended March 31,			Three Months Ended June 30,	
	2005	2006	2007	2006	2007
				(Unaudited)	
Operating activities					
Net income (loss)	$ (1,272)	$ (1,565)	$ 929	$ 141	$ 748
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	539	941	1,063	247	270
Stock-based compensation expense	—	618	363	58	146
Deferred income tax benefit	(740)	(922)	(213)	28	440
Loss on write-off of patents and licenses	—	—	13	—	—
Loss on sale of assets	—	224	268	4	—
Other	—	37	8	—	10
Changes in operating assets and liabilities:					
Accounts receivable	(305)	(2,757)	(5,161)	(27)	(2,372)
Inventories	(3,472)	491	(4,555)	(2,223)	(1,176)
Prepaid expenses and other current assets	9	(300)	(524)	(9)	315
Accounts payable	3,338	(584)	840	1,233	2,509
Accrued expenses	1,040	416	735	(207)	932
Net cash provided by (used in) operating activities	(863)	(3,401)	(6,234)	(755)	1,822
Investing activities					
Purchase of property and equipment	(5,764)	(871)	(1,012)	(169)	(614)
Additions to patents and licenses	(40)	(56)	(81)	(14)	(78)
Proceeds from disposal of equipment	—	735	263	—	—
Net decrease (increase) in amount due from shareholder	(84)	30	(139)	(26)	(14)
Net cash used in investing activities	(5,888)	(162)	(969)	(209)	(706)
Financing activities					
Purchase of treasury stock	(345)	—	—	—	—
Proceeds from issuance of long-term debt	10,099	134	40	40	—
Payment of long-term debt	(5,840)	(2,416)	(1,263)	(198)	(175)
Net activity in revolving line of credit	(636)	4,853	1,211	201	(460)
Excess benefit for deferred taxes on stock-based compensation	—	—	435	6	33
Proceeds from (additions to) shareholder notes receivable, net	5	35	23	(17)	—
Deferred finance and offering costs	(91)	(94)	—	—	(479)
Proceeds from issuance of preferred stock, net	3,857	1,454	5,123	134	—
Proceeds from issuance of common stock	88	193	830	15	376
Net cash provided by (used in) financing activities	7,137	4,159	6,399	181	(705)
Net increase (decrease) in cash and cash equivalents	386	596	(804)	(783)	411
Cash and cash equivalents at beginning of period	107	493	1,089	1,089	285
Cash and cash equivalents at end of period	$ 493	$ 1,089	$ 285	$ 306	$ 696
Supplemental cash flow information:					
Cash paid for interest	$ 492	$ 1,003	$ 927	$ 231	$ 267
Cash paid for income taxes	—	—	17	—	10
Supplemental disclosure of non-cash investing and financing activities					
Capital leases entered into for purchase of equipment	$ —	$ 81	$ 40	$ 40	$ —
Notes receivable issued to shareholders	63	375	1,753	—	—
Long-term investment in affiliate acquired through sale of inventory	—	—	794	307	—
Preferred stock dividends	104	3	201	1	75

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

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. The corporate offices are located in Plymouth, Wisconsin and manufacturing and operations facilities are located in Plymouth and Manitowoc, Wisconsin.

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.

Unaudited financial information

The accompanying consolidated balance sheet as of June 30, 2007, the consolidated statements of operations and cash flows for the three months ended June 30, 2006 and 2007 and the consolidated statements of temporary equity and shareholders' equity for the three months ended June 30, 2007 are unaudited and the Company's independent registered public accounting firm has not expressed an opinion on the statements for these periods. The unaudited consolidated financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly the Company's consolidated financial position as of June 30, 2007 and consolidated results of operations and cash flows for the three months ended June 30, 2006 and 2007. The financial data and other information disclosed in these notes to the consolidated financial statements as of and related to the three months ended June 30, 2006 and 2007 are unaudited. The results for the three months ended June 30, 2007 are not necessarily indicative of the results to be expected for the year ending March 31, 2008 or for any other interim period or for any future year.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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.

Fair value of financial instruments

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

Accounts receivable

The majority of the Company's accounts receivable are due from companies in the commercial, industrial and agricultural industries, and wholesalers. Credit is extended based on an evaluation of a

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

Included in accounts receivable are amounts due from a third party finance company to which the Company has sold, without recourse, the future cash flows from lease arrangements entered into with customers. Such receivables are recorded at the present value of the future cash flows discounted at 12.49%. As of March 31, 2007, the following amounts were due from the third party finance company in future periods (in thousands):

2008	$ 190
2009	123
Total gross receivable	313
Less: amount representing interest	(23)
Net contracts receivable	$ 290

At June 30, 2007 (unaudited), net contract receivables amounted to $249,000, $194,000 of which is due in the next 12 months.

Inventories

Inventories consist of raw materials and components, such as ballasts, metal sheet and coil stock and molded parts; work in process inventories, such as frames and reflectors; and finished goods, including completed fixtures or systems and accessories, such as lamps, meters and power supplies. All inventories are stated at the lower of cost or market value; with cost determined using the first-in, first-out (FIFO) method. The Company reduces the carrying value of its inventories for differences between the cost and estimated net realizable value, taking into consideration usage in the preceding 12 months, expected demand, and other information indicating obsolescence. The Company records as a charge to cost of revenue the amount required to reduce the carrying value of inventory to net realizable value. As of March 31, 2006 and 2007, and June 30, 2007 (unaudited), the Company had inventory obsolescence reserves of $355,000, $448,000 and $526,000.

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 revenue.

Inventories were comprised of the following (in thousands):

	March 31, 2006	March 31, 2007	June 30, 2007 (Unaudited)
Raw materials and components	$ 1,762	$ 5,496	$ 5,983
Work in process	386	358	495
Finished goods	4,019	3,642	4,194
	$ 6,167	$ 9,496	$ 10,672

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist primarily of prepaid insurance premiums, advance payments to contractors and miscellaneous receivables. The balance at March 31, 2007 also included a $450,000 secured note with 5% interest due from a third party. The note was paid in full in May 2007.

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.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company periodically reviews the carrying values of property and equipment for impairment when 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 writedowns were recorded in fiscal 2005, 2006, 2007 or the three months ended June 30, 2006 and 2007 (unaudited).

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

	March 31,		June 30,
	2006	2007	2007 (Unaudited)
Land and land improvements	$ 557	$ 557	$ 560
Buildings	4,240	4,423	4,449
Furniture, fixtures and office equipment	1,298	1,441	1,492
Plant equipment	3,923	3,747	3,790
Construction in progress	141	130	625
	10,159	10,298	10,916
Less: accumulated depreciation and amortization	2,053	2,710	2,970
Net property and equipment	$ 8,106	$ 7,588	$ 7,946

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

	March 31,		June 30,
	2006	2007	2007 (Unaudited)
Equipment	$ 1,498	$ 1,451	$ 1,206
Less: accumulated amortization	328	531	328
Net Equipment	$ 1,170	$ 920	$ 878

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

Land improvements	10 – 15 years
Buildings	10 – 39 years
Furniture, fixtures and office equipment	3 – 10 years
Plant equipment	3 – 10 years

No interest has been capitalized for construction in progress, as it was not material for any of the periods presented.

Patents and Licenses

Patents and licenses are being amortized on a straight-line basis over 15-17 years. The Company capitalized $40,000, $56,000 and $81,000 of costs associated with obtaining patents and licenses in fiscal 2005, 2006 and 2007. An additional $78,000 was capitalized in the three months ended June 30, 2007 (unaudited). Amortization expense recorded to cost of revenue for fiscal 2005, 2006 and 2007 was $9,000, $14,000 and $19,000. The costs and accumulated amortization for patents and licenses was

$246,000 and $52,000 as of March 31, 2006; $314,000 and $71,000 as of March 31, 2007; and $392,000 and $76,000 as of June 30, 2007 (unaudited). The average remaining useful life of the patents and licenses as of March 31, 2007 was approximately 15 years. As of March 31, 2007, amortization expense of the patents and licenses for each of the fiscal years ending 2008 through 2012 is estimated to be $20,000, with $143,000 remaining after 2012.

The Company's management periodically reviews the carrying value of patents and licenses for impairment. As a result of this review, the Company wrote off an immaterial amount in fiscal 2007.

Investment

The investment consists of 77,000 shares of preferred stock of a manufacturer of specialty aluminum products which was acquired in July 2006 by exchanging products with a fair value of $794,000. The terms of the preferred stock contain protective covenants regarding capital structure changes and also certain provisions to require the redemption of the stock at a defined liquidation value. The terms of the stock also require a dividend payment of 12% on the liquidation value or $139,000 annually. The investment is being accounted for under the cost method of accounting. The Company does not have the ability to exert significant influence over the entity.

The Company's management periodically reviews the carrying value of the investment for impairment. No impairment was required at March 31, 2007 or June 30, 2007 (unaudited).

Other Long-Term Assets

Other long-term assets includes deferred financing costs related to debt issuances and the Company's contemplated initial public offering, amounts due from shareholders unrelated to stock transactions (see Note B) and other miscellaneous items.

Deferred financing costs related to debt issuances are amortized to interest expense over the life of the related debt issue (6 to 15 years). In fiscal 2005, 2006 and 2007, the Company capitalized $91,000, $94,000 and zero of deferred financing costs. In the three months ended June 30, 2007 (unaudited), the Company deferred $53,000 of costs related to its convertible debt issuance that closed in August 2007 (see Note H). Interest expense related to the amortization of deferred financing for fiscal 2005, 2006 and 2007 was $11,000, $62,000, and $45,000. For the three months ended June 30, 2006 and 2007 (unaudited), the amortization was $9,000.

The balance at June 30, 2007 included $426,000 of deferred equity issuance costs incurred in connection with the Company's contemplated initial public offering.

Accrued Expenses

Accrued expenses include warranty accruals, accrued wages, accrued vacations, sales tax payable, income tax payable and other various unpaid expenses. Accrued subcontractor fees amounted to $255,000, $548,000 and $522,000 as of March 31, 2006, 2007 and June 30, 2007 (unaudited). Except for the advance supplier rebate of $432,000 at March 31, 2005, no other items exceeded 5% of total current liabilities for any of the periods presented.

During fiscal 2006, the Company experienced performance issues on select inventory items and entered into a settlement agreement with the supplier under which the Company was forgiven certain payables outstanding and received a cash rebate of $432,000 in exchange for an additional purchase obligation of $962,000 of inventory. The cash rebate was received and included in other current liabilities at March 31, 2006 as the purchase obligation remained outstanding. As of March 31, 2007, the Company had satisfied its purchase obligation and the rebate was reclassified to inventory and is being amortized to cost of revenue as the purchased product is used.

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. In fiscal 2005 and 2006, the Company experienced significant warranty problems with new ballast and lamp components manufactured by a third party supplier. The Company charged back costs against accounts payable due the supplier as partial reimbursement for replacement material and labor costs incurred to correct certain product failures at its customers' facilities. The Company also provided a general reserve for warranty costs as of March 31, 2006 and 2007 and June 30, 2007 (unaudited).

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

	March 31, 2006	March 31, 2007	June 30, 2007 (Unaudited)
Beginning of period	$ 250	$ 332	$ 45
Credit from supplier	412	—	—
Provision to cost of revenue	745	249	170
Charges	(1,075)	(536)	(38)
End of period	$ 332	$ 45	$ 177

Revenue Recognition

The Company recognizes revenue in accordance with Staff Accounting Bulletin, (SAB) No. 104, *Revenue Recognition*, and Emerging Issues Task Force Issue (EITF) No. 00-21, *Revenue Arrangements with Multiple Deliverables*. Based upon SAB 104, revenue is recognized when the following four criteria are met:

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

These four criteria are met for the Company's product revenue upon delivery of the product and title passing to the customer. At that time, the Company provides for estimated costs that may be incurred for product warranties and sales returns. Services other than installation and recycling that are completed prior to delivery of the product are recognized upon shipment and are included in product revenue as evidence of fair value does not exist. These services include comprehensive site assessment, site field verification, utility incentive and government subsidy management, engineering design, and project management.

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

Under the deferral provisions of EITF 00-21, the Company deferred the recognition of product and installation revenue and recorded deferred costs in excess of deferred revenue of $484,000 and $298,000 as of March 31, 2006 and 2007 and $313,000 as of June 30, 2007 (unaudited). In addition, the Company has recorded deferred revenue for future obligations of $109,000 and $133,000 as of March 31, 2006 and 2007, and $171,000 as of June 30, 2007 (unaudited).

A sales-type financing program is offered to customers where their purchase is financed by the Company. The contracts are one year in duration and at the completion of the initial one year term, provide for automatic annual renewals of generally up to four years at agreed pricing, an early buyout for cash or for the return of the equipment at the customer's expense. Upon completion of the

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installation, the future lease cash flows and residual rights to the related equipment are then sold by the Company, without recourse, to an unrelated third party finance company in exchange for cash and future payments.

In accordance with EITF 01-8, *Determining whether an Arrangement Contains a Lease*, SFAS 13, *Accounting for Leases* and SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities — a Replacement of FASB Statement No. 125*, revenue is recognized for the net present value of the future payments from the third party finance company upon completion of the project. Sales under this program amounted to 7.4%, 4.5% and 1.5% of revenue for fiscal 2005, 2006 and 2007 and 2.0% and .6% of revenue for the three months ended June 30, 2006 and 2007 (unaudited).

Shipping and Handling Costs

In accordance with EITF 00-10, *Accounting for Shipping and Handling Fees and Costs*, the Company records costs incurred in connection with shipping and handling of products as cost of revenue. Amounts billed to customers in connection with these costs are included in revenue and were not material for any periods presented in the accompanying consolidated financial statements.

Advertising

Advertising costs of $233,000, $233,000 and $272,000 for fiscal 2005, 2006, 2007 and $51,000 and $142,000 for the three months ended June 30, 2006 and 2007 (unaudited) were charged to operations as incurred.

Research and Development

The Company expenses research and development costs as incurred.

Income Taxes

The Company accounts for income taxes in accordance with SFAS 109, *Accounting for Income Taxes*. SFAS 109 requires recognition of deferred tax assets and liabilities for the future tax consequences of temporary differences between financial reporting and income tax basis of assets and liabilities, and are measured using the enacted tax rates and laws expected to be in effect when the differences will reverse. Deferred income taxes also arise from the future benefits of net operating loss carryforwards. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. Based upon historical and current year earnings, expected reversal of deferred tax assets and projections for future taxable income over the periods in which the deferred tax assets are deductible and carryforwards are available, management believes it is more likely than not that the Company will realize the benefits of these assets. The factors included in this assessment were (i) the Company's recognition of income before taxes of $1.2 million for the three months ended June 30, 2007 and fiscal 2007: (ii) the anticipated fiscal 2008 revenue growth due to the backlog of orders as of June 30, 2007 and (iii) previous profitability in fiscal 2003 and 2004 that preceded the Company's planned efforts in fiscal 2005 and 2006 to increase manufacturing capacity and sales and marketing effort to increase revenue. Accordingly, a deferred tax asset valuation allowance has not been recorded.

Deferred tax benefits have not been recognized for income tax effects resulting from the exercise of non-qualified stock options. These benefits will be recognized in the period in which the benefits are realized as a reduction in taxes payable. These future benefits will be reported as a reduction in income taxes payable and an increase in additional paid-in capital. Realized tax benefits from the exercise of stock options were $435,000 and $33,000 for the year ended March 31, 2007 and three months ended June 30, 2007 (unaudited).

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Stock Option Plans

Effective April 1, 2006, the Company adopted the provisions of SFAS 123(R), *Share-Based Payment*, for its stock option plans. The Company previously accounted for these plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), Financial Accounting Standards Board's (FASB) Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB 25*, and disclosure requirements established by SFAS 123, *Accounting for Stock-Based Compensation as amended by SFAS 148 Accounting for Stock-Based Compensation — Transition and Disclosure*.

The Company adopted SFAS 123(R) using the modified prospective method. Under this transition method, compensation cost recognized for the year ended March 31, 2007 includes the current period's cost for all stock options granted prior to, but not yet vested as of April 1, 2006. This cost was based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123. The cost for all share-based awards granted subsequent to March 31, 2006, represents the grant-date fair value that was estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated. Compensation cost for options will be recognized in earnings, net of estimated forfeitures, on a straight-line basis over the requisite service period.

As a result of the adoption of SFAS 123(R), the Company's financial results were lower than under our previous accounting method for share-based compensation by the following amounts:

	Fiscal Year Ended March 31, 2007
Income (loss) before income tax and cumulative effect of change in accounting principle	$ 363
Net income	292
Net income (loss) attributable to common shareholders	292
Basic net income (loss) per common share attributable to common shareholders	.03
Diluted net income (loss) per common share attributable to common shareholders	.02

Prior to the adoption of SFAS 123(R), the Company presented all tax benefits resulting from the exercise of stock options as operating cash flows in the consolidated statements of cash flows. SFAS 123(R) requires that cash flows from the exercise of stock options resulting from tax benefits in excess of recognized cumulative compensation costs (excess tax benefits) be classified as financing cash flows. For fiscal year ended 2007, $435,000 of such excess tax benefits was classified as financing cash flows. For the three months ended June 30, 2007, this amount was $33,000 (unaudited).

The Company has used the Black-Scholes option-pricing model both prior to and following the adoption of SFAS 123(R). In fiscal 2005 and 2006, the Company determined volatility based on an analysis of the Company's common stock sales among shareholders. Beginning in fiscal 2007, the Company determined volatility based on an analysis of a peer group of public companies which was determined to be more reflective of the expected future volatility. The risk-free interest rate is the rate available as of the option date on zero-coupon U.S. Government issues with a remaining term equal to the expected term of the option. The expected term is based upon the vesting term of the Company's options and expected exercise behavior. The Company has not paid dividends in the past and does not plan to pay any dividends in the foreseeable future. The Company estimates its forfeiture rate of unvested stock awards based on historical experience. For fiscal 2007, the forfeiture rate was 6%.

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The fair value of each option grant in fiscal 2005, 2006 and 2007 and for the three months ended June 30, 2007 was determined using the assumptions in the following table:

	Fiscal Year Ended March 31,			June 30,
	2005	2006	2007	2007 (Unaudited)
Expected term	6 years	6 years	6.6 years	7.6 years
Risk-free interest rate	4.32%	4.35%	4.62%	4.58%
Expected volatility	39%	50%	60%	60%
Expected forfeiture rate	N/A	N/A	6%	6%
Expected dividend yield	0%	0%	0%	0%

The Company engaged Wipfli, LLP, an unrelated third-party appraisal firm, to perform a contemporaneous valuation analysis of the Company's common stock as of April 30, 2007. That analysis, prepared in accordance with the methodology prescribed by the AICPA Practice Aid *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*, estimated the fair market value of the Company's common stock at $4.15 per share. Wipfli, LLP considered a variety of valuation methodologies and economic outcomes and calculated its final valuation using the Probability Weighted Expected Return Method. In accordance with the AICPA Practice Aid, the valuation gave recognition to the Company's consideration of an initial public offering; while also considering the economic value of other strategic alternatives or economic outcomes that might occur.

That same valuation firm also prepared a valuation report as of November 2006 that valued the Company's common stock at $2.20 per share. That valuation was considered appropriate by the Board of Directors, in addition to considering other relevant valuation factors, for determining the exercise price of option grants made from December 2006 to April 2007. For option grants in fiscal 2007 prior to December 2006, the Board of Directors determined the exercise price of option grants based upon estimates of fair value. Upon completion of the November 2006 valuation report, for financial reporting purposes, the Company determined that it was appropriate to use the $2.20 per share value as the fair value within the Black-Scholes option pricing model for all fiscal 2007 grants prior to December 2006.

Upon completion of the April 30, 2007 valuation by Wipfli, LLP, the Company determined that it was appropriate to use the $4.15 per common share value in its Black-Scholes option pricing model for financial reporting purposes for the March and April 2007 stock option grants. Due to the proximity of the November 2006 valuation to the December grants, the Company believes the $2.20 per common share value used as the exercise price approximates fair value for financial reporting purposes.

The exercise price and fair value of stock option grants in fiscal 2005 and 2006 was based upon known independent third-party sales of common stock and the per share prices at which we issued shares of our common and preferred stock to third-party investors.

Net Income (Loss) per Common Share

Basic net income (loss) per common share is computed by dividing net income (loss) attributable to common shareholders by the weighted-average number of common shares outstanding for the period and does not consider common stock equivalents. In accordance with EITF D-42, *The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock*, the $972,000 and $83,000 excess in fiscal 2005 and fiscal 2007 of (1) fair value of the consideration transferred to the holders of the convertible preferred stock over (2) the fair value of securities issuable pursuant to the original conversion terms was subtracted from net income (loss) to arrive at net income (loss) attributable to common shareholders in the calculation of earnings per share.

In addition, all series of the Company's preferred stock participate in all undistributed earnings with the common stock. The Company allocated earnings to the common shareholders and participating preferred shareholders under the two-class method as required by EITF 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128*. The two-class method is an earnings allocation method under which basic net income per share is calculated for the Company's common

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stock and participating preferred stock considering both accrued preferred stock dividends and participation rights in undistributed earnings as if all such earnings had been distributed during the year. Since the Company's participating preferred stock was not contractually required to share in the Company's losses, in applying the two-class method to compute basic net income per common share, no allocation was made to the preferred stock if a net loss existed or if an undistributed net loss resulted from reducing net income by the accrued preferred stock dividends.

Diluted net income per common share reflects the dilution that would occur if preferred stock were converted, warrants and employee stock options were exercised, and shares issued per exercise of stock options for which the exercise price was paid by a non-recourse loan from the Company were outstanding. In the computation of diluted net income per common share, the Company uses the "if converted" method for preferred stock and restricted stock, and the "treasury stock" method for outstanding options and warrants.

The effect of net income (loss) per common share is calculated based upon the following shares:

	Fiscal Year Ended March 31,			Three Months Ended June 30,	
	2005	2006	2007	2006	2007
				(Unaudited)	
Numerator:					
Net income (loss)	$ (1,272)	$ (1,565)	$ 929	$ 141	$ 748
Accretion of redeemable preferred stock and preferred stock dividends	(104)	(3)	(201)	(1)	(75)
Conversion of preferred stock	(972)	—	(83)	—	—
Participation rights of preferred stock in undistributed earnings	—	—	(205)	(35)	(219)
Numerator for basic net income (loss) per common share	(2,348)	(1,568)	440	105	454
Preferred stock dividends and participation rights of preferred stock	—	—	406	36	294
Numerator for diluted net income per common share	$ (2,348)	$ (1,568)	$ 846	$ 141	$ 748
Denominator:					
Weighted-average common shares outstanding	6,470,413	8,524,012	9,080,461	8,998,944	9,950,486
Weighted-average effect of preferred stock, restricted stock and assumed conversion of stock options and warrants	—	—	7,352,186	6,073,716	8,137,465
Weighted-average common share and common share equivalents outstanding	6,470,413	8,524,012	16,432,647	15,072,660	18,087,951

For fiscal 2005 and 2006, the Company did not adjust for the conversion or exercise affect of preferred stock, restricted stock or common share equivalents or the issuance of shares exercised with non-recourse loans, as the impact would be anti-dilutive due to the Company's losses.

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

	March 31,			June 30,	
	2005	2006	2007	2006	2007
				(Unaudited)	
Series A preferred	20,000	20,000	—	20,000	—
Series B preferred	2,234,400	2,847,400	2,989,830	2,989,830	2,989,830
Series C redeemable preferred	—	—	1,818,182	—	1,818,182
Common stock subject to non-recourse shareholder notes receivable	—	—	2,150,000	—	2,150,000
Common stock options	6,412,108	6,394,730	4,714,547	6,605,550	4,712,077
Common stock warrants	1,064,314	1,098,574	1,109,390	1,097,908	954,390
Total	9,730,822	10,360,704	12,781,949	10,713,288	12,624,479

Concentration of Credit Risk and Other Risks and Uncertainties

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

The Company currently depends on one supplier for a number of components necessary for its products, including ballasts and lamps. If the supply of these components were to be disrupted or terminated, or if this supplier were unable to supply the quantities of components required, the Company may have short-term difficulty in locating alternative suppliers at required volumes. Purchases from this supplier accounted for 18%, 14% and 26% of cost of revenue in fiscal 2005, 2006 and 2007.

In fiscal 2005, 2006 and 2007, there were no customers who individually accounted for greater than 10% of revenue. For the three months ended June 30, 2007 (unaudited), one customer accounted for 20% of revenue.

No customers accounted for more than 10% of the accounts receivable balance as of March 31, 2006. Two customers, individually, accounted for 11% of the accounts receivable balance as of March 31, 2007. One customer accounted for 23% of accounts receivable as of June 30, 2007 (unaudited).

Segment Information

The Company has determined that it operates in only one segment in accordance with SFAS 131, *Disclosures about Segments of an Enterprise and Related Information*, as it does not disaggregate profit and loss information on a segment basis for internal management reporting purposes to its chief operating decision maker.

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

Adoption of FIN 48 (unaudited)

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109*, (FIN 48), which became effective for the Company on April 1, 2007. FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The adoption of FIN 48 resulted in an increase of the Company's accumulated deficit of $210,000 at June 30, 2007 (unaudited). As of the adoption date, the balance of gross unrecognized tax benefits was $1.6 million, $370,000 of which would impact our effective tax rate if recognized. Of this amount, $60,000 and $310,000 were recorded as current and deferred tax liabilities. The remaining amount of unrecognized tax benefits of $1.2 million relates to net

operating loss carryforwards deductions created by the exercise of non-qualified stock options. The benefit from the net operating losses created from these expenses will be recorded as a reduction in taxes payable and a credit to additional paid-in capital in the period in which the benefits are realized. The amount of the unrecognized tax benefits did not materially change as of June 30, 2007. It is expected that the amount of unrecognized tax benefits may change in the next 12 months if the Company generates sufficient taxable income to realize some or all of the $1.2 million of tax benefits. The remaining $400,000 of gross unrecognized tax benefits is comprised of $300,000 for expenses that may not be deductible for Federal income tax purposes and $100,000 for potential State income tax liabilities. The Company does not expect any of these amounts to change in the next twelve months as none of the issues are currently under examination, the statutes of limitations do not expire within the period, and the Company is not aware of any pending legislation. The Company recognizes penalties and interest related to uncertain tax liabilities in income tax expense. Penalties and interest are immaterial as of the date of adoption and are included in unrecognized tax benefits. Due to the existence of net operating loss and credit carryforwards, all years since 2000 are open to examination by tax authorities.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS 157, *Fair Value Measurement*. SFAS 157 provides a common definition of fair value and establishes a framework to make the measurement of fair value in FAAP more consistent and comparable. SFAS 157 also requires expanded disclosures about the extent to which fair value measures impact earnings. SFAS 157 is effective for years beginning after November 15, 2007. The Company is currently evaluating the potential effect of SFAS 157 on its financial statements.

On February 15, 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. Under this standard, the Company may elect to report financial instruments and certain other items at fair value on a contract-by-contract basis with changes in value reported in earnings. This election would be irrevocable. SFAS 159 is effective for years beginning after November 15, 2007. The Company is currently evaluating the impact SFAS 159 will have on its financial statements.

In June 2006, the FASB ratified EITF Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (that is, Gross versus Net Presentation)*, which allows companies to adopt a policy of presenting taxes in the income statement on either a gross or net basis. Taxes within the scope of this EITF would include taxes that are imposed on a revenue transaction between a seller and a customer. If such taxes are significant, the accounting policy should be disclosed as well as the amount of taxes included in the financial statements if presented on a gross basis. EITF 06-3 is effective for interim and annual reporting periods beginning after December 15, 2006. The adoption of EITF Issue 06-3 had no impact on the Company’s financial statements as the Company’s revenue has historically been, and will continue to be, presented net of sales taxes.

In June 2007, the FASB ratified Emerging Issues Task Force (“EITF”) Issue No. 07-3, *Accounting for Advance Payments for Goods or Services to Be Used in Future Research and Development Activities*, or EITF 07-3. This requires that nonrefundable advance payments for future research and development activities be deferred and capitalized. EITF 07-3 is effective as of the beginning of an entity’s first fiscal year that begins after December 15, 2007. The company is assessing the impact of EITF 07-3 and has not determined whether it will have a material impact on its results of operations or financial position.

NOTE B — RELATED PARTY TRANSACTIONS

As of March 31, 2006 and 2007, the Company had non-interest bearing advances of $55,000 and $157,000, respectively, to a shareholder, and also held an unsecured, 1.46% note receivable due from the same shareholder in the amounts of $66,000 and $67,000, including interest receivable. These advances and this note were repaid subsequent to June 30, 2007. During 2006 and 2007, the Company forgave

$37,000 and $37,000, of shareholder advances as part of a contractual employment relationship. The amount forgiven for the three months ending June 30, 2007 (unaudited) was $9,000.

The Company incurred fees of $146,000, $110,000 and $78,000, which were paid to a shareholder as consideration for guaranteeing notes payable and certain accounts payable during 2005, 2006 and 2007. These fees were based on a percentage applied to the monthly outstanding balances or revolving credit commitments. These guarantees were released subsequent to June 30, 2007.

The Company leases, on a month-to-month basis, an aircraft owned by an entity controlled by an officer and shareholder. Amounts paid during fiscal 2005, 2006 and 2007 were $94,000, $107,000 and $102,000. Amounts paid for the three months ended June 30, 2006 and 2007 (unaudited) were $37,000 and $16,000.

The Company held a recourse note receivable in the amount of $375,000 at March 31, 2006 and 2007 and held various non-recourse note receivables in the amount of $1,753,125 at March 31, 2007. These notes were entered into in connection with the exercise of stock option grants by certain directors and or officers of the Company. These notes were repaid subsequent to June 30, 2007.

During fiscal 2005, 2006 and 2007, the Company recorded revenue of $209,996, $90,639 and $31,767 for products and services sold to a entity for which the Company's Chairman of the Board was the executive chairman.

NOTE C — LONG-TERM DEBT

Long-term debt as of March 31, 2006 and 2007 and June 30, 2007 (unaudited) consisted of the following (in thousands):

	March 31,		June 30,
	2006	2007	2007 (Unaudited)
Revolving credit agreement	$ 4,853	$ 6,064	$ 5,604
Term note	1,807	1,629	1,583
First mortgage note payable	1,073	1,062	1,059
Debenture payable	989	956	948
Lease obligations	1,150	850	771
Other long-term debt	1,212	778	740
Stock note payable to former shareholder	267	—	—
Total long-term debt	11,351	11,339	10,705
Less current maturities	(859)	(736)	(707)
Long-term debt, less current maturities	$ 10,492	$ 10,603	$ 9,998

Revolving Credit Agreement

The Company's $25 million revolving credit agreement has an interest rate of prime plus 1% (effective rate of 9.25% at March 31, 2007), plus annual fees and minimum monthly interest costs. Borrowings under this agreement are collateralized by accounts receivable and inventory. Borrowings are limited to a percentage of eligible trade accounts receivables and inventories. As of March 31, 2007, remaining availability under the formula borrowing base computation was approximately $4.6 million. The credit agreement contains certain restrictive covenants, principally for minimum net worth, net income and limits on capital expenditures. In addition, the agreement precludes the payment of dividends on our common stock. The Company was in compliance with these covenants, as amended, as of March 31, 2007 and June 30, 2007 (unaudited). The credit agreement expires December 23, 2008 at which time all unpaid amounts owed under the agreement are due.

Term Note

The Company's term note requires principal and interest payments of $25,000 per month payable through February 2014 at an interest rate of 6.9%. Amounts outstanding under the note are secured by a first security interest and first mortgage in certain long-term assets and a secondary interest in inventory and accounts receivable and a secondary general business security agreement on all assets. In addition, the agreement precludes the payment of dividends on our common stock. Amounts outstanding under the note are 75% guaranteed by the United States Department of Agriculture Rural Development Association and a personal guarantee of a shareholder, which was released subsequent to June 30, 2007.

First Mortgage Note Payable

The Company's first mortgage has an interest rate of prime plus 2% (effective rate of 10.25% at March 31, 2007) and requires monthly payments of principal and interest of $10,000 through September 2014. The mortgage is secured by a first mortgage on the Company's manufacturing facility and a personal guarantee of a shareholder which was released subsequent to June 30, 2007. The mortgage includes certain prepayment penalties and various restrictive covenants, with which the Company was in compliance as of March 31, 2007.

Debenture Payable

The Company's debenture payable was issued by Certified Development Company at an effective interest rate of 6.18%. The balance is payable in monthly principal and interest payments of $8,000 through December 2024 and is guaranteed by United States Small Business Administration 504 program. The amount due is collateralized by a second mortgage on manufacturing facility and personal guarantee of a shareholder, which was released subsequent to June 30, 2007.

Lease Obligations

The Company's capital lease obligations have been recorded at rates of 6.5% to 16.2%. The leases are payable in installments through February 2010 and are collateralized by related equipment

Other long-term debt consists of block grants and equipment loans from local governments. Interest rates range from 2% to 2.9%. The amounts due are collateralized by purchase money security interests in plant equipment and a personal guarantee of a shareholder, which was released subsequent to June 30, 2007. Repayment of up to $250,000 may be forgiven beginning in 2010 if the Company is able to create certain types and numbers of jobs within the lending localities.

As of March 31, 2007, aggregate maturities of long-term debt, excluding the line of credit, were as follows (in thousands):

Fiscal 2008	$ 736
Fiscal 2009	750
Fiscal 2010	705
Fiscal 2011	509
Fiscal 2012	491
Thereafter	2,084
	$ 5,275

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE D — INCOME TAXES

The total provision (benefit) for income taxes consists of the following for the fiscal years ending (in thousands):

	March 31, 2005	2006	2007
Current	$ —	$ 160	$ 438
Deferred	(740)	(922)	(213)
	$ (740)	$ (762)	$ 225

	2005	2006	2007
Federal	$ (628)	$ (517)	$ 295
State	(112)	(245)	(70)
	$ (740)	$ (762)	$ 225

A reconciliation of the statutory federal income tax rate and effective income tax rate is as follows:

	Fiscal Year Ended March 31, 2005	2006	2007
Statutory federal tax rate	(34.0)%	(34.0)%	34.0%
State taxes, net	(5.4)%	(5.5)%	7.9%
Stock based compensation expense	0.0%	9.6%	3.9%
Federal tax credit	0.0%	(3.2)%	(13.3)%
State tax credit	0.0%	(5.8)%	(16.5)%
Change in tax contingency reserve	0.0%	8.9%	0.0%
Other, net	2.6%	(2.7)%	3.5%
Effective income tax rate	(36.8)%	(32.7)%	19.5%

The Company's provision for income taxes differs from applying the statutory U.S. federal income tax rate of 34% due primarily to nondeductible stock based compensation expenses, state development zone tax credits granted, research and development credits and the effect of state income taxes. For the three months ended June 30, 2006 and 2007 (unaudited) the effective income tax rate was 19% and 39%.

The net deferred tax assets reported in the accompanying consolidated financial statements include the following components (in thousands):

	March 31, 2006	2007
Federal and state operating loss carryforwards	$ 1,346	$ 857
Tax credit carryforwards	292	702
Inventory	162	192
Fixed assets	(24)	252
Accruals and reserves	181	149
Other	176	258
Total deferred tax assets	2,133	2,410
Deferred tax liabilities	(107)	(158)
Net deferred tax assets	$ 2,026	$ 2,252

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2007, the Company had net operating loss carryforwards of approximately $5.1 million for both federal and state. Included in the $5.1 million loss carryforwards are carryforward deductions of $3.0 million of expenses that are associated with the exercise of non-qualified stock options that have not yet been recognized by the Company in its financial statements. The benefit from the net operating losses created from these expenses will be recorded as a reduction in taxes payable and a credit to additional paid-in capital in the period in which the benefits are realized. The Company also has federal and state tax credit carryforwards of approximately $296,000 and $406,000 as of March 31, 2007. Both the net operating losses and tax credit carryforwards expire between 2016 and 2027. The Company believes that past issuances and transfers of our stock caused an ownership change in fiscal 2007 that may affect the timing of the use of its net operating loss carryforwards, but the Company does not believe the ownership change affects the use of the full amount of the net operating loss carryforwards. As a result, the Company’s ability to use its net operating loss carryforwards attributable to the period prior to such ownership change to offset taxable income will be subject to limitations in a particular year, which could potentially result in increased future tax liability for the Company.

A valuation allowance against deferred tax assets has not been provided as management believes that it is more likely than not that the deferred tax assets will be fully realized. The factors included in this assessment were (i) the Company’s recognition of income before taxes of $1.2 million in the three months ended June 30, 2007 and fiscal 2007: (ii) the anticipated fiscal 2008 revenue growth due to the backlog of orders as of June 30, 2007 and (iii) previous profitability in fiscal 2003 and 2004 that preceded the Company’s planned efforts in fiscal 2005 and 2006 to increase manufacturing capacity and sales and marketing effort to increase revenue.

NOTE E — COMMITMENTS AND CONTINGENCIES

The Company leases vehicles and equipment under operating leases. Rent expense under operating leases was $62,000, $107,000 and $413,000 for fiscal 2005, 2006 and 2007; and $31,000 and $245,000 for the three months ended June 30, 2006 and 2007 (unaudited). Total annual commitments under non-cancelable operating leases with terms in excess of one year at March 31, 2007 are as follows (in thousands):

2008	$ 853
2009	211
2010	201
2011	159
2012	79

In addition, the Company enters into non-cancellable purchase commitments for certain inventory items and capital expenditure commitments in order to secure better pricing and ensure materials on hand. As of March 31, 2007, the Company had entered into $3.0 million of purchase commitments related to fiscal 2008.

The Company sponsors a tax deferred retirement savings plan that permits eligible employees to contribute varying percentages of their compensation up to the limit allowed by the Internal Revenue Service. This plan also provides for discretionary Company contributions. In fiscal 2007, the Company made matching contributions totaling approximately $7,000. No contributions were made in fiscal 2005 and 2006.

NOTE F — TEMPORARY EQUITY AND SHAREHOLDERS’ EQUITY

Stock Split

On March 23, 2006, the Company declared a 2 for 1 stock split to shareholders of record as of April 1, 2006. All share and per share amounts have been restated to reflect the stock split.

Series C Redeemable Preferred Stock

In August and September 2006, the Company sold an aggregate 1,818,182 shares of Series C redeemable preferred stock to institutional investors for total proceeds of approximately $4.8 million, net of offering costs of $245,000. As of March 31, 2007, 2,000,000 shares of authorized preferred stock had been reserved for Series C. The terms of the Series C preferred stock provide for:

- senior rank to other classes and series of stock with respect to the payment of dividends and proceeds upon liquidation
- entitlement to receive cumulative dividends accruing at a non compounded annual rate of 6% upon the occurrence of certain events (accumulated dividends through March 31, 2007 and June 30, 2007 (unaudited) were $198,000 and $273,000)
- liquidation preference equal to the purchase price plus any accumulated dividends
- conversion into common stock at a one-to-one ratio upon certain qualifying exit events resulting in net proceeds to the Company of at least $30 million (upon conversion in a qualifying event, all rights related to accrued and unpaid dividends would be extinguished)
- weighted average dilution protection for any issuance of stock or other equity instruments (other than for stock options granted under existing stock plans) at a price per share less than the Series C purchase price of $2.75
- proportional adjustment of the number of shares of common stock into which one share of Series C preferred stock may be converted in the event of stock splits, stock dividends reclassifications and similar events
- a redemption feature at the option of the holder, including accumulated dividends, if certain liquidity events are not achieved within five years from issuance
- right to vote with common stock on all matters submitted to a vote of shareholders

Due to the nature of the redemption feature and other provisions, the Company has classified the Series C redeemable preferred stock as temporary equity and accretes the carrying value to its redemption value.

Series B Preferred Stock

From October 2004 through June 2006, the Company completed various private placements of Series B preferred stock for net proceeds in fiscal 2005, 2006 and 2007 of $3.5 million, $1.4 million and $400,000. Proceeds were net of direct offering costs of $398,000 and $81,000 and zero in fiscal 2005, 2006 and 2007. The Series B placements consisted of one share of Series B preferred stock and, in certain placements, a warrant to purchase one-third share of common stock for $2.30 per share expiring at various dates through January 2010. The terms of the Series B preferred stock provide for:

- a liquidation preference equal to the purchase price of the Series B shares
- automatic conversion to common stock at a one-to-one ratio upon registration of the common stock under a 1933 Act registration
- no dividend preference
- right to vote with common stock on all matters submitted to a vote of shareholders

For the Series B transactions where common stock warrants were issued, the value of the warrants issued to the placement agent was recorded as additional paid-in capital.

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Series A Preferred Stock

In December 2004, the Company offered its Series A 12% preferred shareholders the opportunity to exchange each share of their Series A preferred stock for three shares of the Company's common stock. The Series A preferred stock carried a liquidation preference over the common stock and a cumulative 12% dividend and, prior to the December conversion offer, a conversion entitling each share of the Series A preferred stock the right to convert into two shares of common stock feature. Under the guidance provided in SFAS 84, *Induced Conversions of Convertible Debt*, the Company determined that the increase in conversion ratio from 2 to 3 was an inducement offer and accounted for the change in conversion ratio as an increase to paid-in capital and a charge to accumulated deficit. Furthermore, the historical carrying value of the Series A preferred was reclassified to paid-in capital at the time of conversion.

As of March 31, 2005, all but 20,000 shares of Series A preferred stock had been converted. The remaining 20,000 shares were converted in March 2007. The amount assigned to the inducement, calculated using the number of additional common shares offered multiplied by the estimated fair market value of common stock at the time of conversion, was $972,000 for fiscal 2005 and $83,000 for fiscal 2007.

Treasury Stock

Effective June 30, 2004, the Company entered into a lawsuit settlement agreement and stock redemption note payable to a former independent sales representative and shareholder. The settlement of $500,000 consisted of a $450,000 four-year note payable bearing interest at 5.84% and $50,000 cash. As part of the settlement, the shareholder agreed to redeem to treasury 61,864 shares of common stock and 64,000 shares of Series A preferred stock, relinquishing all rights to the Series A 12% cumulative dividend preference and Series A liquidation preference. The shares were pledged to secure repayment of the stock note payable. Such note was repaid in March 2007, including accrued interest at 6%, and the pledged shares were retired.

The $500,000 cost of the settlement was allocated $345,000 to treasury stock and $155,000 to commission expense based on the fair value of the shares acquired as part of the settlement.

Shareholder receivables

In fiscal 2006, the Company issued to a director a note receivable with recourse, totaling $375,000, to purchase 400,000 shares of common stock by exercise of fully vested non-qualified stock options. The note matures in November 2012 or earlier upon notice from the Company and bears interest at 4.23% payable annually in cash or stock.

The interest rate was deemed to be a below market rate on issuance and in accordance with EITF 00-23, *Issues related to the Accounting for Stock Compensation under APB Opinion No. 25 and FASB Interpretation No. 44*, the Company recorded additional compensation expense of $525,000 in fiscal 2006. This amount represents the appreciation of the fair value of the Company's stock from the time of the option grant through the issuance of the recourse note.

In fiscal 2007, the Company issued $1,753,000 of notes receivable to officers to purchase 2,150,000 shares of common stock by exercise of fully vested non-qualified stock options. The notes mature in March 2012 or earlier upon notice from the Company and bear interest at 7.65% payable annually in cash or stock. As the notes are repaid, and interest collected, interest received will be credited to compensation expense. For accounting purposes, the notes are considered non-recourse and therefore, the options are not deemed exercised until the note is paid. Accordingly, the common stock is not considered issued for accounting purposes until the Company has received payment of the notes.

All notes receivable that had been issued to directors and officers of the Company were repaid in full either in cash or by tendering shares subsequent to June 30, 2007.

NOTE G — STOCK OPTIONS AND WARRANTS

The Company grants stock options under its 2003 Stock Option and 2004 Equity Incentive Plans (the Plans). Under the terms of the Plans, the Company has reserved 9,000,000 shares for issuance to key employees, consultants and directors. The options generally vest and become exercisable ratably over five years although longer vesting periods have been used in certain circumstances. The options are contingent on the employees' continued employment and are subject to forfeiture if employment terminates for any reason. In the past, we have granted both incentive stock options and non-qualified stock options. The Plans also provide to certain employees accelerated vesting in the event of certain changes of control of the Company.

As a result of the adoption of SFAS 123(R) in fiscal 2007, the following amounts of stock-based compensation were recorded (in thousands):

	Fiscal Year Ended March 31, 2007	Three Months Ended June 30, 2006	Three Months Ended June 30, 2007
		(unaudited)	(unaudited)
Cost of product revenue	$ 24	$ 3	$ 21
General and administrative	154	29	65
Sales and marketing	153	21	52
Research and development	32	5	8
	$ 363	$ 58	$ 146

In fiscal 2005 and 2006, in accordance with APB No. 25, the Company recognized stock-based compensation of none and $558,000.

The number of shares available for grant under the plans were as follows:

Available at March 31, 2004	1,077,200
Amendment to plan	2,000,000
Granted	(599,000)
Forfeited	27,000
Available at March 31, 2005	2,505,200
Granted	(735,000)
Forfeited	278,000
Available at March 31, 2006	2,048,200
Granted	(1,657,500)
Forfeited	280,000
Available at March 31, 2007	670,700
Granted (unaudited)	(50,000)
Forfeited (unaudited)	26,000
Available at June 30, 2007 (unaudited)	646,700

The Company granted options to purchase 1,657,500 shares of common stock during fiscal 2007 and 50,000 shares of common stock during the three months ended June 30, 2007 (unaudited), summarized as follows:

	Number of Options Granted	Exercise Price	Fair Value Estimate Per Share	Intrinsic Value
April 2006	40,000	$ 2.25-2.50	$ 2.20	$ —
May 2006	40,000	2.50	2.20	—
June 2006	150,000	2.50	2.20	—
July 2006	27,000	2.50	2.20	—
August 2006	5,000	2.50	2.20	—
September 2006	2,000	2.75	2.20	—
October 2006	2,000	2.75	2.20	—
November 2006	35,000	2.75	2.20	—
December 2006	920,000	2.20	2.20	—
March 2007	436,500	2.20	4.15	851,000
April 2007 (unaudited)	50,000	2.20	4.15	98,000

The following table summarizes information with respect to outstanding stock options:

	March 31, 2005		March 31, 2006		March 31, 2007		June 30, 2006		June 30, 2007	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price (Unaudited)	Options	Weighted Average Exercise Price (Unaudited)
Outstanding, beginning of period	5,922,800	$ .89	6,412,108	$ 1.02	6,394,730	$ 1.06	6,394,730	$ 1.06	4,714,547	$ 1.56
Granted	599,000	2.24	735,000	1.87	1,657,500	2.26	230,000	2.50	50,000	2.20
Exercised	(82,692)	.82	(474,378)	.91	(3,057,683)	.84	(19,180)	0.69	(26,470)	1.03
Forfeited	(27,000)	1.16	(278,000)	2.09	(280,000)	2.25	—	—	(26,000)	2.11
Outstanding, end of period	6,412,108	$ 1.02	6,394,730	$ 1.06	4,714,547	$ 1.56	6,605,550	$ 1.10	4,712,077	$ 1.57
Weighted average fair value of options granted	$ 0.48		$ 1.54		$ 1.35		$ 1.27		$ 3.2	

The following table summarizes the range of exercise prices on outstanding stock options at March 31, 2007 and June 30, 2007 (unaudited):

	March 1, 2007					June 30, 2007				
Price	Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Vested	Weighted Average Exercise Price	Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price (Unaudited)	Vested	Weighted Average Exercise Price
$.69	1,260,627	4.1	$ .69	1,260,627	$ .69	1,240,157	3.9	$ 0.69	1,240,157	$ .069
.75 – .94	657,420	4.7	.91	571,420	.93	657,420	4.5	0.91	575,420	0.93
1.24 – 1.50	512,000	6.4	1.45	352,800	1.45	508,000	6.1	1.45	351,200	1.45
2.20 – 2.25	1,993,500	9.1	2.22	308,800	2.25	2,015,500	8.8	2.22	306,800	2.25
2.50 – 2.75	291,000	9.3	2.53	73,866	2.57	291,000	9.0	2.53	57,200	2.51
	4,714,547	6.8	$ 1.56	2,567,513	$ 1.09	4,712,077	6.6	$ 1.57	2,530,777	$ 1.08
Aggregate Intrinsic Value	$ 12,207,000			$ 7,861,100		$ 12,169,000			$ 7,772,000	

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock options and the fair value of the Company's common stock at March 31, 2007.

A summary of the status of the Company's outstanding non-vested stock options as of March 31, 2007 and June 30, 2007 (unaudited), is as follows:

Non-vested at March 31, 2006	1,334,200
Granted	1,657,500
Vested	(579,266)
Forfeited	(265,400)
Non-vested at March 31, 2007	2,147,034
Granted (unaudited)	50,000
Vested (unaudited)	(5,334)
Forfeited (unaudited)	(10,400)
Non-vested at June 30, 2007 (unaudited)	2,181,300

Unrecognized compensation cost related to non-vested common stock-based compensation as of March 31, 2007 is as follows (in thousands):

Fiscal 2008	$ 684
Fiscal 2009	678
Fiscal 2010	576
Fiscal 2011	504
Thereafter	547
	$ 2,989
Remaining weighted average expected term	3.01 yrs

As of June 30, 2007 (unaudited), compensation cost related to non-vested common stock-based compensation amounted to $3.0 million over a remaining weighted average expected term just under 3 years.

The Company has issued warrants to placement agents in connection with various stock offerings and services rendered. The warrants grant the holder the option to purchase common stock at specified prices for a specified period of time. Warrants issued in fiscal 2005, 2006 and 2007 were treated as offering costs and valued at $400,000, $30,000, and $18,000. Fiscal 2006 also included warrants valued at $6,000 that were expensed. These warrants were valued using the following assumptions:

	March 31,		
	2005	2006	2007
Dividend yield	0.00%	0.00%	0.00%
Weighted average risk-free interest rate	4.32%	4.35%	4.62%
Weighted average contractual term	5 years	5 years	5 years
Expected volatility	39%	50%	60%

Outstanding warrants are comprised of the following:

		March 31, 2005		March 31, 2006		March 31, 2007		June 30, 2006		June 30, 2007
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price (Unaudited)	Warrants	Weighted Average Exercise Price (Unaudited)
Outstanding, beginning of period	239,766	$ 1.98	1,064,314	$ 2.22	1,098,574	$ 2.24	1,098,574	$ 2.24	1,109,390	$ 2.24
Issued	824,548	2.29	45,260	2.47	19,580	2.41	—	—	—	—
Exercised	—	—	(9,000)	1.50	(7,966)	1.80	(666)	2.30	(155,000)	2.25
Cancelled	—	—	(2,000)	1.50	(798)	1.50	—	—	—	—
Outstanding, end of period	1,064,314	$ 2.22	1,098,574	$ 2.24	1,109,390	$ 2.24	1,097,908	$ 2.24	954,390	$ 2.24

A summary of outstanding warrants follows:

Exercise Price	March 31, 2007	June 30, 2007 (Unaudited)	Expiration
$1.50	79,236	79,236	Fiscal 2012
$2.25	221,480	66,480	Fiscal 2014
$2.30	763,914	763,914	Fiscal 2010
$2.50	37,260	37,260	Fiscal 2011
$2.60	7,500	7,500	Fiscal 2012
Total	1,109,390	954,390	

NOTE H — SUBSEQUENT EVENTS

In August 2007, the Company issued $10.6 million of convertible subordinated notes, bearing interest at 6% per annum, to an indirect affiliate of GE Energy Financial Services Inc., Clean Energy Technology Fund II, LP and affiliates of Capvest Venture Fund, LP. The subordinated notes (which we refer to as Convertible Notes) are convertible automatically into 2,360,802 shares of common stock if the Company completes a qualified public offering.

In July and August 2007, all director and shareholder notes and advances, along with accrued interest, were settled, either in cash or with shares. Total principal payments were $985,800 and shares tendered totaled 306,932. Concurrent with the above transaction, the Company issued 306,932 non-qualifying stock options with a fair value exercise price of $4.49. In accordance with SFAS 123(R) the Company will recognize stock-based compensation expense of $224,000 in fiscal 2008 and $127,000 in fiscal 2009.

Table of Contents

PROSPECTUS

Shares
Common Stock

Thomas Weisel Partners LLC
Canaccord Adams
Pacific Growth Equities, LLC

PART II

INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 13. ***Other Expenses of Issuance and Distribution.***

The following is a list of estimated expenses in connection with the issuance and distribution of the securities being registered, with the exception of underwriting discounts and commissions:

SEC registration fee	$ 3,070
NASD filing fee	10,550
Nasdaq Global Market listing fee	*
Printing costs	*
Legal fees and expenses	*
Accounting fees and expenses	*
Blue sky fees and expenses	*
D&O insurance premium	*
Miscellaneous	*
Total	$ *

* To be completed by amendment

All of the above expenses except the SEC registration fee and NASD filing fee are estimates. All of the above expenses will be borne by us.

Item 14. ***Indemnification of Directors and Officers.***

Our amended and restated bylaws, which will become effective upon closing of this offering, provide that, to the fullest extent permitted or required by Wisconsin law, we will indemnify all of our directors and officers, any trustee of any of our employee benefit plans, and person who is serving at our request as a director, officer, employee or agent of another entity, against certain liabilities and losses incurred in connection with these positions or services. We will indemnify these parties to the extent the parties are successful in the defense of a proceeding and in proceedings in which the party is not successful in defense of the proceeding unless, in the latter case only, it is determined that the party breached or failed to perform his or her duties to us and this breach or failure constituted:

- a willful failure to deal fairly with us or our shareholders in connection with a matter in which the director or officer has a material conflict of interest;
- a violation of criminal law, unless the director or officer had reasonable cause to believe his or her conduct was unlawful;
- a transaction from which the director or officer derived an improper personal profit; or
- willful misconduct.

Our amended and restated bylaws provide that we are required to indemnify our directors and executive officers and may indemnify our employees and other agents to the fullest extent required or permitted by Wisconsin law. Additionally, our amended and restated bylaws require us under certain circumstances to advance reasonable expenses incurred by a director or officer who is a party to a proceeding for which indemnification may be available.

Wisconsin law further provides that it is the public policy of the State of Wisconsin to require or permit indemnification, allowance of expenses and insurance to the extent required or permitted under Wisconsin law for any liability incurred in connection with a proceeding involving a federal or state statute, rule or regulation regulating the offer, sale or purchase of securities.

Under Wisconsin law, a director is not personally liable for breach of any duty resulting solely from his or her status as a director, unless it is proved that the director’s conduct constituted conduct described in the bullet points above. In addition, we intend to obtain directors’ and officers’ liability insurance that will insure against certain liabilities, subject to applicable restrictions.

The Underwriting Agreement filed herewith as Exhibit 1.1 provides for indemnification of our directors, certain officers and controlling persons by the underwriters against certain civil liabilities, including liabilities under the Securities Act.

In addition, we intend to obtain directors' and officers' liability insurance that will insure against certain liabilities, including liabilities under the Securities Act, subject to applicable restrictions.

Item 15. ***Recent Sales of Unregistered Securities.***

From January 1, 2004 through the date of this registration statement, we sold or granted the following securities that were not registered under the Securities Act. The following share numbers give effect to a 2-for-1 split of our common stock and preferred stock that was effected on April 1, 2006.

(a) Stock, Warrants and Convertible Subordinated Notes.

1. Between January 1, 2004 and February 2, 2005, we issued an aggregate of 2,234,400 shares of Series B preferred stock and warrants to purchase an aggregate of 746,802 shares of our common stock to certain Wisconsin residents. The aggregate consideration received by us was $4,968,000. In connection with the placement of these securities, we issued warrants to purchase 221,480 shares of our common stock to a placement agent in payment for its services.

2. Between May 26, 2005 and September 30, 2005, we issued an aggregate of 376,000 shares of Series B preferred stock to certain Wisconsin residents who were accredited investors. The aggregate consideration received by us was $940,000. In connection with the placement of these securities, we issued warrants to purchase 31,200 shares of our common stock to a placement agent in payment for its services.

3. Between January 10, 2006 and July 31, 2006, we issued an aggregate of 379,430 shares of Series B preferred stock to our existing shareholders. The aggregate consideration received by us was $960,498. In connection with the placement of these securities, we issued warrants to purchase 6,060 shares of our common stock to a placement agent in payment for its services.

4. Between July 31, 2006 and September 28, 2006, we issued an aggregate of 1,818,182 shares of Series C preferred stock to Clean Technology Fund II, LP and Capvest Venture Fund, LP. The aggregate consideration received by us was $5,000,000.

5. In 2006, we issued warrants to purchase an aggregate of 8,000 shares of our common stock to a consultant in consideration for services.

6. On March 1, 2007, we issued warrants to purchase an aggregate of 19,580 shares of our common stock to a consultant in consideration for services.

7. On August 3, 2007, we issued $10.6 million of convertible subordinated notes, bearing interest at 6% per annum, to an indirect affiliate of GE Energy Financial Services, Inc., Clean Technology Fund II, LP and affiliates of Capvest Venture Fund, LP. The subordinated notes will convert automatically upon closing of this offering into 2,360,802 shares of our common stock if the initial public offering price is at least $11.23 per share.

We believe that the offers and sales of the securities referenced in (1) and (2), above, were exempt from registration under the Securities Act by virtue of Section 3(a)(11) of the Securities Act and Rule 147 promulgated thereunder. We were resident and doing business in Wisconsin at the time of the offering, and the offering was made only to Wisconsin residents.

We believe that the offer and sale of the securities referenced in (3), (4), (5), (6) and (7) above were exempt from registration under the Securities Act by virtue of Section 4(2) of the Securities Act and/or Regulation D promulgated thereunder as transactions not involving any public offering. All of the purchasers of unregistered securities for which we relied on Section 4(2) and/or Regulation D represented that they were accredited investors as defined under the Securities Act, except for up to 35 non-accredited investors. The purchasers in each case represented that they intended to acquire the securities for investment only and not with a view to the distribution thereof and that they either received adequate information about the registrant or had access, through employment or other relationships, to such information; appropriate legends were affixed to the stock certificates issued in

such transactions; and offers and sales of these securities were made without general solicitation or advertising.

(b) Options.

1. In 2004, we granted to our directors and employees options to purchase an aggregate of 737,000 shares of our common stock at an exercise price of $2.25 per share. We received no consideration from these individuals in connection with the issuance of such options. As of June 30, 2007, we had issued a total of 75,000 shares of common stock upon the exercise of such options.

2. In 2005, we granted to our directors and employees options to purchase an aggregate of 627,000 shares of our common stock at exercise prices ranging from $0.75 to $2.25 per share. We received no consideration from these individuals in connection with the issuance of such options. As of June 30, 2007, we had issued a total of 40,000 shares of common stock upon the exercise of such options.

3. In 2006, we granted to our directors and employees options to purchase an aggregate of 1,211,000 shares of our common stock at exercise prices ranging from $2.20 to $2.75 per share. We received no consideration from these individuals in connection with the issuance of such options. As of June 30, 2007, we had issued a total of 12,000 shares of common stock upon the exercise of such options.

4. On March 1, 2007, we granted to certain of our employees options to purchase an aggregate of 361,500 shares of our common stock at an exercise price of $2.20 per share. We received no consideration from these individuals in connection with the issuance of such options.

5. On March 5, 2007, we granted to certain of our employees options to purchase an aggregate of 75,000 shares of our common stock at an exercise price of $2.20 per share. We received no consideration from these individuals in connection with the issuance of such options.

6. On April 1, 2007, we granted to certain of our employees options to purchase an aggregate of 20,000 shares of our common stock at an exercise price of $2.20 per share. We received no consideration from these individuals in connection with the issuance of such options.

7. On April 2, 2007, we granted to certain of our employees options to purchase an aggregate of 30,000 shares of our common stock at an exercise price of $2.20 per share. We received no consideration from these individuals in connection with the issuance of such options.

8. On July 27, 2007, we granted to certain of our employees options to purchase an aggregate of 389,432 shares of our common stock at an exercise price of $4.49 per share. We received no consideration from these individuals in connection with the issuance of such options.

9. On July 27, 2007, we granted to certain of our non-employee directors options to purchase an aggregate of 40,000 shares of our common stock at an exercise price of $4.49 per share. We received no consideration from these individuals in connection with the issuance of such options.

We believe that the offer and sale of the above-referenced securities were exempt from registration under the Securities Act by virtue of Section 4(2) and Rule 701 of the Securities Act as securities issued pursuant to written compensatory plans or arrangements.

(c) There were no underwritten offerings employed in connection with any of the transactions set forth in Item 15(a) or (b).

Item 16. ***Exhibits and Financial Statement Schedules.***

(a) *Exhibits*.

The exhibits listed in the accompanying Exhibit Index are filed (except where otherwise indicated) as part of this Registration Statement.

(b) *Financial Statement Schedules*.

All other schedules are omitted since the required information is not present, or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

Item 17. ***Undertakings.***

(a) The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(c) The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser, if the registrant is subject to Rule 430C, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness; provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(4) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities: The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) the portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this amendment to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Plymouth, State of Wisconsin, on October 2, 2007.

ORION ENERGY SYSTEMS, INC.

By: /s/ NEAL R. VERFUERTH
Neal R. Verfuerth
President and Chief Executive Officer

Signature	Title
/s/ NEAL R. VERFUERTH Neal R. Verfuerth	President and Chief Executive Officer and Director (Principal Executive Officer)
/s/ DANIEL J. WAIBEL Daniel J. Waibel	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
* Thomas A. Quadracci	Chairman of the Board
* Michael J. Potts	Director
* Diana Propper de Callejon	Director
* James R. Kackley	Director
* Eckhart G. Grohmann	Director
* Patrick J. Trotter	Director

*By: /s/ NEAL R. VERFUERTH
Neal R. Verfuerth
Attorney-in-fact

EXHIBIT INDEX

Number	Exhibit Title
1.1	Form of Underwriting Agreement.*
2.1	Form of Series C Senior Convertible Preferred Stock Purchase Agreement by and among Orion Energy Systems, Inc. and the signatories thereto.**
3.1	Amended and Restated Articles of Incorporation of Orion Energy Systems, Inc.**
3.2	Amendment to Amended and Restated Articles of Incorporation of Orion Energy Systems, Inc.**
3.3	Form of Amended and Restated Articles of Incorporation of Orion Energy Systems, Inc. to be effective upon closing of this offering.**
3.4	Amended and Restated Bylaws of Orion Energy Systems, Inc.**
3.5	Form of Amended and Restated Bylaws of Orion Energy Systems, Inc. to be effective upon closing of this offering.**
4.1	Amended and Restated Investors' Rights Agreement by and among Orion Energy Systems, Inc. and the signatories thereto, dated August 3, 2007.**
4.2	Amended and Restated First Offer and Co-Sale Agreement among Orion Energy Systems, Inc. and the signatories thereto, dated August 3, 2007.**
4.3	Form of Warrant to purchase Common Stock of Orion Energy Systems, Inc.**
4.4	Form of Warrant to purchase Common Stock of Orion Energy Systems, Inc.**
4.5	Credit and Security Agreement by and between Orion Energy Systems, Inc., Great Lakes Energy Technologies, LLC and Wells Fargo Bank, National Association, acting through its Wells Fargo Business Credit Operating Division, dated December 22, 2005, as amended January 26, 2006, June 30, 2006, March 29, 2007 and July 27, 2007.**
4.6	Convertible Subordinated Promissory Note in favor of GE Capital Equity Investments, Inc. dated August 3, 2007.**
4.7	Convertible Subordinated Promissory Note in favor of Clean Technology Fund II, L.P. dated August 3, 2007.**
4.8	Convertible Subordinated Promissory Note in favor of Capvest Venture Fund, LP, dated August 3, 2007.**
4.9	Convertible Subordinated Promissory Note in favor of Technology Transformation Venture Fund, LP, dated August 3, 2007.**
4.10	Note Purchase Agreement between Orion Energy Systems, Inc. and the signatories thereto dated August 3, 2007.
5.1	Opinion of Foley & Lardner LLP.*
10.1	Employment Agreement by and between Bruce Wadman and Orion Energy Systems, Inc. dated October 1, 2005.**
10.2	Employment Agreement by and between Neal Verfuerth and Orion Energy Systems, Inc. dated April 1, 2005.**
10.3	Separation Agreement by and between Orion Energy Systems, Inc. and Bruce Wadman, effective July 5, 2007.
10.4	Separation Agreement by and between Orion Energy Systems, Inc. and James Prange, effective July 18, 2007.*
10.5	Employment Agreement by and between John Scribante and Orion Energy Systems, Inc. dated June 2, 2006.**
10.6	Orion Energy Systems, Inc. 2003 Stock Option Plan, as amended.**
10.7	Form of Stock Option Agreement under the Orion Energy Systems, Inc. 2003 Stock Option Plan.**
10.8	Amendment to Stock Option Agreement between Bruce Wadman and Orion Energy Systems, Inc. dated February 19, 2007.
10.9	Orion Energy Systems, Inc. 2004 Stock and Incentive Awards Plan.**
10.10	Form of Stock Option Agreement under the Orion Energy Systems, Inc. 2004 Equity Incentive Plan.**
10.11	Form of Stock Option Agreement under the Orion Energy Systems, Inc. 2004 Stock and Incentive Awards Plan.**
10.12	Form of Promissory Note and Collateral Pledge Agreement in favor of Orion Energy Systems, Inc. in connection with option exercises (all such notes were paid in full in July and August 2007).**

Number	Exhibit Title
10.13	Patent and Trademark Security Agreement by and between Orion Energy Systems, Inc. and Wells Fargo Bank, National Association, Acting Through its Wells Fargo Business Credit Operating Division, dated December 22, 2005.**
10.14	Patent and Trademark Security Agreement by and between Great Lakes Energy Technologies, LLC and Wells Fargo Bank, National Association, Acting Through its Wells Fargo Business Credit Operating Division, dated December 22, 2005.**
21.1	Subsidiaries of Orion Energy Systems, Inc.**
23.1	Consent of Grant Thornton LLP.
23.2	Consent of Foley & Lardner LLP (contained in Exhibit 5.1 hereto).*
23.3	Consent of Wipfli LLP.
24.1	Power of Attorney (contained on signature page hereto).**

* To be filed by amendment

** Previously filed

Execution Copy

Exhibit 4.10

ORION ENERGY SYSTEMS, INC.

NOTE PURCHASE AGREEMENT

August 3, 2007

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EXHIBIT A	Form of Convertible Note
EXHIBIT B	Form of Amended and Restated Investors' Rights Agreement
EXHIBIT C	Form of Amended and Restated Offer and Co-Sale Agreement
EXHIBIT D	Form of Proprietary Information Agreement
EXHIBIT E	Form of Opinion of Foley & Lardner LLP
EXHIBIT F	Form of Lock-up Agreement

Schedule of Exceptions

ORION ENERGY SYSTEMS, INC.

NOTE PURCHASE AGREEMENT

THIS NOTE PURCHASE AGREEMENT (the "Agreement") is made as of the 3rd day of August, 2007, by and among Orion Energy Systems, Inc., a Wisconsin corporation (the "Company"), and the investors identified on the attached Schedule 1 (the "Investors").

In consideration of the foregoing and the respective representations, warranties, covenants, agreements and conditions hereinafter set forth, the parties agree as follows.

1. Purchase and Sale of Note.

1.1 Sale and Issuance of Subordinated Convertible Promissory Notes.

(a) Prior to the Closing the Company shall authorize (i) the sale and issuance to each of the Investors of a Subordinated Convertible Promissory Note in the form attached hereto as Exhibit A (each a "Note" and together the "Notes") in the amount set forth for such Investor on Schedule 1 (the "Purchase Price") and (ii) the issuance of the shares of Common Stock to be issued upon conversion of the Notes (the "Conversion Shares") (together, the Notes and the Conversion Shares are referred to as the "Securities"). The Conversion Shares shall have the rights, preferences, privileges and restrictions set forth in the Company's Amended and Restated Articles of Incorporation dated July 31, 2006 (the "Articles of Incorporation").

(b) Subject to the terms and conditions of this Agreement, Investor agrees to purchase at the Closing, and the Company agrees to sell and issue to Investors at the Closing, the Notes for the Purchase Price.

1.2 Closing. The purchase and sale of the Notes (the "Closing") shall take place at the offices of Foley & Lardner LLP, 777 E. Wisconsin Avenue, Milwaukee, Wisconsin, at 10:00 A.M. (local time), on August 3, 2007, or at such other time and place as the Company and Investors agree upon orally or in writing (the "Closing Date"). At the Closing, the Company shall deliver to each Investor the duly executed Note that such Investor is purchasing against payment of the Purchase Price therefor by wire transfer to an account designated by Company prior to the Closing Date.

1.3 Use of Proceeds. The Company will use the proceeds from the sale of the Notes for general corporate purposes, including additional working capital to support the expansion of the Company's national account and electrical contractor customer relationships, manufacturing and distribution capabilities, research and development initiatives and sales and marketing force, and to enhance the Company's liquidity and reduce dependence on obtaining additional debt financing.

2. Representations and Warranties of the Company. The Company hereby represents and warrants to each Investor that, except as set forth on a Schedule of Exceptions (the "Schedule of Exceptions") furnished to the Investors, specifically identifying the relevant Section hereof, which exceptions shall be deemed to be representations and warranties as if made hereunder:

2.1 Organization, Good Standing and Qualification. The Company is a corporation duly organized, validly existing and in active status under the laws of the State of Wisconsin. Each of Great Lakes Energy Technologies, LLC, Clean Energy Solutions, LLC and Energy Capital Partners, LLC (collectively, the "Subsidiaries" and, together with the Company, the "Company Parties") is a limited liability company or corporation duly organized, validly existing and in good standing under the laws of Wisconsin. Each of the Company Parties has all requisite corporate power and authority to carry on its business as now conducted and as proposed to be conducted and to carry out the transactions contemplated by the Agreement and the Ancillary Agreements. Each of the Company Parties is duly qualified to transact business and is in good standing in each jurisdiction in which the failure to so qualify would have a material adverse effect on its assets, properties, financial condition, operating results, prospects or business as currently conducted and as proposed to be conducted by the Company Parties, taken as a whole (a "Material Adverse Effect").

2.2 Existing Capitalization and Voting Rights of the Company.

(a) The authorized capital of the Company consists, or will consist immediately prior to the Closing, of:

(i) Preferred Stock. 20,000,000 shares of Cumulative Preferred Stock, par value $0.01 per share (the "Preferred Stock"), of which (i) 4,000,000 shares are designated Series B Preferred Stock (the "Series B Preferred Stock"), of which 2,989,830 are issued and outstanding, and (ii) 2,000,000 shares are designated Series C Senior Convertible Preferred Stock (the "Series C Preferred Stock"), of which 1,818,182 are issued and outstanding. The rights, privileges and preferences of the Series B Preferred Stock and Series C Preferred Stock are as stated in the Articles of Incorporation.

(ii) Common Stock. 80,000,000 shares of Common Stock, no par value (the "Common Stock"), of which 12,086,237 shares are issued and outstanding.

(b) The outstanding shares of Common Stock and Preferred Stock are owned by the shareholders of record and in the amounts specified in the Schedule of Exceptions.

(c) The outstanding shares of Common Stock and Preferred Stock are duly and validly authorized and issued, fully paid and nonassessable except to the extent provided in Section 180.0622 of the Wisconsin Statutes (hereinafter,

“Nonassessable”), and were issued in accordance with the registration or qualification provisions of the applicable federal and state securities laws of the United States and any relevant state securities laws, or pursuant to valid exemptions therefrom.

(d) Except for (i) the rights provided in Section 2.4 of that certain Amended and Restated Investors’ Rights Agreement in the form attached hereto as Exhibit B (the “Investors’ Rights Agreement”), (ii) an aggregate of 5,345,577 shares of Common Stock reserved for issuance upon the exercise of outstanding options granted or to be granted pursuant to the Company’s 2003 Stock Option Plan and 2004 Equity Incentive Plan (the “Incentive Plans”), and (iii) 794,390 shares of Common Stock reserved for issuance upon the exercise of outstanding warrants to purchase the Company’s Common Stock, there are no outstanding options, warrants, rights (including conversion or preemptive rights) or agreements for the purchase or acquisition from the Company of any shares of its capital stock. The Company is not a party or subject to any agreement or understanding, and, to the Company’s knowledge, there is no agreement or understanding between any persons and/or entities, which affects or relates to the voting or giving of written consents with respect to any security or by a director of the Company. No stock plan, stock purchase, stock option or other agreement or understanding between the Company and any holder of any securities or rights exercisable or convertible for securities provides for acceleration or other changes in the vesting provisions or other terms of such agreement or understanding as the result of the occurrence of any event, except as may be provided by the terms of the Incentive Plans.

2.3 Subsidiaries. The Company is the sole legal and beneficial owner of the entire issued share capital of each of the Subsidiaries. Other than the Subsidiaries, the Company does not own or control, directly or indirectly, any interest in any other corporation, association, or other business entity. The Company is not a participant in any joint venture, partnership or similar arrangement.

2.4 Authorization. All corporate action on the part of the Company, its officers, directors and shareholders necessary for the authorization, execution and delivery of this Agreement, the Notes, the Investors’ Rights Agreement, and that certain Amended and Restated First Offer and Co-Sale Agreement in the form attached hereto as Exhibit C (the “First Offer and Co-Sale Agreement”) (together with the Investors’ Rights Agreement, the “Ancillary Agreements”), the performance of all obligations of the Company hereunder and thereunder, and the authorization, issuance (or reservation for issuance), sale and delivery of the Securities being sold hereunder has been taken or will be taken prior to or at the Closing, and this Agreement, the Notes, and the Ancillary Agreements constitute valid and legally binding obligations of the Company, enforceable in accordance with their respective terms, except (a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors’ rights generally, (b) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies, and (c)

to the extent the indemnification provisions contained in the Investors' Rights Agreement may be limited by applicable federal or state securities laws.

2.5 Valid Issuance of Notes and Common Stock. The Securities being purchased by the Investor hereunder, when issued, sold and delivered in accordance with the terms of this Agreement for the consideration expressed herein, will be duly and validly issued, fully paid, and Nonassessable, and will be free of restrictions on transfer other than restrictions on transfer under this Agreement and the Ancillary Agreements and under applicable state and federal securities laws. The Conversion Shares have been duly and validly reserved for issuance and, upon issuance in accordance with the terms of the Notes, will be duly and validly issued, fully paid, and Nonassessable and will be free of restrictions on transfer other than restrictions on transfer under this Agreement and the Ancillary Agreements and under applicable state and federal securities laws.

2.6 Governmental Consents. No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal, state or local governmental authority on the part of the Company is required in connection with the execution, delivery and performance by the Company of this Agreement, the Notes and the Ancillary Agreements or the offer, issuance and sale of the Securities, or the consummation of the transactions contemplated by this Agreement and the Notes, except (a) such filings as have been made prior to the date hereof, and (b) such other post-closing filings as may be required, each of which will be filed with the proper authority by the Company in a timely manner.

2.7 Offering. Subject in part to the truth and accuracy of Investor's representations set forth in Section 3 of this Agreement, the offer, sale and issuance of the Securities as contemplated by this Agreement, and the issuance of the Conversion Shares in accordance with the terms of the Notes, are exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), and any applicable state securities laws. Neither the Company, nor any authorized agent acting on behalf of the Company, will take any action hereafter that would cause the loss of such exemptions.

2.8 Compliance with Law. The Company is (and has been at all times during the past five (5) years) in compliance with all applicable statutes, laws and regulations. The Company has not been charged with and, to Company's knowledge, is not now under investigation with respect to, a violation of any applicable statutes, laws and regulations.

2.9 Litigation. There is no action, suit, proceeding or investigation pending or, to the Company's knowledge, currently threatened in writing against any of the Company Parties that questions the validity of this Agreement, the Notes or any Ancillary Agreement, or the right of the Company to enter into such agreements, or to consummate the transactions contemplated hereby or thereby, or that might have, either individually or in the aggregate, a Material Adverse Effect, nor is the Company aware that there is any basis for the foregoing. The foregoing includes, without limitation, actions, suits, proceedings or investigations pending or threatened in writing (or any basis therefor known to the Company) involving the prior employment of any of the employees of any

of the Company Parties, their use in connection with each of the Company Parties' business of any information or techniques allegedly proprietary to any of their respective former employers, or their obligations under any agreements with prior employers. None of the Company Parties is a party or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality. Except as set forth on the Schedule of Exceptions, there is no action, suit or proceeding by any of the Company Parties currently pending or that any of the Company Parties intends to initiate.

2.10 Patents and Trademarks. To the best of the Company's knowledge, each of the Company Parties has sufficient title and ownership, or sufficient rights to the use, of all patents, trademarks, service marks, trade names, domain names, copyrights, trade secrets, information, proprietary rights and processes necessary for its business as now conducted and as proposed to be conducted without, to the Company's knowledge, any conflict with, or violation or infringement of the rights of others, including, without limitation, any of the Company Parties' present or former employees or the former or other employers of all such persons. The Schedule of Exceptions contains a complete list of patents and pending patent applications and registrations and applications for trademarks, copyrights and domain names of each of the Company Parties. Except as set forth on the Schedule of Exceptions, there are no outstanding options, licenses, agreements, claims, encumbrances or shared ownership of interests of any kind relating to anything referred to above in this Section 2.10, nor are any of the Company Parties bound by or a party to any options, licenses, agreements or warranties of any kind with respect to the patents, trademarks, service marks, trade names, domain names, copyrights, trade secrets, licenses, information, proprietary rights and/or processes of any other person or entity, except, in either case, for standard, generally commercially available, "off-the-shelf" third party products that are not and will not to any extent be part of any product, service or intellectual property offering of the Company. Except as set forth on the Schedule of Exceptions, none of the Company Parties has received any communications in writing alleging that a Company Party has violated, or by conducting its business as proposed, would violate any of the patents, trademarks, service marks, trade names, copyrights or trade secrets or other proprietary rights of any other person or entity, and the Company is not aware of any potential basis for such an allegation or of any reason to believe that such an allegation may be forthcoming. The Company is not aware that any of its or either of the Subsidiaries' employees is obligated under any contract (including licenses, covenants or commitments of any nature) or other agreement, or subject to any judgment, decree or order of any court or administrative agency, that would interfere with the use of his or her best efforts to promote the interests of the Company and its Subsidiaries or that would conflict with the Company's and the Subsidiaries' business as now conducted and as proposed to be conducted. Neither the execution nor delivery of this Agreement, nor the carrying on of the Company's business by the employees of the Company, nor the conduct of the Company's business as proposed, will, to the Company's knowledge, conflict with or result in a breach of the terms, conditions or provisions of, or constitute a default under, any contract, covenant or instrument under which any of such employees is now obligated. The Company does not believe it is or will be necessary to use any inventions of any of its employees (or persons it currently intends to hire) made prior to their employment by the Company. The

Company is not subject to any “open source” or “copyleft” obligations, or otherwise required (now or in the future) to make any public disclosure or general availability of source code either used or developed by, the Company.

2.11 Compliance with Other Instruments; No Conflicts. None of the Company Parties is in violation of any provision of its respective articles of incorporation or bylaws or comparable governing documents, or in any material respect in violation or default of any instrument, judgment, order, writ, decree or contract to which it is a party or by which it is bound, or of any provision of any federal, state or local statute, rule or regulation applicable to any of the Company Parties. The execution, delivery and performance of this Agreement and the Ancillary Agreements, and the consummation of the transactions contemplated hereby and thereby will not result in any such violation or default or be in conflict with or constitute, with or without the passage of time and giving of notice, either a default under any such provision, instrument, judgment, order, writ, decree or contract or an event that results in the creation of any lien, charge or encumbrance upon any assets of any of the Company Parties or the suspension, revocation, impairment, forfeiture, or nonrenewal of any material permit, license, authorization, or approval applicable to any of the Company Parties, their business or operations or any of their assets or properties.

2.12 Certain Contracts and Arrangements. Except as set forth in this Agreement, the Ancillary Agreements or as set forth in the Schedule of Exceptions, none of the Company Parties is a party or subject to or bound by:

(a) any contract, agreement or understanding entered into in the ordinary course of business involving a potential commitment, obligation or payment by or to such Company Party in excess of $200,000;

(b) any (i) contract, agreement or understanding (other than contracts, agreements or understandings entered into in the ordinary course of business) or (ii) instrument, judgment, order, writ or decree; in each case involving a potential commitment, obligation or payment by or to such Company Party in excess of $100,000;

(c) any material license of any patent, copyright, trade secret or other proprietary right to or from such Company Party (other than the license to such Company Party of standard, generally commercially available, “off-the-shelf” third party products that are not and will not to any extent be part of any product, service or intellectual property offering of any of the Company Parties);

(d) provisions materially restricting the development, manufacture or distribution of such Company Parties’ products or services;

(e) indemnification by such Company Party with respect to infringements of proprietary rights;

(f) any indenture, mortgage, promissory note, loan agreement, or guaranty;

(g) any employment contracts, noncompetition agreements, severance agreements or other agreements with present or former officers, directors, employees or shareholders of such Company Party or persons related to or affiliated with such persons;

(h) any stock redemption or purchase agreements or other agreements affecting or relating to the capital stock of such Company Party;

(i) any benefit plan relating to the employees of such Company Party, including pension, profit sharing, other deferred compensation plan or arrangement, bonus, retirement, health insurance, severance or stock option plans;

(j) any joint venture or partnership agreement;

(k) any manufacturer, development or supply agreement involving a potential commitment, obligation or payment by or to such Company Party in excess of $100,000; or

(l) any acquisition, merger or similar agreement.

All contracts, agreements, leases and instruments set forth on the Schedule of Exceptions are valid and are in full force and effect and constitute legal, valid and binding obligations of the Company and, to the knowledge of the Company, of the other parties, and are enforceable in accordance with their respective terms.

2.13 Related-Party Transactions. No employee, officer, director or shareholder of any of the Company Parties owning two percent (2%) or more of the total outstanding equity of any of the Company Parties (a "Related Party") or member of such Related Party's immediate family, or any corporation, partnership or other entity in which such Related Party is an officer, director or partner, or in which such Related Party has significant ownership interests or otherwise controls, is indebted to any of the Company Parties, nor is any of the Company Parties indebted (or committed to make loans or extend or guarantee credit) to any of them, other than (a) for payment of salary for services previously rendered in the ordinary course of business, (b) as reimbursement for reasonable expenses incurred on behalf of such Company Party in the ordinary course of business, (c) for other standard employee benefits made generally available to all employees (not including stock option agreements outstanding under any stock option plan approved by the Board of Directors of the Company), or (d) such other employee benefits as may be provided for in any written employment agreement or other written instrument. To the Company's knowledge, none of such persons has any direct or indirect ownership interest in any firm or corporation with which any of the Company Parties is affiliated or with which any of the Company Parties has a business relationship, or any firm or corporation that competes with any of the Company Parties, except that employees, officers, directors or shareholders of each of the Company Parties and members of such Related Party's immediate families may own stock in publicly traded companies that may compete with the Company Parties. No Related Party or member of their immediate family is directly or indirectly interested in any material contract with

any of the Company Parties. The terms of any transaction with a Related Party (including, without limitation, transactions between the Company and each of the Subsidiaries) are on arms' length for any purpose, as reasonably determined based on professional advice, and have been approved by the Company or the Subsidiary, as the case may be, in accordance with applicable laws, rules and regulations. No terms of such transactions would reasonably be expected to result in a Material Adverse Effect.

2.14 Permits. Each of the Company Parties has all franchises, permits, licenses, and any similar authority necessary for the conduct of its business as now conducted and as proposed to be conducted, the lack of which could have a Material Adverse Effect. None of the Company Parties is in default in any material respect under any of such franchises, permits, licenses, or other similar authority.

2.15 Safety Laws. None of the Company Parties is in violation of any applicable statute, law or regulation relating to the occupational health and safety, which violation would have a Material Adverse Effect and no material expenditures are or, to the Company's knowledge, will be required in order to comply with any such existing statute, law or regulation.

2.16 Environmental Matters.

(a) The Company Parties have complied with all applicable Environmental Laws (as defined below), except for violations of Environmental Laws that, individually or in the aggregate, have not had and would not reasonably be expected to have a Material Adverse Effect. There is no pending or, to best of the Company's knowledge, threatened civil or criminal litigation, written notice of violation, formal administrative proceeding, or investigation, inquiry or information request by any federal, state or local court, arbitrational tribunal, administrative agency or commission or other governmental or regulatory authority or agency (each a "Governmental Entity") that would be reasonably expected to have a Material Adverse Effect, and no expenditures that would be reasonably expected to have a Material Adverse Effect are, or to the Company's knowledge will be, required to comply with any existing statute, law or regulation relating to any Environmental Law involving the Company Parties. For purposes of this Agreement, "Environmental Law" shall mean any federal, state or local law, statute, rule or regulation or the common law relating to the environment or occupational health and safety, including any statute, regulation, administrative decision or order pertaining to (i) treatment, storage, disposal, generation and transportation of industrial, toxic or hazardous materials or substances or solid or hazardous waste; (ii) air, water and noise pollution; (iii) groundwater and soil contamination; (iv) the release or threatened release into the environment of industrial, toxic or hazardous materials or substances, or solid or hazardous waste, including emissions, discharges, injections, spills, escapes or dumping of pollutants, contaminants or chemicals; (v) the protection of wild life, marine life and wetlands, including all endangered and threatened species; (vi) storage tanks, vessels, containers, abandoned or discarded barrels and other closed receptacles; (vii) health and safety of employees and other persons; and

(viii) manufacturing, processing, using, distributing, treating, storing, disposing, transporting or handling of materials regulated under any law as pollutants, contaminants, toxic or hazardous materials or substances or oil or petroleum products or solid or hazardous waste. As used above, the terms "release" and "environment" shall have the meaning set forth in the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA").

(b) There are no past or present Environmental Claims, actions, activities, circumstances, conditions, events or incidents, including the release, emission, discharge, presence or disposal of any Materials of Environmental Concern (as defined below), that would reasonably be expected to have a Material Adverse Effect. For purposes of this Agreement, (i) "Materials of Environmental Concern" shall mean chemicals; pollutants; contaminants; wastes; toxic or hazardous substances, materials and wastes; petroleum and petroleum products; asbestos and asbestos-containing materials; polychlorinated biphenyls; lead and lead-based paints and materials; and radon; and (ii) "Environmental Claim" shall mean any claim, action, cause of action, investigation or notice (written or oral) by any person or entity alleging actual or potential liability for investigatory, cleanup or governmental response costs, or natural resources or property damages, or personal injuries, attorney's fees or penalties arising from or relating to (A) the presence, or release into the environment, of any Materials of Environmental Concern, now or in the past, (B) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law, or (C) the liability of any Company Party for any violation, or alleged violation, of any Environmental Law by any person or entity (whether contractual, by operation of law or otherwise).

(c) Except in accordance with applicable Environmental Law, and so as not to give rise to an Environmental Claim that would reasonably be expected to have a Material Adverse Effect, (i) Materials of Environmental Concern have not been generated, used, treated or stored on, transported to or from, or released on, at or from, any past or present facilities, properties or operations of any of the Company Parties and (ii) Materials of Environmental Concern have not been disposed of on any past or present facilities, properties or operations of any of the Company Parties.

(d) Except as set forth in the Schedule of Exceptions, none of the Company Parties is a party to or bound by any court order, administrative order, consent order or other agreement between any such Company Party and any Governmental Entity entered into in connection with any legal obligation or liability arising under any Environmental Law that would reasonably be expected to have a Material Adverse Effect.

(e) Set forth in the Schedule of Exceptions is a list of all documents known to the Company (whether in hard copy or electronic form) that contain any environmental reports, investigations and audits relating to premises currently or

previously owned or operated by the Company Parties (whether conducted by or on behalf of such Company Parties or a third party, and whether done at the initiative of such Company Parties or directed by a Governmental Entity or other third party) which were issued or conducted during the past five years and which any of the Company Parties has possession of or access to. A complete and accurate copy of each such document has been provided to or made available to the Purchasers.

2.17 Manufacturing, Marketing and Development Rights. The Company has not granted rights to manufacture, produce, assemble, license, market, or sell its products to any other person and is not bound by any agreement that affects the Company's exclusive right to develop, manufacture, assemble, distribute, market or sell its products.

2.18 Registration Rights. Except as provided in the Investors' Rights Agreement, the Company has not granted or agreed to grant any registration rights, including piggyback rights, to any person or entity.

2.19 Corporate Documents. The Articles of Incorporation and bylaws of the Company are in the form previously provided to counsel for each Investor.

2.20 Title to Property and Assets. Each of the Company Parties owns its property and assets free and clear of all mortgages, liens, loans and encumbrances, except such encumbrances and liens that arise in the ordinary course of business and do not materially impair such Company Parties' ownership or use of such property or assets. With respect to the property and assets it leases, each of the Company Parties is in compliance with such leases and holds a valid leasehold interest free of any liens, claims or encumbrances.

2.21 Financial Statements. The Company has delivered to each Investor (a) its audited consolidated financial statements (balance sheet and income and cash flow statements, including notes thereto) at March 31, 2007 and 2006 and for the fiscal years then ended, and (b) interim, unaudited financial statements as of May 31, 2007 (the "Financial Statements"). The Financial Statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP") applied on a consistent basis throughout the periods indicated. The Financial Statements fairly present the financial condition and operating results of the Company and the Subsidiaries on a consolidated basis as of the dates, and for the periods, indicated therein. Except as set forth in the Financial Statements, the Company has no material liabilities, contingent or otherwise, other than (i) liabilities incurred in the ordinary course of business subsequent to March 31, 2007 and (ii) obligations under contracts and commitments incurred in the ordinary course of business and not required under GAAP to be reflected in the Financial Statements, and which, individually or in the aggregate, are not material to the financial condition or operating results of the Company. The Company maintains a standard system of accounting established and administered in accordance with GAAP.

2.22 Changes. Since March 31, 2007, there has not been:

(a) any change in the assets, liabilities, financial condition or operating results of the Company from that reflected in the Financial Statements, except changes in the ordinary course of business that have not had a Material Adverse Effect;

(b) any damage, destruction or loss, whether or not covered by insurance, of any material asset of the Company Parties;

(c) any waiver by any of the Company Parties of a valuable right or of a material debt owed to it;

(d) any satisfaction or discharge of any lien, claim or encumbrance or payment of any obligation by any of the Company Parties, except in the ordinary course of business and that has not had a Material Adverse Effect;

(e) any material change or amendment to a material contract;

(f) any material change in any compensation arrangement or agreement with any employee, officer or director;

(g) any sale, assignment or transfer of any patents, trademarks, copyrights, trade secrets or other intangible assets;

(h) any resignation or termination of employment of any key officer of the Company; and the Company, to its knowledge, does not know of the impending resignation or termination of employment of any such officer or key employee of the Company;

(i) receipt of notice that there has been a loss of, or material order cancellation by, any major customer of the Company;

(j) any mortgage, pledge, transfer of a security interest in, or lien, created by any of the Company Parties, with respect to any of its material properties or assets, except liens for taxes not yet due or payable and liens that arise in the ordinary course of business and do not materially impair such Company Parties' ownership or use of such property or assets;

(k) any loans or guarantees made by any of the Company Parties to or for the benefit of its employees, officers or directors, or any members of their immediate families, other than travel advances and other advances made in the ordinary course of its business;

(l) any declaration, setting aside or payment or other distribution in respect of any of the Company's capital stock, or any direct or indirect redemption, purchase or other acquisition of any of such stock by the Company, except to the extent specifically contemplated by this Agreement;

(m) to the Company's knowledge, any other event or condition of any character that would be reasonably likely to have a Material Adverse Effect; or

(n) any agreement or commitment by any of the Company Parties to do any of the things described in this Section 2.22.

2.23 Employee Benefit Plans. None of the Company Parties has any Employee Benefit Plan as defined in the Employee Retirement Income Security Act of 1974.

2.24 Tax. None of the Company Parties is currently liable for any tax (whether income tax, capital gains tax, or otherwise), and any taxes which were due in the past (if at all) have been timely paid by the Company. Each of the Company Parties has accurately prepared and timely effected and filed all necessary filings (including income and payroll tax returns and filings that it is required to file) and reports (the "Tax Reports") with the appropriate tax authorities and has paid or made adequate provision for the payment of all amounts due pursuant to the Tax Reports as well as other taxes, assessments and governmental charges which have become due or payable. The Tax Reports are true and complete in all material respects and accurately reflect all liability for taxes for the periods covered thereby. None of the Company Parties' tax returns have been audited by any taxing authority and none of the Company Parties has been advised that any of such Tax Reports have been or are being so audited. Each of the Company Parties has withheld or collected for each payment made to each of its employees, the amount of all taxes (including, but not limited to, federal income taxes, Federal Insurance Contribution Act taxes and Federal Unemployment Tax Act taxes) required to be withheld or collected therefrom and has timely paid the same to the proper tax receiving officers or authorized depositories. None of the Company Parties has notice that any tax return or report is under examination by any governmental entity.

2.25 Insurance. Each of the Company Parties has adequate insurance, with financially sound and reputable insurers, with respect to its properties, business and operations that are of a character customarily insured by entities engaged in the same or a similar business similarly situated, against loss or damage of the kinds customarily insured against by such entities, which insurance is of such types as are customarily carried under similar circumstances by such other entities.

2.26 Minute Books. The minute books of each of the Company Parties provided to the Investors contain a complete summary of all meetings of directors and shareholders since January 1, 2005 and reflect all transactions referred to in such minutes accurately in all material respects.

2.27 Labor Agreements and Actions. None of the Company Parties is bound by or subject to (and none of its assets or properties is bound by or subject to) any written or oral, express or implied, contract, commitment or arrangement with any labor union, and no labor union has requested or, to the Company's knowledge, has sought to represent any of the employees, representatives or agents of any of the Company Parties. There is no strike or other labor dispute involving any of the Company Parties pending, or to the Company's knowledge, threatened, that could have a Material Adverse Effect,

nor is the Company aware of any labor organization activity involving the employees of any of the Company Parties. The Company is not aware that any officer or key employee, or that any group of key employees, intends to terminate their employment with any of the Company Parties, nor does the Company have a present intention to terminate the employment of any of the foregoing. The employment of each officer and employee of each of the Company Parties is terminable at the will of such Company Party. To the Company's knowledge, each of the Company Parties has complied in all material respects with all applicable federal, state and provincial equal employment opportunity and other laws related to employment. None of the Company Parties is subject to, and none of their employees benefit from, any collective bargaining agreement by way of any applicable employment laws and regulations and extension orders. All employees of the Company whose employment responsibility requires access to confidential or proprietary information of the Company have executed and delivered Propriety Information and Intellectual Property Agreements in the form of Exhibit D ("Proprietary Information Agreements") and all of such agreements are in full force and effect. None of the employees of the Company is represented by any labor union, and there is no labor strike or other labor trouble pending with respect to the Company (including, without limitation any organizational drive) or, to the best of the Company's knowledge, threatened.

2.28 Significant Customers and Suppliers. Section 2.28 of the Schedule of Exceptions sets forth a list of (a) each customer that accounted for more than one percent (1%) of the consolidated revenues of the Company during the last full fiscal year or the interim period through May 31, 2007 and the amount of revenues accounted for by such customer during each such period and (b) each supplier that is the sole supplier of any significant product to the Company or a Subsidiary. No such customer or supplier has indicated within the past year that it will stop, or decrease the rate of, buying products or supplying products, as applicable, to the Company or any Subsidiary. No unfilled customer order or commitment obligating the Company or any Subsidiary to process, manufacture or deliver products or perform services will result in a loss to the Company or any Subsidiary upon completion of performance. No purchase order or commitment of the Company or any Subsidiary is in excess of normal requirements, nor are prices provided therein in excess of current market prices for the products or services to be provided thereunder.

2.29 Inventory. All inventory of the Company and the Subsidiaries, whether or not reflected on the Financial Statements, consists of a quality and quantity usable and saleable in the ordinary course of business, except for obsolete items and items of below-standard quality, all of which have been written-off or written-down to net realizable value on the Financial Statements. All inventories not written-off have been priced at cost on a first-in, first out basis. The quantities of each type of inventory, whether raw materials, work-in-process or finished goods, are not excessive in the present circumstances of the Company and the Subsidiaries.

2.30 Accounts Receivable. All accounts receivable of the Company and the Subsidiaries reflected on the Financial Statements are valid receivables subject to no setoffs or counterclaims and are current and collectible (within ninety (90) days after the

date on which it first became due and payable), net of the applicable reserve for bad debts on the Financial Statements. All accounts receivable reflected in the financial or accounting records of the Company that have arisen since March 31, 2007 are valid receivables subject to no setoffs or counterclaims and are collectible (within ninety (90) days after the date on which it first became due and payable), net of a reserve for bad debts in an amount proportionate to the reserve shown on the Financial Statements.

2.31 Product Warranty. No product manufactured, sold, leased, licensed or delivered by the Company or any Subsidiary is subject to any guaranty, warranty, right of return, right of credit or other indemnity other than (a) the applicable standard terms and conditions of sale or lease of the Company or the appropriate Subsidiary, which are set forth in Section 2.31 of the Schedule of Exceptions and (b) manufacturers' warranties for which neither the Company nor any Subsidiary has any liability. Section 2.31 of the Schedule of Exceptions sets forth the aggregate expenses incurred by the Company and the Subsidiaries in fulfilling their obligations under their guaranty, warranty, right of return and indemnity provisions during each of the fiscal years and the interim period covered by the Financial Statements; and the Company does not know of any reason why such expenses should significantly increase as a percentage of sales in the future.

2.32 Indebtedness. The Company has no Indebtedness other than the Notes and Senior Indebtedness. The Company has provided to the Investors true and complete copies of all documents related to any indebtedness of the Company.

2.33 Margin Regulations. No part of the proceeds from the sale of the Notes will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 221), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve the Company in a violation of Regulation X of said Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of said Board (12 CFR 220).

2.34 Investment Company. The Company is not subject to regulation under the Investment Company Act of 1940, as amended.

2.35 Disclosure. The Company has provided each Investor with all information that such Investor has requested for deciding whether to purchase the Note. This Agreement, including all Exhibits and Schedules hereto, and together with the written plans, projections, and estimates provided to the Investors in connection with the transactions contemplated by this Agreement (the "Additional Materials"), when read together, do not contain any untrue statement of a material fact or omit a material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which they were made, not misleading. The Company knows of no information or fact which has or would have a Material Adverse Effect, which has not been disclosed in the Schedule of Exceptions. Each projection furnished in the Additional Materials was prepared in good faith based on reasonable assumptions and reflects the Company's best estimate of future results based on information available as of the date of such Additional Materials.

3. Representations and Warranties of the Investors. Each Investor, severally and not jointly, hereby represents and warrants that:

3.1 Authorization. Such Investor has requisite corporate or partnership power and authority to enter into this Agreement and the Ancillary Agreements, and each such agreement constitutes its valid and legally binding obligation, enforceable in accordance with its terms except (a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, (b) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies, and (c) to the extent the indemnification provisions contained in the Investors' Rights Agreement may be limited by applicable federal, state or provincial securities laws.

3.2 Purchase Entirely for Own Account. This Agreement is made with such Investor in reliance upon Investor's representation to the Company, which by such Investor's execution of this Agreement such Investor hereby confirms, that the Securities will be acquired for investment for Investor's own account, not as a nominee or agent, and not with a view to the distribution of any part thereof, and that such Investor has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, such Investor further represents that such Investor does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person, with respect to any of the Securities.

3.3 Disclosure of Information. Such Investor further represents that it has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the Securities and the business, properties, prospects and financial condition of the Company. The foregoing, however, does not limit or modify the representations and warranties of the Company in Section 2 of this Agreement or the right of the Investor to rely thereon.

3.4 Investment Experience. Such Investor is an investor in securities of companies in the development stage and acknowledges that it is able to fend for itself, can bear the economic risk of its investment, and has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of the investment in the Securities. If other than an individual, Investor also represents it has not been organized for the purpose of acquiring the Securities.

3.5 Accredited Investor. The Investor is an "accredited investor" within the meaning of Securities and Exchange Commission ("SEC") Rule 501 of Regulation D, as presently in effect and understands the meaning of that term.

3.6 Restricted Securities. Each Investor understands that the Securities have not been, and shall not be (except to the extent provided in the Investors' Rights Agreement), registered under the Securities Act, by reason of a specific exemption from the registration provisions of the Securities Act which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of the Investor's

representations as expressed herein. Each Investor understands that the Securities are “restricted securities” under applicable U.S. federal and state securities laws and that, pursuant to these laws, the Investor must hold the Securities indefinitely unless they are registered with the SEC and qualified by state authorities, or an exemption from such registration and qualification requirements is available. Each Investor acknowledges that the Company has no obligation to register or qualify the Securities for resale except as set forth in the Investors’ Rights Agreement. Each Investor further acknowledges that if an exemption from registration or qualification is available, it may be conditioned on various requirements including, but not limited to, the time and manner of sale, the holding period for the Securities, and on requirements relating to the Company which are outside of the Investor’s control, and which the Company is under no obligation (except to the extent provided in the Investors’ Rights Agreement) and may not be able to satisfy.

3.7 Further Limitations on Disposition. Without in any way limiting the representations set forth above, such Investor further agrees not to make any disposition of all or any portion of the Securities to any person or entity other than to an affiliate of such Investor unless and until:

(a) There is then in effect a Registration Statement under the Act covering such proposed disposition and such disposition is made in accordance with such Registration Statement; or

(b) Such Investor shall have (i) notified the Company of the proposed disposition and (ii) if reasonably requested by the Company, such Investor shall have furnished the Company with an opinion of counsel, that such disposition will not require registration of such shares under the Act. It is agreed that the Company will not require opinions of counsel for transactions made pursuant to Rule 144 except in unusual circumstances.

(c) Notwithstanding the provisions of subsections (a) and (b) above, no such registration statement or opinion shall be necessary for a transfer by an Investor that is a partnership to a partner of such partnership or a retired partner of such partnership who retires after the date hereof, or to the estate of any such partner or retired partner or the transfer by gift, will or intestate succession of any partner to his or her spouse or to the siblings, lineal descendants or ancestors of such partner or his or her spouse in each case so long as the prospective transferee agrees in all such instances in writing to be subject to the terms hereof to the same extent as if he or she were an original Investor hereunder or to any other entity which controls, is controlled by or is under common control with such Investor.

3.8 Legends. It is understood that the certificates evidencing the Securities may bear one (1) or more of the following legends:

(a) “These securities have not been registered under the Securities Act of 1933, as amended. They may not be sold, offered for sale, pledged or hypothecated except pursuant to an effective registration statement in effect with

respect to the securities under the Act or unless sold pursuant to Rule 144 of such Act or pursuant to any other exemption under such Act."

(b) Any legend set forth in the Ancillary Agreements.

(c) Any legend required by the Blue Sky laws of any state or the securities laws of any province to the extent such laws are applicable to the Securities represented by the certificate so legended.

3.9 Exculpation Among Investors . Each Investor acknowledges that it is not relying upon any person, firm or corporation, other than the Company and its officers and directors, in making its investment or decision to invest in the Company. Each Investor agrees that no Investor nor the respective controlling persons, officers, directors, partners, agents, or employees of any Investor shall be liable to any other Investor for any action heretofore or hereafter taken or omitted to be taken by any of them in connection with the purchase of the Securities.

4. Conditions of Investors' Obligations at Closing.

4.1 Closing Conditions. The obligations of each Investor under Sections 1.1(b) and 1.2 of this Agreement are subject to the fulfillment on or before the Closing of each of the following conditions. The waiver of any condition hereunder shall be effective only if given in writing by the Investors purchasing a majority of the Notes:

(a) Representations and Warranties. The representations and warranties of the Company contained in Section 2 shall be true on and as of the Closing with the same effect as if made on and as of such date (except where otherwise specifically provided in such representations).

(b) Performance. The Company shall have performed and complied with all agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by it on or before the Closing.

(c) Compliance Certificate. The President of the Company shall deliver to Investor at the Closing a certificate stating that the conditions specified in this Section 4.1 have been fulfilled.

(d) Qualifications. All authorizations, approvals, or permits, if any, of any governmental authority or regulatory body of the United States or of any state that are required in connection with the lawful issuance and sale of the Securities being issued and sold at the Closing pursuant to this Agreement shall be duly obtained and effective as of the Closing.

(e) Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated at the Closing and all documents incident thereto shall be reasonably satisfactory in form and substance to the Investors, and they shall have received all such counterpart original and certified or other copies of such documents as they may reasonably request.

(f) Consents, etc. The Company shall have secured all permits, consents and authorizations that shall be necessary or required lawfully to consummate this Agreement and to issue the Securities, including without limitation any consent that may be required by any of the Company's lenders in connection with the payment of interest as required by the Notes.

(g) Secretary's Certificate. The Secretary of the Company shall deliver to each Investor at the Closing a certificate stating that the copies of the Articles of Incorporation, bylaws and Board of Director resolutions relating to the sale of the Securities attached thereto are true and complete copies of such documents and resolutions.

(h) Certificates and Documents. The Company shall have delivered to the Investors:

(i) The Articles of Incorporation;

(ii) Consent of the Company's lenders to the sale of the Notes and the payments of interest provided thereunder; and

(iii) A certificate, as of the most recent practicable date, as to the active corporate status of the Company Parties issued by the Department of Financial Institutions of the State of Wisconsin.

(i) Proprietary Information Agreements. Each of the officers and employees of the Company listed on Schedule 2 hereto shall have entered into a Proprietary Information Agreement substantially in the form attached hereto as Exhibit D.

(j) Opinion of Company Counsel. Investor shall have received from Foley & Lardner LLP, counsel for the Company, an opinion, dated as of the Closing, in substantially the form attached hereto as Exhibit E.

(k) Investors' Rights Agreement. The Company and each other party thereto shall have entered into the Investors' Rights Agreement.

(l) First Offer and Co-Sale Agreement. The Company and each other party thereto shall each have entered into the First Offer and Co-Sale Agreement.

(m) Waiver of Preemptive Rights. The Company shall have delivered to the Investors a written waiver from each of the shareholders of the Company, if any, who has preemptive rights, by which such shareholder confirms that such shareholder waives any rights of preemption, over allotment or participation with respect to the issuance of the Securities.

5. Conditions of the Company's Obligations at the Closing. The obligations of the Company to each Investor under this Agreement are subject to the fulfillment on or before the Closing of each of the following conditions by that Investor:

5.1 Representations and Warranties. The representations and warranties of the Investors contained in Section 3 shall be true on and as of the Closing.

5.2 Payment of Purchase Price. The Investors shall have delivered the Purchase Price pursuant to Section 1.2 hereof.

5.3 Qualifications. All authorizations, approvals, or permits, if any, of any governmental authority or regulatory body of the United States or of any state that are required in connection with the lawful issuance and sale of the Securities pursuant to this Agreement shall be duly obtained and effective as of the Closing.

5.4 Consents, etc. The Company shall have secured all permits, consents and authorizations that shall be necessary or required lawfully to consummate this Agreement and to issue the Securities.

5.5 Investors' Rights Agreement. The Investors shall have entered into the Investors' Rights Agreement.

5.6 First Offer and Co-Sale Agreement. The Investors and each other party thereto (other than the Company) shall each have entered into the First Offer and Co-Sale Agreement.

5.7 Waiver of Series C Investors. Clean Technology Fund II, LP ("ECP"), Capvest Venture Fund, LP, and Technology Transformation Fund II, LP (the "Series C Investors") shall have delivered to the Company a consent and waiver, in a form reasonably satisfactory to the parties, by which the Series C Investors waive any rights arising under the Articles of Incorporation or any other agreement or instrument to which the Company and the Series C Investors are parties to object to or assert any rights with respect to the transactions contemplated by this Agreement.

5.8 Lock-up Agreements. Investors shall have delivered to the Company duly executed Lock-up Agreements in the form attached as Exhibit F .

6. Miscellaneous.

6.1 Survival of Warranties. The warranties, representations and covenants of the Company and Investors contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement and the Closing and shall in no way be affected by any investigation of the subject matter thereof made by or on behalf of the Investors or the Company.

6.2 Successors and Assigns. Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties (including transferees of any Securities).

Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement. None of the rights, privileges, or obligations set forth in, arising under, or created by this Agreement may be assigned or transferred without the prior consent in writing by holders of a majority of the Notes purchased pursuant to this Agreement, with the exception of assignments and transfers by an Investor to any other entity or individual who controls, is controlled by or is under common control with such Investor or any entity that is managed by the same joint management company as such Investor or any entity that is the general partner or limited partner of such Investor.

6.3 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, as applied to contracts made and performed within the State of New York, without regard to principles of conflicts of law.

6.4 Exclusive Jurisdiction. Each of the parties hereto (a) consents to submit itself exclusively to the personal jurisdiction of the United States District Court for the Southern District of New York in the event any dispute arises out of this Agreement, the Note, the Amended and Restated Investment Rights Agreement and/or the Amended and Restated First Offer and Co-Sale Agreement, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court, and (c) agrees that it will not bring any action relating to this Agreement in any court other than the United States District Court for the Southern District of New York.

6.5 Waiver of Jury Trial. TO THE EXTENT EACH MAY LEGALLY DO SO, EACH PARTY HERETO HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION, CAUSE OF ACTION, OR PROCEEDING ARISING UNDER OR WITH RESPECT TO THIS AGREEMENT, OR IN ANY WAY CONNECTED WITH, OR RELATED TO, OR INCIDENTAL TO, THE DEALING OF THE PARTIES HERETO WITH RESPECT TO THIS AGREEMENT, OR THE TRANSACTIONS RELATED THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND IRRESPECTIVE OF WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE. TO THE EXTENT EACH MAY LEGALLY DO SO, EACH PARTY HERETO HEREBY AGREES THAT ANY SUCH CLAIM, DEMAND, ACTION, OR PROCEEDING SHALL BE DECIDED BY A COURT TRIAL WITHOUT A JURY AND THAT EITHER PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF ANY OTHER PARTY HERETO TO THE WAIVER OF ITS RIGHT TO TRIAL BY JURY.

6.6 Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

6.7 Notices. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified; (b) when sent by confirmed electronic mail or

facsimile if sent during normal business hours of the recipient; if not, then on the next business day; (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid; or (d) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the respective parties at the addresses set forth on the signature pages attached hereto (or at such other addresses as shall be specified by notice given in accordance with this Section 6.7).

6.8 Finder's Fee. Each party represents that it neither is nor will be obligated for any finders' fee or commission in connection with this transaction. Each Investor agrees to indemnify and to hold harmless the Company from any liability for any commission or compensation in the nature of a finder's fee (and the costs and expenses of defending against such liability or asserted liability) for which such Investor or any of its officers, partners, employees, or representatives is responsible. The Company agrees to indemnify and hold harmless each Investor from any liability for any commission or compensation in the nature of a finder's fee (and the costs and expenses of defending against such liability or asserted liability) for which the Company or any of its officers, employees or representatives is responsible.

6.9 Indemnification. The Company agrees (a) to indemnify and hold harmless the Investors, their affiliates and their respective directors, officers, employees, agents and controlling persons (each, an "Indemnified Person"), from and against any losses, claims, demands, damages or liabilities of any kind (other than losses which arise solely out of market risk) (collectively, "Liabilities") arising out of or related to this Agreement or the Ancillary Agreements, and/or the investment in the Company, and (b) to reimburse each Indemnified Person for all reasonable expenses (including, but not limited to, reasonable fees and disbursements of counsel) incurred by such Indemnified Person in connection with investigating, preparing, responding to or defending any investigative, administrative, judicial or regulatory action or proceeding in any jurisdiction related to or arising out of such activities, services, transactions or role, whether or not in connection with pending or threatened litigation to which any Indemnified Person is a party, in each case as such expenses are incurred or paid; provided, that the foregoing indemnification shall not, as to any Indemnified Person, apply to any such Liabilities or expenses to the extent that they are finally judicially determined to have resulted primarily from such Indemnified Person's gross negligence or willful misconduct.

6.10 Expenses. Each party shall pay its own costs and expenses incurred with respect to the negotiation, execution, delivery and performance of this Agreement; provided, that the Company shall, at the Closing, (a) reimburse the reasonable and actual out-of-pocket legal, technical and other professional fees and expenses incurred by GE Capital Equity Investments, Inc. ("GE") in connection with the transactions contemplated hereby, up to a total amount of $40,000, and (b) reimburse the reasonable and actual out-of-pocket legal, technical, and other professional fees and expenses incurred by ECP in connection with the transactions contemplated hereby, up to a total amount of $15,000.

6.11 Amendments and Waivers. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a

particular instance and either retroactively or prospectively), only with the written consent of the Company and Investors purchasing or holding at least a majority of the total indebtedness represented by the Notes to be purchased or purchased hereunder. Any amendment or waiver effected in accordance with this section shall be binding upon each holder of any securities purchased under this Agreement at the time outstanding (including securities into which such securities are convertible), each future holder of all such securities, and the Company. Notwithstanding the foregoing, no investment amount initially set forth on Schedule A may be changed without the consent of such Investor.

6.12 Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

6.13 Entire Agreement. This Agreement and the documents referred to herein constitute the entire agreement among the parties and no party shall be liable or bound to any other party in any manner by any warranties, representations, or covenants except as specifically set forth herein or therein.

6.14 Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to any party upon any breach or default under this Agreement, shall be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement or by law or otherwise afforded to any of the parties, shall be cumulative and not alternative.

6.15 Public Announcements. Except for statements made or press releases (a) required to be issued pursuant to the Securities Act of 1933 or the Securities Exchange Act of 1934, (b) required to be issued pursuant to any listing agreement with or the rules and regulations of any national securities exchange or automated quotation system on which the Company’s capital stock is listed or quoted, or (c) otherwise required by law, no party shall issue any press release or otherwise make any public statements with respect to this Agreement or the transactions contemplated hereby without the prior written consent of the other parties. If the Company is required to make any disclosure under applicable law that refers to GE or any of its affiliates, the Company will provide prior written notice of such disclosure (together with the proposed text of such disclosure) to GE, and the disclosure made by the Company will reflect any comments provided to the Company by GE.

6.16 Counterparts. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Facsimile signatures shall be binding as original.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the date first above written.

COMPANY

ORION ENERGY SYSTEMS, INC.

By: /s/ Neal R. Verfuerth
Name: Neal R. Verfuerth
Title: President

Address: Neal R. Verfuerth, President
Orion Energy Systems, Inc.
1204 Pilgrim Road
Plymouth, WI 53073

With copies to:

General Counsel
Orion Energy Systems, Inc.
1204 Pilgrim Road
Plymouth, WI 53073; and

Foley & Lardner LLP
150 East Gilman Street
Madison, WI 53703
Attention: Carl R. Kugler

INVESTOR:

CLEAN TECHNOLOGY FUND II, LP

By: Expansion Capital Partners II, LP, its General Partner

By: Expansion Capital Partners II General Partner, LLC, its General Partner

By: /s/ Bernardo H. Llovera
Name: Bernardo H. Llovera
Title: Managing Member

Address: Expansion Capital Partners
90 Park Avenue, Suite 1700
New York, NY 10016

With copies to:

Covington & Burling LLP
1201 Pennsylvania Avenue NW
Washington, DC 20004
Fax: (202) 662-6291
Attention: Paul V. Rogers

INVESTOR:

GE CAPITAL EQUITY INVESTMENTS, INC.

By: /s/ Michael Donnelly
Name: Michael Donnelly
Title: Senior Vice President

Address: 201 Merritt 7
P.O. Box 5201
Norwalk, CT 06851
Fax:________________________

With copies to:

King & Spalding LLP
1180 Peachtree Street
Atlanta, GA 30309
Fax: (404) 572-5133
Attention: William G. Roche

INVESTOR:

CAPVEST VENTURE FUND, LP

By: /s/

By:
Name:
Title:

Address:

With copies to:

INVESTOR:

TECHNOLOGY TRANSFORMATION VENTURE FUND, LP

By: /s/

By:

Name:

Title:

Address:

With copies to:

SCHEDULE 1
INVESTORS

Investor	Note Amount
GE Capital Equity Investments, Inc.	$ 8,000,000
Clean Technology Fund II, L.P.	$ 2,500,000
CapVest Venture Fund, LP	$ 50,000
Technology Transformation Venture Fund, LP	$ 50,000
Total	**$ 10,600,000**

SCHEDULE 2
KEY EMPLOYEES

Neal Verfuerth
Mike Potts
Dan Waibel
Pat Verfuerth
John Scribante
Danny Czaja
Eric von Estorff

EXHIBIT 10.3

SEPARATION AGREEMENT

This Separation Agreement ("Agreement") is between Orion Energy Systems Ltd., a Wisconsin corporation ("Orion") and Bruce Wadman ("Wadman").

1. **Background**. Wadman's employment with Orion ended, effective February 19, 2007. Both Wadman and Orion desire an amicable separation and to fully and finally compromise and settle any differences that may exist between them on the terms set forth in this Agreement. Wadman had an employment agreement that may provide for the receipt of severance under certain circumstances. Orion disputes that those circumstances exist, but is willing to provide the severance outlined in this Agreement in return for Wadman's execution of this Agreement, it becoming effective (*see* paragraph 17), and his continued compliance with each of the covenants in this Agreement, including those regarding confidentiality, non-competition, and non-solicitation.

2. **Severance Pay and Benefits**. In return for the execution of this Agreement, it becoming effective (*see* paragraph 17), and Wadman honoring all of its terms, Orion will provide or deliver the following:

a. Severance Pay. Six (6) months (the period of March 1, 2007 through August 31, 2007) of severance at his regular rate of pay in effect at February 19, 2007, less withholding and deductions. The severance (a total amount of $87,500.00 for the 6-month period, less withholding and deductions) shall be paid in one lump sum via wire transfer to Wadman's account on the first business day after this Agreement becomes effective (*see* paragraph 17) and be allocated for purposes of unemployment compensation benefits to the week ending February 19, 2007. Orion agrees not to challenge Wadman's eligibility for unemployment compensation benefits and further agrees to respond to any inquiry about any post-employment to Wadman by Orion with an explanation of the above-mentioned allocation.

b. COBRA Coverage. If Wadman or any of his dependents who are qualified beneficiaries (within the meaning of Code Section 4980B and any regulations thereunder) elect COBRA continuation coverage under any group health plan maintained by Orion, Orion will make timely continuation coverage premium payments for six (6) months of COBRA continuation coverage (starting with the month of June, 2007 and continuing for the following five (5) successive months) for Wadman and/or his dependents, unless he and his dependents cease to be eligible for such coverage for any reason or he breaches any of the covenants contained in this Agreement. Such COBRA subsidies shall be reduced by Orion in its discretion to the extent any benefits of the same type are received by or made available to Wadman and/or any of his dependents during such 6-month period. Wadman shall report to Orion any benefits of the same type received by or made available to him and/or his dependents during such 6-month period.

c. Stock Options. An amendment to that certain nonstatutory (non-qualified) Stock Option Agreement between Wadman and Orion dated May 11, 2005, which shall be delivered to Wadman on the date this Agreement becomes effective. Subject to the terms and conditions of the Stock Option Agreement, as amended, Wadman shall have the right to exercise and purchase forty thousand (40,000) shares of Common Stock of Orion at the exercise price of $2.25 per share, (i) twenty thousand (20,000) options of which shall be exercisable at any time between the effective date of this Agreement and the expiration of the "Stock Option Exercise Period" and (ii) twenty thousand (20,000) options of which shall be exercisable during a nine (9) month period commencing on June 30, 2009 and expiring on March 31, 2010 (the "Stock Option Exercise Period").

3. **Acknowledgement**. Wadman understands that the severance and benefits provided in paragraph 2 will not be paid or provided unless (a) he accepts this Agreement, (b) it becomes effective (*see* paragraph 17), and (c) he continues to comply with all of the applicable terms of this Agreement.

4. Restrictive Covenants.

a. Non-competition. Wadman agrees that, for a period of twenty (20) months after the effective date of this Agreement, he will not, on his own behalf or for another person or organization, provide services of the same nature that he provided while employed by Orion to any competitor of Orion (which means any person or organization that is in the business of or makes money from designing, developing, or selling products or services similar to those products and services about which Wadman had confidential information or with which he worked (for purposes of sales or otherwise) in the last year of his employment with Orion) in the United States.

b. No Solicitation. Wadman agrees that for a period of twenty (20) months after the effective date of this Agreement, he will not initiate contact in order to induce, solicit, or encourage a client or customer of Orion with whom Wadman had direct contact, during the 12-month period prior to the end of his employment, to purchase services or products from another similar to those services or products sold to the customer or client by Orion. Additionally, Wadman agrees that, for a twenty (20) month period after the date on which his employment ended, he will not initiate contact in order to induce, solicit, or encourage any person to leave Orion's employ. Nothing in this paragraph is meant to, nor does it, prohibit an employee of Orion that is not a party to this Agreement from becoming employed by another organization or person.

5. **Release**. Wadman understands and agrees that his acceptance of this Agreement means that, except as stated in paragraph 8, he is forever waiving and giving up any and all claims he may have, whether known or unknown, against Orion, its subsidiaries, and related companies, their employees and agents for any personal monetary relief for himself, benefits or remedies that are based on any act or failure to act that occurred before he signed this Agreement. He understand that this release and waiver of claims includes claims relating to his employment and the termination of his employment; any Orion policy, practice, contract or agreement; any tort or personal injury; any policies, practices, laws or agreements governing the payment of wages, commissions or other compensation; any laws governing employment discrimination including, but not limited to, the Age Discrimination in Employment Act, Title VII of the Civil Rights Act, the Employee Retirement Income Security Act, the Americans with Disabilities Act, the Wisconsin Fair Employment Act and/or any state or local laws; any laws governing whistle blowing or retaliation, including but not limited to, the Sarbanes-Oxley Act; any laws or agreements that provide for punitive, exemplary or statutory damages; and any laws or agreements that provide for payment of attorney fees, costs or expenses.

6. Intentionally Left Blank

7. **No Disparagement**. Wadman agrees not to make critical, negative or disparaging remarks about Orion, its services, its products, its employees, officers, directors, or agents to others. He also agrees not to disclose personal or private information about Orion or its employees, officers, directors, agents or clients. Orion similarly agrees not to make any negative or disparaging remarks about Wadman. Further, Orion agrees to provide in conjunction with and on Wadman's behalf, a positive letter of reference in the form attached as Exhibit A on the first business day after this Agreement becomes effective (see paragraph 17) and positive verbal references. Notwithstanding the forgoing, nothing in this paragraph 7 shall apply to any statements made by either party in the context of any lawsuit or in response to any government inquiry.

8. **Claims Not Waived**. Wadman understands that this Agreement does not waive any claims that he may have: (a) for compensation for illness or injury or medical expenses under any worker's compensation statute; (b) for benefits under any plan currently maintained by Orion that provides for retirement benefits; (c) under any law or any policy or plan currently maintained by Orion that provides health insurance continuation or conversion rights; or (d) any claim that by law cannot be released or waived.

9. **Government Cooperation.** Nothing in this Agreement prohibits Wadman from cooperating with any government agency.

10. **Confidentiality/Non-Disclosure/Trade Secrets**. Wadman agrees that Orion is a private corporation whose stock is not publicly held. Information about its financing (debt and equity), financial performance, stock valuation, capital structure, revenues, expenses, profits, ownership, investors, business strategies, financing strategies, sales and marketing strategies, management salaries and compensation, employees and employee benefits and relations, consultants and consultant relationships (both current and former), customers and customers relationships (both current and former), suppliers and supplier relationships (both current and former), products, services, engineering, research and development, manufacturing, computer systems and information technology, and other information marked or kept as confidential information is considered private and confidential by Orion ("Confidential Information"). Wadman further agrees to not use or disclose any Confidential Information without Orion's prior written consent. Nothing in this provision is intended to, nor shall it, restrict Wadman from any employment opportunities or employment with another. Future employment restrictions are provided in paragraph 4.a. above. In addition, Wadman agrees that the existence and the terms of this Agreement are not to be disclosed to anyone other than his attorneys, tax advisors, or immediate family, except as required by law, and that whenever disclosure is made, Wadman will advise such persons to whom disclosure is provided that they may not disclose the existence or terms of this Agreement to others except as required by law. However, Wadman may be required to share the terms of the restrictive covenants (paragraphs 4.a. and 4.b. only) with a future employer as Orion requests or instructs, and in such case, such disclosure shall be permitted.

Wadman agrees and understands that this Agreement does not reduce his obligations to comply with applicable laws relating to trade secrets.

11. **Nonadmission**. Wadman and Orion both acknowledge and agree that nothing in this Agreement is meant to suggest that Orion has violated any law or contract or that Wadman has any claim against Orion.

12. **Voluntary Agreement**. Wadman acknowledges and states that he has entered into this Agreement knowingly and voluntarily.

13. **Consulting An Attorney**. Wadman acknowledges that Orion has told him that he should consult an attorney of his own choice about this Agreement and every matter that it covers before signing this Agreement.

14. **Obligation to Pay Attorney Fees and Costs**. Each party understands and agrees that if such party (the "defaulting party") violates the commitments or obligations made in this Agreement, then the other party (the "non-defaulting party") may seek to recover any payments and/or benefits provided in this Agreement and that, except as provided in paragraph 15 with respect to Wadman, the defaulting party will be responsible for paying the actual attorney fees and costs incurred by the non-defaulting party in enforcing this Agreement or (in the case of Orion) in defending a claim released by paragraph 5.

15. **Exception to Attorney Fees Obligation**. The obligation to pay Orion's attorney fees and costs does not apply to an action by Wadman regarding the validity of this Agreement under the ADEA.

16. **Complete Agreement**. Wadman and Orion each understands and agrees that this document contains the entire agreement between he and Orion relating to his employment and the termination of his employment, including the separation pay and other consideration set forth herein, as well as the rights and obligations set forth herein, and that this Agreement supersedes and displaces any prior agreements and discussions relating to such matters and that they may not rely on any such prior agreements or discussions.

17. **Effective Date and Revocation**. This Agreement shall not be effective until seven (7) days after Wadman signs it and returns it to Orion's designated representative, Eric von Estorff. During that seven-day period Wadman may revoke his acceptance of this Agreement by delivering to von Estorff a written statement stating he wishes to revoke this Agreement.

18. **Final and Binding Effect**. Wadman understands that if this Agreement becomes effective it will have a final and binding effect and that by signing and not timely revoking this Agreement he may be giving up legal rights.

19. **Return of Property**. Wadman acknowledges an obligation and agrees to return all Orion property if he has not done so already. This includes all files, working papers and notes, documents, records, including customer and client and potential customer and client business cards and information, credit cards, keys and key cards, computers, laptops, cellular telephones, Blackberry devices or similar instruments, and any other property of Orion. In addition, Wadman agrees to provide any and all access codes or passwords necessary to gain access to any computer, program or other equipment that belongs to Orion or is maintained by Orion or on Orion property. Further, he acknowledges an obligation and agrees not to destroy, delete or disable any Orion property, including items, files and materials on computers and laptops.

20. **Future Cooperation**. Wadman agrees to cooperate with Orion in the future and to provide to Orion with answers to questions and truthful information, testimony or affidavits requested in connection with any matter that arose during his employment. This cooperation may be performed at reasonable times and places and in a manner as to not interfere with any other employment Wadman may have at the time of request. Orion agrees to reimburse Wadman for his reasonable expenses incurred in providing such cooperation.

21. **Representations**. By signing this Agreement Wadman represents that he has read this entire document and understands all of its terms.

22. **21-Day Consideration Period**. Wadman may consider whether to sign and accept this Agreement for a period of twenty-one (21) days from the day he received it. If this Agreement is not signed, dated and returned to Eric von Estorff within twenty-two (22) days, the offer of benefits described in paragraph 2 will no longer be available.

ACCEPTED:

/s/ Bruce Wadman
Bruce Wadman
Dated: June 28, 2007

ACCEPTED:

Orion Energy Systems, Ltd.

By: /s/ Neal R. Verfuerth
Name: Neal R. Verfuerth
Title: President and CEO
Dated: June 28, 2006

EXHIBIT 10.8

AMENDMENT NUMBER ONE
STOCK OPTION AGREEMENT
ORION ENERGY SYSTEMS, LTD.
2003 STOCK OPTION PLAN

This AMENDMENT dated as of this 19th of February, 2007, of the AGREEMENT dated May 11, 2005, by and between Orion Energy Systems, Ltd., a Wisconsin corporation (the "Company"), and Bruce Wadman (the "Grantee") (the "Option Agreement").

WHEREAS, pursuant to the Orion Energy Systems, Ltd. 2003 Stock Option Plan (the "Plan") and the Option Agreement, the Company granted nonqualified stock options to the Grantee to purchase up to 100,000 shares of the Company's common stock ("Stock") at $4.50 per share;

WHEREAS, the Stock split 2-for-1, effective April 1, 2006, such that the Grantee then held nonqualified stock options to purchase up to 200,000 shares of Stock at $2.25 per share;

WHEREAS, the employment of the Grantee ended, effective February 19, 2007, and the right of the Grantee to exercise his option terminated as of May 20, 2007, in accordance with the Option Agreement;

WHEREAS, the Plan, as amended by Amendment Number One thereto, provides that former employees are eligible to participate in the Plan;

WHEREAS, the Company and the Grantee entered into a Separation Agreement which provides, among other things, for the amendment of the Option Agreement to grant the Grantee the right to exercise nonqualified stock options to purchase up to an aggregate of 40,000 shares of Stock at $2.25 per share as follows: (i) up to 20,000 shares at any time after the date of this Amendment and prior to March 31, 2010, and (ii) up to 20,000 shares at any time during the period from June 30, 2009, through March 31, 2010; and

WHEREAS, it is desirable for the Company and the Grantee to enter into this Amendment Number One to the Option Agreement to set forth the terms and conditions described above.

NOW, THEREFORE, in consideration of the premises and of the covenants and agreements set forth in the Option Agreement and herein, the parties hereby mutually covenant and agree as follows:

A. Pursuant to Section 21(b) of the Plan, the following provisions of the Option Agreement are hereby amended, effective as of the date of this Amendment, to read as follows:

1. Option Grant: Subject to the terms and conditions of the Plan, as amended, and this Agreement, as amended, copies of which are attached hereto and made a part hereof, the Company grants to the Grantee the option to purchase from the Company all or any part of an aggregate number of 40,000 shares of Stock (such shares

are referred to as the "Optioned Shares", and the option to purchase the Optioned Shares is referred to as the "Option"). The Option is not intended to qualify as an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code.

2. Exercise Price. The exercise price to be paid by the Grantee for the Optioned Shares is $2.25 per share.

3. Exercise Period. Subject to the conditions stated herein and in the Plan, the Option shall be exerciseable by the Grantee on and after the dates and as to the number of Optioned Shares as set forth below.

Date	# of Optioned Shares Exercisable	Total # of Optioned Shares Exercisable
February 19, 2007	20,000	20,000
June 30, 2009	20,000	40,000

4. Exercise

(a) In the event that the Grantee breaches any of his material covenants or obligations under the Separation Agreement, the Option shall forthwith terminate as of the date of the breach and the Grantee shall automatically forfeit all Optioned Shares underlying any portion of the Option exercised after the date of the breach for which the Company has not yet delivered the share certificates, upon refund by the Company of the exercise price paid by the Grantee for such Optioned Shares. Upon any exercise of the Option, the Company may withhold delivery of share certificates pending resolution of a good faith, bona fide allegation supported by demonstrable facts that could lead to a finding resulting in a forfeiture. The foregoing notwithstanding, the Company shall deliver share certificates to Grantee promptly after Grantee's exercise thereof unless prior to the date Grantee exercises the option the Company has delivered written notice to Grantee of an allegation of Grantee's breach of the material covenants or obligations under the Separation Agreement.

(b) In the event that the Grantee dies, the Option shall remain exercisable pursuant to the terms of the Plan.

9. Term. This Option may not be exercised more than nine (9) months after June 30, 2009, and may be exercised during such term only in accordance with the terms of the Plan and this Agreement, as amended.

B. Pursuant to Section 21(b) of the Plan, Subsection 4(a) of the Option Agreement is hereby deleted, effective as of the date of this Amendment.

C. Notwithstanding Section 12 of the Option Agreement, this Amendment shall supersede the provisions of the Option Agreement and the Plan, including, without limitation, Sections 5(e), 10 and 11 of the Plan, to the extent those provisions are inconsistent with the provisions of this Amendment; and specifically, Sections 5(e), 10 and 11 of the Plan

shall not apply to Grantee. Except as otherwise provided herein, the provisions of the Option Agreement shall continue in full force and effect on and after the effective date of this Amendment.

D. Neither this Agreement nor the Option Plan shall be in any way amended, revised or altered with respect to the options and associated shares of the Company which are the subject hereof without the express prior written consent of both the Company and Grantee. The undersigned officers of the Company hereby represent and warrant individually and on behalf of the Company that all this Agreement and all amendments to the Plan referenced herein have been duly authorized and adopted by the Company's Board of Directors and are the valid and binding obligations of the Company.

ORION ENERGY SYSTEMS, LTD.

By: /s/ Neal Verfuerth

Its President

By: /s/ Eric von Estorff

Its Secretary

The Grantee acknowledges receipt of the Plan and Amendment Number One thereto, copies of which are annexed hereto, and represents that he is familiar with the terms and provisions thereof. The Grantee hereby accepts this Amendment subject to all the terms and provisions of the Plan, except as otherwise expressly provided herein.

GRANTEE

/s/ Bruce Wadman
Bruce Wadman

SSN: __________

ADDRESS:

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated August 16, 2007, accompanying the consolidated financial statements of Orion Energy Systems, Inc. and Subsidiaries (which report expressed an unqualified opinion and contains an explanatory paragraph relating to the adoption of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*) contained in Amendment No. 1 to the Registration Statement (Form S-1 No. 333-145569) and Prospectus. We consent to the use of the aforementioned report contained in Amendment No. 1 to the Registration Statement and Prospectus and to the use of our name as it appears under the caption "Experts."

/s/ Grant Thornton LLP

Madison, Wisconsin
October 1, 2007

Exhibit 23.3

VALUATORS' CONSENT

We hereby consent to the reference to our firm under the captions "Experts," "Managements Discussion and Analysis Results of Operations and Financial Condition — Critical Accounting Policies — Stock-Based Compensation," "Executive Compensation — Compensation Discussion and Analysis — Elements of Compensation — Long-Term Equity Incentive Compensation" and "Executive Compensation — Director Compensation" in Amendment No. 1 to the registration statement on Form S-1 of Orion Energy Systems, Inc. (Reg. No. 333-145569) for the registration of shares of its common stock (the "Registration Statement"). In giving such consent, we do not hereby admit that we come within the category of person whose consent is required under Section 7 or Section 11 of the Securities Act of 1933, as amended, or the rules and regulations adopted by the Securities and Exchange Commission thereunder, nor do we admit that we are experts with respect to any part of such Registration Statement within the meaning of the term "experts" as used in the Securities Act of 1933, as amended or the rules and regulations of the Securities and Exchange Commission thereunder.

Wipfli LLP

Wipfli LLP

Green Bay, Wisconsin

October 1, 2007

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October 2, 2007

VIA EDGAR AND FEDERAL EXPRESS

Mr. Russell Mancuso
Branch Chief
U.S. Securities and Exchange Commission
Division of Corporation Finance
100 F Street, N.E.
Washington, DC 20549

Re: **Orion Energy Systems, Inc.**
Registration Statement on Form S-1
Filed August 20, 2007
File No. 333-145569

Dear Mr. Mancuso:

On behalf of our client, Orion Energy Systems, Inc., a Wisconsin corporation (the "Company"), set forth below are the Company's responses to the comments of the Staff (the "Staff") of the Securities and Exchange Commission (the "Commission") set forth in the Staff's letter, dated September 18, 2007 (the "Comment Letter"), with respect to the above-referenced filing. The numbered items set forth below repeat (in bold italics) the comments of the Staff reflected in the Comment Letter, and following such comments are the Company's responses (in regular type).

Enclosed with the hard copies of this response letter please find a copy of Amendment No. 1 to the Company's Registration Statement on Form S-1 which was filed today via EDGAR with the Commission. The copy is marked to show the changes made from the Registration Statement on Form S-1 filed with the Commission on August 20, 2007.

Please note that because the page numbers of the text that the Staff referenced in its Comment Letter have changed in Amendment No. 1 to the Registration Statement from the Registration Statement as the Company originally filed, we have not referenced page numbers in the Company's responses, but instead have indicated the specific headings under which corresponding changes have been made to the Registration Statement.

Prospectus

1. ***Please confirm that any preliminary prospectus you circulate will include all non-Rule 430A information. This includes the price range and related information based on a bona fide estimate of the public offering price within that range, and other information that was left blank throughout the document. Please note that we may have additional comments after you file this information.***

We respectfully acknowledge the Staff's comment. We confirm that the preliminary prospectus that will be circulated will include all required information except information that the Company may exclude in reliance upon Rule 430A, including the price range and related information based on a *bona fide* estimate of the public offering price within that range.

2. Please provide us copies of all graphics that you intend to use in your document.

We respectfully acknowledge the Staff's comment and advise the Staff that the Company will provide copies of all graphics that it intends to use in the Registration Statement with a subsequent amendment to the Registration Statement.

<u>Industry and Market Data Forecasts, page ii</u>

3. Please tell us whether all industry data you cite in your document is publicly available. Also tell us whether:

- ***you commissioned the industry reports;***
- ***the industry reports were prepared for use in your registration statement;***
- ***you are affiliated with the sources of the industry reports; and***
- ***the sources of the reports consented to your use of their data in this registration statement.***

We respectfully advise the Staff as follows:

- All of the industry data cited in the Registration Statement is publicly available for free or on a subscription fee basis and is widely available among industry participants.
- The Company did not commission any of the industry reports cited in the Registration Statement.
- The industry reports cited in the Registration Statement were not prepared for use in the Registration Statement.
- The Company is not affiliated with any of the sources of the industry reports cited in the Registration Statement.
- None of the sources for the cited data have consented to use of their data in the Registration Statement, and the Company does not believe that any such consents are required.

<u>Our Business, page 1</u>

4. Please tell us the criteria that you used to determine that customers you highlight in the summary are objectively representative of your customer base. Also tell us whether you identified all customers that satisfy those criteria.

We respectfully advise the Staff that the criteria the Company used to determine the customers highlighted in the summary are as follows: (i) the customer is among the top ten customers of the Company on the basis of revenue recognized by the Company in fiscal 2007, and (ii) the customer is a

"direct" customer (*i.e.*, an end-user of the Company's products and/or services that purchases such products and/or services directly from the Company) as opposed to an indirect customer (*i.e.*, an electrical contractor which resells the Company's products to an end-user). The customers identified constitute all of the Company's customers that satisfy these criteria, with one exception. The exception relates to a direct customer with whom the Company is subject to a confidentiality agreement that prohibits the Company from identifying the customer in the Registration Statement.

5. With a view toward disclosure, please tell us the portion of your installations that are leased as mentioned on page 55.

We respectfully advise the Staff that the Company has revised the disclosure under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates — Revenue Recognition" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Revenue and Expense Components — Revenue" to discuss its sales-type financing program in response to this comment.

Risk Factors, page 4

6. Please note that your risk factors should immediately follow your one-page prospectus cover or the summary. Although we do not object to the location of the information on your table of contents page, please relocate the information on page ii to a more appropriate section of your document.

In response to the Staff's comment, the Company has moved the section titled "Industry and Market Data and Forecasts" to immediately following the section titled "Cautionary Note Regarding Forward-Looking Statements."

Summary Historical Consolidated and Pro Forma Financial Data and Other Information, page 7

7. Please remove your presentation of the non-GAAP measure 'Temporary equity and shareholders' equity.' Otherwise, ensure that your non-GAAP financial information complies with Item 10(e) of Regulation S-K. Please similarly remove or revise this presentation in your capitalization table on page 29 and your selected historical consolidated financial data on page 32.

We respectfully advise the Staff that the Company has revised the presentation of 'temporary equity and shareholders' equity' in "Summary Historical Consolidated and Pro Forma Financial Data and Other Information," "Capitalization" and "Selected Historical Consolidated Financial Information" in response to this comment.

Other Information, page 8

8. Please show us your detailed calculations supporting your disclosure that your systems are responsible for 2,914,625 customer kilowatt hours saved.

We have provided supplementally to the Staff the Company's detailed internal calculations regarding customer kilowatt hours saved. The calculations, which are titled "Savings Totals —

Cumulative Fixture Sales," show (i) in the first column, the estimated cumulative kilowatts displaced by installing the Company's systems since December 2001 on a month-by-month basis, and (ii) in the second column, the estimated cumulative kilowatt hours saved by use of the Company's systems on a month-by-month basis beginning December 2001. Kilowatts saved represents lighting energy demand reduction measured in kilowatts realized by the Company's customers from the installation of the Company's systems. Kilowatt hours saved represents the amount of electricity used over time and is the measure by which utilities charge for electricity.

The Company's guidelines when replacing legacy lighting technology include achieving a 50% wattage reduction per fixture. Traditional HID systems generally operate at approximately 465 watts per fixture in commercial and industrial applications. The Company's HIF lighting systems are generally designed to operate at approximately 224 watts per six-lamp fixture. As a result, each six-lamp HIF lighting system the Company installs in replacement of an HID fixture generally reduces electricity consumption by approximately 241 watts, which is the estimated wattage reduction per fixture used in the calculations provided to the Staff on a supplemental basis with respect to replacement of HID fixtures. In the instances where the Company replaces fixtures other than HID fixtures, the wattage reduction is driven at the lamp level rather than at the fixture design level. However, the Company's wattage reduction guidelines remain at 50%. Given these Company guidelines and retrofit practices, and the typical operating wattages of the non-HID fixtures it replaces, based on thousands of installations, the Company estimates that it also achieves reductions of approximately 241 watts per six-lamp equivalent when it replaces non-HID fixtures, and this is therefore the estimated wattage reduction per fixture that the Company uses in the calculations provided to the Staff on a supplemental basis with respect to replacement of non-HID fixtures.

The Company then estimates cumulative customer kilowatt hours saved by multiplying the customer kilowatts saved as calculated above by an assumed annual operating hours per fixture of 7,500 (*i.e.*, 52 weeks x 6 days per week x 24 hours per day). The Company estimates that, based on thousands of installations, most industrial and commercial facilities operate their lighting fixtures between 7,000 and 8,736 hours per year (*i.e.*, 52 weeks x 7 days per week x 24 hours per day), and, as a result, believes that its assumed annual operating hours for purposes of this calculation of 7,500 is conservative.

We are sending under separate cover on behalf of the Company the supplemental information requested by the Staff in this comment. The Company is providing these materials to the Staff on a confidential basis pursuant to Rule 418(b) of the Securities Act of 1933, as amended. In accordance with such rule, the Company hereby requests that the Staff return the materials referred to above promptly following the Staff's review of such materials. By separate letter, the Company has requested confidential treatment of such materials pursuant to the provisions of 17 C.F.R. 200.83.

Some of the intellectual property we use in our business is owned by our chief executive officer, page 15

9. Please quantify the portion of your business that you derive from intellectual property owned by your chief executive officer.

We respectfully advise the Staff that the Company's chief executive officer has assigned to the Company all of his rights to any patents or patent applications relating to products and services

from which the Company currently derives revenue. Accordingly, the Company does not currently derive any revenue from non-assigned patents and patent applications owned by the Company's chief executive officer. The Company has included disclosure in "Risk Factors — Risks Relating to Our Business — Some of the intellectual property we use in our business is owned by our chief executive officer" in response to this comment.

Our retrofitting process, page 17

10. With a view toward clarifying or additional risk factors as appropriate, please tell us whether your products contain hazardous materials.

We respectfully advise the Staff that the Company's products do not contain hazardous materials. According to information provided by the third party supplier from whom the Company purchases component lamps for use in its products, while these component lamps contain trace amounts of mercury, the amount of mercury in these lamps is extremely small and not considered hazardous. As a result, the Company does not believe it would be helpful to investors to understand the operational risks relating to the Company's business to clarify disclosure or add an additional risk factor regarding this point in the Registration Statement.

Use of Proceeds, page 27

11. Please indicate the approximate amount you intend to spend to fund increased sales and marketing expenses. Please refer to Item 504 of Regulation S-K.

We respectfully advise the Staff that the Company has deleted references to funding increased sales and marketing expenses in its disclosure under "Summary — The Offering," "Use of Proceeds" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Working Capital" in response to this comment. While the Company anticipates that it may use a portion of the net proceeds from the offering to fund increased sales and marketing expenses, at this time it is unable to reasonably quantify the expected amount of proceeds that may be used for this purpose. Further, the Company is generally unable to reasonably quantify the expected amount of proceeds that may be used for other specific purposes, and therefore believes the most appropriate disclosure regarding its use of proceeds is to state that the principal reason for the offering is to generate funds for "working capital and general corporate purposes to support the Company's anticipated continued growth, including to fund potential future acquisitions."

12. If you do not have a specific plan for a significant portion of the proceeds, please state and discuss the principal reasons for the offering.

We respectfully advise the Staff that the Company's principal reason for the offering is to generate funds for working capital and general corporate purposes to support the Company's anticipated continued growth, including to fund potential future acquisitions. The Company has revised its disclosure in "Use of Proceeds" in response to this comment and comment number 11.

Capitalization, page 28

*13. **"Cash and cash equivalents" is not a component of capitalization as applicable to this disclosure. Please revise to remove that caption from the presentation of capitalization.***

We respectfully advise the Staff that the Company has revised the disclosure under "Capitalization" to remove "cash and cash equivalents" in response to this comment.

Revenue and Expense Components, page 34

*14. **We note the level of revenue is dependent upon several factors, including the Company's ability to realize revenue from its services and shared savings sales program. Please expand your discussion in MD&A under Results of Operations to qualitatively and quantitatively describe the services and shared savings sales programs and if significant, their impact on total revenues.***

We respectfully advise the Staff that the Company has revised the presentation of its consolidated statements of operations to separately present revenue and costs of revenue for both its products and services. The Company has revised the disclosure under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Revenue and Expense Components — Revenue" in response to this comment to expand the description of the Company's services and additional disclosure has been added to "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations" that qualitatively and quantitatively discusses the impact of services revenue and cost of revenue on the Company's results of operations. The Company supplementally advises the Staff that the impact of the Company's shared savings sales programs are currently not material to the Company's total revenue, as the Company now describes under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Revenue Recognition" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Revenue and Expense Components — Revenue" in response to comment number 5.

Income Taxes, page 37

*15. **We note your disclosure in the last paragraph that you "may" have had an ownership change affecting your use of loss carry forwards. Please clarify the reason for the uncertainty.***

We respectfully advise the Staff that the Company has revised its disclosure under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Revenue and Expense Components — Income Taxes" to clarify that the Company has completed its Internal Revenue Code Section 382 study. The Company has also revised its disclosure under "Risk Factors — Risks Relating to Our Business — Our ability to use our net operating loss carryforwards may be subject to limitation" in response to this comment. As now reflected in the Company's disclosure in these sections of the Registration Statement, the Internal Revenue Code Section 382 study determined that the Company had an ownership change that occurred in fiscal 2007 that may affect the timing of the Company's ability to use its net operating loss carryforwards attributable to the period prior to this change. However, notwithstanding the ownership change and the resulting limitation, the Company expects to utilize all net operating loss carryforwards recorded as deferred tax assets on the consolidated balance sheet under the remaining statutory carryforward periods. This conclusion is based upon the Company's analysis of the amount of net operating losses available at each potential testing date

and the amount of the limitations on the utilization based on the value of the Company and the applicable federal tax rate.

Revenue, page 39

16. Please explain the basis for your statement that backlog comparisons may not be meaningful. Also, if customers can cancel orders, please say so in your discussion of backlog.

We respectfully advise the Staff that the Company has revised the disclosure under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006" in response to this comment. Additionally, we supplementally advise the Staff that the Company has not revised its disclosure in the Registration Statement regarding the potential for possible customer cancellation of firm purchase orders because the terms of such purchase orders provide that the Company's customers generally cannot cancel firm purchase orders without cause or penalty. The Company's historical experience is that such customer cancellation is insignificant.

Gross Margin, page 40

17. With a view toward expanded disclosure regarding the trends affecting your margins or other results:

- ***please tell us how completion of your existing backlog will affect margins;***
- ***if sales through contractors and value-added resellers affect your margins, please discuss these effects given your disclosure on page 35 regarding your planned emphasis on such sales, and quantify the extent to which such sales contributed to your historic results; and***
- ***if your enhanced emphasis on your shared savings type sales and energy management services as disclosed on page 70 will affect historic results, please provide appropriate discussion analysis in your MD&A.***

We respectfully advise the Staff of the following:

- The Company expects that completion of its existing backlog as of June 30, 2007 will likely affect its gross margin in its second quarter of fiscal 2008 in a manner generally consistent with the trend reflected in its fiscal 2008 first quarter gross margin compared to its gross margin in its fiscal 2007 fourth quarter, subject to the various factors affecting the variability of its gross margin as described under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Revenue and Expense Components — Gross Margin." The Company does not believe that additional disclosure of such expectation in the Registration Statement is appropriate or useful to investors given the potential risks and uncertainties of projecting such potential margin changes due to the factors described under "Management's Discussion and Analysis of Financial

Condition and Results of Operations — Revenue and Expense Components — Gross Margin."

- The Company has included disclosure under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations — Revenue and Expense Components" and, as appropriate, under the period-to-period comparisons of the Company's gross margin, in response to the Staff's comment regarding the Company's margins.
- The Company is unable at this time to assess the potential impact on its future results of operations from its enhanced emphasis on its shared savings sales and energy management services as compared to its historical results of operations.

Research and Development, page 40

18. Please describe your "regulatory and legislative" initiatives.

We respectfully advise the Staff that the Company has revised the disclosure under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006 — Operating Expenses — Research and Development" in response to this comment.

Working Capital, page 49

19. To better explain cash flows from operations, please revise to discuss significant changes to the components of working capital — i.e., individually significant changes in line items. For example, we note that accrued expenses increased $1.1 million or 27% over the quarter ending June 30, 2007. Please address the impact on your working capital. When you cite changes in components of working capital, explain the reasons for the changes.

We respectfully advise the Staff that the Company has revised the disclosure under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Working Capital" in response to this comment.

20. Please revise your reference in the second paragraph to "near term" to clarify that you have discussed your liquidity on both a short-term and long-term (greater than one year) basis.

We respectfully advise the Staff that the Company has revised the disclosure under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Working Capital" in response to this comment.

Indebtedness, page 50

21. Please discuss the operational developments that caused the defaults like those mentioned in the Third Amendment filed with exhibit 4.5. Also describe how you addressed the defaults.

We supplementally advise the Staff that the covenants under the Company's credit agreement with Wells Fargo were set when the Company entered into its original revolving credit agreement with Wells Fargo in December 2005. The net income, book net worth and capital

expenditures covenants were set prior to the Company achieving profitability and prior to the Company's Series C preferred stock investment. Both of these developments created additional liquidity for the Company. Due to these developments, the Company requested and received from Wells Fargo subsequent amendments to the credit agreement to reduce both net income and net worth covenant requirements, to obtain waivers of the defaults mentioned in the Third Amendment filed with exhibit 4.5 and to obtain increased capital expenditure limits and increased authority regarding advances to shareholders.

Because these isolated defaults have been addressed by more lenient covenant levels adopted in the subsequent amendments to the credit agreement, the Company respectfully advises the Staff that it does not believe further disclosure in the Registration Statement is necessary or provides useful disclosure to investors regarding the Company's future ability to comply with the covenants in its credit agreement. Additionally, amounts currently outstanding under the credit agreement are immaterial to the Company; therefore, a default under the credit agreement would not materially adversely affect the Company or pose a significant risk to potential investors.

Capital Spending, page 51

22. ***Please disclose the capital spending limitations contained in your credit and security agreement with Wells Fargo and discuss how, if at all, this agreement has influenced your capital spending budget since its inception in December 2005. Please indicate whether you will seek to renegotiate terms relating to capital spending limitations following this offering.***

We respectfully advise the Staff that the Company has revised the disclosure under "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Indebtedness" in response to this comment. We further advise the Staff as follows:

- The restrictions on capital expenditures contained in the Company's credit and security agreement with Wells Fargo have not adversely influenced the Company's capital spending.
- The Company does not currently believe that it will need to renegotiate such capital spending limitations in the near-term future following its offering. If, however, the Company were to deem any such renegotiations necessary or advisable, the Company believes that it could likely readily obtain any necessary waivers or amendments as appropriate and without material cost.

Internal Control Over Financial Reporting, Page 52

23. ***We note your disclosure that you issued a full recourse promissory note to a director in fiscal year 2006 and that you subsequently determined the note was issued at a below market rate. Please identify the director who received the note.***

We respectfully advise the Staff that the Company has revised the disclosure under "Management's Discussion and Analysis of Financial Condition and Results of Operations – Internal Control Over Financial Reporting" in response to this comment.

Stock-based Compensation, page 56

24. We refer to your discussion regarding the Company's valuation of option grants, particularly Wipfli's independent valuation. Please revise your discussion to quantitatively and qualitatively describe the significant parameters and factors used by Wipfli both in their November 30, 2006 valuation and their April 30, 2007 analysis that changed and led to the increased valuation from $2.20 per share at November 30, 2006 to $4.15 per share at April 30, 2007. We note the probability factors mentioned in the April 30, 2007 valuation. Also, distinguish those existing factors that were used solely in one valuation and not the other, indicating the reason the factor was not considered in both valuations if not readily apparent.

We respectfully advise the Staff that the Company has revised the disclosure under "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates – Stock-Based Compensation" in response to this comment.

25. In this regard, indicate when discussions were initiated with your underwriter(s). We will delay our final assessment of your response pending inclusion of the estimated IPO price in the filing.

We respectfully advise the Staff that, as indicated in the discussion of Wipfli's independent valuation under "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates — Stock-Based Compensation," in late May 2007, the Company's Board of Directors received presentations from various investment banking firms who were interviewing to become the Company's underwriters for its proposed potential initial public offering. Thereafter, the Company followed up on such interviews with certain of such firms and held more definitive discussions with the firms ultimately chosen in late July to be the Company's underwriters for this offering. As described in the Registration Statement under the sections referenced above, these discussions were fully taken into account by Wipfli in connection with its April 30 independent valuation of the fair value of the Company's common stock and by the Company's Board of Directors and management in connection with the negotiations of the Company's August 3, 2007 convertible note issuance.

As discussed orally with the Staff on September 26, 2007, in order to facilitate and expedite the Staff's review, the Company advises the Staff that it intends to provide to the Staff on a supplemental basis a preliminary estimate of its initial public offering price range prior to the filing of this price range in a future amendment to the Registration Statement.

Business, page 63

26. Please describe the general development of your business over the past five years. Please refer to Item 101(a) of Regulation S-K. For example, it appears that you should describe your "Illuminator" system, which you identify on page 8, and the reasons for and changes in the successor system.

We respectfully advise the Staff that the Company has revised the disclosure under "Business" to include a new subsection titled "– Our History and Development" in response to this comment. We supplementally advise the Staff that Company's "Illuminator" system was renamed for

marketing and branding purposes as the "Compact Modular" and that the systems do not differ substantively, except for the brand name of the product.

27. We note your reference to December 1, 2001. Please clarify whether this is the date on which you began to sell products. If not, please clarify why you chose that date for the disclosed calculations.

We respectfully advise the Staff that the Company began selling products upon its inception in 1996. However, at that time, the Company was a distributor of compact fluorescent energy-efficient lighting products for the hospitality and agricultural markets. The Company did not begin manufacturing or selling its brand name HIF lighting systems until December 1, 2001. The Company has revised the Registration Statement to add disclosure under "Business – Our History and Development" to clarify this point. The Company chose December 1, 2001 as a reference point in the Registration Statement for measuring cumulative product sales and related benefits primarily because (i) sales of the Company's brand name HIF lighting systems began to increase substantially in this time frame, making December 2001 among the first months for which the indicated cumulative savings and other data was meaningful on an aggregate basis, and (ii) on December 1, 2001, the Company first finalized appropriate policies and procedures, and first had available appropriate information technology systems, to allow it to capture and record the cumulative savings and other data.

<u>Products and Services, page 69</u>

28. Please provide the three-year revenue history by product or service class as required by Regulation S-K Item 101(c)(l)(i).

We respectfully advise the Staff that the Company has revised its consolidated statements of operations included within its financial statements, as well as disclosure in "Summary – Summary Historical Consolidated and Pro Forma Financial Data and Other Information" and "Selected Historical Consolidated Financial Data," to separately present revenue and costs of revenue for both of its products and services. Additionally, the Company has included new disclosure under "Business – Products and Services – Products – Compact Modular" in response to this comment.

29. We note that in footnote 7 on page 8 you indicate that you have replaced fixtures with products other than HIF lighting systems and that these products have provided wattage reductions comparable to your HIF systems. Please describe these other products that have provided wattage reductions comparable to your HIF systems.

We respectfully advise the Staff as follows:

- In the Registration Statement, the Company uses the term "HIF systems" or "HIF lighting systems" to refer to its Compact Modular line of lighting fixture products, which is its line of T5 or T8 tri-phosphor fluorescent lamp fixtures housed in its proprietary I-frame and containing a high-frequency ballast and modular power pack. This is the Company's primary product line, comprising approximately 850,000 of the 1.1 million units sold by the Company from December 1, 2001 through June 30, 2007.

- The other products the Company has sold during this time frame differ from the HIF systems in that the lamps are not housed in the Company's I-frame, or the fixtures contain a different ballast or power pack configuration, or the fixtures otherwise differ in design or configuration from the HIF systems. However, the vast majority of these other products generally contain the same or similar T5 or T8 tri-phosphor fluorescent lamps as those used in the Company's HIF systems. In large measure, the comparable wattage reductions provided by the Company's non-HIF systems are derived from the operating wattage of the lamps.
- Please see the Company's response to comment number 8 above for additional discussion of wattage reductions.
- The Company has revised the disclosure in footnote 8 (which was footnote 7 in the original filing of the Registration Statement) to the table in "Summary – Summary Historical Consolidated and Pro Forma Financial Data and Other Information" in response to this comment.

The Compact Modular, page 69

30. We note your disclosure that your product can increase light quantity by approximately 50%. With a view toward clarified disclosure, please: provide us a copy of the studies that support this disclosure, and tell us the range of percentage improvement shown by tests.

We are supplementally providing to the Staff copies of 15 of the Company's internal field study reports that support the Company's disclosure that its products can increase light quantity by approximately 50%. Based on these reports, (i) the range of percentage increased light quantity shown by the tests is 46% to 171%; (ii) the mean percentage increased light quantity shown by the tests is 88%; and (iii) the median percentage increased light quantity shown by the tests is 79%. The field reports included were chosen because they are representative of retrofits in which the Company replaces legacy HID lighting technology with its standard configuration HIF systems, which retrofits represent the majority of the Company's installations.

In addition to copies of these field study reports, to facilitate the Staff's review, the Company has also provided supplementally a summary sheet describing the pertinent results of each report.

Based on its field reports, including generally the median and mean percentage light quantity increases, as well as its extensive experience through hundreds of installations of its HIF systems, the Company believes that stating that its products can increase light quantity by approximately 50% is both objectively quantifiable and reasonable, as well as in many cases conservative.

We are sending under separate cover on behalf of the Company the supplemental information requested by the Staff in this comment. The Company is providing these materials to the Staff on a confidential basis pursuant to Rule 418(b) of the Securities Act of 1933, as amended. In accordance with such rule, the Company hereby requests that the Staff return the materials referred to above promptly following the Staff's review of such materials. By separate letter, the Company has requested confidential treatment of such materials pursuant to the provisions of 17 C.F.R. 200.83.

Services, page 70

31. Please clarify whether "[y]our national network of qualified installers" consists of your employees. Also, in an appropriate section of your document, please explain clearly the extent to which your products can be installed by customers and the portion that requires professional installation.

We respectfully advise the Staff that the Company's national network of qualified installers does not include any Company employees, and that the Company has accordingly revised the disclosure under "Business – Products and Services – Services" in response to this comment. In addition, the Company has added further disclosure under "Business – Products and Services – Products" in response to this comment.

Customers, page 70

32. Please identify the customer that accounted for 20% of your revenue as mentioned on page 13.

We respectfully acknowledge the Staff's comment. However, the Company does not believe that the identification of this customer is required by Item 101 of Regulation S-K because the customer accounted for 20% of the Company's revenue in a fiscal quarter and not a fiscal year.

Competition, page 71

33. We note your reference to lower-cost alternatives on page 12. To clarify your competitive position, please explain any cost advantages of alternative systems.

We respectfully advise the Staff that the Company has revised the disclosure under "Business – Competition" in response to this comment.

Intellectual Property, page 71

34. Please indicate the duration of all patents and trademarks you hold as required by Regulation S-K Item 101(c)(l)(iv).

We respectfully advise the Staff that the Company had revised the disclosure under "Business – Intellectual Property" in response to this comment.

35. We note your disclosure regarding your patents covering portions of the core HIF technology. With a view toward clarified disclosure, please tell us who has patented the rights to the balance of the HIF technology and how you have access to those rights.

We respectfully acknowledge the Staff's comment and supplementally advise the Staff that the Company believes that the components of its core HIF technology that are not subject to the Company's patents are commodity components not subject to patent by any third party. The Company also supplementally advises the Staff that it does not license any intellectual property from any third party.

Board Committees, page 75

36. Please reconcile your statement on page 76 regarding the independence of the audit committee members with your disclosure on page 100 regarding consulting fees.

We respectfully acknowledge the Staff's comment. Rule 10A-3(b)(1) of the Securities Exchange Act of 1934, as amended, requires that, to be deemed independent, members of the audit committee of the Company's Board of Directors may not accept consulting fees from the Company. Messrs. Kackley and Trotter received consulting fees from the Company in fiscal 2007 for services performed on behalf of the Company in fiscal 2007. The Company has not paid any consulting fees to its audit committee members in fiscal 2008 and does not intend to pay any such consulting fees to its audit committee members in the future. Accordingly, the Company does not believe that the payment in fiscal

2007 of consulting fees to Messrs. Kackley and Trotter contravenes Rule 10A-3 or otherwise interferes with the current independence of these audit committee members. For fiscal 2008, the Board of Directors determined that Messrs. Kackley and Trotter are independent members of the Board of Directors and audit committee based on the applicable Nasdaq listing standards and the requirements of Rule 10A-3, respectively. In making this determination, the Board of Directors took into consideration the prior fiscal 2007 consulting engagement of Messrs. Kackley and Trotter by the Company and decided that such prior consulting relationship did not preclude a unanimous determination of independence.

Setting Executive Compensation, page 77

37. Please expand upon your statement that your compensation committee "generally" was directly involved in setting compensation for your chief executive officer and in determining and approving equity awards for all of your NEOs. To the extent that your compensation committee was indirectly or uninvolved in establishing certain compensation levels, please disclose. To the extent that other parties had the right to veto compensation decisions, please discuss that right and the extent to which it was exercised; for example, we note section 2.8 of exhibit 4.1.

We respectfully advise the Staff that the Company has revised the disclosure under "Executive Compensation – Compensation Discussion and Analysis – Setting Executive Compensation" in response to this comment.

38. Please discuss Mr. Verfuerth's current and past role in establishing compensation for his wife, Ms. Verfuerth.

We respectfully advise the Staff that the Company has revised the disclosure under "Executive Compensation – Compensation Discussion and Analysis – Setting Executive Compensation" in response to this comment.

39. We note your disclosure regarding actions to be made before the closing of the offering, including IPO bonuses, new employment agreements, a management cash bonus program and the fiscal 2008 short-term incentive program. Please tell us when the action will be taken relative to the effective date of the registration statement.

We respectfully advise the Staff on a supplemental basis that the compensation committee of the Board of Directors of the Company is still in the process of working with its independent compensation consultant and legal advisors to analyze and assess various potential terms and conditions of the executive and director programs and bonuses that are mentioned in the Registration Statement and that serve as the subject of this comment. While the Company believes that action will be taken on these compensation-related matters prior to the effective date of the Registration Statement (in which case the Company will revise its disclosure under "Executive Compensation"), these matters ultimately constitute decisions for the compensation committee of the Board of Directors and the Company cannot guarantee any definitive outcome or related timing. The Company will update the disclosure under "Executive Compensation" if and when the compensation committee takes definitive action on these compensation-related items.

40. Please identify the component companies in your "informal market surveys." Likewise, please identify the companies mentioned in the last sentence of the first full paragraph on page 78 and the competitors mentioned on page 80.

We respectfully advise the Staff that the Company has revised the disclosure under "Executive Compensation – Compensation Discussion and Analysis – Setting Executive Compensation" and "Executive Compensation – Compensation Discussion and Analysis – Base Salaries" in response to this comment to delete all reference to the Company's "informal market surveys". The Company supplementally advises the Staff that, because the Towers Perrin market report referenced in the Company's disclosure contains 96 participating companies, the Company has not identified each of these 96 companies by name in the Registration Statement. The Company does not believe that the identification of each participating company would be beneficial to investors due to the large number of companies reviewed, the fact that the compensation committee did not consider such individual companies in connection with its analysis, and the Company's belief that no individual company in this report is material given the large number of companies against which Towers Perrin performed its benchmarking.

Base Salary, page 79

41. Please revise to identify the "increasing responsibilities" that were the basis for the salary increases. See Regulation S-K Item 402(b)(2)(vii).

We respectfully advise the Staff that the Company has revised the disclosure under "Executive Compensation – Compensation Discussion and Analysis – Base Salary" in response to this comment.

Short-Term Cash Bonus Incentive Compensation..., page 80

42. Please provide specific information regarding (1) the qualitative and quantitative bases for the discretionary cash bonuses paid in fiscal 2007 and (2) how those achievements resulted in the specific dollar amount of bonus paid. If the decisions were based on the subjective evaluation of your CEO, please say so directly.

We respectfully advise the Staff that the Company has revised the disclosure under "Executive Compensation – Compensation Discussion and Analysis – Short-Term Cash Bonus Incentive Compensation and Other Cash Bonus Compensation" in response to this comment.

Long-Term Equity Incentive Compensation, page 82

43. ***Although we note your disclosure regarding general policies relating to your long-term equity incentive compensation, please include a more focused discussion that provides substantive analysis and insight into how the compensation committee determined the actual award amounts. For example, please discuss and analyze how the compensation committee determined the actual number of shares underlying the stock options awarded to each named executive officer and set forth the rationale for the variances of these awards among the named executive officers.***

We respectfully advise the Staff that the Company has revised the disclosure under "Executive Compensation – Compensation Discussion and Analysis – Long-Term Equity Incentive Compensation" in response to this comment.

44. ***We note your reference to executives redeeming shares. Please clarify how an executive can redeem shares in your company. Do you mean that you elected to redeem the shares? Did the executive have a put option?***

We respectfully advise the Staff that the Company has revised the disclosure under "Executive Compensation – Compensation Discussion and Analysis – Long-Term Equity Incentive Compensation" in response to this comment to clarify that the executives did not redeem shares of the Company's common stock. The Company elected to redeem the shares of the executives, which the disclosure now reflects.

Perquisites and Other Personal Benefits, page 84

45. ***Please discuss how the 1% fee was set. For example, did you determine that the guarantee permitted you to obtain an interest rate reduction of more than l%?***

We respectfully advise the Staff that the Company has revised the disclosure under "Executive Compensation – Compensation Discussion and Analysis – Retirement and Other Benefits – Perquisites and Other Benefits" in response to this comment.

Severance and Change of Control Arrangements, page 85

46. ***Please expand your disclosure regarding the protections afforded to your NEOs under your new employment agreements by explaining how you determined severance pay amounts and durations of employment agreements. Please make your disclosures specific to each NEO.***

We respectfully advise the Staff that the Company has revised the disclosure under "Executive Compensation – Payments Upon Termination or Change of Control – New Employment Agreements" in response to this comment.

47. In your discussion of the definition of "change of control," please indicate the basis for selecting particular events as triggering payments. Refer to Item 402(b)(2)(xi) of Regulation S-K.

We respectfully advise the Staff that the Company has revised the disclosure under "Executive Compensation – Payments Upon Termination or Change of Control – New Employment Agreements" and "Executive Compensation – Payments Upon Termination or Change of Control – Equity Plans" in response to this comment.

<u>Director Compensation, page 99</u>

48. Please clarify which four years are represented by the option grants mentioned in the first paragraph.

We respectfully advise the Staff that the Company has revised the disclosure under "Executive Compensation – Director Compensation" in response to this comment.

49. Please describe the consulting services mentioned on page 100, including how those services went beyond the services expected from a director for which you had paid a director fee. Also disclose the terms of the arrangement under which the services were provided.

We respectfully advise the Staff that the Company has revised the disclosure under "Executive Compensation – Director Compensation" in response to this comment.

<u>Principal and Selling Shareholders, page 102</u>

50. Please identify the individuals who beneficially own the shares held in the name of GE Capital Equity Investments, Inc.

We supplementally advise the Staff that based upon information provided to the Company by representatives of GE Capital Equity Investments, Inc., no individuals will beneficially own the shares of the Company's common stock to be held by GE Capital Equity Investments, Inc. upon the conversion of the Convertible Note held by such entity. The Company further advises that GE Capital Equity Investments, Inc. is a wholly-owned, indirect subsidiary of General Electric Co., which is a publicly-traded company owned by thousands of shareholders.

51. With a view toward disclosure, please tell us about the transactions in which the selling stockholders acquired the offered shares, including the date and the consideration paid.

The Company is still in the process of determining the shareholders that will be selling shares in this offering. As a result, as of the date of this letter, the Company can provide this information only for the shareholders that have informed the Company of the exercise of their registration rights to sell certain of their shares of the Company's common stock in the offering, namely Clean Technology Fund II, LP and affiliates of Capvest Venture Fund, LP. The Company supplementally advises the Staff of the following:

- Clean Technology Fund II, LP purchased all of its shares of Series C preferred stock, a portion of which it intends to sell in the offering after conversion of those shares to common stock, from the Company on July 31, 2006 at $2.75 per share.
- Affiliates of Capvest Venture Fund, LP purchased all of their shares of Series C preferred stock, a portion of which they intend to sell in the offering after conversion of those shares to common stock, from the Company on September 28, 2006 at $2.75 per share.

With respect to other selling shareholders to be disclosed in a subsequent amendment to the Registration Statement, virtually all of whom the Company expects will be individuals, the Company believes that it is likely that these selling shareholders may have acquired the shares to be offered in numerous different transactions over a period of several years and pursuant to various different arrangements and circumstances. The Company does not believe that disclosure of each of such acquisition transactions is required pursuant to Item 403 of Regulation S-K, and the Company does not believe that such detailed information would be useful to an investor's understanding of the selling shareholder base.

52. Please tell us whether any of the selling stockholders are broker-dealers or affiliates of broker-dealers. A selling shareholder who is a broker-dealer must be identified in the prospectus as an underwriter. In addition, a selling stockholder who is an affiliate of a broker-dealer must be identified in the prospectus as an underwriter unless that selling stockholder is able to make the following representations in the prospectus: the selling shareholder purchased the shares being registered for resale in the ordinary course of business, and at the time of the purchase, the selling shareholder had no agreements or understandings, directly or indirectly, with any person to distribute the securities. Please revise as appropriate.

The Company is still in the process of determining the shareholders that will be selling shares in this offering. As a result, as of the date of this letter, the Company can provide this information only for the shareholders that have informed the Company of the exercise of their registration rights to sell shares of the Company's common stock in the offering, namely Clean Technology Fund II, LP and affiliates of Capvest Venture Fund, LP. Because neither Clean Technology Fund II, LP nor Capvest Venture Fund, LP is a broker-dealer or an affiliate of a broker-dealer, the Company has not revised its disclosure under "Principal and Selling Shareholders" in response to this comment.

The Company will disclose whether any of the selling shareholders are broker-dealers in a subsequent amendment to the Registration Statement if such disclosure is appropriate and, for any such selling shareholder, additional disclosure related thereto in response to this comment will be included.

Related-Party Transactions, page 106

53. ***We note your statement that you believe that all disclosed related-party transactions complied with the terms of your new policies and procedures regarding related-person transactions. Please state whether your audit and finance committee reviewed, approved or ratified all of the related-party transactions you disclose in this section of the prospectus.***

We respectfully advise the Staff that the Company has revised the third paragraph under "Related Party Transactions" in response to this comment.

54. ***Please disclose the standards to be applied pursuant to your policies and procedures for review, approval or ratification of related-party transactions. See Regulation S-K Item 404(b)(l)(ii).***

We respectfully advise the Staff that the Company has revised the second paragraph under "Related Party Transactions" in response to this comment.

55. ***Please describe the transactions in which related parties received preferred stock.***

We respectfully advise the Staff that none of the parties listed under the "Related Party Transactions" heading of the prospectus has received any preferred stock from the Company as compensation. We further advise the Staff that the only party listed under the "Related Party Transactions" heading that purchased preferred stock from the Company is Clean Technology Fund II, LP, and that the Company has revised the disclosure under "Related Party Transactions – Clean Technology Fund II, LP and Diana Propper de Callejon" in response to this comment.

Description of Capital Stock, page 110

56. ***Your disclosure may not be qualified by reference to statutes. Please revise the last sentence of the first paragraph accordingly, and provide any additional disclosure necessary.***

We respectfully advise the Staff that the Company has revised the last sentence of the first paragraph under "Description of Capital Stock" in response to this comment.

Material United States Federal Income Tax Considerations, page 120

57. ***It is inappropriate to disclaim responsibility for your disclosure. Please revise your statement that the disclosure is "for information only" and "not tax advice" to remove any implication of disclaimer.***

We respectfully advise the Staff that the Company has deleted the second and third sentences of the first paragraph under "Material United States Federal Income Tax Considerations" in response to this comment.

Consolidated Financial Statements, page F-l

58. ***Please update the financial statements when required by Rule 3-12 of Regulation S-X and include an updated accountant's consent in the amended filings.***

We respectfully acknowledge the Staff's comment and advise the Staff that the Company will update the financial statements when required by Rule 3-12 of Regulation S-X. Further, we advise the Staff that the Company has included an updated accountant's consent as an exhibit to Amendment No. 1 to the Registration Statement.

59. ***We refer to your discussion under Internal Control Over Financial Reporting, page 52, wherein you indicate in connection with the filing of the registration statement, you identified certain errors in your prior year consolidated financial statements that resulted in the restatement of your previously issued fiscal 2006 and 2007 consolidated financial statements. Please explain how you comply with the disclosure requirements of SFAS 154, or otherwise revise the financial statements accordingly.***

We respectfully advise the Staff that the Company believes that it has complied with the disclosure requirements of SFAS 154 based upon the guidance in paragraphs 26 of SFAS 154 and APB Opinion No. 9, which indicate that once the financial statement restatement is disclosed, subsequent reissuances of those financial statements do not require the restatement disclosures to be included. In particular, SFAS 154 notes the following:

"In addition, the entity shall make the disclosure of prior-period adjustments and restatements required by paragraph 26 of APB Opinion No. 9, Reporting the Results of Operations. Financial statements of subsequent periods need not repeat the disclosures required by this paragraph."

The Company's March 31, 2007 restated financial statements were amended and re-issued and disclosed to all of the Company's existing shareholders and the lenders under the Company's various debt agreements disclosed in the Registration Statement, in August 2007 prior to the Company's initial filing of the Registration Statement. The Company views the inclusion of its June 30, 2007 interim financial statements in the Registration Statement, along with the inclusion of its March 31, 2007 annual financial statements, as sufficient disclosure such that continued disclosure of the corrected items is not required.

60. ***To this regard, please request your auditors tell us their consideration of AICPA Auditing Standards Section 561.06.a and why they did not include an explanatory paragraph in their audit report regarding the restatements.***

We respectfully advise the Staff that the Company's auditors have informed the Company that they considered AICPA Auditing Standards Section 561.06a and included an explanatory paragraph in their Report of Independent Certified Public Accountants for the Company's restated March 31, 2007 financial statements that the Company amended and distributed to its existing shareholders and the Company's lenders prior to the filing of the Registration Statement. As noted in the Company's response to Staff comment 59, the Company believes that the financial statements issued in connection with the Registration Statement are considered an issuance of subsequent period financial statements. Accordingly, the Company and its auditors believe that the disclosures regarding the previous

period restatements, and the related explanatory paragraph in the Report of Independent Certified Public Accountants, are not required.

61. To this regard, tell us why the changes should be not discussed in MD&A, or otherwise revise your MD&A.

We respectfully advise the Staff that "Management's Discussion and Analysis of Financial Condition and Results of Operations – Internal Controls Over Financial Reporting" provides a summary of the errors and indicates that the Company's fiscal 2006 and fiscal 2007 consolidated financial statements were restated. These errors and the changes to the Company's fiscal 2006 and 2007 financial statements were fully disclosed and explained to the Company's existing shareholders and the Company's lenders in its amended financial statements distributed in August 2007 prior to the filing of the Registration Statement. In order not to confuse potential investors in the Company's initial public offering, the Company does not believe that the disclosure in "Management's Discussion and Analysis of Financial Condition and Results of Operations" should discuss the changes made to its prior financial statements because these potential investors have never seen the Company's prior fiscal 2006 or 2007 financial statements and would only be confused by a further expanded discussion.

Consolidated Statements of Operations, page F-4

62. Disclosure in MD&A and elsewhere (for instance, page 70) indicates that you provide both products and services. Please separately present service revenues and costs pursuant to Rules 5-03(b)(1) and (2) to Regulation S-X, or tell us why disaggregating is not required.

We respectfully advise the Staff that the Company has revised its financial statements to separately present revenue and costs of revenue for both its products and services pursuant to Rules 5-03(b)(1) and (2) of Regulation S-X. In addition, the Company has clarified its disclosure regarding "Revenue Recognition" in Note A to its Notes to Consolidated Financial Statements to address the various services provided by the Company.

Accrued Expenses, page F-10

63. Please tell us the nature and amounts in accrued expenses. Any item in excess of 5% of total current liabilities should be separately stated in the balance sheet or in a note thereto. Refer to Rule 5.02 (20) of Regulation S-X. We note a significant increase in accrued expenses at June 30, 2007.

We respectfully advise the Staff that the Company has revised its disclosure in Note A to its Notes to Consolidated Financial Statements to include the balances for accrued subcontractor fees because these accrued liabilities exceeded 5% of the Company's current accrued liabilities for the fiscal year ended March 31, 2007. We supplementally advise the Staff that no other single accrued expense amount exceeded 5% of the Company's total current liabilities for any balance sheet date presented in the Registration Statement.

Revenue Recognition, page F-11

64. We note the disclosure under Services on page 70 with respect to your agreements whereby customers finance the purchase of the system "by paying [you] a specified amount over time based on a predetermined measure of the reduction in their electricity consumption resulting from the use of [your] products." Please tell us and disclose how you account for the revenues and associated costs under these arrangements.

We respectfully advise the Staff that the Company has revised its consolidated statements of operations included within its financial statements as well as disclosure in "Summary – Summary Historical Consolidated and Pro Forma Financial Data and Other Information" and "Selected Historical Consolidated Financial Data" to separately present revenue and costs of revenue for both its products and services. Additionally, the Company has revised its disclosure under "Revenue Recognition" in Note A to its Notes to Consolidated Financial Statements to reflect these revisions. The Company supplementally advises the Staff that the reference in the "Business" section to the Company's agreements whereby customers finance the purchase of the system "by paying a specified amount over time . . ." is to the Company's "sales-type financing program," the accounting policy for which is disclosed in Note A to the Company's Notes to Consolidated Financial Statements. We further advise the Staff that the Company had previously referred to the same program as a "shared savings sales program" in "Management's Discussion and Analysis of Financial Condition and Results of Operation," and the Company has revised this disclosure to refer to the "sales-type financing program" instead.

65. Further, please also describe all of your major revenue-generating products, services, and arrangements clearly. For major contracts or groups of similar contracts, disclose essential terms, including payment terms and unusual provisions or conditions.

We respectfully advise the Staff that the Company has revised its consolidated statements of operations included within its financial statements as well as disclosure in "Summary – Summary Historical Consolidated and Pro Forma Financial Data and Other Information" and "Selected Historical Consolidated Financial Data" to separately present revenue and costs of revenue for both its products and services. We supplementally advise the Staff that the only services provided by the Company for which it has established a fair value are installation and recycling services. All other services provided by the Company and provided prior to product delivery and installation of the Company's products and are recognized as revenue upon product delivery. The Company further supplementally advises the Staff that its sales are based on receipt of customer orders and that payment invoices generally include standard terms.

Net Income (loss) per Common Share, page F-14

66. Please tell us and disclose your accounting policy for computing EPS under EITF 03-6 using the two-class method. Based upon your disclosures on pages F-19 — F-20 it appears that you have preferred shares that are participating securities. If true, under EITF 03-6 you should revise your basic EPS to include the effect of those securities using the two-class method.

We respectfully advise the Staff that the Company has revised its disclosure in its consolidated statements of operations included within its financial statements, as well as in "Summary – Summary Historical Consolidated and Pro Forma Financial Data and Other Information," "Selected

Historical Consolidated Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations – Revenue and Expense Components" and the "Basic Net Income (Loss) Per Common Share" discussion in Note A to its Notes to Consolidated Financial Statements in response to this comment. We supplementally advise the Staff that, as disclosed in the Registration Statement under "Dividend Policy" the Company has never paid any dividends to either its common shareholders or preferred shareholders.

67. Please tell us whether, in computing diluted EPS under the if-converted method, you adjusted the numerator for any changes in income or loss that would result from the assumed conversion of the potential common shares, consistent with paragraph 11 of SFAS 128. If any adjustments are required, please include a statement setting forth in reasonable detail the computation of the numerator used to calculate diluted EPS, consistent with Exhibit 11 of Item 601 of Regulation S-K.

We respectfully advise the Staff that the Company has expanded its disclosure of net income (loss) per share in the "Basic Net Income (Loss) Per Common Share" discussion in Note A to its Notes to Consolidated Financial Statements to include the calculation of the numerator in computing diluted EPS under the if-converted method in response to this comment.

Segment Information, page F-15

68. Please revise to disclose the revenues from external customers for each group of similar products and services. Otherwise, tell us how you considered paragraph 37 of SFAS 131.

We respectfully advise the Staff that the Company has revised its consolidated statements of operations included within its financial statements to separately present revenue and costs of revenue for both its products and services. We supplementally advise the Staff that, because all of the Company's product and service revenue results from sales of similar products and related services within the Company's lighting product lines, which constitute a single group of similar products and services, the Company believes that such revenue is not considered a separate product line as discussed in paragraph 37 of SFAS 131.

69. We note the Company expects the amount of unrecognized tax benefits may change in the next twelve months; however, quantification of such change cannot be estimated. Please revise to indicate the nature of the uncertainty and the nature of the each event that could occur in the next 12 months that would cause the change for each significant tax position. We note that $1.2 million of the $1.6 million gross unrecognized tax benefits relates to net operating loss carryforwards deductions created by the exercise of non-qualified stock options.

We respectfully advise the Staff that the Company has expanded its disclosure under "Adoption of FIN 48" in Note A to its Notes to Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies – Accounting for Income Taxes" in response to this comment to include discussion of the nature of uncertainties regarding the realization of unrecognized tax benefits over the next 12 months.

Note F. Temporary Equity and Shareholders' Equity, page F-19

70. Please disclose your accounting policy with respect to the accretion for the Series C preferred stock.

We respectfully advise the Staff that the Company has revised its presentation under "Series C Redeemable Preferred Stock" in Note F to its Notes to Consolidated Financial Statements in response to this comment.

Other Expenses, page II-1

71. Please separately itemize the premium for the insurance mentioned in the last paragraph of your disclosure in Item 14. See the instruction to Regulation S-K Item 511.

We respectfully advise the Staff that the Company has added a line item for "D&O insurance premium" in the offering expenses chart under Part II, Item 13. Because the Company is still in the process of negotiating the terms of appropriate director and officer liability insurance, the amount of the annual premium remains unknown. The Company will complete this line item in the offering expenses chart once it has obtained an applicable insurance policy and the amount of the annual premium has been determined.

Undertakings, page II-4

72. Please note that due, in part, to the language of Securities Act Rule 430C(d), the undertakings included in Items 512(a)(5)(ii) and 512(a)(6) of Regulation S-K should be included in filings for initial public offerings. Please revise your filing to include those undertakings.

We respectfully advise the Staff that the Company has revised the Undertakings contained in Part II, Item 17 to include the undertakings included in Items 512(a)(5)(ii) and 512(a)(6) of Regulation S-K in response to this comment.

Exhibits

73. Please file complete exhibits with all attachments. For example, we note the exhibits missing from exhibit 2.2. In this regard, it is unclear why this agreement was filed per Regulation S-K Item 601(b)(2) and, if properly filed per that Item, how you complied with the last sentence of that Item.

We respectfully advise the Staff that the Company has determined that the document formerly listed as Exhibit 2.2, Note Purchase Agreement between Orion Energy Systems, Inc. and the signatories thereto dated August 3, 2007, was improperly filed per Item 601(b)(2) of Regulation S-K. Accordingly, the Company has revised the Exhibit Index to move the document formerly listed as Exhibit 2.2 to become new Exhibit 4.10. As a result, the Company is not required to comply with the last sentence of Item 601(b)(2) of Regulation S-K with respect to this document. The Company believes that it has otherwise filed complete exhibits with the appropriate attachments pursuant to the requirements of Item 601 of Regulation S-K.

* * * *

In addition to the revisions noted above, certain other changes have been made to the Registration Statement, all of which are noted in the hard copies of the Amendment No. 1 to the Registration Statement. The Company believes all such changes are conforming or clarifying changes or changes of a nonsubstantive nature, except for the following:

- Certain changes have been made under "Principal and Selling Shareholders" to make clear that, pursuant to the Staff's telephone interpretation relating to Item 507 of Regulation S-K, the Company intends to disclose information on a group basis concerning selling shareholders for whose account the shares being registered are to be offered, with the exception of specific information relating to a few major shareholders and the Company's officers and directors. The Company believes that the aggregate holdings of the group of shareholders will be less than 1% of the Company's common stock, but for a few major shareholders and the Company's officers and directors for whom specific disclosures will be made.

* * * *

In the event the Company requests acceleration of the effective date of the Registration Statement, it will furnish a letter in the form described in the Comment Letter.

If the Staff has any questions with respect to the foregoing, please contact the undersigned at (414) 297-5662 or Peter C. Underwood at (414) 297-5630.

Very truly yours,

/s/ Steven R. Barth

Steven R. Barth

Enclosures

cc (without enclosures):
Joseph McCann
Dennis Hult
Kaitlin Tillan
Securities and Exchange Commission
Neal R. Verfuerth
Daniel J. Waibel
Eric von Estorff
Orion Energy Systems, Inc.
Carl R. Kugler
Peter C. Underwood
Foley & Lardner LLP
Kirk A. Davenport II
Latham & Watkins LLP