As filed with the Securities and Exchange Commission on October 30, 2007

Registration No. 333-145569

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 2
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 or 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)

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President and Chief Executive Officer
Orion Energy Systems, Inc.
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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(2)

(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.

(2) Previously paid.

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.

Table of Contents

TABLE OF CONTENTS

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 2,100 facilities across North America, representing over 491 million square feet of commercial and industrial building space, including for 78 Fortune 500 companies, such as Coca-Cola Enterprises Inc., 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 six months ended September 30, 2007, we recognized total revenue of $35.1 million, compared to $20.3 million for the six months ended September 30, 2006. We estimate that the use of our HIF fixtures has resulted in cumulative electricity cost savings for our customers of approximately $262 million and has reduced base and peak load electricity demand by approximately 272 megawatts, or MW, through September 30, 2007. We estimate that this reduced electricity consumption has reduced associated indirect carbon dioxide emissions by approximately 3.3 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 (6) through (11) 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 3.3 million tons through September 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 2,100 commercial and industrial facilities across North America. As of September 30, 2007, we have completed or are in the process of completing retrofits in over 400 facilities for our 78 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 United States 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, 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 12,489,205 shares of common stock outstanding as of October 15, 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 750,822 shares of common stock issuable upon the exercise of warrants outstanding as of October 15, 2007 with a weighted average exercise price of $2.24 per share;

- excludes 4,566,687 shares of common stock issuable upon the exercise of options outstanding as of October 15, 2007 with a weighted average exercise price of $1.89 per share;
- excludes 396,490 shares of common stock reserved for future issuance as of October 15, 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.

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 six months ended September 30, 2006 and September 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 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,			Six Months Ended September 30,	
	2005	2006	2007	2006	2007
				(Unaudited)	
	(in thousands, except per share data)				
Consolidated statements of operations data:					
Product revenue	$ 19,628	$ 29,993	$ 40,201	$ 17,444	$ 28,752
Service revenue	2,155	3,287	7,982	2,867	6,374
Total revenue	21,783	33,280	48,183	20,311	35,126
Cost of product revenue(1)	12,099	20,225	26,511	11,422	18,821
Cost of service revenue	1,944	2,299	5,976	2,211	4,381
Total cost of revenue	14,043	22,524	32,487	13,633	23,202
Gross profit	7,740	10,756	15,696	6,678	11,924
Operating expenses(1)	9,090	12,037	13,699	6,171	8,407
Income (loss) from operations	(1,350)	(1,281)	1,997	507	3,517
Other income (expense)	(567)	(1,046)	(843)	(501)	(430)
Income (loss) before income tax and cumulative effect of change in accounting principle	(1,917)	(2,327)	1,154	6	3,087
Income tax expense (benefit)	(702)	(762)	225	1	1,286
Income (loss) before cumulative change in accounting principle	(1,215)	(1,565)	929	5	1,801
Cumulative effect of change in accounting principle	(57)	—	—	—	—
Net income (loss)	(1,272)	(1,565)	929	5	1,801
Accretion of redeemable preferred stock and preferred stock dividends(2)	(104)	(3)	(201)	(46)	(150)
Conversion of preferred stock(3)	(972)	—	(83)	—	—
Participation rights of preferred stock in undistributed earnings(4)	—	—	(205)	—	(511)
Net income (loss) attributable to common shareholders	$ (2,348)	$ (1,568)	$ 440	$ (41)	$ 1,140

	Fiscal Year Ended March 31,			Six Months Ended September 30,	
	2005	2006	2007	2006	2007
	(in thousands, except per share data)			(Unaudited)	
Net income (loss) attributable to common shareholders:					
Basic	$ (0.36)	$ (0.18)	$ 0.05	$ (0.00)	$ 0.11
Diluted	$ (0.36)	$ (0.18)	$ 0.05	$ (0.00)	$ 0.09
Weighted average shares outstanding:					
Basic	6,470	8,524	9,080	9,003	10,712
Diluted	6,470	8,524	16,433	15,666	19,782

	As of September 30, 2007	
	Actual	Pro Forma(5)
	(in thousands, unaudited)	
Consolidated balance sheet data:		
Cash and cash equivalents	$ 6,864	$
Short-term investments	3,900	
Total assets	56,728	
Long-term debt, less current maturities	8,933	
Convertible notes	10,666	
Temporary equity (Series C convertible redeemable preferred stock)	5,103	
Series B convertible preferred stock	5,959	
Treasury stock	(1,739)	
Shareholders' equity	$ 14,317	$

	Cumulative From December 1, 2001 Through September 30, 2007
	(in thousands, unaudited)
Other information:	
HIF lighting systems sold(6)	951
Total units sold (including HIF lighting systems)	1,217
Customer kilowatt demand reduction(7)	272
Customer kilowatt hours saved(7)(8)	3,404,741
Customer electricity costs saved(9)	$ 262,165
Indirect carbon dioxide emission reductions from customers' energy savings (tons)(10)	3,319
Square footage retrofitted(11)	491,199

(1) Cost of product revenue includes stock-based compensation expense recognized under SFAS 123(R) of $24,000 and $44,000 for fiscal 2007 and our fiscal 2008 first half, respectively. Operating expenses include stock-based compensation expense recognized under SFAS 123(R) of $0.3 million and $0.6 million for fiscal 2007 and our fiscal 2008 first half, 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 half, 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 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 September 30, 2007.

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

(7) 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 1.2 million units).

(8) 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.

(9) 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.

(10) 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.

(11) Based on 1.2 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 September 30, 2007, our accumulated deficit was $2.1 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 were 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 53% and 43%, respectively, of our fiscal 2008 and 2007 first half total revenue. No single customer accounted for more than 9% of our revenue in any of such fiscal years, although Coca-Cola Enterprises Inc. accounted for approximately 20% of our fiscal 2008 first half 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 results of operations and financial condition. To complete future acquisitions, we may issue equity securities, incur debt, assume contingent liabilities or incur amortization expenses and write-downs of acquired assets, which could dilute the interests of our shareholders or adversely affect our profitability.

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

We attempt to protect our intellectual property rights through a combination of patent, trademark, copyright and trade secret laws, as well as 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, re-brand our company or products, any of which could have a material adverse effect on our business, results of operations or financial condition.

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. The amount of our revenue that we derive from intellectual property still owned by Mr. Verfuerth is not quantifiable.

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, results of operations and financial condition could be materially adversely affected.

The efficient operation of our business is dependent on our information technology systems. We rely on those systems generally to manage the day-to-day operation of our business, manage relationships with our customers, maintain our research and development data and maintain our financial and accounting records. 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, and profitability 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 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.

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 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 or result in a lower price per share paid to our shareholders.

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, including to fund potential future acquisitions. As of the date of this prospectus, we have not entered into any purchase 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 September 30, 2007:

- on an actual basis; and
- on a pro forma basis to give effect to (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 September 30, 2007	
	Actual	Pro Forma
	(in thousands, except share and per share data, unaudited)	
Long-term debt, less current maturities	$ 8,933	$
Convertible notes	10,666	
Temporary equity:		
Series C convertible redeemable preferred stock ($0.01 par value 1,818,182 shares issued and outstanding, actual; no shares issued and outstanding, pro forma)	5,103	
Shareholders' equity:		
Series B convertible preferred stock ($0.01 par value 2,989,830 shares issued and outstanding, actual; no shares issued and outstanding, pro forma)	5,959	
Common stock (no par value 80,000,000 shares authorized and 12,489,205 shares outstanding, actual; 200,000,000 shares authorized and shares outstanding, pro forma)	—	
Additional paid-in capital	12,209	
Treasury stock	(1,739)	
Accumulated deficit	(2,112)	
Total shareholders' equity	14,317	
Total capitalization	$ 33,916	$

The shares outstanding data in the preceding table excludes as of October 15, 2007:

- 750,822 shares of common stock issuable upon the exercise of outstanding warrants with a weighted average exercise price of $2.24 per share;
- 4,566,687 shares of common stock issuable upon the exercise of outstanding options with a weighted average exercise price of $1.89 per share; and
- 396,490 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 September 30, 2007, our net tangible book value would have been approximately $19.0 million, or approximately $0.97 per share of common stock, on a pro forma basis after giving effect to (i) the automatic conversion of the Convertible Notes into 2,360,802 shares of our common stock; and (ii) 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 September 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 September 30, 2007	$ 0.97	
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 October 15, 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; and (ii) the conversion of the Convertible Notes into 2,360,802 shares of our common stock.

	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 4,566,687 options to purchase shares of common stock at a weighted average exercise price of $1.89 outstanding as of October 15, 2007, or the 750,822 warrants to purchase common stock at a weighted average exercise price of $2.24 outstanding as of October 15, 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 October 15, 2007 is exercised, there will be further dilution to new public investors. If all of our options and warrants outstanding as of October 15, 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 six months ended September 30, 2006 and September 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,					Six Months Ended September 30,	
	2003	2004	2005	2006	2007	2006	2007
			(in thousands, except per share amounts)			(Unaudited)	
Consolidated statements of operations data:							
Product revenue	$ 9,018	$ 12,031	$ 19,628	$ 29,993	$ 40,201	$ 17,444	$ 28,752
Service revenue		392	2,155	3,287	7,982	2,867	6,374
Total revenue	9,018	12,423	21,783	33,280	48,183	20,311	35,126
Cost of product revenue(1)	5,091	7,016	12,099	20,225	26,511	11,422	18,821
Cost of service revenue	—	360	1,944	2,299	5,976	2,211	4,381
Total cost of revenue	5,091	7,376	14,043	22,524	32,487	13,633	23,202
Gross profit	3,927	5,047	7,740	10,756	15,696	6,678	11,924
General and administrative expenses(1)	1,434	1,927	3,461	4,875	6,162	2,605	3,478
Sales and marketing expenses(1)	1,772	2,381	5,416	5,991	6,459	3,126	4,049
Research and development expenses(1)	139	261	213	1,171	1,078	440	880
Income (loss) from operations	582	478	(1,350)	(1,281)	1,997	507	3,517
Interest expense	108	222	570	1,051	1,044	513	624
Dividend and interest income	—	—	3	5	201	12	194
Income (loss) before income tax and cumulative effect of change in accounting principle	474	256	(1,917)	(2,327)	1,154	6	3,087
Income tax expense (benefit)	173	102	(702)	(762)	225	1	1,286
Income (loss) before cumulative change in accounting principle	301	154	(1,215)	(1,565)	929	5	1,801
Cumulative effect of change in accounting principle	—	—	(57)	—	—	—	—

	Fiscal Year Ended March 31,					Six Months Ended September 30,	
	2003	2004	2005	2006	2007	2006	2007
			(in thousands, except per share amounts)			(Unaudited)	
Net income (loss)	301	154	(1,272)	(1,565)	929	5	1,801
Accretion of redeemable preferred stock and preferred stock dividends(2)	(122)	(122)	(104)	(3)	(201)	(46)	(150)
Conversion of preferred stock(3)	—	—	(972)	—	(83)	—	—
Participation rights of preferred stock in undistributed earnings(4)	(35)	(6)	—	—	(205)	—	(511)
Net income (loss) attributable to common shareholders	$ 144	$ 26	$ (2,348)	$ (1,568)	$ 440	$ (41)	$ 1,140
Net income (loss) attributable to common shareholders:							
Basic	$ 0.02	$ 0.00	$ (0.36)	$ (0.18)	$ 0.05	$ (0.00)	$ 0.11
Diluted	$ 0.02	$ 0.00	$ (0.36)	$ (0.18)	$ 0.05	$ (0.00)	$ 0.09
Weighted average shares outstanding:							
Basic	5,964	6,197	6,470	8,524	9,080	9,003	10,712
Diluted	9,169	10,218	6,470	8,524	16,433	15,666	19,782

	As of March 31,					As of September 30, 2007
	2003	2004	2005	2006	2007	(Unaudited)
				(in thousands)		
Consolidated balance sheet data:						
Cash and cash equivalents	$ 175	$ 107	$ 493	$ 1,089	$ 285	$ 6,864
Short-term investments	—	—	—	—	—	3,900
Total assets	6,397	11,147	21,397	24,738	33,583	56,728
Long-term debt, less current maturities	1,058	4,796	7,921	10,492	10,603	8,933
Convertible notes	—	—	—	—	—	10,666
Temporary equity (Series C convertible redeemable preferred stock)	—	—	—	—	4,953	5,103
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)	—
Shareholders' equity	$ 2,192	$ 3,448	$ 5,699	$ 6,622	$ 9,355	$ 14,317

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

	Fiscal Year Ended March 31, 2007	Six Months Ended September 30, 2007 (Unaudited)
	(in thousands)	
Cost of product revenue	$ 24	$ 44
General and administrative expenses	154	380
Sales and marketing expenses	153	110
Research and development expenses	32	16
Total stock-based compensation expense	$363	$550

(2) For fiscal 2007 and our fiscal 2008 first half, 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 950,000 of our HIF lighting systems in over 2,100 facilities from December 1, 2001 through September 30, 2007. We have sold our products to 78 Fortune 500 companies, many of which have installed our HIF lighting systems in multiple facilities. Our top customers by revenue in fiscal 2007 included Coca-Cola Enterprises Inc., 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 customer acceptance has been received. When other significant

obligations or acceptance terms remain after products are delivered, revenue is recognized only after such obligations are fulfilled or acceptance by the customer has occurred. 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 and we do not anticipate that revenue from such program will comprise a material portion of our total revenue in fiscal 2008.

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 43% and 53%, respectively, of our fiscal 2007 and 2008 first half total revenue. No single customer accounted for more than 9% of our total revenue in any of such fiscal years, although Coca-Cola Enterprises Inc. accounted for approximately 20% of our fiscal 2008 first half 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 and assembly 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 $0.6 million in our fiscal 2008 first half. 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 $3.5 million of stock-based compensation over a weighted average period of approximately four years, including $0.6 million in the second half of 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, but we do not believe the ownership change affect the use of the full amount of our net operating loss carryforwards. As a result, our ability to use our net operating loss carryforwards attributable to the period prior to such ownership change to offset taxable income will be subject to limitations in a particular year, which could potentially result in increased future tax liability for us.

A valuation allowance against our deferred tax assets as of September 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 $3.1 million in our fiscal 2008 first half and $1.2 million in fiscal 2007; (ii) our anticipated fiscal 2008 revenue growth due to our backlog of orders as of September 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,								Six Months Ended September 30,				
	2005		2006			2007			2006		2007		
	Amount	% of Revenue	Amount	% of Revenue	% Change	Amount	% of Revenue	% Change	Amount	% of Revenue	Amount	% of Revenue	% Change
	(dollars in thousands)										(Unaudited)		
Product revenue	$ 19,628	90.1%	$ 29,993	90.1%	52.8%	$ 40,201	83.4%	34.0%	$ 17,444	85.9%	$ 28,752	81.9%	64.8%
Service revenue	2,155	9.9%	3,287	9.9%	52.6%	7,982	16.6%	142.8%	2,867	14.1%	6,374	18.1%	122.3%
Total revenue	21,783	100.0%	33,280	100.0%	52.8%	48,183	100.0%	44.8%	20,311	100.0%	35,126	100.0%	72.9%
Cost of product revenue	12,099	55.5%	20,225	60.8%	67.2%	26,511	5.50%	31.1%	11,422	56.2%	18,821	53.6%	61.8%
Cost of service revenue	1,944	8.9%	2,299	6.9%	18.3%	5,976	12.4%	159.9%	2,211	0.9%	4,381	12.5%	98.1%
Total cost of revenue	14,043	64.5%	22,524	67.7%	60.4%	32,487	67.4%	44.2%	13,633	67.1%	23,202	66.1%	70.2%
Gross profit	7,740	35.5%	10,756	32.3%	39.0%	15,696	32.6%	45.9%	6,678	32.9%	11,924	33.9%	78.6%
General and administrative expenses	3,461	15.9%	4,875	14.6%	40.9%	6,162	12.8%	26.4%	2,605	12.8%	3,478	9.9%	33.5%
Sales and marketing expenses	5,416	24.9%	5,991	18.0%	10.6%	6,459	13.4%	7.8%	3,126	15.4%	4,049	11.5%	29.5%
Research and development expenses	213	1.0%	1,171	3.5%	449.8%	1,078	2.2%	(7.9)%	440	2.2%	880	2.5%	100.0%
Income (loss) from operations	(1,350)	(6.2)%	(1,281)	(3.8)%	5.1%	1,997	4.1%	NM	507	2.5%	3,517	10.0%	593.7%
Interest expense	570	2.6%	1,051	3.2%	84.4%	1,044	2.2%	0.7%	513	2.5%	624	1.8%	21.6%
Dividend and interest income	3	0.0%	5	0.0%	66.7%	201	0.4%	NM	12	0.0%	194	0.6%	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	6	0.0%	3,087	8.8%	NM
Income tax expense (benefit)	(702)	(3.2)%	(762)	(2.3)%	8.5%	225	0.5%	NM	1	0.0%	1,286	3.7%	NM
Net income (loss) before cumulative change in accounting principle	(1,215)	(5.6)%	(1,565)	(4.7)%	(28.8)%	929	1.9%	NM	5	0.0%	1,801	5.1%	NM
Cumulative effect of change in accounting principle, net of tax	(57)	(0.3)%	—	0.0%	NM	—	0.0%	0.0%	—	0.0%	—	0.0%	0.0%
Net income (loss)	(1,272)	(5.8)%	(1,565)	(4.7)%	(23.0)%	929	1.9%	NM	5	0.0%	1,801	5.1%	NM
Accretion of redeemable preferred stock and preferred stock dividends	(104)	(0.5)%	(3)	(0.0)%	97.1%	(201)	(0.4)%	NM	(46)	(0.2)%	(150)	(0.4)%	(226.1%)
Conversion of preferred stock	(972)	(4.5)%	—	0.0%	NM	(83)	(0.2)%	NM	—	0.0%	—	0.0%	0.0%
Participation rights of preferred stock in undistributed earnings	—	0%	—	0%	0.0%	(205)	(0.4)%	NM	—	0.0%	(511)	(1.5)%	NM
Net income (loss) attributable to common shareholders	$ (2,348)	(10.8)%	$ (1,568)	(4.7)%	33.2%	$ 440	0.9%	NM	$ (41)	(0.2%)	$ 1,140	3.2%	NM

NM = Not meaningful

Six Months Ended September 30, 2007 Compared to Six Months Ended September 30, 2006

Revenue. Our product revenue and service revenue each increased for our fiscal 2008 first half from our fiscal 2007 first half 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 September, 2007, we had a backlog of firm purchase orders of approximately $11.0 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 half compared to our fiscal 2007 first half 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 half from our fiscal 2007 first half as a result of our increased total revenue. Our gross margin increased for our fiscal 2008 first half from our fiscal 2007 first half as a result of our increased higher gross margin service revenue, reduced headcount due to production efficiency improvements, and volume rebates on raw material purchases.

Operating Expenses

General and Administrative. Our general and administrative expenses increased for our fiscal 2008 first half from our fiscal 2007 first half 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 half compared to our fiscal 2007 first half 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 half from our fiscal 2007 first half on an absolute dollar basis and as a percentage of total revenue as a result of increased employee compensation costs and increased engineering and consulting expenses.

Interest Expense. Our interest expense increased for our fiscal 2008 first half from our fiscal 2007 first half as a result of interest expense from our convertible note.

Dividend and Interest Income. Dividend and interest income increased for our fiscal 2008 first half from our fiscal 2007 first half due to interest income earned on the invested proceeds from the issuance of our $10.6 million of 6% convertible subordinated notes, convertible note issuance and dividends from our preferred stock investment completed in the second quarter of fiscal 2007.

Income Taxes. Our income tax expense increased for our fiscal 2008 first half compared to our fiscal 2007 first half due to our increased profitability and because of our utilization in our fiscal 2007 first half of state job tax and federal research credits. Our effective income tax rate for our fiscal 2008 first half was 41.7% compared to 19.4% for our fiscal 2007 first half.

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 half. We did not accrete Series C dividends in our fiscal 2007 first half until we completed our Series C preferred stock placement in 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 ten fiscal quarters in the period ended September 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									
	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	Sept. 30, 2007
	(In thousands, unaudited)									
Product revenue	$ 4,706	$ 6,959	$ 7,947	$ 10,381	$ 8,688	$ 8,756	$ 11,256	$ 11,501	$ 14,505	$ 14,247
Service revenue	298	1,025	951	1,013	992	1,875	2,307	2,808	2,216	4,158
Total revenue	5,004	7,984	8,898	11,394	9,680	10,631	13,563	14,309	16,721	18,405
Cost of product revenue	3,568	4,811	4,963	6,883	5,459	5,963	7,419	7,671	9,446	9,375
Cost of service revenue	231	698	796	574	796	1,415	1,781	1,983	1,672	2,709
Total cost of revenue	3,799	5,509	5,759	7,457	6,255	7,378	9,200	9,654	11,118	12,084
Gross profit	1,205	2,475	3,139	3,937	3,425	3,253	4,363	4,655	5,603	6,321
General and administrative expenses	966	1,100	1,509	1,300	1,269	1,336	1,614	1,943	1,571	1,907
Sales and marketing expenses	1,690	1,376	1,369	1,556	1,518	1,608	1,551	1,782	2,111	1,938
Research and development expenses	239	330	269	333	211	229	257	381	437	443
Income (loss) from operations	(1,690)	(331)	(8)	748	427	80	941	549	1,484	2,033
Interest expense	215	228	376	232	253	260	261	270	295	329
Dividend and interest income	—	—	1	4	1	11	16	173	40	154
Income (loss) before income taxes	(1,905)	(559)	(383)	520	175	(169)	696	452	1,229	1,858
Income tax expense (benefit)	(623)	(183)	(126)	170	34	(33)	136	88	481	805
Net income (loss)	(1,282)	(376)	(257)	350	141	(136)	560	364	748	1,053
Accretion of redeemable preferred stock and preferred stock dividends	0	(1)	(1)	(1)	(1)	(45)	(79)	(76)	(75)	(75)
Conversion of preferred stock	—	—	—	—	—	—	—	(83)	—	—
Participation rights of preferred stock in undistributed earnings	—	—	—	(79)	(35)	—	(168)	(71)	(219)	(292)
Net income (loss) attributable to common shareholders	$ (1,282)	$ (377)	$ (258)	$ 270	$ 105	$ (181)	$ 313	$ 134	$ 454	$ 686

	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	Sept. 30, 2007
	(Unaudited)									
Product revenue	94.0%	87.2%	89.3%	91.1%	89.8%	82.4%	83.0%	80.4%	86.7%	77.4%
Service revenue	6.0%	12.8%	10.7%	8.9%	10.2%	17.6%	17.0%	19.6%	13.3%	22.6%
Total revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100%
Cost of product revenue	71.3%	60.3%	55.8%	60.4%	56.4%	56.1%	54.7%	53.6%	56.5%	50.9%
Cost of service revenue	4.6%	8.7%	8.9%	5.0%	8.2%	13.3%	13.1%	13.8%	10.0%	14.8%
Total cost of revenue	75.9%	69.0%	64.7%	65.4%	64.6%	69.4%	67.8%	67.4%	66.5%	65.7%
Gross margin	24.1%	31.0%	35.3%	34.6%	35.4%	30.6%	32.2%	32.6%	33.5%	34.3%
General and administrative expenses	19.3%	13.8%	17.0%	11.4%	13.1%	12.6%	11.9%	13.6%	9.4%	10.4%
Sales and marketing expenses	33.8%	17.2%	15.4%	13.7%	15.7%	15.1%	11.4%	12.5%	12.6%	10.5%
Research and development expenses	4.8%	4.1%	3.0%	2.9%	2.2%	2.1%	1.9%	2.7%	2.6%	2.4%
Income (loss) from operations	(33.8)%	(4.1)%	(0.1)%	6.6%	4.4%	0.8%	6.9%	3.8%	8.9%	11.0%
Interest expense	4.3%	2.9%	4.2%	2.0%	2.6%	2.4%	1.9%	1.8%	1.7%	1.8%
Dividend and interest income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.2%	0.2%	0.9%
Income (loss) before income taxes	(38.1)%	(7.0)%	(4.3)%	4.6%	1.8%	(1.6)%	5.1%	3.2%	7.4%	10.1%
Income tax expense (benefit)	(12.5)%	(2.3)%	(1.4)%	1.5%	0.3%	(0.3)%	1.0%	0.7%	2.9%	4.4%
Net income (loss)	(25.6)%	(4.7)%	(2.9)%	3.1%	1.5%	(1.3)%	4.1%	2.5%	4.5%	5.7%
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)%	(0.4)%
Conversion of preferred stock	—	—	—	—	—	—	—	(0.6)%	—	—
Participation rights of preferred stock in undistributed earnings	0.0%	0.0%	0.0%	(0.7)%	(0.4)%	0.0%	(1.2)%	(0.5)%	(1.3)%	(1.6)%
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%	3.7%

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 purchase 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 halves:

	Fiscal Year Ended March 31,			Six Months Ended September 30,	
	2005	2006	2007	2006	2007
			(in thousands)	(Unaudited)	
Operating activities	$ (863)	$ (3,401)	$ (6,234)	$ (3,949)	$ 1,869
Investing activities	(5,888)	(162)	(969)	(318)	(4,844)
Financing activities	7,137	4,159	6,399	3,760	9,554
Increase (decrease) in cash and cash equivalents	$ 386	$ 596	$ (804)	$ (507)	$ 6,579

Cash Flows Related to Operating Activities. Cash provided from operating activities was $1.9 million for our fiscal 2008 first half compared to cash used of $3.9 million for our fiscal 2007 first half. The $5.8 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 $4.8 million for our fiscal 2008 first half compared to $0.3 million for our fiscal 2007 first half. This increase was due to $3.9 million invested in government agency bonds, 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 provided by financing activities was $9.6 million for our fiscal 2008 first half compared to cash provided by financing activities of $3.8 million for our fiscal 2007 first half. This increase in cash provided was due to $10.6 million of gross proceeds raised from the issuance of our convertible notes and $1.3 million of stock option and warrant exercises that occurred in the first half of fiscal 2008 as compared to the $5.0 million of gross proceeds from Series C redeemable preferred stock issued in the first half of fiscal 2007.

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 September 30, 2007 was $26.2 million, consisting of $43.7 million in current assets and $17.5 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 half were due to an increase of $10.5 million in cash equivalents and short-term investment due to the net proceeds from our convertible note issuance, an increase of $2.3 million in accounts receivable as a result of revenue growth, a $6.2 million increase in inventories required to support our current backlog, a $7.6 million increase in accounts payable resulting from additional inventory purchases and a $1.4 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 $8.7 million as of September 30, 2007, based upon our revolving credit facility borrowing base formula described below. The net proceeds of this offering will help support our ongoing working capital needs. 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 September 30, 2007, there were $4.7 million of borrowings outstanding under our revolving credit facility, and our borrowing availability was $8.7 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 September 30, 2007.

We were not in compliance with our minimum net income covenant under our revolving credit facility as of December 31, 2006. This covenant was initially established when we first entered into our revolving credit facility in December 2005, which was prior to our realizing sustained profitability and prior to the issuance of our Series C preferred stock. Certain operational issues contributed to that default, including reduced gross margins, in part resulting from increased warranty expense; higher general and administrative and sales and marketing expenses relating to sales and marketing initiatives; and certain one-time losses on disposal of assets. As a result of this, we obtained amendments to our revolving credit facility to reduce net income and net worth covenant requirements going forward and to waive the default described above. We received such amendments and waivers in March 2007 without any additional borrowing cost to us or the addition of any restrictive covenants. We undertook various efforts to address these operational issues, including focus on increased margins through a higher realization rate on our billable services and increased utilization of our manufacturing facility. We have remained in compliance with our covenants under our revolving credit facility.

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 September 30, 2007, the total amount of principal outstanding on these various obligations was $5.0 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 September 30, 2007 was 7.7%. Based on interest rates in effect as of September 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 September 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 $2.0 million in capital expenditures during the second half of fiscal 2008 to begin development and construction of our new technology center and the expansion of our administrative offices at our manufacturing facility, as well as to add production equipment to increase our production capacity and to further develop our internal capacity to perform certain processes currently performed by our suppliers. We expect to finance these capital equipment 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	3-5 Years	More than 5 Years
			(in thousands)		
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 and internal audit manager who has experience with the requirements of Section 404 of Sarbanes-Oxley. 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 consulting 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 September 30, 2007, $5.8 million of our $9.6 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 $58,000 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 September 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 September 30, 2006 and 2007, our deferred costs were $0.2 million and $0.7 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 $0.6 million at March 31, 2006, March 31, 2007 and September 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 September 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,			Six Months Ended
	2005	2006	2007	September 30, 2007
Expected term	6 Years	6 Years	6.6 Years	2.4 Years
Risk-free interest rate	4.32%	4.35%	4.62%	4.74%
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 $0.6 million for our fiscal 2008 first half. 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 $3.5 million of stock option compensation cost is expected to be recognized by us over a weighted average period of approximately four years, including $0.6 million in the second half of 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 September 30, 2007, warrants were outstanding to purchase a total of 1,109,390 and 778,322 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 September 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. We first recognize tax benefits from current period stock option expenses against current period income. The remaining current period income is offset by net operating losses under the tax law ordering approach. Under this approach, we will utilize the net operating losses from stock option expenses last. As of September 30. 2007, the unaudited amount of unrecognized tax benefits decreased by $0.5 million to $1.15 million due to the utilization of unrecognized tax benefits from stock option expenses. We expect 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 $0.8 million unrecognized tax benefits for stock option expenses. 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 2,100 facilities across North America, representing over 491 million square feet of commercial and industrial building space, including for 78 Fortune 500 companies, such as Coca-Cola Enterprises Inc., 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 September 30, 2007, we have installed over 950,000 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 six months ended September 30, 2007, we recognized total revenue of $35.1 million, compared to $20.3 million for the six months ended September 30, 2006. We estimate that the use of our HIF fixtures has resulted in cumulative electricity cost savings for our customers of approximately $262 million and has reduced base and peak load electricity demand by approximately 272 MW through September 30, 2007. We estimate that this reduced electricity consumption has reduced associated indirect carbon dioxide emissions by approximately 3.3 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 (6) through (11) 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 United States transmission lines, transformers and circuit breakers — the backbone of the United States T&D system — is more than 25 years old. The underinvestment in T&D infrastructure has led to well-documented power reliability issues, such as the August 2003 blackout that affected a number of states in the northeastern United States. To upgrade and maintain the United States T&D system, the 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 September 30, 2007, we believe that the use of our HIF fixtures has saved our customers $262 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 September 30, 2007 have had the effect of reducing base and peak load demand by approximately 272 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 3.3 million tons through September 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 2,100 commercial and industrial facilities across North America. As of September 30, 2007, we have completed or are in the process of completing retrofits in over 400 facilities for our 78 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 United States 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 September 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 products, all of which we believe constitute one class of products. We generated product revenue of $19.6 million, $30.0 million and $40.2 million in fiscal 2005, 2006 and 2007, respectively. We generated service revenue of $2.2 million, $3.3 million and $8.0 million in fiscal 2005, 2006 and 2007, respectively.

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 September 30, 2007, we have installed our products in 2,100 commercial and industrial facilities across North America, including for 78 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.	Ecolab, Inc.	OfficeMax, Inc.	SYSCO Corp.
Avery Dennison Corporation	Gap, Inc.	Pepsi Americas Inc.	Textron, Inc.
Big Lots Inc.	General Electric Co.	Sealed Air Corp.	Toyota Motor Corp.
Blyth Inc.	Kraft Foods Inc.	Sherwin-Williams Co.	United Stationers Inc.
Coca-Cola Enterprises Inc.	Newell Rubbermaid Inc.		

In the first half of fiscal 2008, Coca-Cola Enterprises Inc. accounted for approximately 20% of our total revenue.

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 $0.9 million during our fiscal 2008 first half.

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 September 30, 2007, we had approximately 200 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. We no longer serve as a distributor of products manufactured by others.

MANAGEMENT

Executive Officers and Directors

The following table sets forth information as of September 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	52	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., and ConsumerPowerline, a provider of demand response and energy management solutions.

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 recent director and a member of the nominating and governance committee and the audit committee of Ryerson, Inc. prior to its sale, 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.

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. The following is a list of the 96 participating companies in the surveys as provided to us by Towers Perrin:

Acuity Brands, Inc.
ADC Telecommunications
Adtran Incorporated
Advanced Mirco Devices
Agere Systems Inc.
American Power Conversion CP
American Superconductor
Ametek Inc
Amphenol Corp.
Analog Devices
Andrew Corporation
Applied Materials Inc.
Arrow Electronics Inc.
Asco – Value
Atlantic Scientific Corp
Atmel Corp.
Audiovox Corp — CL A
Avnet Inc.
Basler Electric Company
Bell Microproducts Inc.
Brightpoint Inc.
Broadcom Corp.
BSH Home Home Appliances Corp
Ceridian Corp.
Chamberlain Group Inc
Cisco Systems Inc.
Cobra Electronics Corporation
CommScope Inc
Corning Inc.
CTS Corporation
Dell Inc.
Diebold Inc.
Directed Electronics Inc
Electrolux Home Products
EMC Corp/Ma
Energizer Holdings Inc.
Fairchild Semiconductor Intl.
Fargo Electronics
Gateway Inc.
General Electric Co.
Harman International
Harris Corp.
Hewlett Packard Co.
Hitachi
Hubbell Inc.
Hutchinson Technology Inc
Ikon Office Solutions
Ingram Micro Inc.
In-Sink-Erator
Intel Corp.
Intl Business Machines Corp.
Jabil Circuit Inc.
Kyocera America Inc.
L-3 Communications Hldgs Inc.
Lab Volt System
Lanier Worldwide Inc
Lexmark Intl Inc.-CL A
LSI Logic Corp
Lucent Technologies Inc.
Lutron Electronics
Maxtor Corp.

Maytag Corporation
Microdynamics
Micron Technology Inc.
Molex Inc.
Motorola Inc.
National Semiconductor Corp
Nvidia Corp.
Panasonic
Panduit Corporation
Pitney Bowes Inc.
Plexus Corp
Preformed Line Products Co
Prestolite Wire Corporation Nogales
Qualcomm Inc.
Ricoh Electronics Inc
Rimage Corporation
Rockwell Automation
Rockwell Collins Inc.
Sanmina SCI Corp.
Schneider Electric NA
Sharp Electronics Corporation
A.O. Smith Corp.
Solectron Corp.
Sony Corporation of America
St. Jude Medical Inc.
Sun Microsystems
Symbol Technologies
Texas Instruments Inc.
The Lamson & Sessions Company
Thermo Electron Corp
Thomas & Betts Corp.
Tyco Electronics
Universal Lighting Technology
Western Digital Corp.
Zebra Technologies Corporation

Our compensation committee also specifically benchmarked the salaries, annual bonuses, long-term incentive compensation, total compensation, perquisites and IPO bonuses paid to named executive officers at the following industry peer group companies deemed potentially comparable to our company: Color Kinetics, Inc., Comverge, Inc., Echelon Corp., EnerNOC, Inc. and First Solar, Inc. Our compensation committee considered this benchmarking data, along with 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.
- We are implementing stock ownership guidelines for our executive officers and non-employee directors.
- Our compensation committee has recommended that our board of directors adopt a new compensation program for our non-employee directors.

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.

Following this offering, and based on the recommendations of Towers Perrin and taking into account the other industry specific benchmarking data under consideration, we may increase the base salaries of our executive officers in connection with the new employment agreements we propose to enter into with these executive officers. Our compensation committee has not yet taken action to increase the base salaries of our executive officers or determined when such increases would take effect.

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 and taking into account the other industry specific benchmarking data under consideration, 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 considering 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. Our compensation committee has not yet taken action with respect to the implementation of any such management cash bonus program.

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 upon consideration of these facts, as well as upon their subjective judgment formed by their collective professional experience and expertise, that a grant of an option to purchase 250,000 shares was appropriate in light of Mr. Verfuerth's historical and current compensation to provide a reward that would be significant in amount to Mr. Verfuerth if he performed as anticipated and increased shareholder value. 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. Our compensation committee is considering the recommendations of Towers Perrin relating to the implementation of a long-term equity incentive plan that would include annual equity-based grants to executive officers, although our compensation committee has not yet taken action with respect to the implementation of such a plan or determined when such a plan would go into effect.

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.

Executive Officer Stock Ownership Guidelines. One of the key objectives of our executive compensation program is alignment of the interests of our executive officers with the interests of our shareholders. We believe that ensuring that executive officers are shareholders and have a significant financial interest in our company is an effective means to accomplish this objective. Our compensation committee has, therefore, upon the recommendation of Towers Perrin, adopted stock ownership guidelines for our executive officers effective upon the closing of this offering. The guidelines will require executive officers to hold shares of our common stock with a value equal to or in excess of a multiple of, for our current executive officers, the officer's fiscal 2008 base salary and, for subsequently hired, promoted, elected or appointed newly serving officers, their base salary at the time of such hiring, promotion, election or appointment. The multiples for each position are as follows:

Position	Multiple of Base Salary
Chief Executive Officer	Five
Executive Vice President	Three
Chief Financial Officer	Three
General Counsel	Three
Vice President	One

We will determine the number of shares the ownership guidelines require our executive officers to hold based on, for our current executive officers, the initial public offering price of our common stock and, for subsequently hired, promoted, elected or appointed newly serving executive officers, the closing sale price of our common stock on the first trading day on or after their date of hiring, promotion, election or appointment, as the case may be. Executive officers will be permitted to satisfy the ownership guidelines with shares of our common stock that they acquire through the exercise of stock options or other similar equity-based awards, through retention upon vesting of restricted shares or other similar equity-based awards and through direct share purchases. Our current executive officers will have five years following the closing of this offering to satisfy their ownership guidelines, and subsequently hired, promoted, elected or appointed newly serving executive officers will be required to satisfy their ownership guidelines within five years after such hiring, promotion, election or appointment.

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) Threshold ($)	Target ($)	Max ($)	All Other Option Awards: Number of Securities Underlying Options (#)(2)	Exercise Price of Option Awards ($/Sh)	Grant Date Fair Value of Option Awards ($)(3)
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.

	Option 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) Mr. Prange's employment with us ended on March 12, 2007. In connection with Mr. Prange's termination of employment, we entered into a separation agreement with Mr. Prange. As a result of certain alleged violations of the separation agreement by Mr. Prange, we notified Mr. Prange on October 18, 2007 that we had taken action to cancel his options to purchase 172,222 shares of our common stock and also to cancel 23,000 shares of our common stock held by him that he received upon his previous exercise of options in connection with the 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. 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. As a result of certain alleged violations of this agreement by Mr. Prange, we notified Mr. Prange on October 18, 2007 that we had taken action to cancel his options to purchase 172,222 shares of our common stock and also to cancel 23,000 shares of our common stock held by him that he received upon his previous exercise of options in connection with the separation agreement.

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	1 × Salary + Avg. Bonus	1 Year	1 Year	Yes
General counsel				
Executive vice presidents	1/2 × Salary + Avg. Bonus	1 Year	1 Year	Yes
Vice presidents				

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 general public company practices and our belief that these amounts and terms were necessary to provide our NEOs with compensation arrangements that will help us to retain and attract high-quality executives in a competitive job market. The severance multiples

and employment and renewal terms vary among our individual NEOs according to position as a result of our attempt to remain consistent with general public company 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	3 × Salary + Avg. Bonus	3 Years	Double	No	Yes
Chief financial officer					
General counsel	2 × Salary + Avg. Bonus	2 Years	Double	No	Yes
Executive vice presidents					
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 general public company practice (although not benchmarked against any specific comparable companies).

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. Specifically, we believe that an acquisition by a third party of 20% of more of our outstanding stock would constitute a significant change in ownership of our company after this offering because we anticipate having a diverse, widely-dispersed shareholder base. We believe the types of protections provided under our proposed new employment agreements better enable our executives 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 September 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	217,302	217,302	
	Benefits	11,029	11,029	
	Total	811,531	1,103,131	
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	117,781	117,781	
	Benefits	—	—	
	Total	278,448	428,448	
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	347,696	
Total for all NEOs		1,648,617	2,585,217	

(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 grants made to our longest-serving directors to approximate the amounts that we believed would be appropriate for four years' worth of service covering a period of approximately fiscal 2004 through fiscal 2007. For the sake of future consistency in the compensation of our non-employee directors, we made a subjective determination to issue the same amount of options for all directors, regardless of their respective years of service. These options were subject to vesting in four equal installments on March 31 of each of 2006, 2007, 2008 and 2009. We made no option grants in fiscal 2007 to our non-employee directors, other than to Mr. Kackley, as described below. 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. Based on Towers Perrin's recommendations, our compensation committee has recommended that our board of directors adopt the following new compensation program for our non-employee directors effective upon the closing of this offering: (a) an annual retainer of $40,000, payable in cash or shares of our common stock at the election of the recipient; (b) an annual stock option grant, vesting ratably over three years, with a grant date fair value of $45,000; (c) an annual retainer of $15,000 for each of the independent chairman of our board of directors and the chairman of the audit and finance committee of our board of directors, payable in cash or shares of common stock at the election of the recipient; and (d) an annual retainer of $10,000 for each of the chairmen of the compensation committee and the nominating and corporate governance committee of our board of directors, payable in cash or shares of common stock at the election of the recipient. In order to attract potential new independent directors in the future, our compensation committee also is recommending that our board

of directors retain the flexibility to make an initial stock option or other form of equity-based grant to any such new independent directors upon joining our board.

Also in connection with this offering, based on the recommendation of Towers Perrin, our compensation committee has recommended for approval by our board of directors stock ownership guidelines for our non-employee directors effective upon the closing of this offering. The guidelines would require non-employee directors to hold shares of our common stock with a value equal to or in excess of, for current non-employee directors, five times their fiscal 2008 retainer and, for subsequently elected directors, five times their retainer for the fiscal year of their election. We would determine the number of shares the ownership guidelines would require the non-employee directors to hold based on, for our current non-employee directors, the initial public offering price of our common stock and, for subsequently elected non-employee directors, the closing sale price of our common stock on the first trading day on or after their election. Non-employee directors would be able to satisfy the ownership guidelines with shares of our common stock that they acquire through the exercise of stock options or other similar equity-based awards, through retention upon vesting of restricted shares or other similar equity-based awards or through direct share purchases. Our currently serving non-employee directors would have five years from the closing of this offering to satisfy the ownership guidelines, and subsequently elected directors would be required to satisfy the guidelines within five years after their election.

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 October 15, 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 October 15, 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 October 15, 2007, there were 12,489,205 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, 19,658,019 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)	3,032,561			15.4%		
Daniel J. Waibel(2)	900,000			4.6		
Michael J. Potts(3)	806,986			4.1		
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)	3,032,561			15.4		
Thomas A. Quadracci(6)	36,409			*		
Diana Propper de Callejon(7)	2,193,157			11.2		
James R. Kackley(8)	262,000			1.3		
Eckhart G. Grohmann(9)	1,270,000			6.5		
Patrick J. Trotter(10)	514,790			2.6		
Bruce Wadman(11)	20,000			*		
James L. Prange(12)	6,801			*		
All directors and current and certain former executive officers as a group (14 individuals)	9,433,044			48.0%		
Principal shareholders						
Clean Technology Affiliates(13)	2,193,157			11.2%		
GEEFS Indirect Affiliate(14)	1,781,737			9.1		
Richard J. Olsen(15)	1,011,414			5.2		
[Individual selling shareholders](16)(17)(18)(19)						
Other selling shareholders(20)						

* Indicates less than 1%.

(1) Includes (i) 2,124,896 shares of common stock, 75,000 of which have been pledged as security for a personal loan; (ii) 850,000 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 430,958 shares of common stock subject to options held by Mr. Verfuerth on October 15, 2007 that will not become exercisable within 60 days.

(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) 231,110 shares of common stock; (ii) 19,230 shares of common stock issuable upon the conversion of Series B preferred stock; and (iii) 20,000 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) 850,000 shares of common stock; (ii) 2,124,896 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 175,974 shares of common stock subject to options held by Ms. Verfuerth on October 15, 2007 that will not become exercisable within 60 days.

(6) Does not include 10,000 shares of common stock subject to an option held by Mr. Quadracci that will not become exercisable within 60 days.

(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. The number does not include 5,000 shares of common stock subject to an option held by Ms. Propper de Callejon that will not become exercisable within 60 days.

(8) Includes (i) 213,000 shares of common stock; (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 and (iii) 45,000 shares of common stock beneficially owned by Mr. Kackley's grandchildren. The number does not include 108,000 shares of common stock subject to options held by Mr. Kackley on October 15, 2007 that will not become exercisable within 60 days.

(9) Includes (i) 790,000 shares of common stock and (ii) 480,000 shares of common stock issuable upon the conversion of Series B preferred stock. The number does not include 20,000 shares of common stock subject to options held by Mr. Grohmann on October 15, 2007 that will not become exercisable within 60 days.

(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 15,000 shares of common stock subject to options held by Mr. Trotter on October 15, 2007 that will not become exercisable within 60 days.

(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 6,801 shares of common stock. On October 18, 2007, we notified Mr. Prange that we had taken action to cancel options to purchase 172,222 shares of common stock and 23,000 shares of common stock held by him as a result of certain alleged violations by Mr. Prange of his July 18, 2007 separation agreement. See "Executive Compensation — Payments Upon Termination or Change of Control — Agreements in Effect Prior to this Offering."

(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) Received shares of common stock upon exercise of warrants to purchase shares of our common stock issued by us between January 2004 and February 2005.

(17) Received shares of common stock upon conversion of shares of Series B preferred stock on a one-to-one basis as issued by us between May 2005 and September 2005 to certain accredited investors.

(18) Received shares of common stock upon conversion of shares Series B preferred stock on a one-to-one basis as issued by us between January 2006 and July 2006 to our existing shareholders.

(19) Received shares of common stock upon exercise of options to purchase shares of our common stock granted by us under our 2003 Stock Option and 2004 Equity Incentive Plans.

(20) None of the other selling shareholders beneficially own individually or in the aggregate more than 1% of our outstanding common stock prior to this offering, nor do they have prior to this offering (or will they have after this offering) a significant role in our management.

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, which was then the applicable federal rate. 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.

We had previously believed that this transaction did not result in additional stock-based compensation. We subsequently determined that, 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 full recourse promissory note, which subsequently was determined to bear a below-market interest rate for accounting purposes, was effectively a repricing of the option for accounting purposes 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. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Internal Control over Financial Reporting.”

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 October 15, 2007, there were 12,489,285 shares of our common stock outstanding held by approximately 366 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 October 15, 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 October 15, 2007.

Warrants

As of October 15, 2007, there were outstanding warrants, issued in connection with our offerings of common stock and Series B preferred stock, to purchase 750,822 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 109 holders and expire in various periods from December 31, 2007 through December 31, 2014.

Stock Options

As of October 15, 2007, we had granted options to purchase a total of 4,566,687 shares of common stock at a weighted average exercise price of $1.89 per share. Of this total, 1,976,155 options have vested and 2,590,532 remain unvested. As of October 15, 2007, an additional 396,490 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. No member of management intends to sell more than 15% of their full-diluted beneficially owned shares in this offering. See “Principal and Selling Shareholders.”

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. See “Principal and Selling Shareholders.” 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. No member of management intends to 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 October 15, 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 October 15, 2007, we had granted options to purchase a total of 4,566,687 shares of common stock at a weighted average exercise price of $1.89 per share. As of October 15, 2007, an additional 396,490 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 October 15, 2007, there were outstanding warrants to purchase 750,822 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.

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:

		Total	
	Per Share	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.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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	September 30, 2007 (Unaudited)
Assets			
Cash and cash equivalents	$ 1,089	$ 285	$ 6,864
Short-term investments	—	—	3,900
Accounts receivable, net of allowances of $38, $89 and $88 (unaudited)	6,051	11,197	13,542
Inventories	6,167	9,496	15,678
Deferred tax assets	419	345	735
Prepaid expenses and other current assets	745	1,296	3,045
Total current assets	14,471	22,619	43,764
Property and equipment, net	8,106	7,588	8,084
Patents and licenses, net	194	243	354
Investment	—	794	794
Deferred tax assets	1,607	1,907	1,227
Other long-term assets	360	432	2,505
Total assets	$ 24,738	$ 33,583	$ 56,728
Liabilities, Temporary Equity and Shareholders' Equity			
Accounts payable	$ 4,767	$ 5,607	$ 13,178
Accrued expenses	1,889	2,196	3,640
Current maturities of long-term debt	859	736	708
Total current liabilities	7,515	8,539	17,526
Long-term debt, less current maturities	10,492	10,603	8,933
Convertible debt	—	—	10,666
Other long-term liabilities	109	133	183
Total liabilities	18,116	19,275	37,308
Commitments and contingencies (See Note F)			
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 September 30, 2007 (unaudited)	—	4,953	5,103
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 September 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 September 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 September 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 September 30, 2007 (unaudited); shares issued: 8,982,764, 12,107,573 and 12,856,711 as of March 31, 2006 and 2007 and September 30, 2007 (unaudited); shares outstanding: 8,920,900, 12,038,499 and 12,480,705 as of March 31, 2006 and 2007 and September 30, 2007 (unaudited)	—	—	—
Additional paid-in capital	5,859	9,438	12,209
Treasury stock: 61,864, 69,074 and 376,006 common shares as of March 31, 2006 and 2007 and September 30, 2007 (unaudited)	(345)	(361)	(1,739)
Shareholder notes receivable	(398)	(2,128)	—
Accumulated deficit	(4,201)	(3,553)	(2,112)
Total shareholders' equity	6,622	9,355	14,317
Total liabilities, temporary equity and shareholders' equity	$ 24,738	$ 33,583	$ 56,728

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,			Six Months Ended September 30,	
	2005	2006	2007	2006	2007
				(Unaudited)	
Product revenue	$ 19,628	$ 29,993	$ 40,201	$ 17,444	$ 28,752
Service revenue	2,155	3,287	7,982	2,867	6,374
Total revenue	21,783	33,280	48,183	20,311	35,126
Cost of product revenue	12,099	20,225	26,511	11,422	18,821
Cost of service revenue	1,944	2,299	5,976	2,211	4,381
Total cost of revenue	14,043	22,524	32,487	13,633	23,202
Gross profit	7,740	10,756	15,696	6,678	11,924
Operating expenses:					
General and administrative	3,461	4,875	6,162	2,605	3,478
Sales and marketing	5,416	5,991	6,459	3,126	4,049
Research and development	213	1,171	1,078	440	880
Total operating expenses	9,090	12,037	13,699	6,171	8,407
Income (loss) from operations	(1,350)	(1,281)	1,997	507	3,517
Other income (expense):					
Interest expense	(570)	(1,051)	(1,044)	(513)	(624)
Dividend and interest income	3	5	201	12	194
Total other income (expense)	(567)	(1,046)	(843)	(501)	(430)
Income (loss) before income tax and cumulative effect of change in accounting principle	(1,917)	(2,327)	1,154	6	3,087
Income tax expense (benefit)	(702)	(762)	225	1	1,286
Income (loss) before cumulative change in accounting principle	(1,215)	(1,565)	929	5	1,801
Cumulative effect of change in accounting principle, net of income tax benefit of $38	(57)	—	—	—	—
Net income (loss)	(1,272)	(1,565)	929	5	1,801
Accretion of redeemable preferred stock and preferred stock dividends	(104)	(3)	(201)	(46)	(150)
Conversion of preferred stock	(972)	—	(83)	—	—
Participation rights of preferred stock in undistributed earnings	—	—	(205)	—	(511)
Net income (loss) attributable to common shareholders	$ (2,348)	$ (1,568)	$ 440	$ (41)	$ 1,140
Basic net income (loss) per share attributable to common shareholders	$ (0.36)	$ (0.18)	$ 0.05	$ (0.00)	$ 0.11
Weighted-average common shares outstanding	6,470,413	8,524,012	9,080,461	9,002,919	10,711,695
Diluted net income (loss) per share attributable to common shareholders	$ (0.36)	$ (0.18)	$ 0.05	$ (0.00)	$ 0.09
Weighted-average common shares and share equivalents outstanding	6,470,413	8,524,012	16,432,647	15,665,720	19,782,208

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

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		Shareholder		Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Paid-in Capital	Treasury Shares	Notes Receivable	Accumulated Deficit	Shareholders' Equity
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)	—	—	—	—	—	—	749,138	1,299	—	—	—	1,299
Tax benefit from exercise of stock options (unaudited)	—	—	—	—	—	—	—	922	—	—	—	922
Stock-based compensation (unaudited)	—	—	—	—	—	—	—	550	—	—	—	550
Accretion of preferred stock (unaudited)	—	150	—	—	—	—	—	—	—	—	(150)	(150)
Changes in shareholder notes receivable (unaudited)	—	—	—	—	—	—	(306,932)	—	(1,378)	2,128	—	750
Adoption of FIN 48 (unaudited)	—	—	—	—	—	—	—	—	—	—	(210)	(210)
Net income (unaudited)	—	—	—	—	—	—	—	—	—	—	1,801	1,801
Balance, September 30, 2007 (unaudited)	1,818,182	$ 5,103	—	$ —	2,989,830	$ 5,959	12,480,705	$ 12,209	$ (1,739)	$ —	$ (2,112)	$ 14,317

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,			Six Months Ended September 30,	
	2005	2006	2007	2006	2007
				(Unaudited)	
Operating activities					
Net income (loss)	$ (1,272)	$ (1,565)	$ 929	$ 5	$ 1,801
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	539	941	1,063	527	547
Stock-based compensation expense	—	618	363	123	550
Deferred income tax benefit	(740)	(922)	(213)	1	290
Loss on write-off of patents and licenses	—	—	13	—	—
Loss on sale of assets	—	224	268	123	1
Other	—	37	8	4	36
Changes in operating assets and liabilities:					
Accounts receivable	(305)	(2,757)	(5,161)	(701)	(2,345)
Inventories	(3,472)	491	(4,555)	(4,022)	(6,182)
Prepaid expenses and other current assets	9	(300)	(524)	77	(1,844)
Accounts payable	3,338	(584)	840	(17)	7,571
Accrued expenses	1,040	416	735	(69)	1,444
Net cash provided by (used in) operating activities	(863)	(3,401)	(6,234)	(3,949)	1,869
Investing activities					
Purchase of property and equipment	(5,764)	(871)	(1,012)	(459)	(1,008)
Purchase of short-term investments	——	—	—	—	(3,900)
Additions to patents and licenses	(40)	(56)	(81)	(29)	(123)
Proceeds from disposal of equipment	—	735	263	263	—
Net decrease (increase) in amount due from shareholder	(84)	30	(139)	(93)	187
Net cash used in investing activities	(5,888)	(162)	(969)	(318)	(4,844)
Financing activities					
Purchase of treasury stock	(345)	—	—	—	—
Proceeds from issuance of long-term debt	10,099	134	40	40	10,666
Payment of long-term debt	(5,840)	(2,416)	(1,263)	(692)	(356)
Net activity in revolving line of credit	(636)	4,853	1,211	(804)	(1,342)
Excess benefit for deferred taxes on stock-based compensation	—	—	435	13	922
Proceeds from shareholder notes receivable, net	5	35	23	23	750
Deferred finance and offering costs	(91)	(94)	—	—	(2,385)
Proceeds from issuance of preferred stock, net	3,857	1,454	5,123	5,149	—
Proceeds from issuance of common stock	88	193	830	31	1,299
Net cash provided by financing activities	7,137	4,159	6,399	3,760	9,554
Net increase (decrease) in cash and cash equivalents	386	596	(804)	(507)	6,579
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	$ 582	$ 6,864
Supplemental cash flow information:					
Cash paid for interest	$ 492	$ 1,003	$ 927	$ 459	$ 561
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	794	—
Shares surrendered for payment of stock note receivable	—	—	—	—	1,378
Preferred stock accretion	104	3	201	46	150

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 September 30, 2007, the consolidated statements of operations and cash flows for the six months ended September 30, 2006 and 2007 and the consolidated statements of temporary equity and shareholders' equity for the six months ended September 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 September 30, 2007 and consolidated results of operations and cash flows for the six months ended September 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 six months ended September 30, 2006 and 2007 are unaudited. The results for the six months ended September 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.

Short-term investments

The Company's short-term investments, which consist of government agency bonds with maturities ranging from 91 to 125 days when acquired, are reported at fair value with any net unrealized gains and losses reported as a component of accumulated other comprehensive income in shareholders' equity. At the time of sale, any realized appreciation or depreciation, calculated by the specific identification method, will be recognized in non-operating results. The Company has classified all marketable securities as short-term since it has the intent to maintain a liquid portfolio and the ability to redeem the securities within one year. During the six months ended September 30, 2007, there were no sales of the Company's short-term investments. As of September 30, 2007 (unaudited), no unrealized gains or losses were recorded as the marketable securities' fair value approximated their cost.

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair value of financial instruments

The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, short-term investments, accounts receivable, 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 September 30, 2007 (unaudited), net contract receivables amounted to $231,000, $186,000 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 September 30, 2007 (unaudited), the Company had inventory obsolescence reserves of $355,000, $448,000 and $642,000.

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.

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Inventories were comprised of the following (in thousands):

	March 31, 2006	March 31, 2007	September 30, 2007 (Unaudited)
Raw materials and components	$ 1,762	$ 5,496	$ 8,285
Work in process	386	358	510
Finished goods	4,019	3,642	6,883
	$ 6,167	$ 9,496	$ 15,678

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist primarily of prepaid insurance premiums, advance payments to contractors, payments on construction of an asset to be sold to a finance company and leased back, 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 six months ended September 30, 2006 and 2007 (unaudited).

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

	March 31,		September 30, 2007 (Unaudited)
	2006	2007	
Land and land improvements	$ 557	$ 557	$ 560
Buildings	4,240	4,423	4,533
Furniture, fixtures and office equipment	1,298	1,441	1,596
Plant equipment	3,923	3,747	3,952
Construction in progress	141	130	649
	10,159	10,298	11,290
Less: accumulated depreciation and amortization	2,053	2,710	3,206
Net property and equipment	$ 8,106	$ 7,588	$ 8,084

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

	March 31,		September 30, 2007 (Unaudited)
	2006	2007	
Equipment	$ 1,498	$ 1,451	$ 1,206
Less: accumulated amortization	328	531	364
Net equipment	$ 1,170	$ 920	$ 842

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 $123,000 was capitalized in the six months ended September 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 $437,000 and $83,000 as of September 30, 2007 (unaudited). The average remaining useful life of the patents and licenses as of September 30, 2007 was approximately 16 years. As of September 30, 2007, amortization expense of the patents and licenses for each of the fiscal years ending 2008 through 2012 is estimated to be $23,000, with $221,000 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 September 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 six months ended September 30, 2007 (unaudited), the Company deferred $213,000 of costs related to its convertible debt issuance that closed in August 2007 (see Note D). 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 six months ended September 30, 2006 and 2007 (unaudited), the amortization was $19,000 and $26,000 respectively.

The balance at September 30, 2007 (unaudited) included $2,173,000 of deferred equity issuance costs incurred in connection with the Company's contemplated initial public offering.

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 $770,000 as of March 31, 2006, 2007 and September 30, 2007 (unaudited). 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 September 30, 2007 (unaudited).

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

	March 31,		September 30,
	2006	2007	2007 (Unaudited)
Beginning of period	$ 250	$ 332	$ 45
Credit from supplier	412	—	—
Provision to cost of revenue	745	249	231
Charges	(1,075)	(536)	(89)
End of period	$ 332	$ 45	$ 187

Revenue Recognition

The Company recognizes revenue in accordance with Staff Accounting Bulletin, (SAB) No. 104, *Revenue Recognition*. 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 only revenue upon delivery of the product and title passing to the customer. At that time, the Company provides for estimated costs that may be incurred for product warranties and sales returns.

For sales contracts consisting of multiple elements of revenue, such as a combination of product sales and services, the Company determines revenue by allocating the total contract revenue to each element based on the relative fair values in accordance with Emerging Issues Task Force (EITF) No. 00-21, *Revenue Arrangements With Multiple Deliverables*.

Services other than installation and recycling that are completed prior to delivery of the product are recognized upon shipment and are included in product revenue as evidence of fair value does not exist.

These services include comprehensive site assessment, site field verification, utility incentive and government subsidy management, engineering design, and project management.

Service revenue includes revenue earned from installation, which includes recycling services. Service revenue is recognized when services are complete and customer acceptance has been received. The Company 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 disposal of the customer's legacy lighting fixtures.

Costs of products delivered, and services performed, that are subject to additional performance obligations or customer acceptance are deferred and recorded in Other Current Assets on the Balance Sheet. These deferred costs are expensed at the time the related revenue is recognized. Deferred costs amounted to $484,000 and $298,000 as of March 31, 2006 and 2007 and $707,000 as of September 30, 2007 (unaudited).

Deferred revenue of $109,000 and $133,000 as of March 31, 2006 and 2007, and $183,000 as of September 30, 2007 (unaudited) is included in Other Long-Term Liabilities on the Balance Sheet and represents revenue deferred related to an obligation to provide replacement lamps on certain sales. The fair value of lamps is readily determinable based upon pricing from third-party vendors. Deferred revenue is recognized when the replacement lamps are delivered, which occurs in excess of a year after the original contract.

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 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. The Company's contract terms with the third party finance company provide for a non-recourse sale of the customer's installment contract, with the finance company providing 70% of funding at contract origination, 15% in year two and 15% in year three. Sales under this program amounted to 7.4%, 4.5% and 1.5% of revenue for fiscal 2005, 2006 and 2007 and 3.1% and 0.4% of revenue for the six months ended September 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 $232,000 for the six months ended September 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.

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 $922,000 for the year ended March 31, 2007 and six months ended September 30, 2007 (unaudited).

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 six months ended September 30, 2007, this amount was $922,000 (unaudited).

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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%.

The fair value of each option grant in fiscal 2005, 2006 and 2007 and for the six months ended September 30, 2007 (unaudited) was determined using the assumptions in the following table:

	Fiscal Year Ended March 31,			September 30, 2007
	2005	2006	2007	(Unaudited)
Weighted average expected term	6 years	6 years	6.6 years	2.4 years
Risk-free interest rate	4.32%	4.35%	4.62%	4.74%
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.

On July 27, 2007, the Company granted stock options for 429,432 shares at an exercise price of $4.49 per share. The 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 the Company's common stock as of such date primarily based on the $4.49 per share conversion price of the substantially simultaneous subordinated convertible note placement.

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.

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 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. In addition, in computing the dilutive effect of convertible debt, the

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

numerator is adjusted to add back the after-tax amount of interest recognized in the period. The effect of net income (loss) per common share is calculated based upon the following shares:

	Fiscal Year Ended March 31,			Six Months Ended September 30,	
	2005	2006	2007	2006	2007
				(Unaudited)	
Numerator:					
Net income (loss)	$ (1,272)	$ (1,565)	$ 929	$ 5	$ 1,801
Accretion of redeemable preferred stock and preferred stock dividends	(104)	(3)	(201)	(46)	(150)
Conversion of preferred stock	(972)	—	(83)	—	—
Participation rights of preferred stock in undistributed earnings	—	—	(205)	—	(511)
Numerator for basic net income (loss) per common share	(2,348)	(1,568)	440	(41)	1,140
Adjustment for interest, net of income tax effect	—	—	—	—	59
Preferred stock dividends and participation rights of preferred stock	—	—	406	46	661
Numerator for diluted net income per common share	$ (2,348)	$ (1,568)	$ 846	$ 5	$ 1,860
Denominator:					
Weighted-average common shares outstanding	6,470,413	8,524,012	9,080,461	9,002,919	10,711,695
Weighted-average effect of preferred stock, restricted stock and assumed conversion of stock options and warrants	—	—	7,352,186	6,662,801	9,070,513
Weighted-average common shares and common share equivalents outstanding	6,470,413	8,524,012	16,432,647	15,665,720	19,782,208

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.

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

	March 31,			September 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
Convertible debt	—	—	—	—	2,360,802
Common stock subject to non-recourse shareholder notes receivable	—	—	2,150,000	—	—
Common stock options	6,412,108	6,394,730	4,714,547	6,608,532	4,742,909
Common stock warrants	1,064,314	1,098,574	1,109,390	1,096,908	778,322
Total	9,730,822	10,360,704	12,781,949	10,715,270	12,690,045

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 six months ended September 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 18% of accounts receivable as of September 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 April 1, 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 Company first recognizes tax benefits from current period stock option expenses against current period income. The remaining current period income is offset by net operating losses under the tax law ordering approach. Under this approach, the Company will utilize the net operating losses from stock option expenses last. For the six months ended September 30, 2007, the amount of unrecognized tax benefits decreased by $450,000 to $1.15 million due to the utilization of unrecognized tax benefits from stock option expenses. 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 $750,000 unrecognized tax benefits for stock option expenses. 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.

Reclassifications

Certain reclassifications have been made to the 2005 and 2006 financial statements to conform to the 2007 presentation. These reclassifications do not affect the net earnings as previously reported.

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 six months ended September 30, 2007 (unaudited) was $37,000.

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 March 31, 2007.

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 six months ended September 30, 2006 and 2007 (unaudited) were $39,000 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 March 31, 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 September 30, 2007 (unaudited) consisted of the following (in thousands):

	March 31,		September 30,
	2006	2007	2007 (Unaudited)
Revolving credit agreement	$ 4,853	$ 6,064	$ 4,722
Term note	1,807	1,629	1,536
First mortgage note payable	1,073	1,062	1,057
Debenture payable	989	956	939
Lease obligations	1,150	850	686
Other long-term debt	1,212	778	701
Stock note payable to former shareholder	267	—	—
Total long-term debt	11,351	11,339	9,641
Less current maturities	(859)	(736)	(708)
Long-term debt, less current maturities	$ 10,492	$ 10,603	$ 8,933

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 September 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 March 31, 2007.

First Mortgage Note Payable

The Company's first mortgage has an interest rate of prime plus 2% (effective rate of 9.75% at September 30, 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 March 31, 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 March 31, 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 March 31, 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

NOTE D — CONVERTIBLE DEBT

In August 2007, the Company issued $10.6 million of convertible subordinated notes, maturing in August 2012 and bearing interest at 6% per annum with no scheduled principal payments prior to maturity. The 6% interest accrues at 2.1% payable in cash on a quarterly basis and 3.9% which accretes to the principal balance of the convertible notes on a quarterly basis.

The convertible notes contain terms and conditions, including: (i) automatic conversion into 2,360,802 shares of our common stock upon a qualified public offering, (ii) various registration rights with respect to the shares of our common stock received upon conversion of the notes and (iii) a requirement for the Company to reserve an equal number of shares of its authorized common stock to satisfy the conversion obligation.

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE E — 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 six months ended September 30, 2006 and 2007 (unaudited) the effective income tax rate was 19% and 42%.

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

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 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 $3.1 million for the six months ended September 30, 2007; (ii) the anticipated fiscal 2008 revenue growth due to the backlog of orders as of September 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 efforts to increase revenue. Accordingly, a deferred tax asset valuation allowance has not been recorded.

NOTE F — 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 $67,000 and $443,000 for the six months ended September 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.

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE G — 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 September 30, 2007 (unaudited) were $198,000 and $348,000)
- 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. The carrying value is being accreted to its redemption value over a period of five years at a non-compounded rate of 6%.

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.

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.

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 March 31, 2007.

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 with respect to such grants of $224,000 in fiscal 2008 and $127,000 in fiscal 2009.

NOTE H — 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	Six Months Ended September 30,	
		2006	2007
		(unaudited)	
Cost of product revenue	$ 24	$ 6	$ 44
General and administrative	154	58	380
Sales and marketing	153	50	110
Research and development	32	9	16
	$ 363	$ 123	$ 550

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)	(479,432)
Forfeited (unaudited)	33,000
Available at September 30, 2007 (unaudited)	224,268

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The options granted during fiscal 2007 and during the six months ended September 30, 2007 (unaudited), are 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
July 2007 (unaudited)	429,432	4.49	4.49	—

The following table summarizes information with respect to outstanding stock options:

	March 31, 2005		March 31, 2006		March 31, 2007		September 30, 2006 (Unaudited)		September 30, 2007 (Unaudited)	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
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	$ 1.58
Granted	599,000	2.24	735,000	1.87	1,657,500	2.26	264,000	2.50	479,432	4.39
Exercised	(82,692)	.82	(474,378)	.91	(3,057,683)	.84	(42,198)	0.69	(418,070)	1.33
Forfeited	(27,000)	1.16	(278,000)	2.09	(280,000)	2.25	(8,000)	2.25	(33,000)	2.13
Outstanding, end of period	6,412,108	$ 1.02	6,394,730	$ 1.06	4,714,547	$ 1.56	6,608,532	$ 1.12	4,742,909	$ 1.85
Weighted average fair value of options granted	$ 0.48		$ 1.54		$ 1.35		$ 1.27		$ 3.20	

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the range of exercise prices on outstanding stock options at March 31, 2007 and September 30, 2007 (unaudited):

	March 31, 2007					September 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	$ 0.69	1,260,627	$ 0.69	1,066,557	3.6	$ 0.69	1,066,557	$ 0.69
.75 – .94	657,420	4.7	0.91	571,420	0.93	647,420	4.2	0.91	567,420	0.93
1.24 – 1.50	512,000	6.4	1.45	352,800	1.45	456,000	5.7	1.48	294,400	1.50
2.20 – 2.25	1,993,500	9.1	2.22	308,800	2.25	1,862,500	8.7	2.21	176,801	2.25
2.50 – 2.75	291,000	9.3	2.53	73,866	2.57	281,000	8.7	2.53	47,200	2.51
4.49	—	—	—	—	—	429,432	9.8	4.49	—	—
	4,714,547	6.8	$ 1.56	2,567,513	$ 1.09	4,742,909	6.8	$ 1.85	2,152,378	$ 1.03
Aggregate Intrinsic Value	$ 12,207,000			$ 7,861,100		$ 10,927,000			$ 6,714,000	

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 September 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)	479,432
Vested (unaudited)	(18,535)
Forfeited (unaudited)	(17,400)
Non-vested at September 30, 2007 (unaudited)	2,590,531

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 September 30, 2007, future compensation costs to be recognized related to non-vested common stock-based compensation amount to $3.5 million over a remaining weighted average expected term of approximately 4 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		September 30, 2006 (Unaudited)		September 30, 2007 (Unaudited)	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
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	(1,666)	1.82	(331,068)	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	1,096,908	$ 2.24	778,322	$ 2.24

A summary of outstanding warrants follows:

Exercise Price	March 31, 2007	September 30, 2007 (Unaudited)	Expiration
$1.50	79,236	67,836	Fiscal 2012
$2.25	221,480	66,480	Fiscal 2014
$2.30	763,914	599,246	Fiscal 2010
$2.50	37,260	37,260	Fiscal 2011
$2.60	7,500	7,500	Fiscal 2012
Total	1,109,390	778,322	

Table of Contents

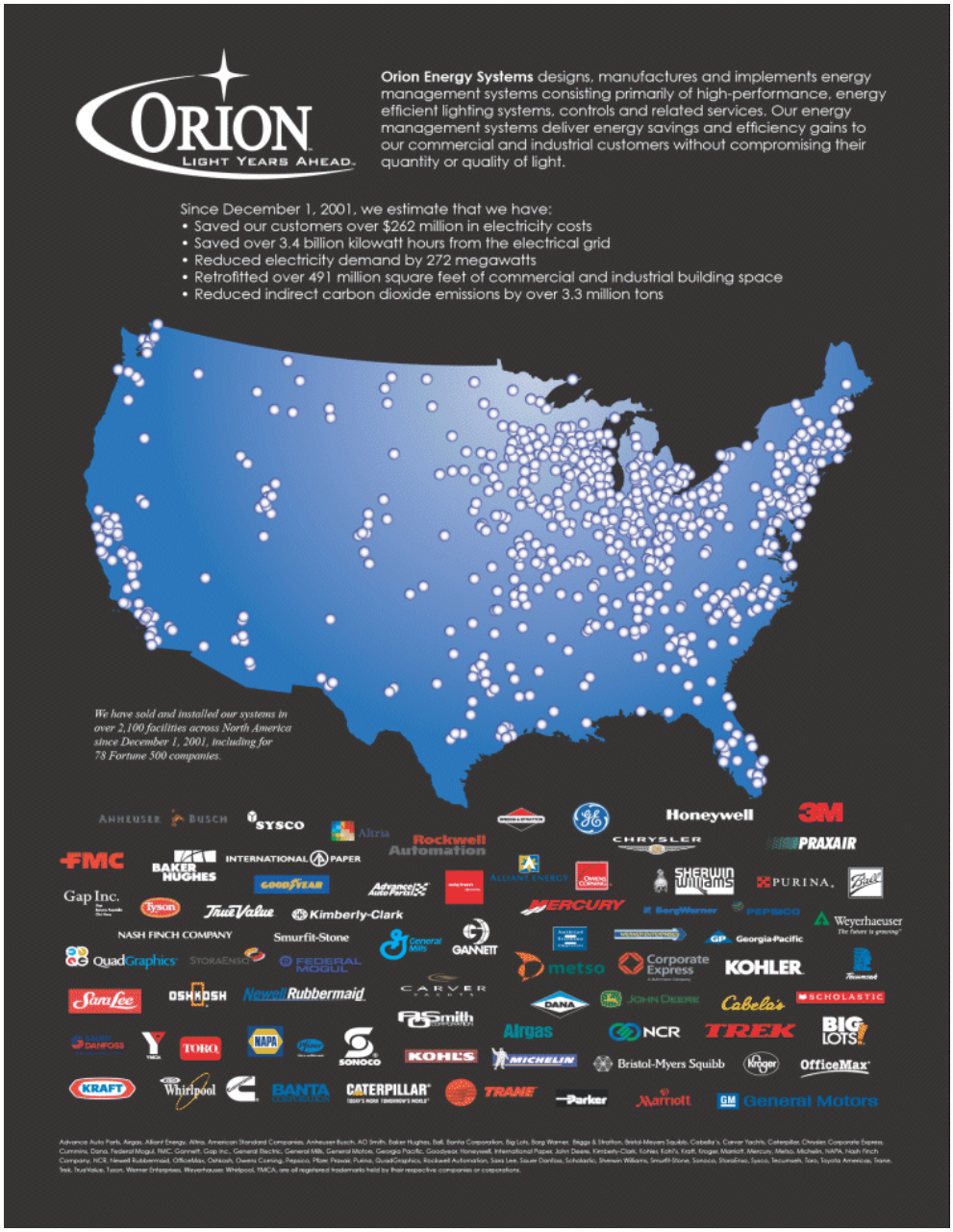

Table of Contents

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 October 15, 2007, we had issued a total of 197,000 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 October 15, 2007, we had issued a total of 110,000 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 October 15, 2007, we had issued a total of 28,000 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.

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 29, 2007.

ORION ENERGY SYSTEMS, INC.

By: /s/ NEAL R. VERFUERTH
Neal R. Verfuerth
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this amendment to the registration statement has been signed by the following persons in the capacities indicated on October 29, 2007.

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, including exhibits, 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, including exhibits, 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.**
10.15	Summary of Non-Employee Director Compensation.*
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

Exhibit 2.1

ORION ENERGY SYSTEMS, LTD.
SERIES C SENIOR CONVERTIBLE PREFERRED
STOCK PURCHASE AGREEMENT

TABLE OF CONTENTS

ORION ENERGY SYSTEMS, LTD.

SERIES C SENIOR CONVERTIBLE PREFERRED STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT (the "Agreement") is made as of the ___ day of _____, by and among Orion Energy Systems, Ltd., a Wisconsin corporation (the "Company"), and the investors listed on Schedule A hereto, each of which is herein referred to as an "Investor."

THE PARTIES HERETO HEREBY AGREE AS FOLLOWS:

1. Purchase and Sale of Stock.

1.1 Sale and Issuance of Series C Preferred Stock.

(a) The Company shall adopt and file with the Wisconsin Department of Financial Institutions of on or before the Closing (as defined below) the Amended and Restated Articles of Incorporation in the form attached hereto as Exhibit A (the "Certificate").

(b) Prior to the Closing the Company shall authorize (i) the sale and issuance to the Investors of up to _____ shares of its Series C Senior Convertible Preferred Stock (the "Shares") and (ii) the issuance of the shares of Common Stock to be issued upon conversion of the Shares (the "Conversion Shares"). The Shares and the Conversion Shares shall have the rights, preferences, privileges and restrictions set forth in the Certificate.

(c) Subject to the terms and conditions of this Agreement, each Investor agrees, severally and not jointly, to purchase at the Closing and the Company agrees to sell and issue to each Investor at the Closing, that number of Shares set forth opposite such Investor's name under the heading "Shares" on Schedule A hereto for $2.75 per share (the "Series C Purchase Price").

1.2 Closing. The purchase and sale of the Shares shall take place at the offices of _____, at 10:00 A.M. (local time), on _____, or at such other time and place as the Company and Investors acquiring in the aggregate a majority of the Shares agree upon orally or in writing (which time and place are designated as the "Closing"). At the Closing, the Company shall deliver to each Investor a certificate representing the Shares that such Investor is purchasing against payment of the purchase price therefor by check, wire transfer, cancellation of indebtedness, or any combination thereof.

1.3 Use of Proceeds. The Company will use the proceeds from the sale of the Shares to fund operating expenses, working capital and capital expenditures, and for other general corporate purposes.

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 each Investor, 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 and Orion Aviation, Inc. (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) 500,000 shares are designated Series A Convertible 12% Cumulative Preferred Stock (the "Series A Preferred Stock"), of which 84,000 are issued and outstanding (64,000 of which are held by the Company in a fiduciary capacity), (ii) 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 (iii) 2,000,000 shares are designated Series C Senior Convertible Preferred Stock (the "Series C Preferred Stock"), none of which are outstanding and 1,636,364 of which are to be sold pursuant to this Agreement. The rights, privileges and preferences of the Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock are as stated in the Certificate.

(ii) Common Stock. 80,000,000 shares of Common Stock, no par value (the "Common Stock"), of which 9,001,770 shares are issued and outstanding (of which 61,864 are held by the Company in a fiduciary capacity).

(b) The outstanding shares of Common Stock and Preferred Stock are owned by the shareholders of record and in the amounts specified in Schedule B hereto.

(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 (A) the rights provided in Section 2.4 of that certain Investors' Rights Agreement in the form attached hereto as Exhibit B (the "Investors' Rights Agreement"), (B) an aggregate of 8,423,750 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 (C) 1,099,110 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 Investors' Rights Agreement, and that certain First Offer and Co-Sale Agreement in the form attached hereto as Exhibit C (the "First Offer and Co-Sale Agreement"), and 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 Shares being sold hereunder and the Conversion Shares has been taken or will be taken prior to or at the Closing, and this Agreement and the Ancillary Agreements constitute valid and legally binding obligations of the Company, enforceable in accordance with their respective terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies, and (iii) 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 Preferred and Common Stock. The Shares being purchased by the Investors 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 Certificate, 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 and the Ancillary Agreements or the offer, issuance and sale of the Shares and the Conversion Shares, or the consummation of the transactions contemplated by this Agreement, 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 each Investor's representations set forth in Section 3 of this Agreement, the offer, sale and issuance of the Shares as contemplated by this Agreement 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 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 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.

2.9 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 2.9, nor is 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.

2.10 Compliance with Other Instruments; No Conflicts. None of the Company Parties is in violation of any provision of its 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.

2.11 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.

2.12 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.

2.13 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.

2.14 Environmental and Safety Laws. None of the Company Parties is in violation of any applicable statute, law or regulation relating to the environment or 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.

2.15 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.

2.16 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.

2.17 Corporate Documents. The Certificate and bylaws of the Company are in the form previously provided to special counsel for the Investors.

2.18 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.

2.19 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, 2006 and for the fiscal year then ended, and (b) interim, unaudited financial statements as of June 30, 2006 (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 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 June 30, 2006 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.

2.20 Changes. Since June 30, 2006, 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;

(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 2.20.

2.21 Employee Benefit Plans. None of the Company Parties has any Employee Benefit Plan as defined in the Employee Retirement Income Security Act of 1974.

2.22 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.

2.23 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.

2.24 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.

2.25 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.

2.26 Significant Customers and Suppliers. Section 2.26 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 June 30, 2006 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.

2.27 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.

2.28 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 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 June 30, 2006 are valid receivables subject to no setoffs or counterclaims and are collectible (within 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.

2.29 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 (i) the applicable standard terms and conditions of sale or lease of the Company or the appropriate Subsidiary, which are set forth in Section 2.29 of the Schedule of Exceptions and (ii) manufacturers' warranties for which neither the Company nor any Subsidiary has any liability. Section 2.29 of the Disclosure Schedule 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.

2.30 Disclosure. The Company has provided each Investor with all information that such Investor has requested for deciding whether to purchase the Shares. This

Agreement, including all Exhibits and Schedules hereto, and the 2007 Operating Plan, dated March 6, 2006, furnished to the Investors in connection with the transactions contemplated by this Agreement, 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 Plan was prepared in good faith based on reasonable assumptions and respects the Company's best estimate of future results based on information available as of the date of the Plan.

3. Representations and Warranties of the Investors. Each Investor, severally and not jointly, hereby represents and warrants that:

3.1 Authorization. Such Investor has full 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 (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies, and (iii) 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 such Investor's representation to the Company, which by such Investor's execution of this Agreement such Investor hereby confirms, that the Shares to be received by such Investor and the Conversion Shares (collectively, the "Securities") will be acquired for investment for such 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 Shares 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 Investors 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 Shares. If other than an individual, Investor also represents it has not been organized for the purpose of acquiring the Shares.

3.5 Accredited Investor. The Investor is an "accredited investor" within the meaning of 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, to the extent performed), 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 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) (i) Such Investor shall have 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 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 in compliance with Regulation S under the 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(c) 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 Series C Preferred Stock to be purchased at the Closing:

(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 each 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 Shares.

(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 Certificate, Bylaws and Board of Director and shareholder resolutions relating to the sale of the Shares attached thereto are true and complete copies of such documents and resolutions.

(h) Certificate's and Documents. The Company shall have delivered to the Investors:

(i) The Articles of Incorporation of the Company, as amended and in effect as of the Closing Date (including the Certificate, certified by the Department of Financial Institutions of the State of Wisconsin); and

(ii) A certificate, as of the most recent practicable date, as to the active corporate status of the Company 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 C hereto shall have entered into a Proprietary Information Agreement substantially in the form attached hereto as Exhibit D.

(j) Opinion of Company Counsel. Each 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 Shares.

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 Series C 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 Shares 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 Shares.

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 Series C Preferred Stock 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 Wisconsin, as applied to contracts made and performed within the State of Wisconsin, without regard to principles of conflicts of law.

6.4 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.

6.5 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.

6.6 Notices. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed effectively given: (i) upon personal delivery to the party to be notified, (ii) 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, (iii) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (iv) 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 6.6).

6.7 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.

6.8 Indemnification. The Company agrees (i) 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 (ii) 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.

6.9 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, reimburse the reasonable and actual out-of-pocket legal, technical and other professional fees and expenses incurred by the Investors, up to a total amount of $65,000, in connection with the transactions contemplated hereby.

6.10 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 a majority of the Shares purchased or to be 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.

6.11 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.

6.12 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.

6.13 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.

6.14 Counterparts. This Agreement may be executed in two 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.

{Remainder of Page Intentionally Blank — Signature Pages Immediately Follow}

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

COMPANY

ORION ENERGY SYSTEMS, LTD.

By: /s/ Neal R. Verfuerth
Name: Neal R. Verfuerth
Title: President

Address: Neal R. Verfuerth, President
Orion Energy Systems, Ltd.
1204 Pilgrim Road
Plymouth, WI 53073

With copies to:

General Counsel
Orion Energy Systems, Ltd.
1204 Pilgrim Road
Plymouth, WI 53073; and

Foley & Lardner LLP
150 East Gilman Street
Madison, WI 53703
Attention: Joseph P. Hildebrandt
Carl R. Kugler

INVESTOR:

By: /s/
Name:
Title:

Address:

EXHIBIT A

AMENDED AND RESTATED
ARTICLES OF INCORPORATION
OF
ORION ENERGY SYSTEMS, LTD.

These Restated Articles of Incorporation supersede and take the place of the existing Articles of Incorporation and any amendments thereto.

Article 1

The name of the corporation is ORION ENERGY SYSTEMS, LTD. ("Corporation").

Article 2

The Corporation is organized under Chapter 180 of the *Wisconsin Statutes*.

Article 3

Section 3.1. Number of Shares and Classes. The aggregate number of shares that the Corporation shall have authority to issue is one hundred million (100,000,000) shares divided into the following classes:

Eighty million (80,000,000) shares of no par value per share designated as "Common Stock;" and

Twenty million (20,000,000) shares with par value of $.01 per share designated as "Cumulative Preferred Stock."

Any and all such shares of Common Stock and Cumulative Preferred Stock may be issued for consideration, not less than the par value thereof, as shall be fixed from time to time by the Board of Directors. Any and all shares so issued, the full consideration for which has been paid or delivered, shall be deemed fully paid stock and shall not be liable to further call or assessment, and the holders of the shares shall not be liable for any further payment, except as otherwise provided by applicable *Wisconsin Statutes*. The preferences and relative rights of such classes shall be as set forth herein.

Section 3.2. Directors' Authority to Establish Series of Cumulative Preferred Stock. Subject to the rights, preferences, powers, privileges and restrictions, qualifications and limitations of the Series C Preferred Stock as set forth in Section 3.9 hereof, the Board of Directors is authorized to divide the Cumulative Preferred Stock into series and fix and determine the relative rights and preferences of each series. Each series shall be so designated by the Board of Directors as to distinguish the shares thereof from the shares of all other series. Except as otherwise set forth herein and as may be further subject to the rights, preferences, powers, privileges and restrictions, qualifications and limitations of the Series C Preferred Stock as set forth in Section 3.9 hereof, all shares of Cumulative Preferred Stock shall be identical except as to the following relative rights and

preferences, as to which the Board of Directors may establish variations between different series not inconsistent with the provisions of these Articles:

(a) The rate of dividend;

(b) The price and the terms and conditions on which shares may be redeemed;

(c) Sinking fund provisions for the redemption or purchase of shares; and

(d) The terms and conditions on which shares may be converted into Common Stock, if the shares of any series are issued with the privilege of conversion.

Section 3.3. Dividends and Distributions. Subject to the rights, preferences, powers, privileges and restrictions, qualifications and limitations of the Series C Preferred Stock as set forth in Section 3.9 hereof, which rights, preferences, powers, privileges and restrictions, qualifications and limitations conflict with and override the terms of this Section 3.3:

3.3.1. The holders of Cumulative Preferred Stock of all series shall be entitled to receive dividends at such rates as shall be stated in the resolution or resolutions of the Board of Directors providing for the issuance thereof.

3.3.2. All dividends on Cumulative Preferred Stock shall be without priority as between series, and shall be paid or set apart before any dividends or other distributions shall be paid or set apart for Common Stock; provided, however, that dividends may be declared and paid on Common Stock prior to dividends on Cumulative Preferred Stock being paid or set apart. Any dividends paid upon the Cumulative Preferred Stock in an amount less than full cumulative dividends accrued and in arrears upon all Cumulative Preferred Stock outstanding shall, if more than one series be outstanding, be distributed among the different series in proportion to the aggregate amounts which would be distributable to the Cumulative Preferred Stock of each series if full cumulative dividends were declared and paid thereon.

3.3.3. The Cumulative Preferred Stock shall entitle the holder thereof to receive when and as declared at any time by the Board of Directors annual dividends on or before the last day of April of each year. Such dividends shall be contingent upon the Corporation having positive retained earnings from which to pay such dividend and the Corporation’s lender(s) agreeing that such dividends may be paid. Dividends on Cumulative Preferred Stock shall be paid at the rate fixed or provided for in the resolution or resolutions adopted by the Board of Directors pursuant to which the issuance of such Cumulative Preferred Stock shall be authorized. The dividends on the Cumulative Preferred Stock shall be cumulative, so that if at any time the full amount of dividends accrued and in arrears on the Cumulative Preferred Stock shall not be paid, the deficiency shall be payable without interest before any dividends (other than dividends paid in Common Stock) or other distributions shall be paid or set apart on the Common Stock. Dividends on Cumulative Preferred Stock shall accrue on each share from the date on which such share is issued. Whenever all dividends accrued and in arrears on the Cumulative Preferred Stock shall have been declared and shall have been paid or set apart, the Board of Directors may declare dividends on Common Stock out of the remaining positive retained earnings of the Corporation or out of surplus applicable to the payment of such dividends. Any dividend paid upon the Cumulative Preferred Stock at the time

when any accrued dividends for any prior period are delinquent shall be expressly declared and designated as a dividend in whole or partial payment of the accrued dividend for the earliest period for which dividends are then delinquent, and each shareholder to whom such payment is made shall be so advised. Except as provided in paragraphs 3.9.2(a) and 3.9.6 with respect to the Series C Preferred Stock, the Corporation shall be under no obligation to pay dividends on Cumulative Preferred Stock unless first declared by the Board of Directors.

Section 3.4. Liquidation Rights. Notwithstanding anything to the contrary herein set forth, this Section 3.4 shall be subject to the rights, preferences, powers, privileges and restrictions, qualifications and limitations of the Series C Preferred Stock as set forth in Section 3.9 hereof, which rights, preferences, powers, privileges and restrictions, qualifications and limitations conflict with and override the terms of this Section 3.4. In the event of the voluntary liquidation or winding up of the Corporation, the holders of Cumulative Preferred Stock shall be entitled to receive out of the assets of the Corporation in full the fixed voluntary liquidation amount thereof, plus accrued dividends thereon, all as provided in the resolution or resolutions providing for the issuance thereof, before any amount shall be paid to the holders of Common Stock. In the event of the involuntary liquidation of the Corporation, the holders of the Cumulative Preferred Stock shall be entitled to receive out of the assets of the Corporation in full the fixed involuntary liquidation amount thereof, plus accrued dividends thereon, all as provided in the resolution or resolutions providing for the issuance thereof, before any amount shall be paid to the holders of Common Stock. If upon the voluntary or involuntary liquidation or winding up of the Corporation the assts of the Corporation shall be insufficient to pay the holders of all of the Cumulative Preferred Stock the entire amounts to which they may be entitled, the assets of the Corporation shall, if more than one series be outstanding, be distributed among the different series in proportion to the aggregate amounts which would be distributable to the Cumulative Preferred Stock of each series if sufficient assets were available. The holders of Cumulative Preferred Stock shall not otherwise be entitled to participate in any distribution of assets of the Corporation, which shall be divided or distributed among holders of Common Stock. No consolidation or merger of the Corporation with or into another corporation or corporations and no sale by the Corporation of all or substantially all of its assets shall be deemed a liquidation or winding up of the Corporation.

Section 3.5. Voting Rights. Subject to the rights, preferences, powers, privileges and restrictions, qualifications and limitations of the Series C Preferred Stock as set forth in Section 3.9 hereof, which rights, preferences, powers, privileges and restrictions, qualifications and limitations conflict with and override the terms of this Section 3.5:

3.5.1. Except as hereinafter in this Section 3.5 expressly provided and as provided by the Wisconsin Business Corporations Law, the holders of Cumulative Preferred Stock shall, together with the holders of Common Stock (neither the Cumulative Preferred Stock nor the Common Stock voting as a class), possess full voting rights for the election of directors and for other purposes. Holders of Common Stock and Cumulative Preferred Stock shall be entitled to one vote for each share held.

3.5.2. So long as any shares of Cumulative Preferred Stock are outstanding, the Corporation shall not, without the affirmative vote as provided by law of the holders of a majority of the outstanding shares of Cumulative Preferred Stock, voting as a class:

(a) create or authorize any class of stock ranking either as to payment of dividends or distributions of assets prior to or on a parity with the Cumulative Preferred Stock or increase the number of authorized shares of Cumulative Preferred Stock; or

(b) change the preferences, limitations or relative rights with respect to the outstanding Cumulative Preferred Stock, other than the preferences, limitations or relative rights of the Series C Preferred Stock (which are governed by Section 3.9.3(b) so as to materially and adversely alter in any respect the rights of the holders thereof.

Section 3.6. Acquisition of Shares. Subject to the rights, preferences, powers, privileges and restrictions, qualifications and limitations of the Series C Preferred Stock as set forth in Section 3.9 hereof, which rights, preferences, powers, privileges and restrictions, qualifications and limitations conflict with and override the terms of this Section 3.6, the Corporation shall have the right to purchase, take, receive or otherwise acquire its own shares regardless of the availability of unreserved and unrestricted earned surplus and without earned surplus being restricted thereby. Shares of Cumulative Preferred Stock so acquired, as well as the shares of Cumulative Preferred Stock acquired upon redemption or conversion of Cumulative Preferred Stock, shall become authorized and unissued shares of Cumulative Preferred Stock which may be designated as shares of any series.

Section 3.7. Series A Preferred Stock. Subject to the rights, preferences, powers, privileges and restrictions, qualifications and limitations of the Series C Preferred Stock as set forth in Section 3.9 hereof:

3.7.1. The Corporation shall have authority to issue five hundred thousand (500,000) shares of Series A Convertible 12% Cumulative Preferred Stock with par value of $.01. Such stock shall be referred to as "Series A Preferred Stock." Each share of Series A Preferred Stock shall be entitled to vote and be convertible into two shares of common stock at any time prior to December 31, 2008. A dividend of $0.165-per share of Series A Preferred Stock shall be paid annually on April 30th to holders of Series A Preferred Stock of record as of December 31st of the prior year. For stock which has been outstanding for only a portion of the prior year, such dividend shall be prorated to be $.0138 for each full month such stock was outstanding during the prior year.

3.7.2. The payment of the dividend on Series A 12% Cumulative Preferred Stock is contingent upon the Corporation having positive retained earnings from which to pay such dividend and further is contingent upon the Corporation's lender(s) agreeing that such dividends may be paid. Any unpaid dividends shall accumulate and be payable in whole or in part at such time as there are retained earnings and the Corporation's lender(s) allow such payments.

3.7.3. In the event of dissolution of the Corporation, the Series A Preferred Stock shall have a preference in the distribution of any remaining assets of the Corporation after payment of corporate debts and obligations. In such case, before any distributions are made to Common Stock shareholders, the Series A Preferred Stock shareholders shall be entitled to be paid $1.375 per share plus any accumulated and unpaid dividends thereon.

Section 3.8. Series B Preferred Stock. Subject to the rights, preferences, powers, privileges and restrictions, qualifications and limitations of the Series C Preferred Stock as set forth in Section 3.9 hereof:

3.8.1. The Corporation shall have authority to issue four million (4,000,000) shares of Series B Convertible Cumulative Preferred Stock. Such stock shall be referred to as "Series B Preferred Stock." Each share of Series B Preferred Stock shall be entitled to vote share for share with Common Stock, except that any proposed amendment to these Articles of Incorporation which affects the designation, preferences, limitations and relative rights of the Series B Preferred Stock or as otherwise provided by law, must be approved by the holders of a majority of the Series B Preferred Stock. Each share of Series B Preferred Stock shall be convertible, at any time upon written notice of the Corporation by the holder thereof, into one (1) share of fully paid and nonassessable (except to the extent provided in Section 180.0622 of the Wisconsin Statutes) Common Stock. Immediately prior to a Qualifying Public Offering (as defined in Section 3.9.5), each outstanding share of Series B Preferred Stock shall automatically convert into one share of Common Stock and such shares may not be reissued by the Corporation. At any time, at the closing of the Corporations' public registered offering of a class of Common Stock under the Securities Act of 1933, as amended, each outstanding share of Series B Preferred Stock shall automatically convert into one (1) share of Common Stock, and such shares may not be reissued by the Corporation.

3.8.2. In the event of any voluntary liquidation or winding up of the Corporation, the holders of the Series B Preferred Stock shall be entitled to receive out of the net assets of the Corporation the price at which such shares were issued (subject to appropriate adjustment for stock splits, stock dividends, combinations and similar recapitalizations affecting such shares), plus an amount, if any, of all cumulative dividends unpaid to the date of such liquidation, before distribution to the holders of Common Stock, and shall not participate in any further distribution of the net assets of the Corporation. In the event that the net assets are not adequate to fully pay the amount payable to the holders of the Series B Preferred Stock hereunder, the amounts distributable to the holders of the Series B Preferred Stock shall be distributed among the holders thereof pro rata based on the number of shares of Series B Preferred Stock held.

Section 3.9. Series C Senior Convertible Preferred Stock. Two million (2,000,000) shares of the authorized and unissued Preferred Stock of the Corporation are hereby designated "Series C Senior Convertible Preferred Stock" (the "Series C Preferred Stock"), with the following rights, preferences, powers, privileges and restrictions, qualifications and limitations:

3.9.1. Dividends.

(a) The holders of shares of Series C Preferred Stock shall be entitled to receive cumulative dividends out of any assets legally available therefor, prior and in preference to any declaration or payment of any dividend (payable other than in Common Stock or other securities and rights convertible into or entitling the holder thereof to receive, directly or indirectly, additional shares of Common Stock of the Corporation) on the Series B Preferred Stock, Series A Preferred Stock, the Common Stock or any other shares of capital stock of the Corporation at a rate of $0.165 per share (subject to appropriate adjustment for any stock splits, stock dividends, combinations and other similar recapitalizations) per annum on each outstanding share of Series C Preferred Stock (the "Series C Dividends") payable annually when, as and if declared by the Board of Directors. The Series C Dividends shall accrue (whether or not declared by the Board of Directors) and be

cumulative as to any share of Series C Preferred Stock from the date on which such share is first issued and shall be payable in arrears, when and as declared by the Board of Directors or as otherwise provided herein. After payment of the Series C Dividends, any additional dividends shall be distributed among the holders of Series C Preferred Stock, Series B Preferred Stock, Series A Preferred Stock and Common Stock pro rata based on the number of shares of Common Stock then held by each holder (assuming conversion of all such Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock into Common Stock). Except as provided in paragraphs 3.9.2(a) and 3.9.6 with respect to the Series C Preferred Stock, the Corporation shall be under no obligation to pay such dividends unless first declared by the Board of Directors.

(b) The Corporation shall not declare, pay or set aside any dividends on any other series of Cumulative Preferred Stock or on the Common Stock (payable other than in Common Stock or other securities and rights convertible into or entitling the holder thereof to receive, directly or indirectly, additional shares of Common Stock of the Corporation) unless all accrued but unpaid dividends have been paid on the Series C Preferred Stock.

3.9.2. Liquidation, Dissolution or Winding Up; Certain Mergers, Consolidations and Asset Sales.

(a) Liquidation Preference. In the event of any liquidation, dissolution or winding up of the Corporation, either voluntary or involuntary, or any Deemed Liquidation Event (as defined below), subject to the rights of any series of Preferred Stock that may from time to time come into existence, the holders of the Series C Preferred Stock shall be entitled to receive out of the assets of the Corporation available for distribution to its shareholders prior and in preference to any distribution of any of the assets of the Corporation to the holders of Series B Preferred Stock, Series A Preferred Stock, Common Stock or any other shares of capital stock of the Corporation by reason of their ownership thereof, an amount per share equal to $2.75 per share (subject to appropriate adjustment for stock splits, stock dividends, combinations and other similar recapitalizations affecting such shares) for each share of Series C Preferred Stock then held by them (the "Series C Original Issue Price"), plus an amount equal to all accumulated (whether or not declared) but unpaid dividends (including any unpaid Series C Dividends) (such amount hereinafter being referred to as the "Series C Liquidation Amount"); provided, however, that the holders of the Series C Preferred Stock shall not be entitled to receive such accumulated but unpaid dividends in the event of a Deemed Liquidation Event in which the Deemed Liquidation Event Consideration paid or distributed to the holders of capital stock of the Corporation is at least $8.25 per share (subject to appropriate adjustment for stock splits, stock disbursements, combinations and other similar recapitalizations affecting such shares). If, upon the occurrence of such liquidation event, the assets and funds thus distributed among the holders of the Series C Preferred Stock shall be insufficient to permit the payment to such holders of the full Series C Liquidation Amount, then the entire assets and funds of the Corporation legally available for distribution shall be distributed ratably among the holders of the Series C Preferred Stock in proportion to the preferential amount each such holder is otherwise entitled to receive.

(b) Remaining Assets. Upon the completion of the distribution required by Section 3.9.2(a) above, the remaining assets of the Corporation available for distribution to shareholders shall be distributed among the holders of Series B Preferred Stock as set forth in Section 3.8.2 and Series A Preferred Stock as set forth in Section 3.7.3 and any remaining assets

available for distribution to shareholders shall be distributed pro rata among the holders of Common Stock. Notwithstanding the foregoing, nothing herein shall be deemed to prohibit the holders of the Series C Preferred Stock from converting their shares of Series C Preferred Stock into shares of Common Stock prior to or simultaneously with such liquidity event in accordance with Section 3.9.4 hereof, in which case any holders so converting shall not be entitled to receive the distribution required by Section 3.9.2(a) above.

(c) Deemed Liquidation Events.

(i) The following events shall be deemed to be a liquidation of the Corporation for purposes of this Section 3.9.2 (a "Deemed Liquidation Event"), unless the holders of 51% of the Series C Preferred Stock elect otherwise by written notice given to the Corporation at least 5 days prior to the effective date of any such event:

(A) a merger, consolidation or reorganization in which

(I) the Corporation is a constituent party or

(II) a subsidiary of the Corporation is a constituent party and the Corporation issues shares of its capital stock pursuant to such merger or consolidation,

except any such merger, consolidation or reorganization involving the Corporation or a subsidiary in which the shares of capital stock of the Corporation outstanding immediately prior to such merger or consolidation continue to represent, or are converted or exchanged for capital stock which represent, immediately following such merger or consolidation at least a majority, by voting power and economic interest, of the capital stock of (1) the surviving or resulting corporation or (2) if the surviving or resulting corporation is a wholly owned subsidiary of another corporation immediately following such merger, consolidation or reorganization, the parent corporation of such surviving or resulting corporation;

(B) the sale, lease, transfer or other disposition, in a single transaction or series of related transactions, by the Corporation of all or substantially all the assets of the Corporation (except where such sale, lease, transfer or other disposition is to a wholly owned subsidiary of the Corporation); or

(C) the sale, conveyance, exchange or transfer of the voting capital stock of the Corporation in one or a series of related transactions if, (I) after such sale, conveyance, exchange or transfer, the shareholders of the Corporation immediately prior to such sale, conveyance, exchange or transfer do not retain at least a majority of the voting power of the Corporation immediately thereafter and (II) the proceeds of such sale, conveyance, exchange or transfer are not payable to the holders of Series C Preferred Stock in accordance with Subsections 3.9.2(a) and 3.9.2(b) above.

(ii) The Corporation shall not effect any transaction constituting a Deemed Liquidation Event pursuant to Subsection 3.9.2(c)(i)(A) above unless the agreement or plan of merger, consolidation or reorganization provides that the consideration payable to the shareholders of the Corporation shall be allocated among the holders of capital stock of the Corporation in accordance with Subsections 3.9.2(a) and 3.9.2(b) above.

(iii) In the event of a Deemed Liquidation Event pursuant to Subsection 3.9.2(c)(i)(B) above, if the Corporation does not effect a dissolution of the Corporation under the Business Corporation Law within 60 days after such Deemed Liquidation Event, then the Corporation shall use the consideration received by the Corporation for such Deemed Liquidation Event (net of any liabilities associated with the assets sold or technology licensed, as determined in good faith by the Board of Directors of the Corporation), to the extent legally available therefor (the "Net Proceeds"), to repurchase, on the 90th day after such Deemed Liquidation Event (the "Liquidation Repurchase Date"), the Series C Preferred Stock, and to distribute the Net Proceeds in accordance with Sections 3.9.2(a) and 3.9.2(b) above.

(iv) In the event of a Deemed Liquidation Event pursuant to Subsection 3.9.2(c)(i)(C) above, the Corporation shall be liquidated, dissolved and wound up in accordance with Sections 3.9.2(a) and 3.9.2(b) above within 90 days after such Deemed Liquidation Event.

(v) The amount deemed paid or distributed to the holders of capital stock of the Corporation upon any such merger, consolidation, reorganization, sale or redemption shall be the cash or the value of the property, rights or securities paid or distributed to such holders by the Corporation or the acquiring person, firm or other entity (the "Deemed Liquidation Event Consideration"). The value of such property, rights or securities shall be determined in good faith by the Board of Directors of the Corporation.

3.9.3. Voting.

(a) On any matter presented to the shareholders of the Corporation for their action or consideration at any meeting of shareholders of the Corporation (or by written consent of shareholders in lieu of meeting), each holder of outstanding shares of Series C Preferred Stock shall be entitled to cast the number of votes equal to the number of whole shares of Common Stock into which the shares of Series C Preferred Stock held by such holder are convertible as of the record date for determining shareholders entitled to vote on such matter. Except as provided by law or by the provisions of these Articles of Incorporation, holders of Series C Preferred Stock shall vote together with the holders of Common Stock, and with the holders of any other series of Preferred Stock the terms of which so provide, as a single class on an as converted to Common Stock basis.

(b) At any time when any shares of Series C Preferred Stock are outstanding, except where the vote or written consent of the holders of a greater number of shares of the Corporation is required by law or by these Articles of Incorporation, and in addition to any other vote required by law or these Articles of Incorporation, without the majority, whether by written consent or affirmative vote, of the holders of the then outstanding shares of Series C Preferred Stock, given in writing or by vote at a meeting, consenting or voting (as the case may be) separately as a single class and on an as-converted to Common Stock basis, the Corporation shall not, either directly or indirectly by amendment, merger, consolidation or otherwise:

(i) consent to any liquidation, dissolution or winding up of the Corporation or to any Deemed Liquidation Event;

(ii) commence or consent to any voluntary or involuntary bankruptcy, insolvency or creditors' proceeding;

(iii) amend, alter or repeal any provision of the Articles of Incorporation or Bylaws of the Corporation (including pursuant to a merger, consolidation, reorganization or otherwise);

(iv) except as provided in subsection 3.9.3(b)(viii) below, recapitalize, create or authorize the creation of any additional class or series of shares of stock;

(v) except as provided in subsection 3.9.3(b)(viii) below, increase or decrease (other than by redemption or conversion) the authorized number of shares of Preferred Stock, Common Stock or shares of any additional class or series of shares of stock;

(vi) except as provided in subsection 3.9.3(b)(viii) below, issue, create or authorize any obligation or security convertible into shares of any class or series of stock;

(vii) purchase or redeem, or set aside any sums for the purchase or redemption of, or pay any dividend or make any distribution on, any shares of stock other than the Series C Preferred Stock, except for dividends or other distributions payable on the Common Stock solely in the form of additional shares of Common Stock and except for purchases or redemptions of shares of Common Stock from employees, directors or consultants at the original purchase price or required to be made at no more than fair market value pursuant to agreements which are approved by a majority of the members of the Board of Directors who are not employees of the Corporation and were not employees of the Corporation during the twenty-four month period prior to the date of such approval (the "Independent Directors");

(viii) authorize or issue any equity securities other than the following authorizations or issuances ("Exempt Securities"):

(A) shares of Common Stock issued upon conversion of the Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock;

(B) up to 2,048,200 shares of Common Stock pursuant to the Corporation's stock purchase and stock option plans in effect on the Series C Original Issue Date;

(C) shares of Common Stock issued pursuant to the exercise of options, warrants or convertible securities outstanding as of the Series C Original Issue Date;

(D) shares of Common Stock or warrants to purchase Common Stock issued pursuant to any strategic partnership, in each case approved by a majority of the Independent Directors; and

(E) up to an aggregate of 100,000 shares of new equity per year granted to vendors, consultants, advisors or in small acquisitions, which plans, partnership arrangements or grants have been approved by a majority of the Independent Directors;

(ix) reduce the percentage ownership of the Corporation capital stock represented by the Series C Preferred Stock to less than 7.05% (on a fully-diluted basis), except through the issuance of Exempt Securities;

(x) permit any subsidiary of the Corporation to issue or sell any equity securities of such subsidiary (other than to the Corporation or a wholly owned subsidiary of the Corporation);

(xi) make, or cause any subsidiary of the Corporation to make, any acquisition of the assets, stock or other equity securities of any other company or effect the same by way of a merger, consolidation or reorganization, except for acquisitions of assets for consideration of $10,000,000 or less in any single transaction or series of related transactions;

(xii) engage in any new line of business substantially outside of the business plan in the form approved by a majority of the Independent Directors or materially modifying such plan, unless approved in each case by a majority of the Independent Directors;

(xiii) merge with or into or consolidate, or permit any subsidiary to merge with or into or consolidate, with any other entity (other than a merger or consolidations solely between the Corporation and one or more subsidiaries or among subsidiaries);

(xiv) sell, lease, or otherwise dispose of all or substantially all of the Corporation's properties or assets; or

(xv) incur any indebtedness, or permit any subsidiary to incur any indebtedness (other than indebtedness of subsidiaries owed to the Corporation and long-term indebtedness of the Corporation outstanding as of June 30, 2006), in excess of $20,000,000 in the aggregate, unless approved by a majority of the Independent Directors.

3.9.4. Optional Conversion.

The holders of the Series C Preferred Stock shall have conversion rights as follows (the "Conversion Rights"):

(a) Each share of Series C Preferred Stock shall be convertible, at the option of the holder thereof, at any time and from time to time, and without the payment of additional consideration by the holder thereof, into such number of fully paid and nonassessable (except to the extent provided in Section 180.0622 of the Wisconsin Statutes) shares of Common Stock as is determined by dividing the Series C Original Issue Price for such share by the Series C Conversion Price (as defined below) for such share in effect at the time of conversion. The "Series C Conversion Price" shall initially be equal to the Series C Original Issue Price. Such initial Series C Conversion Price, and the rate at which shares of Series C Preferred Stock may be converted into shares of Common Stock, shall be subject to adjustment as provided below.

In the event of a notice of repurchase of any shares of Series C Preferred Stock pursuant to Section 3.9.6 hereof, the Conversion Rights of the shares designated for repurchase shall terminate at the close of business on the last full day preceding the date fixed for repurchase, unless the repurchase price is not paid on such repurchase date, in which case the Conversion Rights for such shares shall continue until such price is paid in full. In the event of a liquidation, dissolution or winding up of the Corporation, the Conversion Rights shall terminate at the close of business on the last full day preceding the date fixed for the payment of any such amounts distributable on such event to the holders of Series C Preferred Stock.

(b) Fractional Shares. No fractional shares of Common Stock shall be issued upon conversion of the Series C Preferred Stock. In lieu of any fractional shares to which the holder would otherwise be entitled, the Corporation shall pay cash equal to such fraction multiplied by the then effective applicable Series C Conversion Price.

(c) Mechanics of Conversion.

(i) In order for a holder of Series C Preferred Stock to convert shares of Series C Preferred Stock into shares of Common Stock, such holder shall surrender the certificate or certificates for such shares of Series C Preferred Stock (or, if such registered holder alleges that such certificate has been lost, stolen or destroyed, a lost certificate affidavit and agreement reasonably acceptable to the Corporation to indemnify the Corporation against any claim that may be made against the Corporation on account of the alleged loss, theft or destruction of such certificate), at the office of the transfer agent for the Series C Preferred Stock (or at the principal office of the Corporation if the Corporation serves as its own transfer agent), together with written notice that such holder elects to convert all or any number of the shares of the Series C Preferred Stock represented by such certificate or certificates and, if applicable, any event on which such conversion is contingent. Such notice shall state such holder's name or the names of the nominees in which such holder wishes the certificate or certificates for shares of Common Stock to be issued. If required by the Corporation, certificates surrendered for conversion shall be endorsed or accompanied by a written instrument or instruments of transfer, in form satisfactory to the Corporation, duly executed by the registered holder or his or its attorney duly authorized in writing. The date of receipt of such certificates (or lost certificate affidavit and agreement) and notice by the transfer agent (or by the Corporation if the Corporation serves as its own transfer agent) shall be the conversion date ("Conversion Date"), and the shares of Common Stock issuable upon conversion of the shares represented by such certificate shall be deemed to be outstanding of record as of such date. The Corporation shall, as soon as practicable after the Conversion Date, issue and deliver at such office to such holder of Series C Preferred Stock, or to his or its nominees, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled, together with cash in lieu of any fraction of a share.

(ii) The Corporation shall at all times when the Series C Preferred Stock shall be outstanding, reserve and keep available out of its authorized but unissued stock, for the purpose of effecting the conversion of the Series C Preferred Stock, such number of its duly authorized shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding Series C Preferred Stock. Before taking any action which would cause an adjustment reducing the Series C Conversion Price below the then par value of the shares of Common Stock issuable upon conversion of the Series C Preferred Stock, the Corporation will take any corporate action which may, in the opinion of its counsel, be necessary in order that the Corporation may validly and legally issue fully paid and nonassessable (except to the extent provided in Section 180.0622 of the Wisconsin Statutes) shares of Common Stock at such adjusted applicable Series C Conversion Price.

(iii) Upon any such conversion other than in connection with a Qualifying Public Offering (as defined below) or the consummation of a Deemed Liquidation Event in which the Deemed Liquidation Event Consideration is at least equal to the amount set forth in Section 3.9.5(a)(B), all accumulated (whether or not declared) but unpaid dividends on the Series C Preferred Stock shall be paid in cash.

(iv) All shares of Series C Preferred Stock which shall have been surrendered for conversion as herein provided shall no longer be deemed to be outstanding and all rights with respect to such shares, including the rights, if any, to receive notices and to vote, shall immediately cease and terminate on the Conversion Date, except only the right of the holders thereof to receive shares of Common Stock in exchange therefor and, except as provided in (iii) above, to receive payment of any dividends declared but unpaid thereon. Any shares of Series C Preferred Stock so converted shall be retired and cancelled and shall not be reissued, and the Corporation (without the need for shareholder action) may from time to time take such appropriate action as may be necessary to reduce the authorized number of shares of Series C Preferred Stock accordingly.

(v) The Corporation shall pay any and all issue and other similar taxes that may be payable in respect of any issuance or delivery of shares of Common Stock upon conversion of shares of Series C Preferred Stock pursuant to this Section 3.9.4. The Corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of shares of Common Stock in a name other than that in which the shares of Series C Preferred Stock so converted were registered, and no such issuance or delivery shall be made unless and until the person or entity requesting such issuance has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid.

(d) Adjustments to Conversion Price for Diluting Issues.

(i) Special Definitions. For purposes of this Section 3.9.4, the following definitions shall apply:

(A) "Option" shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire Common Stock or Convertible Securities.

(B) "Series C Original Issue Date" shall mean the date on which a share of Series C Preferred Stock was first issued.

(C) "Convertible Securities" shall mean any evidences of indebtedness, shares or other securities directly or indirectly convertible into or exchangeable for Common Stock, but excluding Options.

(D) "Additional Shares of Common Stock" shall mean all shares of Common Stock issued (or, pursuant to Subsection 3.9.4(d)(iii) below, deemed to be issued) by the Corporation after the Series C Original Issue Date, other than the following ("Exempted Securities"):

(I) shares of Common Stock issued or deemed issued as a dividend or distribution on, or upon conversion of, the Series C Preferred Stock;

(II) shares of Common Stock issued upon exercise or conversion of any Options or Convertible Securities outstanding on the Series C Original Issue Date;

(III) shares of Common Stock issued or issuable by reason of a dividend, stock split, split-up or other distribution on shares of Common Stock that is covered by Subsection 3.9.4(e) or 3.9.4(f) below;

(IV) up to 2,048,200 shares of Common Stock (subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization affecting such shares), issued or deemed issued to employees or directors of, or consultants to, the Corporation or any of its subsidiaries, whether issued before or after the Series C Original Issue Date (provided, that any Options for such shares that expire or terminate unexercised or any restricted stock repurchased by the Corporation at cost shall not be counted toward such maximum number unless and until such shares are regranted as new stock grants or as new Options);

(V) up to an aggregate of 100,000 shares per year granted pursuant to Section 3.9.3(b)(viii)(E);

(VI) shares of Common Stock or warrants to purchase Common Stock issued pursuant to any strategic partnership, in each case approved by a majority of the Independent Directors; or

(VII) shares of Common Stock issued in a Qualifying Public Offering.

(ii) No Adjustment of Conversion Price. No adjustment in the Series C Conversion Price shall be made as the result of the issuance of Additional Shares of Common Stock if: (a) the consideration per share (determined pursuant to Subsection 3.9.4(d)(v)) for such Additional Share of Common Stock issued or deemed to be issued by the Corporation is equal to or greater than the Series C Conversion Price, in effect immediately prior to the issuance or deemed issuance of such Additional Shares of Common Stock, or (b) prior to such issuance or deemed issuance, the Corporation receives written notice from the holders of at least a majority of the then outstanding shares of Series C Preferred Stock, voting as a single class and on an as-converted to Common Stock basis, agreeing that no such adjustment shall be made as the result of the issuance or deemed issuance of such Additional Shares of Common Stock.

(iii) Issue of Securities Deemed Issue of Additional Shares of Common Stock.

(A) If the Corporation at any time or from time to time after the Series C Original Issue Date shall issue any Options or Convertible Securities (excluding Options or Convertible Securities which, upon exercise, conversion or exchange thereof, would entitle the holder thereof to receive Exempted Securities) or shall fix a record date for the determination of

holders of any class of securities entitled to receive any such Options or Convertible Securities, then the maximum number of shares of Common Stock (as set forth in the instrument relating thereto without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date.

(B) If the terms of any Option or Convertible Security, the issuance of which resulted in an adjustment to the Series C Conversion Price pursuant to the terms of Subsection 3.9.4(d)(iv) below, are revised (either automatically pursuant to the provisions contained therein or as a result of an amendment to such terms) to provide for either (1) any increase or decrease in the number of shares of Common Stock issuable upon the exercise, conversion or exchange of any such Option or Convertible Security or (2) any increase or decrease in the consideration payable to the Corporation upon such exercise, conversion or exchange, then, effective upon such increase or decrease becoming effective, the Series C Conversion Price, computed upon the original issue of such Option or Convertible Security (or upon the occurrence of a record date with respect thereto) shall be readjusted to such Series C Conversion Price, as would have obtained had such revised terms been in effect upon the original date of issuance of such Option or Convertible Security. Notwithstanding the foregoing, no adjustment pursuant to this clause (B) shall have the effect of increasing the Series C Conversion Price, to an amount which exceeds the lower of (i) the Series C Conversion Price, on the original adjustment date, or (ii) the Series C Conversion Price that would have resulted from any issuances of Additional Shares of Common Stock between the original adjustment date and such readjustment date.

(C) If the terms of any Option or Convertible Security (excluding Options or Convertible Securities which, upon exercise, conversion or exchange thereof, would entitle the holder thereof to receive Exempted Securities), the issuance of which did not result in an adjustment to the Series C Conversion Price pursuant to the terms of Subsection 3.9.4(d)(iv) below (either because the consideration per share (determined pursuant to Subsection 3.9.4(d)(v) hereof) of the Additional Shares of Common Stock subject thereto was equal to or greater than the Series C Conversion Price then in effect, or because such Option or Convertible Security was issued before the Series C Original Issue Date), are revised after the Series C Original Issue Date (either automatically pursuant to the provisions contained therein or as a result of an amendment to such terms) to provide for either (1) any increase or decrease in the number of shares of Common Stock issuable upon the exercise, conversion or exchange of any such Option or Convertible Security or (2) any increase or decrease in the consideration payable to the Corporation upon such exercise, conversion or exchange, then such Option or Convertible Security, as so amended, and the Additional Shares of Common Stock subject thereto (determined in the manner provided in Subsection 3.9.4(d)(iii)(A) above) shall be deemed to have been issued effective upon such increase or decrease becoming effective.

(D) Upon the expiration or termination of any unexercised Option or unconverted or unexchanged Convertible Security which resulted (either upon its original issuance or upon a revision of its terms) in an adjustment to the Series C Conversion Price pursuant to the terms of Subsection 3.9.4(d)(iv) below, the Series C Conversion Price shall be readjusted to such Series C Conversion Price as would have obtained had such Option or Convertible Security never been issued.

(E) No adjustment in the Series C Conversion Price shall be made upon the issue of shares of Common Stock or Convertible Securities upon the exercise of Options or the issue of shares of Common Stock upon the conversion or exchange of Convertible Securities.

(iv) Adjustment of Conversion Price Upon Issuance of Additional Shares of Common Stock. In the event the Corporation shall at any time after the Series C Original Issue Date issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Subsection 3.9.4(d)(iii)), without consideration or for a consideration per share less than the Series C Conversion Price in effect immediately prior to such issue, then the Series C Conversion Price, shall be reduced, concurrently with such issue, to a price (calculated to the nearest one-hundredth of a cent) determined by multiplying the Series C Conversion Price, by a fraction, (A) the numerator of which shall be (1) the number of shares of Common Stock outstanding immediately prior to such issue plus (2) the number of shares of Common Stock which the aggregate consideration received or to be received by the Corporation for the total number of Additional Shares of Common Stock so issued would purchase at the Series C Conversion Price; and (B) the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to such issue plus the number of such Additional Shares of Common Stock so issued; provided that, for the purpose of this Subsection 3.9.4(d)(iv), all shares of Common Stock issuable upon exercise of Options outstanding immediately prior to such issue or upon conversion of Convertible Securities (including the Series C Preferred Stock) outstanding immediately prior to such issue shall be deemed to be outstanding.

(v) Determination of Consideration. For purposes of this Subsection 3.9.4(d), the consideration received by the Corporation for the issue of any Additional Shares of Common Stock shall be computed as follows:

(A) Cash and Property: Such consideration shall:

(I) insofar as it consists of cash, be computed at the aggregate amount of cash received by the Corporation, excluding amounts paid or payable for accrued interest;

(II) insofar as it consists of property other than cash, be computed at the fair market value thereof at the time of such issue, as determined in good faith by the Board of Directors of the Corporation; and

(III) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Corporation for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (I) and (II) above, as determined in good faith by the Board of Directors of the Corporation.

(B) Options and Convertible Securities. The consideration per share received by the Corporation for Additional Shares of Common Stock deemed to have been

issued pursuant to Subsection 3.9.4(d)(iii), relating to Options and Convertible Securities, shall be determined by dividing

(I) the total amount, if any, received or receivable by the Corporation as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Corporation upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, by

(II) the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities.

(vi) Multiple Closing Dates. In the event the Corporation shall issue on more than one date Additional Shares of Common Stock that are comprised of shares of the same series or class of Preferred Stock and that would result in an adjustment to the Series C Conversion Price, pursuant to the terms of subsection 3.9.4(d)(iv) above, and such issuance dates occur within a period of no more than 45 days from the first such issuance to the final such issuance, then, upon the final such issuance, the Series C Conversion Price shall be readjusted to give effect to all such issuances as if they occurred on the date of the final such issuance (and without giving effect to any adjustments as a result of such prior issuances within such period).

(e) Adjustment for Stock Splits and Combinations. If the Corporation shall at any time or from time to time after the Series C Original Issue Date effect a subdivision of the outstanding Common Stock without a comparable subdivision of the Series C Preferred Stock or combine the outstanding shares of Series C Preferred Stock without a comparable combination of the Common Stock, the Series C Conversion Price, in effect immediately before that subdivision or combination shall be proportionately decreased. If the Corporation shall at any time or from time to time after the Series C Original Issue Date combine the outstanding shares of Common Stock without a comparable combination of the Series C Preferred Stock or effect a subdivision of the outstanding shares of Series C Preferred Stock without a comparable subdivision of the Common Stock, the Series C Conversion Price, as the case may be, in effect immediately before the combination or subdivision shall be proportionately increased. Any adjustment under this paragraph shall become effective at the close of business on the date the subdivision or combination becomes effective.

(f) Adjustment for Certain Dividends and Distributions. In the event the Corporation at any time, or from time to time after the Series C Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock, then and in each such event the Series C Conversion Price, in effect immediately before such event shall be decreased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Series C Conversion Price then in effect by a fraction:

(1) the numerator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and

(2) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution; provided, however, that if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Series C Conversion Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Series C Conversion Price shall be adjusted pursuant to this paragraph as of the time of actual payment of such dividends or distributions; and provided further, however, that no such adjustment shall be made if the holders of Series C Preferred Stock simultaneously receive (i) a dividend or other distribution of shares of Common Stock in a number equal to the number of shares of Common Stock as they would have received if all outstanding shares of Series C Preferred Stock had been converted into Common Stock on the date of such event or (ii) a dividend or other distribution of shares of Series C Preferred Stock which are convertible, as of the date of such event, into such number of shares of Common Stock as is equal to the number of additional shares of Common Stock being issued with respect to each share of Common Stock in such dividend or distribution.

(g) Adjustments for Other Dividends and Distributions. In the event the Corporation at any time or from time to time after the Series C Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Corporation (other than shares of Common Stock) or in cash or other property, then and in each such event the holders of Series C Preferred Stock shall receive, simultaneously with the distribution to the holders of Common Stock, a dividend or other distribution of such securities, cash or other property in an amount equal to the amount of such securities, cash or other property as they would have received if all outstanding shares of Series C Preferred Stock had been converted into Common Stock on the date of such event.

(h) Adjustment for Merger or Reorganization, etc. Subject to the provisions of Subsection 3.9.2(c), if there shall occur any reorganization, recapitalization, reclassification, consolidation or merger involving the Corporation in which the Common Stock (but not the Series C Preferred Stock,) is converted into or exchanged for securities, cash or other property (other than a transaction covered by paragraphs (e), (f) or (g) of this Section 3.9.4), then, following any such reorganization, recapitalization, reclassification, consolidation or merger, each share of Series C Preferred Stock shall be convertible into the kind and amount of securities, cash or other property

which a holder of the number of shares of Common Stock of the Corporation issuable upon conversion of one share of Series C Preferred Stock, immediately prior to such reorganization, recapitalization, reclassification, consolidation or merger would have been entitled to receive pursuant to such transaction; and, in such case, appropriate adjustment (as determined in good faith by the Board of Directors of the Corporation) shall be made in the application of the provisions in this Section 3.9.4 with respect to the rights and interests thereafter of the holders of the Series C Preferred Stock to the end that the provisions set forth in this Section 3.9.4 (including provisions with respect to changes in and other adjustments of the Series C Conversion Price) shall thereafter be applicable, as nearly as reasonably may be, in relation to any securities or other property thereafter deliverable upon the conversion of the Series C Preferred Stock.

(i) Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Series C Conversion Price pursuant to this Section 3.9.4, the Corporation at its expense shall, as promptly as reasonably practicable but in any event not later than 30 days thereafter, compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of Series C Preferred Stock a certificate setting forth such adjustment or readjustment (including the kind and amount of securities, cash or other property into which the Series C Preferred Stock is convertible) and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, as promptly as reasonably practicable after the written request at any time of any holder of Series C Preferred Stock (but in any event not later than 30 days thereafter), furnish or cause to be furnished to such holder a certificate setting forth (i) the Series C Conversion Price, then in effect, and (ii) the number of shares of Common Stock and the amount, if any, of other securities, cash or property which then would be received upon the conversion of Series C Preferred Stock.

(j) Notice of Record Date. In the event:

(i) the Corporation shall take a record of the holders of its Common Stock (or other stock or securities at the time issuable upon conversion of the Series C Preferred Stock) for the purpose of entitling or enabling them to receive any dividend or other distribution, or to receive any right to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right; or

(ii) of any capital reorganization of the Corporation, any reclassification of the Common Stock of the Corporation, any consolidation or merger of the Corporation with or into another corporation (other than a consolidation or merger in which the Corporation is the surviving entity and its Common Stock is not converted into or exchanged for any other securities or property), or any transfer of all or substantially all of the assets of the Corporation; or

(iii) of the voluntary or involuntary dissolution, liquidation or winding-up of the Corporation,

then, and in each such case, the Corporation will send or cause to be sent to the holders of the Series C Preferred Stock a notice specifying, as the case may be, (i) the record date for such dividend, distribution or right, and the amount and character of such dividend, distribution or right, or (ii) the effective date on which such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up is to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock (or such other stock or securities at the time

issuable upon the conversion of the Series C Preferred Stock) shall be entitled to exchange their shares of Common Stock (or such other stock or securities) for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up, and the amount per share and character of such exchange applicable to the Series C Preferred Stock and the Common Stock. Such notice shall be sent at least 10 days prior to the record date or effective date for the event specified in such notice.

3.9.5. Mandatory Conversion.

(a) Upon the earlier of (A) the closing of the sale of shares of Common Stock, at a price to the public of at least $8.25 per share (subject to appropriate adjustment for stock splits, stock dividends, combinations and other similar recapitalizations affecting such shares), in a firm-commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, resulting in at least $30,000,000 of net proceeds to the Corporation after deduction of underwriters' commissions and expenses payable by the Corporation (a "Qualifying Public Offering"), (B) the consummation of a Deemed Liquidation Event in which the Deemed Liquidation Event Consideration paid or distributed to the holders of capital stock of the Corporation is at least $8.25 per share (subject to appropriate adjustment for stock splits, stock disbursements, combinations and other similar recapitalizations affecting such shares), or (C) a date agreed to in writing by the holders of (x) at least a majority of the then outstanding shares of Series C Preferred Stock, voting as a single class (on an as-converted to Common Stock basis), as to the mandatory conversion of the Series C Preferred Stock (any such date a "Mandatory Conversion Date"), (i) all outstanding shares of the Series C Preferred Stock shall automatically be converted into shares of Common Stock at the then effective conversion rate and (ii) such shares may not be reissued by the Corporation. In the case of a conversion pursuant to clause (B) of the preceding sentence, such conversion shall be deemed to occur immediately prior to the consummation of such Deemed Liquidation Event. For the avoidance of doubt, any such conversion shall be made without the issuance of additional shares or other consideration based on any accrued dividends which would otherwise be owed pursuant to Section 3.9.1.

(b) All holders of record of shares of Series C Preferred Stock shall be given written notice of the Mandatory Conversion Date and the place designated for mandatory conversion of all such shares of Series C Preferred Stock pursuant to this Section 3.9.5. Such notice need not be given in advance of the occurrence of the Mandatory Conversion Date. Such notice shall be sent by first class or registered mail, postage prepaid, or given by electronic communication in compliance with the provisions of the Business Corporation Law, to each record holder of Preferred Stock. Upon receipt of such notice, each holder of shares of Series C Preferred Stock shall surrender his or its certificate or certificates for all such shares to the Corporation at the place designated in such notice, and shall thereafter receive certificates for the number of shares of Common Stock to which such holder is entitled pursuant to this Section 3.9.5. On the Mandatory Conversion Date, all outstanding shares of Series C Preferred Stock shall be deemed to have been converted into shares of Common Stock, which shall be deemed to be outstanding of record, and all rights with respect to the Series C Preferred Stock so converted, including the rights, if any, to receive notices and vote (other than as a holder of Common Stock), will terminate, except only the rights of the holders thereof, upon surrender of their certificate or certificates therefor, to receive certificates for the number of shares of Common Stock into which such Series C Preferred Stock has been converted, and payment of any declared but unpaid dividends thereon. Upon any such conversion, no payment of any accumulated (whether or not declared) but unpaid dividends

(including without limitation any declared Series C Dividends) on the Series C Preferred Stock shall be made. If so required by the Corporation, certificates surrendered for conversion shall be endorsed or accompanied by written instrument or instruments of transfer, in form satisfactory to the Corporation, duly executed by the registered holder or by his or its attorney duly authorized in writing. As soon as practicable after the Mandatory Conversion Date and the surrender of the certificate or certificates for Series C Preferred Stock, the Corporation shall cause to be issued and delivered to such holder, or on his or its written order, a certificate or certificates for the number of full shares of Common Stock issuable on such conversion in accordance with the provisions hereof and cash as provided in Subsection 3.9.4(b) in respect of any fraction of a share of Common Stock otherwise issuable upon such conversion.

(c) All certificates evidencing shares of Series C Preferred Stock which are required to be surrendered for conversion in accordance with the provisions hereof shall, from and after the Mandatory Conversion Date, be deemed to have been retired and cancelled and the shares of Series C Preferred Stock represented thereby converted into Common Stock for all purposes, notwithstanding the failure of the holder or holders thereof to surrender such certificates on or prior to such date. Such converted Series C Preferred Stock may not be reissued, and the Corporation may thereafter take such appropriate action (without the need for stockholder action) as may be necessary to reduce the authorized number of shares of Series C Preferred Stock accordingly.

3.9.6. Repurchase.

(a) Mandatory Repurchase. Shares of Series C Preferred Stock shall be repurchased by the Corporation out of funds lawfully available therefor at a price equal to the Series C Original Issue Price per share, plus all accumulated (whether or not declared) but unpaid dividends thereon (including any unpaid Series C Dividends) (the "Series C Repurchase Price") in three semi-annual installments commencing 120 days after receipt by the Corporation at any time on or after July 31, 2011, from the holders of at least a majority of the then outstanding shares of Series C Preferred Stock of written notice requesting repurchase of all shares of Series C Preferred Stock (the date of each such installment being referred to as a "Repurchase Date").

(b) On each Repurchase Date, the Corporation shall repurchase, out of funds legally available therefor, a minimum dollar amount of Series C Preferred Stock determined by dividing (i) the Series C Repurchase Price which remains unpaid on such Repurchase Date by (ii) the number of remaining Repurchase Dates (including the Repurchase Date to which such calculation applies) (each such amount, the "Repurchase Proceeds"). If the Corporation does not have sufficient funds legally available to repurchase on any Repurchase Date all shares of Series C Preferred Stock to be repurchased on such Repurchase Date, the Corporation shall repurchase any such shares that would have been repurchased but for the shortage of legally available funds on such Repurchase Date as soon as practicable after the Corporation has funds legally available therefor and the unpaid portion of the Series C Repurchase Price shall accrue interest at the rate of ten percent (10%) per annum, which shall be paid quarterly in arrears until such Series C Repurchase Price is paid in full.

(c) Repurchase Notice. Written notice of the mandatory repurchase (the "Repurchase Notice") shall be mailed, postage prepaid, to each holder of record of Series C Preferred Stock, at his or its post office address last shown on the records of the Corporation, or

given by electronic communication in compliance with the provisions of the Business Corporation Law, not less than 30 days prior to each Repurchase Date. Each Repurchase Notice shall state:

(I) the number of shares of Series C Preferred Stock held by the holder that the Corporation shall repurchase on the Repurchase Date specified in the Repurchase Notice;

(II) the Repurchase Date and the Series C Repurchase Price;

(III) the date upon which the holder's right to convert such shares terminates (as determined in accordance with Section 3.9.4(a)); and

(IV) that the holder is to surrender to the Corporation, in the manner and at the place designated, his certificate or certificates representing the shares of Series C Preferred Stock to be repurchased.

(d) Surrender of Certificates; Payment. On or before the applicable Repurchase Date, each holder of shares of Series C Preferred Stock to be repurchased on such Repurchase Date, unless such holder has exercised his right to convert such shares as provided in Section 3.9.4 hereof, shall surrender the certificate or certificates representing such shares to the Corporation, in the manner and at the place designated in the Repurchase Notice, and thereupon the Series C Repurchase Price for such shares shall be payable to the order of the person whose name appears on such certificate or certificates as the owner thereof, and each surrendered certificate shall be canceled and retired. In the event less than all of the shares of Series C Preferred Stock represented by a certificate are redeemed, a new certificate representing the unredeemed shares of Series C Preferred Stock shall promptly be issued to such holder.

(e) Rights Subsequent to Repurchase. If the Repurchase Notice shall have been duly given, and if on the applicable Repurchase Date the Series C Repurchase Price payable upon repurchase of the shares of Series C Preferred Stock to be repurchased on such Repurchase Date is paid or tendered for payment or deposited with an independent payment agent so as to be available therefor, then notwithstanding that the certificates evidencing any of the shares of Series C Preferred Stock so called for repurchase shall not have been surrendered, all rights with respect to such shares shall forthwith after the Repurchase Date terminate, except only the right of the holders to receive the applicable Series C Repurchase Price without interest upon surrender of their certificate or certificates therefor.

(f) Repurchased or Otherwise Acquired Shares. Any shares of Series C Preferred Stock which are repurchased or otherwise acquired by the Corporation or any of its subsidiaries shall be automatically and immediately canceled and shall not be reissued, sold or transferred. Neither the Corporation nor any of its subsidiaries may exercise any voting or other rights granted to the holders of Series C Preferred Stock following repurchase.

(g) Other Repurchases or Acquisitions. Neither the Corporation nor any subsidiary shall repurchase or otherwise acquire any series of Series C Preferred Stock, except (i) as

expressly authorized herein or (ii) with the written consent of the holders of at least a majority of the then outstanding shares of Series C Preferred Stock, voting as a single class and on an as-converted to Common Stock basis.

3.9.7. Waiver. Except as otherwise provided herein, any of the rights of the holders of the Series C Preferred Stock set forth herein may be waived by the affirmative consent or vote of the holders of at least a majority of the shares of Series C Preferred Stock then outstanding, voting as a single class and on an as-converted to Common Stock basis.

Article 4

The corporation's registered office is at 1204 Pilgrim Road, Plymouth, Wisconsin 53073 and the name of its registered agent at such address is Neal R. Verfuerth.

Article 5

The foregoing Amended and Restated Articles of Incorporation were submitted to the Corporation's shareholders by the Board of Directors of the Corporation and were adopted by the Corporation's shareholders at a special meeting of the shareholders in accordance with Sections 180.0702 and 180.1003 of the Wisconsin Business Corporation Law on July 25, 2006.

Executed on behalf of the Corporation and dated as of this 28th day of July, 2006.

Eric Von Estorff, Secretary

This document was drafted by Attorney Carl R. Kugler of Foley & Lardner LLP, 150 E. Gilman Street, Madison, Wisconsin 53703.

EXHIBIT B

ORION ENERGY SYSTEMS, LTD.

INVESTORS' RIGHTS AGREEMENT

July 31, 2006

TABLE OF CONTENTS

INVESTORS' RIGHTS AGREEMENT

THIS INVESTORS' RIGHTS AGREEMENT (the "Agreement") is made as of the 31st day of July, 2006, by and among Orion Energy Systems, Ltd., a Wisconsin corporation (the "Company"), and the investors listed on the signature pages hereto, each of which is herein referred to as an "Investor."

RECITALS

WHEREAS, the Company and the Investors are parties to the Series C Senior Convertible Preferred Stock Purchase Agreement, dated of even date herewith (the "Series C Agreement"); and

WHEREAS, in order to induce the Investors to purchase Series C Senior Convertible Preferred Stock (the "Series C Preferred Stock") and invest funds in the Company pursuant to the Series C Agreement, the Investors and the Company hereby agree that this Agreement shall govern the rights of the Investors to cause the Company to register shares of Common Stock issued or issuable to them and certain other matters as set forth herein**;**

NOW, THEREFORE, THE PARTIES HEREBY AGREE AS FOLLOWS:

1. Registration Rights. The Company covenants and agrees as follows:

1.1 Definitions. For purposes of this Agreement:

(a) The term "Act" means the Securities Act of 1933, as amended.

(b) The term "Delivery" shall have the meaning set forth in Section 4.5 below.

(c) The term "Form S-3" means such form under the Act as in effect on the date hereof or any registration form under the Act subsequently adopted by the SEC that permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the SEC.

(d) The term "Holder" means any person owning or having the right to acquire Registrable Securities or any assignee thereof in accordance with Section 1.11 hereof.

(e) The term "Independent Director" shall have the same meaning as set forth in the Company's Articles of Incorporation (the "Articles").

(f) The term "Qualifying Public Offering" shall have the same meaning as set forth in the Company's Articles.

(g) The term "1934 Act" means the Securities Exchange Act of 1934, as amended.

(h) The terms “register,” “registered,” and “registration” refer to a registration effected by preparing and filing a registration statement or similar document in compliance with the Act, and the declaration or ordering of effectiveness of such registration statement or document.

(i) The term “Registrable Securities” means the Common Stock issuable or issued upon conversion of (i) the Series C Preferred Stock and (ii) any Common Stock of the Company issued as (or issuable upon the conversion or exercise of any warrant, right or other security that is issued as) a dividend or other distribution with respect to, or in exchange for, or in replacement of, the shares referenced in (i) and (ii) above, excluding in all cases, however, any Registrable Securities sold by a person in a transaction in which his rights under this Section 1 are not assigned.

(j) The number of shares of “Registrable Securities” outstanding shall be determined by the number of shares of Common Stock outstanding that are, and the number of shares of Common Stock issuable pursuant to then exercisable or convertible securities that are, Registrable Securities.

(k) The term “Rule 144” shall mean Rule 144 under the Act.

(l) The term “Rule 144(k)” shall mean subsection (k) of Rule 144 under the Act.

(m) The term “SEC” shall mean the Securities and Exchange Commission.

(n) The term “Transfer” shall include any sale, assignment, encumbrance, hypothecation, pledge, conveyance in trust, gift, transfer by bequest, devise or descent, or other transfer or disposition of any kind, including, but not limited to, transfers pursuant to divorce or legal separation, transfers to receivers, levying creditors, trustees or receivers in bankruptcy proceedings or general assignees for the benefit of creditors, whether voluntary, involuntarily or by operation of law, directly or indirectly, of any of the Registrable Securities.

1.2 Request for Registration.

(a) Subject to the conditions of this Section 1.2, if the Company shall receive at any time beginning six (6) months after the effective date of the Qualifying Public Offering, a written request from the Holders (for purposes of this Section 1.2, the “Initiating Holders”) that the Company file a registration statement under the Act covering the registration of Registrable Securities with an anticipated aggregate offering price of at least $10,000,000 then the Company shall, within twenty (20) days of the receipt thereof, give written notice of such request to all Holders, and subject to the limitations of this Section 1.2, use all commercially reasonable efforts to effect, as soon as practicable, the registration under the Act of all Registrable Securities that the Holders request to be registered in a written request received by

the Company within twenty (20) days of the mailing of the Company's notice pursuant to this Section 1.2(a).

(b) If the Initiating Holders intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request made pursuant to this Section 1.2 and the Company shall include such information in the written notice referred to in Section 1.2(a). In such event the right of any Holder to include its Registrable Securities in such registration shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting (unless otherwise mutually agreed by a majority in interest of the Initiating Holders and such Holder) to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company (which underwriter or underwriters shall be reasonably acceptable to a majority in interest of the Initiating Holders). Notwithstanding any other provision of this Section 1.2, if the underwriter advises the Company that marketing factors require a limitation on the number of securities underwritten (including Registrable Securities), then the Company shall so advise all Holders of Registrable Securities that would otherwise be underwritten pursuant hereto, and the number of shares that may be included in the underwriting shall be allocated (i) first to Holders of Registrable Securities who hold Series C Preferred Stock, pro rata according to the number of Registrable Securities held by each such Holder and (ii) second, to the remaining Holders of Registrable Securities pro rata based on the number of Registrable Securities held by all such Holders. In no event shall any Registrable Securities be excluded from such underwriting unless all other securities are first excluded. Any Registrable Securities excluded or withdrawn from such underwriting shall be withdrawn from the registration.

(c) Notwithstanding the foregoing, the Company shall not be required to effect a registration pursuant to this Section 1.2:

(i) in any particular jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such registration, unless the Company is already subject to service in such jurisdiction and except as may be required under the Act;

(ii) after the Company has effected two (2) registrations pursuant to this Section 1.2, and such registrations have been declared or ordered effective;

(iii) during the period starting with the date sixty (60) days prior to the Company's good faith estimate of the date of the filing of and ending on a date one hundred eighty (180) days following the effective date of a Company initiated registration subject to Section 1.3 below, provided that the Company is actively employing in good faith all commercially reasonable efforts to cause such registration statement to become effective;

(iv) if the Initiating Holders propose to dispose of Registrable Securities that may be registered on Form S-3 pursuant to Section 1.4 hereof; or

(v) if the Company shall furnish to Holders requesting a registration statement pursuant to this Section 1.2 a certificate signed by the Company's Chief Executive Officer or Chairman of the Board stating that in the good faith judgment of the Board of Directors of the Company (the "Board"), it would be seriously detrimental to the Company and its shareholders for such registration statement to be effected at such time, in which event the Company shall have the right to defer such filing for a period of not more than one hundred twenty (120) days after receipt of the request of the Initiating Holders, provided that such right shall be exercised by the Company not more than once in any twelve (12) month period and provided further that the Company shall not register any securities for the account of itself or any other shareholder during such one hundred twenty (120) day period (other than a registration relating solely to the sale of securities of participants in a Company stock plan, a registration relating to a corporate reorganization or transaction under Rule 145 of the Act, a registration on any form that does not include substantially the same information as would be required to be included in a registration statement covering the sale of the Registrable Securities, or a registration in which the only Common Stock being registered is Common Stock issuable upon conversion of debt securities that are also being registered).

1.3 Company Registration.

(a) If (but without any obligation to do so) the Company proposes to register (including for this purpose a registration effected by the Company for shareholders other than the Holders) any of its stock or other securities under the Act in connection with the public offering of such securities (other than a registration relating solely to the sale of securities of participants in a Company stock plan, a registration relating to a corporate reorganization or transaction under Rule 145 of the Act, a registration on any form that does not include substantially the same information as would be required to be included in a registration statement covering the sale of the Registrable Securities, or a registration in which the only Common Stock being registered is Common Stock issuable upon conversion of debt securities that are also being registered), the Company shall, at such time, promptly give each Holder written notice of such registration. Upon the written request of each Holder given within twenty (20) days after mailing of such notice by the Company in accordance with Section 4.5, the Company shall, subject to the provisions of Section 1.3(c), use all commercially reasonable efforts to cause to be registered under the Act all of the Registrable Securities that each such Holder requests to be registered.

(b) Right to Terminate Registration. The Company shall have the right to terminate or withdraw any registration initiated by it under this Section 1.3 prior to the effectiveness of such registration whether or not any Holder has elected to include securities in such registration. The expenses of such withdrawn registration shall be borne by the Company in accordance with Section 1.7 hereof.

(c) Underwriting Requirements. In connection with any offering involving an underwriting of shares of the Company's capital stock, the Company shall not be required under this Section 1.3 to include any of the Holders' securities in such underwriting unless they accept the terms of the underwriting as agreed upon between the Company and the underwriters selected by the Company (or by other persons entitled to select the underwriters)

and enter into an underwriting agreement in customary form with such underwriters, and then only in such quantity as the underwriters determine in their sole discretion will not jeopardize the success of the offering by the Company. If the total amount of securities, including Registrable Securities, requested by shareholders to be included in such offering exceeds the amount of securities sold other than by the Company that the underwriters determine in their sole discretion is compatible with the success of the offering, then the Company shall be required to include in the offering only that number of such securities, including Registrable Securities, that the underwriters determine in their sole discretion will not jeopardize the success of the offering. In no event shall any Registrable Securities be excluded from such offering unless all other shareholders' securities have been first excluded. In the event that the underwriters determine that less than all of the Registrable Securities requested to be registered can be included in such offering, then the Registrable Securities that are included in such offering shall be allocated (i) first to Holders of Registrable Securities who hold Series C Preferred Stock, pro rata according to the number of Registrable Securities held by each such Holder, and (ii) second, to the remaining Holders of Registrable Securities pro rata based on the number of Registrable Securities held by all such Holders. Notwithstanding the foregoing, in no event shall (i) the amount of securities of the selling Holders included in the offering be reduced below thirty percent (30%) of the total amount of securities included in such offering, unless such offering is the Company's first firm commitment underwritten public offering of its Common Stock under the Act (the "Initial Offering"), in which case the selling Holders may be excluded if the underwriters make the determination described above and no other shareholder's securities are included in such offering. For purposes of the preceding sentence and for purposes of Section 1.2(b) concerning apportionment, for any selling shareholder that is a Holder of Registrable Securities and that is a venture capital fund, partnership or corporation, the affiliated venture capital funds, partners, retired partners and shareholders of such Holder, or the estates and family members of any such partners and retired partners and any trusts for the benefit of any of the foregoing persons shall be deemed to be a single "selling Holder," and any pro rata reduction with respect to such "selling Holder" shall be based upon the aggregate amount of Registrable Securities owned by all such related entities and individuals.

1.4 Form S-3 Registration. In case the Company shall receive from the Holders of twenty-five percent (25%) or more of the Registrable Securities then outstanding (for purposes of this Section 1.4, the "Initiating Holders") a written request or requests that the Company effect a registration on Form S-3 and any related qualification or compliance with respect to all or a part of the Registrable Securities owned by such Holder or Holders, the Company shall:

(a) promptly give written notice of the proposed registration, and any related qualification or compliance, to all other Holders; and

(b) use all commercially reasonable efforts to effect, as soon as practicable, such registration and all such qualifications and compliances as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Holders' Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any other Holders joining in such request as are specified in a written request given within fifteen (15) days after receipt of such written notice from the Company,

provided, however, that the Company shall not be obligated to effect any such registration, qualification or compliance, pursuant to this Section 1.4:

(i) if Form S-3 is not available for such offering by the Holders;

(ii) if the Company shall furnish to Holders requesting a registration statement pursuant to this Section 1.4 a certificate signed by the Company's Chief Executive Officer or Chairman of the Board stating that in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company and its shareholders for such registration statement to be effected at such time, in which event the Company shall have the right to defer such filing for a period of not more than one hundred twenty (120) days after receipt of the request of the Initiating Holders, provided that such right shall be exercised by the Company not more than once in any twelve (12)-month period and provided further that the Company shall not register any securities for the account of itself or any other shareholder during such one hundred twenty (120) day period (other than a registration relating solely to the sale of securities of participants in a Company stock plan, a registration relating to a corporate reorganization or transaction under Rule 145 of the Act, a registration on any form that does not include substantially the same information as would be required to be included in a registration statement covering the sale of the Registrable Securities, or a registration in which the only Common Stock being registered is Common Stock issuable upon conversion of debt securities that are also being registered);

(iii) in any particular jurisdiction in which the Company would be required to qualify to do business or to execute a general consent to service of process in effecting such registration, qualification or compliance.

(c) If the Initiating Holders intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request made pursuant to this Section 1.4 and the Company shall include such information in the written notice referred to in Section 1.4(a). The provisions of Section 1.2(b) shall be applicable to such request (with the substitution of Section 1.4 for references to Section 1.2).

(d) Subject to the foregoing, the Company shall file a registration statement covering the Registrable Securities and other securities so requested to be registered as soon as practicable after receipt of the request or requests of the Initiating Holders. Registrations effected pursuant to this Section 1.4 shall not be counted as requests for registration effected pursuant to Section 1.2.

1.5 Obligations of the Company. Whenever required under this Section 1 to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

(a) prepare and file with the SEC a registration statement with respect to such Registrable Securities and use all commercially reasonable efforts to cause such

registration statement to become effective, and, upon the request of the Holders of a majority of the Registrable Securities registered thereunder, keep such registration statement effective for a period of up to one hundred twenty (120) days or, if earlier, until the distribution contemplated in the Registration Statement has been completed; provided, however, that such 120 day period shall be extended for a period of time equal to the period of time that the Holders refrain from selling any securities included in such registration upon the request of the Company or the underwriters;

(b) prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Act with respect to the disposition of all securities covered by such registration statement;

(c) furnish to the Holders such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them;

(d) use all commercially reasonable efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions;

(e) in the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter of such offering; and furnish, at the request of any Holder requesting registration of Registrable Securities pursuant to this Section 1, on the date that such Registrable Securities are delivered to the underwriters for sale in connection with a registration pursuant to this Section 1, if such securities are being sold through underwriters, (i) an opinion, dated such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters and (ii) a letter dated such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified accountants to underwriters in an underwritten public offering, addressed to the underwriters;

(f) notify each Holder of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing, and the Company shall promptly either amend such prospectus or file a supplement, in compliance with state and federal securities laws, to correct such untrue statement of material fact or omission to state a material

fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing;

(g) cause all such Registrable Securities registered pursuant to this Section 1 to be listed on a national exchange or trading system and on each securities exchange and trading system on which similar securities issued by the Company are then listed;

(h) provide a transfer agent and registrar for all Registrable Securities registered pursuant hereunder and a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration;

(i) notify each Holder promptly after the Company receives notice thereof, of the time when such registration statement has become effective or a supplement of such registration has been filed;

(j) advise each Holder promptly after the Company shall receive notice or obtain knowledge thereof, of the issuance of any stop order by the SEC suspending the effectiveness of such registration statement or the threatening of any proceeding for such purpose and promptly use all commercially reasonable efforts to prevent the issuance of any stop order should such be issued; and

(k) make generally available to its security holders, and to deliver to the Holders an earnings statement of the Company (that will satisfy the provisions of Section 11(a) of the Act) covering a period of twelve (12) months beginning after the effective date of the registration statement (as defined in Rule 158(c) under the Act) as soon as is reasonably practicable after the termination of such twelve (12) month period and upon the request of a Holder.

1.6 Information from Holder. It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Section 1 with respect to the Registrable Securities of any selling Holder that such Holder shall furnish to the Company such information regarding itself, the Registrable Securities held by it, and the intended method of disposition of such securities as shall be reasonably required to effect the registration of such Holder's Registrable Securities.

1.7 Expenses of Registration. All expenses other than underwriting discounts and commissions incurred in connection with registrations, filings or qualifications pursuant to Sections 1.2, 1.3 and 1.4, including (without limitation) all registration, filing and qualification fees, printers' and accounting fees, fees and disbursements of counsel for the Company and the reasonable fees and disbursements of one counsel for the selling Holders in an amount not to exceed $50,000 per offering shall be borne by the Company. Notwithstanding the foregoing, the Company shall not be required to pay for any expenses of any registration proceeding begun pursuant to Section 1.2 or Section 1.4 if the registration request is subsequently withdrawn at the request of the Holders of a majority of the Registrable Securities to be registered (in which case all participating Holders shall bear such expenses pro rata based upon the number of Registrable Securities that were to be included in the withdrawn registration), unless, in the case of a

registration requested under Section 1.2, the Holders of a majority of the Registrable Securities agree to forfeit their right to one demand registration pursuant to Section 1.2 and provided, however, that if at the time of such withdrawal, the Holders have learned of a material adverse change in the condition, business or prospects of the Company from that known to the Holders at the time of their request and have withdrawn the request with reasonable promptness following disclosure by the Company of such material adverse change, then the Holders shall not be required to pay any of such expenses and shall retain their rights pursuant to Section 1.2 and 1.4.

1.8 Delay of Registration. No Holder shall have any right to obtain or seek an injunction restraining or otherwise delaying any such registration as the result of any controversy that might arise with respect to the interpretation or implementation of this Section 1.

1.9 Indemnification. In the event any Registrable Securities are included in a registration statement under this Section 1:

(a) To the extent permitted by law, the Company will indemnify and hold harmless each Holder, the partners, officers, directors, partners, members and shareholders of each Holder, legal counsel and accountants for each Holder, any underwriter (as defined in the Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Act or the 1934 Act, against any losses, claims, damages or liabilities (joint or several) to which they may become subject under the Act, the 1934 Act, any other federal or state securities laws or any rule or regulation promulgated thereunder, insofar as such losses, claims, damages, or liabilities (or actions, proceedings or settlements in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"): (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state in such registration statement a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation by the Company of the Act, the 1934 Act, any other federal or state securities laws or any rule or regulation promulgated thereunder, and the Company will reimburse each such Holder, underwriter, controlling person or other aforementioned person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action, proceeding or settlement as such expenses are incurred; provided, however, that the indemnity agreement contained in this Section 1.9(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action, proceeding or settlement if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld or delayed), nor shall the Company be liable in any such case for any such loss, claim, damage, liability or action, proceeding or settlement to the extent that it arises out of or is based upon a Violation that occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by any such Holder, underwriter, controlling person or other aforementioned person; provided further, however, that the foregoing indemnity agreement with respect to any preliminary prospectus shall not inure to the benefit of any Holder or underwriter or other aforementioned person, or any person controlling such Holder or underwriter, from whom the person asserting any such losses, claims, damages or liabilities purchased shares in the offering, if a copy of the most current prospectus

was not sent or given by or on behalf of such Holder or underwriter or other aforementioned person to such person, if required by law to have been so delivered, at or prior to the written confirmation of the sale of the shares to such person, and if the prospectus (as so amended or supplemented) would have cured the defect giving rise to such loss, claim, damage or liability and provided that the Company had made available such prospectus for delivery by such Holder or underwriter.

(b) To the extent permitted by law, each selling Holder will indemnify and hold harmless the Company, each of its directors, each of its officers who has signed the registration statement, each person, if any, who controls the Company within the meaning of the Act, legal counsel and accountants for the Company, any underwriter, any other Holder selling securities in such registration statement and any controlling person of any such underwriter or other Holder, against any losses, claims, damages or liabilities (joint or several) to which any of the foregoing persons may become subject, under the Act, the 1934 Act, any other federal or state securities laws or any rule or regulation promulgated thereunder, insofar as such losses, claims, damages or liabilities (or actions, proceedings or settlements in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder expressly for use in connection with such registration; and each such Holder will reimburse any person intended to be indemnified pursuant to this Section 1.9(b) for any legal or other expenses reasonably incurred by such person in connection with investigating or defending any such loss, claim, damage, liability or action, proceeding or settlement as such expenses are incurred; provided, however, that the indemnity agreement contained in this Section 1.9(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action, proceeding or settlement if such settlement is effected without the consent of the Holder (which consent shall not be unreasonably withheld), and provided that in no event shall any indemnity under this Section 1.9(b) exceed the net proceeds from the offering received by such Holder, except in the case of fraud or willful misconduct by such Holder.

(c) Promptly after receipt by an indemnified party under this Section 1.9 of notice of the commencement of any action, proceeding or settlement (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 1.9, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party (together with all other indemnified parties that may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, if prejudicial to its ability to defend such action, shall relieve such indemnifying party of liability to the indemnified party under this Section 1.9 to the extent of such prejudice,

but the omission to so deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 1.9.

(d) The foregoing indemnity agreements of the Company and the selling Holders are subject to the condition that, insofar as they relate to any loss, liability, claim, damage or expense referred to herein arising from any untrue statement or alleged untrue statement of a material fact contained in, or omission or alleged omission of a material fact from, a preliminary prospectus (or necessary to make the statements therein not misleading) that has been corrected in the form of prospectus included in the registration statement at the time it becomes effective, or any amendment or supplement thereto filed with the SEC pursuant to Rule 424(b) under the Securities Act (the "Final Prospectus"), such indemnity agreement shall not inure to the benefit of any Person if a copy of the Final Prospectus was furnished to the indemnified party and such indemnified party failed to deliver, at or before the confirmation of the sale of the shares registered in such offering, a copy of the Final Prospectus to the Person asserting the loss, liability, claim, or damage in any case in which such delivery was required by the Securities Act.

(e) If the indemnification provided for in this Section 1.9 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, liability, claim, damage or expense referred to herein, then the indemnifying party, in lieu of indemnifying such indemnified party hereunder, shall contribute, subject to the limitations described in Sections 1.9(a) and 1.9(b), to the amount paid or payable by such indemnified party as a result of such loss, liability, claim, damage or expense in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and the indemnified party on the other hand in connection with the statements or omissions that resulted in such loss, liability, claim, damage or expense, as well as any other relevant equitable considerations; provided, however, that no contribution by any Holder, when combined with any amounts paid by such Holder pursuant to Section 1.9(b), shall exceed the net proceeds from the offering received by such Holder, except in the case of willful misconduct or fraud by such Holder. The relative fault of the indemnifying party and the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information furnished expressly for use in connection with such registration by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; provided, however, that, in any such case, no Person guilty of fraudulent misrepresentation (within the meaning of section 11(f) of the Securities Act) will be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

(f) Notwithstanding the foregoing, to the extent that the provisions on indemnification and contribution contained in the underwriting agreement entered into in connection with the underwritten public offering are in conflict with the foregoing provisions, the provisions in the underwriting agreement shall control; provided that should the underwriting agreement not address an aspect of indemnification and contribution contained in this Section 1.9, that shall not constitute a conflict for purposes of this Section 1.9(e).

(g) The obligations of the Company and Holders under this Section 1.9 shall survive the completion of any offering of Registrable Securities in a registration statement under this Section 1 and otherwise.

1.10 Reports Under the 1934 Act. With a view to making available to the Holders the benefits of Rule 144 and any other rule or regulation of the SEC that may at any time permit a Holder to sell securities of the Company to the public without registration or pursuant to a registration on Form S-3, the Company agrees to:

(a) make and keep public information available, as those terms are understood and defined in Rule 144, at all times after the effective date of the Qualifying Public Offering;

(b) file with the SEC in a timely manner all reports and other documents required of the Company under the Act and the 1934 Act; and

(c) furnish to any Holder, so long as the Holder owns any Registrable Securities, forthwith upon request (i) a written statement by the Company that it has complied with the reporting requirements of Rule 144 (at any time after ninety (90) days after the effective date of the first registration statement filed by the Company), the Act and the 1934 Act (at any time after it has become subject to such reporting requirements), or that it qualifies as a registrant whose securities may be resold pursuant to Form S-3 (at any time after it so qualifies)**,;** (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (iii) such other information as may be reasonably requested to avail any Holder of any rule or regulation of the SEC that permits the selling of any such securities without registration or pursuant to such form.

1.11 Assignment of Registration Rights. The rights to cause the Company to register Registrable Securities pursuant to this Section 1 may be assigned (but only with all related obligations) by a Holder to a transferee or assignee of such securities that (i) is a subsidiary, parent, partner, limited partner, retired partner or shareholder of a Holder, (ii) is a Holder's family member or trust for the benefit of an individual Holder, or (iii) after such assignment or transfer, holds at least two hundred fifty thousand (250,000) shares of Registrable Securities (subject to appropriate adjustment for stock splits, stock dividends, combinations or the like), provided: (A) the Company is, within a reasonable time after such transfer, furnished with written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned; (B) such transferee or assignee agrees in writing to be bound by and subject to the terms and conditions of this Agreement, including, without limitation, the provisions of Section 1.13 below; and (C) such assignment shall be effective only if immediately following such transfer the further disposition of such securities by the transferee or assignee is restricted under the Act.

1.12 Limitations on Subsequent Registration Rights. From and after the date of this Agreement, the Company shall not, without the prior written consent of the Holders of at least a majority of the Registrable Securities, enter into any agreement with any holder or prospective

holder of any securities of the Company that would allow such holder or prospective holder (a) to include any of such securities in any registration filed under Section 1.2, Section 1.3 or Section 1.4 hereof, unless under the terms of such agreement, such holder or prospective holder may include such securities in any such registration only to the extent that the inclusion of such securities will not reduce the amount of the Registrable Securities of the Holders that are included or (b) to demand registration of their securities.

1.13 "Market Stand Off" Agreement.

(a) Each holder of equity securities of the Company that is a party to this Agreement (a "Company Stockholder") hereby agrees that it will not, without the prior written consent of the managing underwriter, during the period commencing on the date of the final prospectus relating to the Initial Offering and ending on the date specified by the Company and the managing underwriter (such period not to exceed (a) one hundred eighty (l80) days (or such longer period as the underwriters or the Company shall require in order to facilitate compliance with NASD Rule 2711)) with respect to the Company's Initial Offering and (b) ninety (90) days with respect to a Company underwritten offering other than the Initial Offering, (i) lend, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock held immediately prior to the effectiveness of the Registration Statement for such offering, or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Common Stock, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or other securities, in cash or otherwise. The foregoing provisions of this Section 1.13 shall not apply to the sale of any shares to an underwriter pursuant to an underwriting agreement. In addition, the provisions of this Section 1.13 shall only be applicable to the Company Stockholders if (X) all officers and directors of the Company enter into similar agreements and (Y) the Company uses all reasonable efforts to obtain a similar covenant from the holders in interest of one percent (1%) or more of the outstanding securities of the Company. The underwriters in connection with the Company's Initial Offering are intended third party beneficiaries of this Section 1.13 and shall have the right, power and authority to enforce the provisions hereof as though they were a party hereto. Each Company Stockholder further agrees to execute such agreements as may be reasonably requested by the underwriters in the Company's Initial Offering that are consistent with this Section 1.13 or that are necessary to give further effect thereto. Any discretionary waiver or termination of the restrictions of any or all of such agreements or this Section 1.13 by the Company or the underwriters shall apply to all holders of capital stock of the Company subject to such agreements pro rata based on the number of shares subject to such agreements.

In order to enforce the foregoing covenant, the Company may impose stop transfer instructions with respect to the Registrable Securities of each Company Stockholder (and the shares or securities of every other person subject to the foregoing restriction) until the end of such period.

(b) Each Company Stockholder agrees that a legend reading substantially as follows shall be placed on all certificates representing all Registrable Securities

of each Company Stockholder (and the shares or securities of every other person subject to the restriction contained in this Section 1.13):

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO A LOCK-UP PERIOD OF UP TO 180 DAYS AFTER THE EFFECTIVE DATE OF THE ISSUER'S REGISTRATION STATEMENT FILED UNDER THE ACT, AS AMENDED, AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE ORIGINAL HOLDER OF THESE SECURITIES, A COPY OF WHICH MAY BE OBTAINED AT THE ISSUER'S PRINCIPAL OFFICE. SUCH LOCK-UP PERIOD IS BINDING ON TRANSFEREES OF THESE SHARES.

1.14 Termination of Registration Rights. No Holder shall be entitled to exercise any right provided for in this Section 1 (i) after five (5) years following the consummation of the Qualifying Public Offering, (ii) as to any Holder, such earlier time after the Qualifying Public Offering at which such Holder can sell all shares held by it in compliance with Rule 144(k), or (iii) when the Company shall sell, convey, or dispose of all or substantially all of the Company's property or business or merge with or into or consolidate with any other corporation (other than a wholly-owned subsidiary corporation) or effect any other transaction or series of related transactions in which more than fifty percent (50%) of the voting power of the Company is disposed of, in each case in a transaction in which the Holders receive, or at such later time at which the Holders receive, cash, cash equivalents or Marketable Securities (as defined below) in consideration for the Registrable Securities held by them; provided that this Section 1.14 shall not cause the Holders' registration rights to terminate following a merger effected solely for the purpose of changing the domicile of the Company. For purposes of this Agreement, the term "Marketable Securities" means securities that are listed on a national securities exchange or listed on the NASDAQ National Market System and either (i) freely tradeable by the Holders under applicable securities laws on such exchange or system; or (ii) with respect to which the Holder has received registration rights materially similar to those provided under Section 1 of this Agreement.

2. Covenants of the Company.

2.1 Delivery of Financial Statements. For so long as the Investors and their affiliates continue to own at least ten percent (10%) of the Registrable Securities purchased pursuant to the Series C Agreement, the Company shall deliver to each Investor:

(a) as soon as practicable, but in any event within one hundred twenty (120) days after the end of each fiscal year of the Company, an income statement for such fiscal year, a balance sheet of the Company and statement of shareholders' equity as of the end of such year, and a statement of cash flows for such year, such year end financial reports to be in reasonable detail, prepared in accordance with generally accepted accounting principles ("GAAP"), and audited and certified by independent public accountants of nationally recognized standing selected by the Company;

(b) as soon as practicable, but in any event within forty-five (45) days after the end of each of the first three (3) quarters of each fiscal year of the Company, an unaudited income statement, statement of cash flows for such fiscal quarter and an unaudited balance sheet as of the end of such fiscal quarter;

(c) within forty-five (45) days of the end of each month an unaudited income statement, statement of cash flows and balance sheet for and as of the end of such month, in reasonable detail;

(d) as soon as practicable, but in any event no later than the fifteenth of March of each fiscal year, a budget and business plan for the next fiscal year, prepared on a monthly basis, and, as soon as prepared, any other budgets or revised budgets prepared by the Company;

(e) with respect to the financial statements called for in Section 2.1(b) and 2.1(c), an instrument executed by the Chief Financial Officer or President of the Company certifying that such financials were prepared in accordance with GAAP consistently applied with prior practice for earlier periods (with the exception of footnotes that may be required by GAAP) and fairly present the financial condition of the Company and its results of operation for the period specified, subject to year-end audit adjustment; and

(f) such other information relating to the financial condition, business or corporate affairs of the Company as the Investor may from time to time request, provided, however, that the Company shall not be obligated under this Section 2.1(f) or any other subsection of Section 2.1 to provide information that it deems in good faith to be a trade secret or similar confidential information.

2.2 Inspection. The Company shall permit each Investor, at such Investor's expense, to visit and inspect the Company's properties, to examine its books of account and records and to discuss the Company's affairs, finances and accounts with its officers, all at such reasonable times as may be requested by the Investor; provided, however, that the Company shall not be obligated pursuant to this Section 2.2 to provide access to any information that it reasonably considers to be a trade secret or similar confidential information.

2.3 Termination of Information and Inspection Covenants. The covenants set forth in Sections 2.1 and 2.2 shall terminate and be of no further force or effect upon the earlier to occur of (i) the consummation of the sale of securities pursuant to a registration statement filed by the Company under the Act in connection with the firm commitment underwritten offering of its securities to the general public, (ii) when the Company first becomes subject to the periodic reporting requirements of Sections 12(g) or 15(d) of the 1934 Act, or (iii) the consummation of a Deemed Liquidation Event, as that term is defined in the Articles.

2.4 Right of First Refusal. Subject to the terms and conditions specified in this Section 2.4, the Company hereby grants to each Investor a right of first refusal to purchase all or any portion of its pro rata portion of future sales by the Company of its Shares (as hereinafter defined). An Investor shall include any general partners and affiliates of an Investor.

Investors shall be entitled to apportion the right of first refusal hereby granted it among itself and its partners and affiliates in such proportions as it deems appropriate.

Each time the Company proposes to offer any shares of, or securities convertible into or exchangeable or exercisable for any shares of, its capital stock or debt instruments that are issued along with warrants to purchase any of the foregoing ("Shares"), the Company shall first make an offering to each Investor to purchase all or a portion of its pro rata portion of such Shares in accordance with the following provisions:

(a) The Company shall deliver a notice in accordance with Section 4.5 ("Notices") to the Investors stating (i) its bona fide intention to offer such Shares, (ii) the number of such Shares to be offered and (iii) the price and terms upon which it proposes to offer such Shares.

(b) By written notification received by the Company within twenty (20) calendar days after the giving of Notice, each Investor may elect to purchase, at the price and on the terms specified in the Notice, up to that portion of such Shares that equals the proportion that the number of shares of Common Stock that are Registrable Securities issued and held by such Investor (assuming full conversion and exercise of all convertible and exercisable securities then outstanding) bears to the total number of shares of Common Stock of the Company then outstanding (assuming full conversion and exercise of all convertible and exercisable securities then outstanding). The Company shall promptly, in writing, inform each Investor that elects to purchase all the shares available to it (a "Fully-Exercising Investor") of any other Investor's failure to do likewise. During the ten (10) day period commencing after such information is given, each Investor that is a Fully-Exercising Investor may elect to purchase that portion of the Shares for which the Investors were entitled to subscribe, but which were not subscribed for by the Investors, that is equal to the proportion that the number of shares of Registrable Securities issued and held by such Fully-Exercising Investor bears to the number of shares of Registrable Securities issued and held by all Investors that are Fully-Exercising Investors.

(c) If all Shares that Investors are entitled to obtain pursuant to Section 2.4(b) are not elected to be obtained as provided in Section 2.4(b) hereof, the Company may, during the ninety (90) day period following the expiration of the period provided in Section 2.4(b) hereof, offer the remaining unsubscribed portion of such Shares to any person or persons at a price not less than that, and upon terms no more favorable to the offeree than those, specified in the Notice. If the Company does not enter into an agreement for the sale of the Shares within such period, or if such agreement is not consummated within seventy-five (75) days of the execution thereof, the right provided hereunder shall be deemed to be revived and such Shares shall not be offered unless first reoffered to the Investors in accordance herewith.

(d) The right of first refusal in this Section 2.4 shall not be applicable to (i) up to two million forty-eight thousand two hundred (2,048,200) shares of Common Stock (or options therefor) (subject to adjustment for stock splits, stock dividends, recapitalizations and similar changes affecting the capital stock of the Company) to employees, directors, consultants and other service providers of this corporation for the primary purpose of soliciting or retaining

their services pursuant to plans or agreements approved by the Company's Board of Directors, (ii) the issuance of securities pursuant to a Qualifying Public Offering, (iii) the issuance of securities pursuant to the conversion or exercise of convertible or exercisable securities, (iv) the issuance of securities in connection with a bona fide business acquisition of or by the Company, whether by merger, consolidation, sale of assets, sale or exchange of stock or otherwise, (v) the issuance and sale of Series C Preferred Stock pursuant to the Series C Agreement, as such agreement may be amended, (vi) up to one hundred thousand (100,000) shares of equity securities per year (subject to adjustment for stock splits, stock dividends, recapitalizations and similar changes affecting the capital stock of the Company) issued to vendors, consultants or advisors or in connection with acquisitions, which grant, agreement or other arrangement has been approved by a majority of the Independent Directors, (vii) shares of Common Stock or warrants to purchase Common Stock issued pursuant to any strategic partnership, in each case approved by a majority of the Independent Directors, and (viii) any securities issued in connection with any stock split, stock dividend or recapitalization by the Company that affects all outstanding capital stock of the Company. In addition to the foregoing, the right of first offer in this Section 2.4 shall not be applicable with respect to any Investor in any subsequent offering of Shares if (i) at the time of such offering, the Investor is not an "accredited investor," as that term is then defined in Rule 501(a) of the Act and (ii) such offering of Shares is otherwise being offered only to accredited investors.

(e) The rights provided in this Section 2.4 may not be assigned or transferred by any Investor; provided, however, that (i) an Investor may assign or transfer such rights to any other entity which controls, is controlled by or is under common control with the Investor or any entity that is managed by the same joint management company of the Investor or any entity that is the general partner or limited partner of the Investors and (ii) a Investor that is a venture capital fund may assign or transfer such rights to an affiliated venture capital fund.

2.5 Proprietary Information and Inventions Agreements. The Company shall use commercially reasonable efforts to cause all officers, key management employees and employees involved in research and development activities to execute and deliver a Proprietary Information and Intellectual Property Agreement (a "Proprietary Information Agreement") in form and substance reasonably satisfactory to the Investors within sixty (60) days after the date hereof) and shall require all future officers, key management employees and employees involved in research and development activities to execute and deliver a Proprietary Information Agreement.

2.6 Lock-Up of Future Securityholders. The Company shall ensure that all future holders of the Company's Preferred Stock are subject to a Market Stand-Off substantially similar to that set forth in Section 1.13 hereof.

2.7 D&O Insurance. The Company has as of the date hereof or shall, within ninety (90) days after the date hereof, obtain from financially sound and reputable insurer(s) and maintain director and officer liability insurance in the amount of at least $2,000,000 per occurrence.

2.8 Board of Directors. The Board shall consist of no more than eight (8) and no less than seven (7) members, at least four (4) of whom shall be Independent Directors. Hiring and dismissal of officers shall be under the purview of the Board and the Board shall have exclusive authority over all equity incentive grants and senior management compensation decisions, provided, however, that without the prior written consent of the parties holding a majority of the Series C Preferred Stock, which consent shall not be unreasonably withheld, the Board will not materially increase the salary, bonuses, benefits or other compensation of the Company's management. For the avoidance of doubt, references to the Board in the previous sentence shall include the Compensation Committee of the Board (the "Compensation Committee"), to the extent appropriate and consistent with the charter of the Compensation Committee. The Board shall review and approve the Company's operating plan and budget annually as well as any material deviations from or amendments to such plans and budgets.

2.9 Board Observer. The Investors holding a majority of the Registrable Securities purchased pursuant to the Series C Agreement shall be entitled to nominate one (1) Board observer (the "Board Observer") with full rights to observe and attend any and all meetings and other proceedings of the Company's Board of Directors and to receive all notices and information provided to the members of the Board. All out-of-pocket expenses of the Board Observer resulting from his or her activities in such capacity shall be reimbursed by the Company. The rights to vote for the nomination of the Board Observer pursuant to this Section 2.9 shall be transferable to any transferee of such Registrable Securities only to the extent that the transfer of such rights has been consented to by a majority of the Board, which consent shall not be unreasonably withheld.

2.10 Related Party Transactions. The Company will not enter into any transaction with any employee, officer, director or shareholder of the Company or any of its subsidiaries (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 the Company or any of its subsidiaries, other than on arms-length basis as reasonably determined a majority of the Independent Directors.

2.11 Termination of Certain Covenants. The covenants set forth in Sections 2.4 through 2.10 shall terminate and be of no further force or effect (i) upon the consummation of the Company's sale of its Common Stock or other securities pursuant to an Initial Offering, or (ii) upon a Deemed Liquidation Event.

3. Transfers of Registrable Securities.

3.1 Transfer Notice. If at any time an Investor desires to Transfer any Registrable Securities (a "Selling Investor"), the Selling Investor shall promptly give the Company written notice thereof (the "Transfer Notice"). The Transfer Notice shall include a description and the amount of the Registrable Securities that the Selling Investor desires to Transfer (for the purposes of this Section 3, the "Offered Shares"). In the event that the Transfer is being made pursuant to the provisions of Section 3.3, the Transfer Notice shall state under which specific subsection the Transfer is being made. If the Company so elect within ten (10)

days following receipt of such notice, the Company shall have the right, on an exclusive basis, for a period of forty-five (45) days after receipt of such notice to negotiate with the Selling Investor with respect to a definitive agreement for the sale and purchase of all (and not less than all) of the Offered Shares. The Selling Investor and the Company shall negotiate in good faith the terms and conditions of any such agreement.

3.2 Non-Exercise of Rights. To the extent that the Company does not exercise its right to negotiate with the Selling Investor or the Company and the Selling Investor do not reach an agreement for the sale and purchase of the Offered Shares within the time periods specified in Section 3.1, the Selling Investor shall have a period of ninety (90) days from the expiration of such rights in which to sell the Offered Shares to a third-party transferee(s), on terms and conditions no less favorable to the Selling Investor than the terms proposed by the Company pursuant to Section 3.1 hereof (if applicable). The third party transferee(s) shall acquire the Offered Shares free and clear of subsequent rights of first offer under this Agreement. In the event the Selling Investor does not sell the Offered Shares within the ninety (90) day period from the expiration of these rights, the Company's first offer rights shall continue to be applicable to any subsequent disposition of the Offered Shares by the Selling Investor until such rights lapse in accordance with the terms of this Agreement. Furthermore, the exercise or non-exercise of the rights of the Company under Section 3.1 to offer to purchase Registrable Securities from the Selling Investor shall not adversely affect its right to make subsequent purchases from the Selling Investor of Registrable Securities.

3.3 Limitations to Company Right of First Offer. Notwithstanding the provisions of Section 3.1 of this Agreement, the first offer right of the Company shall not apply to (a) in the case of a company, corporation or a partnership, the Transfer of Registrable Securities to any members, shareholders or partners thereof (a member, shareholder or partner of a company, corporation or partnership that is a shareholder of the Company is referred to as an "Indirect Stockholder") or to any entity controlled by, controlling or under common control with the transferor, (b) the Transfer of Registrable Securities to any spouse or member of an Investor's immediate family (as defined below), or to a custodian, trustee (including a trustee of a voting trust), executor, or other fiduciary for the account of the Investor's or an Indirect Stockholder's spouse or members of the Investor's immediate family, or to a trust for the Indirect Stockholder's own self, or a charitable remainder trust, (c) Transfers of Equity Securities by one or more individual Investors pursuant to which after such Transfer, all of the Investors will continue to collectively own at least one million (1,000,000) shares (including shares held by transferees pursuant to clauses (a) and (b) above) of the Series C Preferred Stock purchased pursuant to the Series C Agreement (subject to adjustment for stock splits, stock dividends, recapitalizations and similar changes affecting the capital stock of the Company), (d) any sale of Registrable Securities to the public pursuant to a registration statement filed with, and declared effective by, the Securities and Exchange Commission under the Act; *provided*, *however*, that in the event of any transfer made pursuant to one of the exemptions provided by clauses (a) or (b), the Investor shall inform the Company in writing of such Transfer prior to effecting it and (ii) each such transferee or assignee, prior to the completion of the Transfer, shall have executed documents assuming the obligations of the Investor under this Agreement with respect to the transferred Registrable Securities. Except with respect to the Registrable Securities transferred under clauses (c) and (d) above (which Registrable Securities shall no

longer be subject to the first offer rights of the Company), such transferred Registrable Securities shall remain "Registrable Securities" hereunder, and such pledgee, transferee or donee shall be treated as the "Investor" for purposes of this Agreement. For purposes of this Section 3.3, "Investor's immediate family" shall include any spouse, father, mother, sibling, lineal descendant of spouse or lineal descendant of the Investor or of an Indirect Stockholder.

4. Miscellaneous.

4.1 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 shares of Registrable 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.

4.2 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Wisconsin, as applied to contracts made and performed within the State of Wisconsin, without regard to principles of conflicts of law.

4.3 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

4.4 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.

4.5 Notices. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed effectively given: (i) upon personal delivery to the party to be notified, (ii) 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, (iii) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (iv) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. The occurrence of the events set forth in subsections (i) through (iv) above shall constitute "Delivery" of notice. 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 4.5).

4.6 Expenses. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

4.7 Entire Agreement, Amendments and Waivers. This Agreement (including the Exhibits and Schedules hereto, if any) constitutes the full and entire understnaidng and agreement among the parties with regard to the subjects hereof and thereof. 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 the holders of a majority of the Registrable Securities. Any amendment or waiver effected in accordance with this paragraph shall be binding upon each holder of any Registrable Securities, each future holder of all such Registrable Securities, and the Company.

4.8 Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision(s) shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision(s) were so excluded and shall be enforceable in accordance with its terms.

4.9 Aggregation of Stock. All shares of Registrable Securities held or acquired by affiliated entities (including affiliated venture capital funds) or persons shall be aggregated together for the purpose of determining the availability of any rights under this Agreement.

4.10 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.

IN WITNESS WHEREOF, the parties have executed this Investors' Rights Agreement as of the date first above written.

COMPANY

COMPANY

ORION ENERGY SYSTEMS, LTD.

By: _____
Name:
Title:

Address:

INVESTORS:

By: _____
Name:
Title:

Address:

EXHIBIT C

FIRST OFFER AND CO-SALE AGREEMENT

This FIRST OFFER AND CO-SALE AGREEMENT (the "Agreement") is made as of the 31st day of July, 2006, by and among Orion Energy Systems, Ltd., a Wisconsin corporation (the "Company"), the officers and directors of the Company listed on Schedule A hereto (the "Shareholders") and Clean Technology Fund II, LP. The Clean Technology Fund II, LP is referred to herein as the "Investor." The Investor, together with any transferee of the Series C Preferred Stock of the Company (or common stock issuable upon the conversion thereof) that is subject to the terms of this Agreement, are herein referred to as "Investors."

W I T N E S S E T H:

WHEREAS, the Company and the Investors are parties to the Series C Senior Convertible Preferred Stock Purchase Agreement, dated of even date herewith (the "Series C Agreement"), pursuant to which the Investors are purchasing shares of the Company's Series C Senior Convertible Preferred Stock (the "Series C Preferred Stock"); and

WHEREAS, the Company and the Shareholders wish to enter into this Agreement to provide inducement to the Investors to purchase shares of Series C Preferred Stock.

NOW, THEREFORE, in consideration of the foregoing premises and certain other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Definitions.

(a) Common Stock. For purposes of this Agreement, the term "Common Stock" shall mean the Common Stock of the Company.

(b) Delivery. For purposes of this Agreement, the term "Delivery" shall have the meaning set forth in Section 6 below.

(c) Equity Securities. For purposes of this Agreement, the term "Equity Securities" shall mean any securities now or hereafter owned or held by a Holder (or a transferee in accordance with Section 2.3 herein), or any securities evidencing an ownership interest in the Company, or any securities convertible into or exercisable for any shares of the foregoing.

(d) Holders. For purposes of this Agreement, the term "Holders" shall mean each of the Investors and Shareholders or persons who have acquired shares from any Investor or Shareholder or the transferees or assignees of an Investor or Shareholder in accordance with the provisions of Section 2.3 or Section 3 of this Agreement.

(e) Independent Director. For purposes of this Agreement, the term "Independent Director" shall have the same meaning as set forth in the Company's Articles of Incorporation.

(f) Preferred Stock. For purposes of this Agreement, the term "Preferred Stock" shall mean the Preferred Stock of the Company.

(g) Transfer. For purposes of this Agreement, the term "Transfer" shall include any sale, assignment, encumbrance, hypothecation, pledge, conveyance in trust, gift, transfer by bequest, devise or descent, or other transfer or disposition of any kind, including, but not limited to, transfers pursuant to divorce or legal separation, transfers to receivers, levying creditors, trustees or receivers in bankruptcy proceedings or general assignees for the benefit of creditors, whether voluntary, involuntarily or by operation of law, directly or indirectly, of any of the Equity Securities.

2. Agreements Among the Parties.

2.1 Investors' Rights of First Offer.

(a) If at any time a Shareholder desires to Transfer any Equity Securities (an "Offering Holder"), then unless such Transfer is excluded under Section 2.3, the Offering Holder shall promptly give the Company and each Investor written notice thereof (the "Offer Notice"). The Offer Notice shall include a description and the amount of the Equity Securities that the Holder desires to Transfer (for the purposes of this Section 2.1, the "Offered Shares"). If any Investors so elect within ten (10) days following receipt of such notice (each, an "Electing Investor"), the Electing Investors shall have the right, on an exclusive basis, for a period of forty-five (45) days after receipt of such notice to negotiate with the Offering Holder with respect to a definitive agreement for the sale and purchase of the Offered Shares. The Offering Holder and the Electing Investors shall negotiate in good faith the terms and conditions of any such agreement.

(b) Unless the Electing Investors agree otherwise, in the event that the Offering Holder and the Electing Investors agree to final terms and conditions for the Transfer of the Offered Shares, each Electing Investor shall be entitled to purchase all of its respective pro rata share of the Offered Shares pursuant to such Transfer. Each Electing Investor's pro rata share of the Offered Shares shall be a fraction of the Offered Shares, the numerator of which shall be the number of shares of Common Stock (including shares of Common Stock issuable upon conversion of Preferred Stock) owned by such Electing Investor and denominator of which shall be the total number of shares of Common Stock (including shares of Common Stock issuable upon conversion of Preferred Stock) held by all Electing Investors.

(c) In the event any Electing Investor elects not to purchase all of its pro rata share of the Offered Shares available pursuant to its option under subsection 2.1(b), each Electing Investor that has elected to purchase all of its respective pro rata share of the Offered Shares (each, a "Fully Participating Investor") shall be entitled to purchase its respective pro rata share of all unsubscribed shares (including any shares that are unsubscribed due to any other Fully Participating Investor not exercising its option to purchase unsubscribed shares). For purposes of this Section 2.1(c), the numerator shall be the same as that used in Section 2.1(b) above and the denominator shall be the total number of shares of Common Stock (including shares of Common Stock issuable upon conversion of Preferred Stock) owned by all Fully Participating Investors. Each Electing Investor shall be entitled to apportion Offered Shares to be purchased among its

partners and affiliates (including in the case of a venture capital fund other venture capital funds affiliated with such fund), provided that such Electing Investor notifies the Offering Holder of such allocation.

(d) To the extent that none of the Investors exercise their right to negotiate with the Offering Holder or the Electing Investors and the Offering Holder do not reach an agreement for the sale and purchase of the Offered Shares within the time periods specified in Section 2.1(a), the Offering Holder shall have a period of ninety (90) days from the expiration of such rights in which to sell the Offered Shares to a third-party transferee(s), on terms and conditions no less favorable to the Offering Holder than the terms proposed by any of the Electing Investors pursuant to Section 2.1(a) hereof (if applicable). In the event the Offering Holder does not sell the Offered Shares within the ninety (90) day period from the expiration of these rights, the Investors' first offer rights shall continue to be applicable to any subsequent disposition of the Offered Shares by the Offering Holder until such rights lapse in accordance with the terms of this Agreement. Furthermore, the exercise or non-exercise of the rights of the Investors under this Section 2.1 to offer to purchase Equity Securities from the Offering Holder shall not adversely affect their rights to make subsequent purchases from the Offering Holder of Equity Securities or subsequently participate in sales of Equity Securities by a Selling Shareholder pursuant to Section 2.2 hereof. Any definitive agreement for the sale and purchase of the Offered Shares to a third-party transferee(s) shall be subject to the Investors' right of co-sale pursuant to Section 2.2 hereof.

2.2 Rights of Co-Sale.

(a) If at any time a Shareholder proposes to Transfer Equity Securities (a "Selling Holder"), the Selling Holder shall promptly give the Company and each Investor written notice of the Selling Holder's intention to make the Transfer (for purposes of this Section 2.2, the "Transfer Notice"). The Transfer Notice shall include (i) a description of the Equity Securities to be transferred (for purposes of this Section 2.2, the "Offered Shares"), (ii) the name(s) and address(es) of the prospective transferee(s), (iii) the consideration and (iv) the material terms and conditions upon which the proposed Transfer is to be made. The Transfer Notice shall certify that the Selling Holder has received a firm offer from the prospective transferee(s) and in good faith believes a binding agreement for the Transfer is obtainable on the terms set forth in the Transfer Notice. The Transfer Notice shall also include a copy of any written proposal, term sheet or letter of intent or other agreement relating to the proposed Transfer. In the event that the transfer is being made pursuant to the provisions of Section 2.3, the Transfer Notice shall state under which specific subsection the Transfer is being made.

(b) Each Investor (a "Co-selling Investor") that notifies the Company and the Selling Holder in writing within five (5) days after Delivery of a Transfer Notice referred to in Section 2.2(a) shall have the right to participate in such sale of Equity Securities on the same terms and conditions as specified in the Transfer Notice. Such Co-selling Investor's notice to the Company and the Selling Holder shall indicate the maximum number of shares of capital stock of the Company that the Co-selling Investor wishes to sell under his, her or its right to participate. To the extent one or more of the Investors exercise such right of participation in accordance with the terms and conditions set forth below, the number of shares of Equity Securities that the Selling Holder may sell in the Transfer shall be correspondingly reduced.

(c) Each Co-selling Investor may sell all or any part of that number of shares of capital stock of the Company equal to the product obtained by multiplying (i) the aggregate number of shares of Equity Securities covered by the Transfer Notice by (ii) a fraction, the numerator of which is the number of shares of Common Stock (including shares of Common Stock issuable upon conversion of Preferred Stock) owned by the Co-selling Investor on the date of the Transfer Notice and the denominator of which is the total number of shares of Common Stock (including shares of Common Stock issuable upon conversion of Preferred Stock) owned by the Selling Shareholder and all of the Co-selling Investors on the date of the Transfer Notice.

(d) Each Co-selling Investor shall effect its participation in the sale by promptly delivering to the Selling Holder for transfer to the prospective purchaser one or more certificates, properly endorsed for transfer to the purchaser, which represent:

(i) if the Offered Shares are shares of Series C Preferred Stock, the number of shares of Series C Preferred Stock of the Company that such Co-selling Holder elects to sell;

(ii) if the Offered Shares are shares of Preferred Stock other than shares of Series C Preferred Stock, that number of shares of Series C Preferred Stock equal to the as converted to Common Stock equivalent of that number of Offered Shares that the Selling Holder (together with any other Co-selling Investors) would be permitted to sell if the Co-selling Investor were not participating in the sale;

(iii) if the Offered Shares are shares of Common Stock, that number of shares of Common Stock, or such number of shares of capital stock of the Company that are at such time convertible into the number of shares of Common Stock, that such Co-selling Investor elects to sell; provided, however, that if the prospective third-party purchaser objects to the delivery of shares of capital stock of the Company in lieu of Common Stock, such Co-selling Investor shall convert such shares of capital stock of the Company into Common Stock and deliver Common Stock as provided in this Section 2.2. The Company agrees to make any such conversion concurrent with the actual transfer of such shares to the purchaser and contingent on such transfer.

(e) The stock certificate or certificates that the Co-selling Investor delivers to the Selling Shareholder pursuant to Section 2.2(d) shall be transferred to the prospective purchaser in consummation of the sale of the Equity Securities pursuant to the terms and conditions specified in the Transfer Notice, and the prospective purchaser shall concurrently therewith remit to such Co-selling Investor that portion of the sale proceeds to which such Co-selling Investor is entitled by reason of its participation in such sale. To the extent that any prospective purchaser or purchasers prohibits such assignment or otherwise refuses to purchase shares or other securities from a Co-selling Investor exercising its rights of co-sale hereunder, the Selling Holder shall not sell to such prospective purchaser or purchasers any Equity Securities unless and until, simultaneously with such sale, the Selling Holder shall purchase such shares or other securities from such Co-selling Investor for the same consideration and on the same terms and conditions as the proposed transfer described in the Transfer Notice. In the event that a Co-selling Investor elects to participate in a sale of Equity Securities pursuant to this Section 2.2, each Holder agrees to purchase the Equity Securities held by such Co-selling Investor in

accordance with this Agreement provided such Co-selling Investor has otherwise complied with the provisions of this Section 2.2.

(f) To the extent that the Investors have not exercised their right to participate in the sale of the Offered Shares within the time periods specified in Section 2.2(b), the Selling Holder shall have a period of ninety (90) days from the expiration of such rights in which to sell the Offered Shares upon terms and conditions (including the purchase price) no more favorable than those specified in the Transfer Notice, to the third-party transferee(s) identified in the Transfer Notice. The third-party transferee(s) shall acquire the Offered Shares free and clear of subsequent rights of first offer and co-sale under this Agreement. In the event the Selling Holder does not consummate the sale or disposition of the Offered Shares within the ninety (90) day period from the expiration of these rights, the Investors' first offer and co-sale rights shall continue to be applicable to any subsequent disposition of the Offered Shares by the Selling Holder until such right lapses in accordance with the terms of this Agreement. Furthermore, the exercise or non-exercise of the rights of the Investors under this Section 2.2 to participate in sales of Equity Securities by the Selling Holder shall not adversely affect their rights to make subsequent offers to purchase from the Selling Holder of Equity Securities or subsequently participate in sales of Equity Securities by the Selling Shareholder.

2.3 Limitations to Rights of First Offer and Co-Sale. Notwithstanding the provisions of Section 2.1 and Section 2.2 of this Agreement, the first offer and co-sale rights of the Investors shall not apply to (a) in the case of a company, corporation or a partnership, the Transfer of Equity Securities to any members, shareholders or partners thereof (a member, shareholder or partner of a company, corporation or partnership that is a Shareholder of the Company is referred to as an "Indirect Shareholder") or to any entity controlled by, controlling or under common control with the transferor, (b) the Transfer of Equity Securities to any spouse or member of a Holder's immediate family (as defined below), or to a custodian, trustee (including a trustee of a voting trust), executor, or other fiduciary for the account of the Holder's or an Indirect Shareholder's spouse or members of the Holder's immediate family, or to a trust for the Indirect Shareholder's own self, or a charitable remainder trust, (c) any sale of Equity Securities to the public pursuant to a registration statement filed with, and declared effective by, the Securities and Exchange Commission under the Securities Act of 1933, as amended; *provided, however*, that in the event of any transfer made pursuant to one of the exemptions provided by clauses (a) or (b), the Holder shall inform the Investors and the Company in writing of such Transfer prior to effecting it and (ii) each such transferee or assignee, prior to the completion of the Transfer, shall have executed documents assuming the obligations of the Holder under this Agreement with respect to the transferred Equity Securities. Except with respect to the Equity Securities transferred under clause (c) above (which Equity Securities shall no longer be subject to the first offer or co-sale rights of the of the Investors), such transferred Equity Securities shall remain "Equity Securities" hereunder, and such pledgee, transferee or donee shall be treated as the "Holder" for purposes of this Agreement. For purposes of this Section 2.3, "Holder's immediate family" shall include any spouse, father, mother, sibling, lineal descendant of spouse or lineal descendant of the Holder or of an Indirect Shareholder.

Notwithstanding the provisions of Section 2.1 of this Agreement, the rights of first offer of the Investors shall not apply to Transfers of Equity Securities of one or more individual Shareholders until the aggregate amount of such sales after the date hereof shall equal $1,000,000.

Notwithstanding the provisions of Section 2.2 of this Agreement, the co-sale rights of the Investors shall not apply to any Transfers of Equity Securities of one or more individual Shareholders until the aggregate amount of such Transfers after the date hereof shall equal $1,000,000 exclusive of any Transfers of Equity Securities within any fiscal year by individual Shareholders of up to twenty percent (20%) of the Equity Securities (including for such purpose any Equity Securities which are the subject of options or other rights to purchase) held by such Shareholder on the date hereof.

2.4 Prohibited Transfers. The parties hereto agree that no Holder shall Transfer Equity Securities to any competitor of the Company. If at any time a Holder proposes to Transfer Equity Securities, it shall notify the Company of the identity of such transferee no later than ten (10) business days prior to entering into a definitive agreement with respect to such Transfer. If a majority of the Independent Directors reasonably determines within such ten (10) business day period that the proposed transferee is a competitor of the Company and that such Transfer would not be in the best interest of the Company, the Board shall immediately notify the Holder of such determination and the Holder shall be prohibited from transferring any Equity Securities to such proposed transferee.

Any sale, assignment, transfer, pledge, hypothecation or other encumbrance or disposition of Equity Securities not made in conformance with this Agreement shall be null and void, shall not be recorded on the books of the Company and shall not be recognized by the Company.

3. Assignments and Transfers; No Third-Party Beneficiaries. This Agreement and the rights and obligations of the parties hereunder shall inure to the benefit of, and be binding upon, their respective successors, assigns and legal representatives, but shall not otherwise be for the benefit of any third party. The rights of the Investors hereunder are only assignable (i) to any other Investor, (ii) to a partner, member or affiliate of such Investor (including affiliated venture capital funds of which such Investor is a partner or member) or (iii) to an assignee or transferee who acquires all of the Equity Securities held by a particular Investor or at least two hundred fifty thousand (250,000) shares of the Series C Preferred Stock (or shares of Common Stock into which such Series C Preferred Stock has been converted) purchased pursuant to the Series C Agreement (subject to adjustment for stock splits, stock dividends, recapitalizations and similar changes affecting the capital stock of the Company) from such Investor.

4. Legend. Each existing or replacement certificate for shares now owned or hereafter acquired by the Holders shall bear the following legend upon its face:

"THE SALE, PLEDGE, HYPOTHECATION, ASSIGNMENT OR TRANSFER OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE IS SUBJECT TO THE TERMS AND CONDITIONS OF A CERTAIN FIRST OFFER AND CO-SALE AGREEMENT BY AND BETWEEN THE SHAREHOLDER, THE CORPORATION AND CERTAIN HOLDERS OF STOCK OF THE CORPORATION. COPIES OF SUCH AGREEMENT MAY BE OBTAINED UPON WRITTEN REQUEST TO THE SECRETARY OF THE CORPORATION."

5. Effect of Change in Company's Capital Structure. If, from time to time, the Company pays a stock dividend or effects a stock split or other change in the character or amount of any of the outstanding stock of the Company, then in such event any and all new, substituted or additional securities to which a Holder is entitled by reason of such Holder's ownership of Equity Securities shall be immediately subject to the rights and obligations set forth in this Agreement with the same force and effect as the stock subject to such rights immediately before such event.

6. Notices. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed effectively given: (i) upon personal delivery to the party to be notified, (ii) 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, (iii) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (iv) one (1) business day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. The occurrence of the events set forth in subsections (i) through (iv) above shall constitute "Delivery" of notice. 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. Further Instruments and Actions. The parties hereto agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement. Each such party agrees to cooperate affirmatively with each other party, and to the extent reasonably requested by any such party, to enforce rights and obligations pursuant hereto.

8. Term. This Agreement shall terminate and be of no further force or effect upon (a) the consummation of the Company's sale of its Common Stock or other securities pursuant to an initial public offering under the Securities Act of 1933, or (b) the consummation of a Deemed Liquidation Event, as such term is defined in the Company's Articles of Incorporation (as amended from time to time). This Agreement shall terminate with respect to any Shareholder upon the termination of such Shareholder as an officer or director of the Company.

9. Entire Agreement. This Agreement contains the entire understanding of the parties hereto with respect to the subject matter hereof and supersedes any other prior agreements between the parties hereto with respect to the subject matter hereof.

10. Amendments and Waivers. This Agreement constitutes the full and entire understanding and agreement among the parties with regard to the subjects hereof and thereof and

supersedes all prior agreements with regard to the subject matter hereof. 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 the Investors holding at least a majority of the shares of Common Stock (assuming full conversion at the then effective conversion rate of all shares of Preferred Stock owned by all of the Investors) held by all Investors. Notwithstanding the foregoing, in the event that such amendment or waiver adversely affects the obligations or rights of a Shareholder under this Agreement, such amendment or waiver shall also require the written consent of such adversely affected Shareholder or, if multiple Shareholders are so adversely affected, the holders of a majority in interest of such adversely affected Shareholders. Any amendment or waiver effected in accordance with this Section 10 shall be binding upon all Holders and their respective successors and assigns.

11. Governing Law. This Agreement shall be interpreted under the laws of the State of Wisconsin without reference to Wisconsin conflicts of law provisions.

12. Severability. If one or more provisions of this Agreement is 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.

13. Attorney's Fees. In the event that any dispute among the parties to this Agreement should result in litigation, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

14. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

15. 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 ANY 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.

IN WITNESS WHEREOF, the parties hereto have executed this First Offer and Co-sale Agreement as of the date first written above.

COMPANY

ORION ENERGY SYSTEMS, LTD.

By: _____
Name:
Title:

Address:

INVESTORS:

By: _____
Name:
Title:

Address:

SHAREHOLDERS:

[NAME]

By: _____
Name:
Title:

Address:

[NAME]

By: _____
Name:
Title:

Address:

Schedule A

Shareholders

EXHIBIT D

EMPLOYEE
PROPRIETARY INFORMATION
AND INTELLECTUAL PROPERTY AGREEMENT

(name of employee)

(address)

In consideration of my employment by Orion Energy Systems, Ltd. (the "Company"), the compensation received by me from the Company from time to time and **[*list any additional consideration given in exchange for employee's execution and delivery of Agreement*]** the receipt and sufficiency of which is hereby acknowledged, the Company and I agree as follows:

1. I understand that the Company possesses and will possess Proprietary Information which is important to its or its affiliates' or clients' business. For purposes of this Agreement, "Proprietary Information" is all information, whether or not made verbally or in writing or other tangible or intangible form, that was or will be developed, created, or discovered by or on behalf of the Company or its affiliates or clients, or which became or will become known by, or was or is conveyed to the Company or its affiliates or clients, which has value in the Company's or its affiliates' or clients' business, or is considered, deemed or treated as confidential by the Company, its affiliates or clients or is otherwise not generally known. "Proprietary Information" includes, but is not limited to, the proprietary integrated sales management system developed and maintained by the Company providing various sales methodology, technology, financial and marketing solutions including customer relationship management, financial management, product and service information; information concerning the Company's business, products, and affairs which may be or has been developed or belongs to or is otherwise possessed by the Company; product and engineering specifications; proprietary tooling information; performance analyses of the Company's products; inventions and ideas; research and development; current and planned manufacturing or distribution methods and processes; customer lists; current and anticipated customer requirements; market studies; business plans; financial information; and other business and strategic information; trade secrets, ideas, methodologies, skills, knowledge, computer programs, computer codes, databases, database criteria, user profiles, algorithms, modules, scripts, features and modes of operation, designs, technology, ideas, know-how, processes, data, techniques, internal documentation, improvements, inventions (whether patentable or not), works of authorship, technical, business, financial, client, marketing, and product development plans, forecasts, the salaries and terms of compensation of other employees, client and supplier lists, contacts at or knowledge of clients or prospective clients of the Company or its affiliates, and other information concerning the Company's or its affiliates' or clients' actual or anticipated products or services, business, research or development, or any information which is received in confidence by or for the Company from any other person. Proprietary Information shall not include publicly available information (in substantially the

same form in which it is publicly available) unless such information is publicly available by reason of unauthorized disclosure.

2. I understand that my employment creates a relationship of confidence and trust between me and the Company with respect to Proprietary Information. I agree to take all measures necessary to safeguard and protect the Proprietary Information of the Company, its affiliates and clients. I agree to keep in strict confidence, and not to directly or indirectly, at any time during or for up to two years after my employment with the Company ends, disclose, furnish, disseminate, make available, or, except solely in the course of performing my duties of employment with the Company, during my employment, use any Proprietary Information. I understand and agree that the Proprietary Information could be used or disseminated anywhere in the United States and Canada, and if so used or disseminated without Company permission could seriously harm the Company. Accordingly, I agree that the scope of this provision is as to the entire United States and Canada.

3. During my employment at the Company, I may be exposed to trade secrets of the Company, its affiliates or clients. Nothing in this Agreement diminishes or limits any protection granted by law to trade secrets or relieves me of any duty not to disclose, use, or misappropriate any information that is a trade secret for as long as such information remains a trade secret.

4. I understand that the Company possesses or will possess "Company Materials" which are important to its or its affiliates' or clients' business. For purposes of this Agreement, "Company Materials" are documents, apparatus, equipment and any other property of the Company, or any reproduction of such property or other media or tangible items that contain or embody Proprietary Information or any other information or material concerning the business, operations or plans of the Company or its affiliates or clients, whether such documents have been prepared by me or by others. "Company Materials" include, but are not limited to, computers, computer software, computer disks, tapes, printouts, source, HTML and other code, flowcharts, schematics, designs, graphics, trademarks, service marks, logos, trade dress, domain names, drawings, photographs, charts, graphs, notebooks, customer lists, sound recordings, other tangible or intangible manifestation of content, and all other documents and materials whether printed, typewritten, handwritten, electronic, or stored on computer disks, tapes, hard drives, or any other tangible medium, as well as samples, prototypes, models, products and the like.

a. All Proprietary Information, Company Materials, and all title, rights, interests, patents, patent rights, copyrights, trademark and service mark rights and all goodwill associated therewith, trade secret rights, and other intellectual property and rights anywhere in the world of any kind (collectively "Rights") in connection with such Proprietary Information and Company Materials shall be the sole and exclusive property of the Company. I hereby assign to the Company any Rights I may have or acquire in such Proprietary Information or Company Materials.

b. I agree that during my employment by the Company, I will not deliver any Company Materials to any person or entity except as I am required to do in connection with performing the duties of my employment. I further agree that, immediately upon the termination of my employment by me or by the Company for any reason, or during my employment if so requested by the Company, I will return all

Company Materials, excepting only (i) my personal copies of records relating to my compensation; and (ii) my copy of this Agreement. I shall also provide any information, such as passwords or codes, necessary to allow the Company to fully utilize its property.

c. I will promptly disclose in writing to my immediate supervisor, with a copy to the President or Chief Executive Officer of the Company, or to any persons designated by the Company, all Company Developments. “Company Developments” shall include, without limitation, all Developments made, conceived, reduced to practice, suggested or developed by me, either alone or jointly with others, during the term of my employment and during the one year period thereafter, whether or not during usual business hours and whether or not on the premises of the Company or its affiliates that (i) result in any way from the performance of my duties or obligations for the Company or its affiliates, (ii) relate in any way to the past, present or anticipated products, services or business of the Company or its affiliates, or (iii) were made, conceived, reduced to practice, suggested or developed in any way using or otherwise relying on any Company Materials, Proprietary Information or Rights of the Company or any of its affiliates. “Developments” shall include, without limitation, any work of authorship, discovery, improvement, invention, design, graphic, trademark, service mark, trade dress, logo, domain name, source, HTML and other code, trade secret, technology, algorithms, computer program, audio, video or other files or content, idea, design, process, technique, know-how, data, and all other Company Materials, information, work product and written disclosures thereof, whether or not patentable or copyrightable.

d. I agree that all Company Developments shall be the sole and exclusive property of the Company. Unless the Company decides otherwise, the Company shall be the sole and exclusive owner of all Rights in connection therewith. All copyright-protected Company Developments are and at all times shall remain “work made for hire”. I hereby assign to the Company any and all of my Rights to any Company Developments, absolutely and forever, throughout the world and for the full term of each and every such Right, including renewal or extension of any such term.

e. I agree to perform, during and after my employment, all acts deemed necessary or desirable by the Company to permit and assist it, at the Company’s expense, in evidencing, perfecting, obtaining, maintaining, defending and enforcing Rights and/or any assignments required hereunder in any and all countries and otherwise effectuating the purposes of this Agreement. Such acts may include, but are not limited to, execution of documents and assistance or cooperation in legal proceedings or efforts to register, apply for, or otherwise obtain, prosecute or maintain Rights relating to Proprietary Information, Company Materials or Company Developments. I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents, as my agents and attorneys-in-fact to act for and in my behalf and instead of me, to execute and file any documents and to do all other lawfully permitted acts to further the above purposes with the same legal force and effect as if executed by me.

f. Any assignment of copyright hereunder includes all rights of paternity, integrity, disclosure and withdrawal and any other rights that may be known as or referred to as “moral rights” (collectively “Moral Rights”). To the extent such Moral

Rights cannot be assigned under applicable law and to the extent the following is allowed by the laws in the various countries where Moral Rights exist, I hereby waive such Moral Rights and consent to any action of the Company that would violate such Moral Rights in the absence of such consent. I will confirm any such waivers and consents from time to time as requested by the Company.

g. I have attached hereto a complete list of all existing Developments to which I claim ownership as of the date of this Agreement and that I desire to specifically clarify are not subject to this Agreement, and I acknowledge and agree that such list is complete. If no such list is attached to this Agreement, I represent that I have no such Developments at the time of signing this Agreement.

h. I represent that my performance of all the terms of this Agreement will not breach any agreement to keep in confidence proprietary information acquired by me in confidence or in trust prior to my employment by the Company. I have not entered into, and I agree I will not enter into, any agreement either written or oral in conflict herewith or in conflict with my employment with the Company. I also understand that I am prohibited from using or disclosing, in the course of my employment with the Company, any proprietary information, trade secrets, or tangible property of any other person or company, including prior employers, without the express authority to do so.

i. I represent that any and all Developments that I may create under this Agreement will be original and shall not defame the Company, its other employees, officers, directors, consultants or agents or any third party or constitute a violation of the rights of privacy of the Company's other employees or any rights of any third party.

5. In addition to any other remedies provided by law, if I breach this Agreement, the Company shall be entitled to injunctive relief against me. In the event that the Company is required to hire an attorney to enforce this Agreement or to defend against any claim because I have not performed or fulfilled any of my obligations under this Agreement, the Company shall be entitled to recover reasonable attorneys' fees and other expenses in enforcing the obligation or defending against the claim.

6. I agree that this Agreement is not an employment contract and that I have the right to resign and the Company has the right to terminate my employment at any time, for any reason, with or without cause, subject to the provisions of any written employment agreement between the Company and me.

7. I agree that this Agreement does not purport to set forth all of the terms and conditions of my employment, and that as an employee of the Company I have obligations to the Company which are not set forth in this Agreement.

8. I agree that my obligations under paragraphs 1, 2, 3, 4 and 5 of this Agreement shall continue in effect after termination of my employment, regardless of the reason or reasons for termination, and whether such termination is voluntary or involuntary on my part, and that the Company is entitled to communicate my obligations under this Agreement to any future employer or potential employer of mine.

9. I agree that if one or more provisions of this Agreement are held to be illegal or unenforceable under applicable law, such illegal or unenforceable portion(s) shall be limited or excluded from this Agreement to the minimum extent required so that this Agreement shall otherwise remain in full force and effect and enforceable in accordance with its terms. The exclusion of any provision from this Agreement shall not affect any other provision of this Agreement.

10. This Agreement shall be effective as of the date I commenced employment with the Company and this Agreement shall be binding upon me, my heirs, executors, assigns, and administrators and shall inure to the benefit of the Company, its subsidiaries, successors and assigns.

11. This Agreement can only be modified by a subsequent written agreement executed by the President or Chief Executive Officer of the Company.

I HAVE READ THIS AGREEMENT CAREFULLY AND I UNDERSTAND AND ACCEPT THE OBLIGATIONS WHICH IT IMPOSES UPON ME WITHOUT RESERVATION. NO PROMISES OR REPRESENTATIONS HAVE BEEN MADE TO ME TO INDUCE ME TO SIGN THIS AGREEMENT. I SIGN THIS AGREEMENT VOLUNTARILY AND FREELY, IN DUPLICATE, WITH THE UNDERSTANDING THAT ONE COUNTERPART WILL BE RETAINED BY THE COMPANY AND THE OTHER COUNTERPART WILL BE RETAINED BY ME.

Dated: _____, 200___

_____
Signature

Name of
Employee: _____
(please print name)

Accepted and Agreed to:

Orion Energy Systems, Ltd.

Signature: _____

Name: _____

Title: _____

ATTACHMENT A

Orion Energy Systems, Ltd.
1204 Pilgrim Road
Plymouth, WI 53073

Ladies and Gentlemen:

1. The following is a complete list of Developments relevant to the subject matter of my employment by Orion Energy Systems, Ltd. (the "Company") that have been made, conceived, first reduced to practice or suggested by me alone or jointly with others prior to my employment by the Company that I desire to clarify are not subject to the Company's Employee Proprietary Information and Intellectual Property Agreement.

_____ No Developments

_____ See below:

_____ Additional sheets attached

2. I propose to bring to my employment the following materials and documents of a former employer:

_____ No materials or documents

_____ See below:

Signature: _____

Name of Employee: _____
(please print name)

EXHIBIT E

Form of Foley & Lardner LLP Opinion

1. The Company is a corporation duly incorporated, validly existing and in active status under the laws of the State of Wisconsin and has the corporate power and authority to execute and deliver the Transaction Documents and to consummate the transactions contemplated thereby.

2. The Company has duly authorized, executed and delivered the Transaction Documents and each of the Transaction Documents constitutes the valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other laws of general applicability relating to or affecting creditors' rights and to general equity principles.

3. The Company's authorized capital stock, immediately prior to the Closing, consists of the following: (a) 80,000,000 shares of Common Stock, of which (i) 9,001,770 shares are issued and outstanding (of which 61,864 are held by the Company in a fiduciary capacity); (b) 20,000,000 shares of Cumulative Preferred Stock, of which (i) 500,000 shares are designated Series A Convertible 12% Cumulative Preferred Stock (the "Series A Preferred Stock"), of which 84,000 are issued and outstanding (20,000 of which are held by a third party and 64,000 of which are held by the Company in a fiduciary capacity), (ii) 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 (iii) 2,000,000 shares are designated Series C Preferred Stock, none of which are outstanding and 1,636,364 of which are to be sold pursuant to the Purchase Agreement. Each outstanding share of Common Stock, Series A Preferred Stock and Series B Preferred Stock has been validly issued and is fully paid and non-assessable except to the extent provided in Section 180.0622 of the Wisconsin Statutes. To our knowledge, there are no outstanding options, warrants, conversion privileges, preemptive rights or other rights presently outstanding to purchase any of the authorized but unissued capital stock of the Company, other than (1) 8,423,750 shares of Common Stock reserved for issuance under the Equity Incentive Plan, (2) 1,099,110 shares of Common Stock reserved for issuance upon the exercise of warrants, (3) 252,000 shares of Common Stock reserved for issuance upon the conversion of the Series A Preferred Stock, (4) 2,989,830 shares of Common Stock reserved for issuance upon the conversion of the Series B Preferred Stock, (5) 1,636,364 shares of Common Stock reserved for issuance upon the conversion of the Series C Preferred Stock to be sold pursuant to the Purchase Agreement (subject to adjustment in accordance with the terms thereof) and (6) the preemptive rights of the Investors under the Investors' Rights Agreement.

4. The Shares have been duly authorized and, upon issuance and delivery against payment therefor in accordance with the terms of the Purchase Agreement, the Shares will be validly issued, fully paid and nonassessable, except as provided in Section 180.0622 of the Wisconsin Statutes.

5. The Restated Articles have been duly authorized by the Company, and, based on the file stamped copy received from the Wisconsin Department of Financial Institution dated as of the date hereof, have been filed with the Department of Financial Institutions of the State of Wisconsin and constitute the Articles of Incorporation of the Company as of the date hereof.

6. No consent, approval, authorization or other action by or filing with any governmental agency or instrumentality of the State of Wisconsin or the United States of America is required on the part of the Company for the execution and delivery of the Transaction Documents or the consummation of the transactions contemplated thereby in accordance with the terms thereof, except those already obtained or made or those required under Federal and state securities laws to be made after the Closing.

7. The execution and delivery of the Transaction Documents by the Company and the consummation by the Company of the transactions contemplated thereby in accordance with the terms thereof do not (i) violate any Wisconsin or Federal statute, law, rule or regulation known to us to which the Company is subject, (ii) breach the provisions of the Restated Articles or the Bylaws of the Company, (iii) to our knowledge, breach the provisions of, or constitute a default under, any of the agreements or instruments listed on the Schedule of Exceptions to the Purchase Agreement or (iv) to our knowledge, violate or contravene any order, writ, judgment, decree, determination or award that specifically names the Company.

8. Based in part upon and assuming the accuracy of the representations and warranties of the Investors set forth in Section 3 of the Purchase Agreement, it is not necessary in connection with the issuance and sale of the Shares pursuant to the Purchase Agreement to register the Shares under the Securities Act.

Execution Copy

Exhibit 4.10

ORION ENERGY SYSTEMS, INC.

NOTE PURCHASE AGREEMENT

August 3, 2007

TABLE OF CONTENTS

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 A

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS. THIS NOTE MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT AND APPLICABLE LAWS OR SOME OTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT AND APPLICABLE LAWS OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

THE SALE, PLEDGE, HYPOTHECATION, ASSIGNMENT OR TRANSFER OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE IS SUBJECT TO THE TERMS AND CONDITIONS OF A CERTAIN FIRST OFFER AND CO-SALE AGREEMENT BY AND BETWEEN THE NOTE HOLDER, THE COMPANY AND CERTAIN HOLDERS OF NOTES AND/OR STOCK OF THE COMPANY. COPIES OF SUCH AGREEMENT MAY BE OBTAINED UPON WRITTEN REQUEST TO THE SECRETARY OF THE COMPANY.

CONVERTIBLE SUBORDINATED PROMISSORY NOTE

$_____ August ___, 2007

ORION ENERGY SYSTEMS, INC., a Wisconsin corporation (the "Company"), the principal office of which is located at 1204 Pilgrim Road, Plymouth, Wisconsin 53073, for value received hereby promises to pay to _____ _____, a _____ (the "Holder"), the sum of $___, or such other amounts as shall then equal the outstanding principal amount hereof and any unpaid accrued interest hereon, as set forth below, which shall be due and payable on the Maturity Date. Payment for all amounts due hereunder shall be made in accordance with Section 2 hereof.

The following is a statement of the rights of the Holder of this Note and the conditions to which this Note is subject, and to which the Holder hereof, by the acceptance of this Note, agrees:

1. Definitions. As used in this Note, the following terms, unless the context otherwise requires, have the following meanings:

(i) "Articles of Incorporation" means the Company's Amended and Restated Articles of Incorporation dated July 31, 2006.

(ii) "Change in Control" means (a) the acquisition by any person or entity, or two or more persons or entities acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934) of 50.1% or more of the

outstanding shares of either voting stock of Company or voting ownership interests of Company.

(iii) "Common Stock" means the Company's common stock.

(iv) "Company" includes any corporation that, to the extent permitted by this Note, shall succeed to or assume the obligations of the Company under this Note.

(v) "Existing Transaction Documents" means the Amended and Restated Investor Rights Agreement, the Amended and Restated Right of First Refusal and Co-Sale Agreement and the Note Purchase Agreement, in each case by and among the Company and the other parties a signatory thereto and dated effective as of August 3, 2007.

(vi) "Holder" when the context refers to a holder of this Note, shall mean any person who shall at the time be the registered holder of this Note.

(vii) "Holders" means all of the holders of the Notes.

(viii) "Independent Directors" means the members of the Board of Directors who are not employees of the Company and were not employees of the Company during the twenty-four (24) month period prior to the Original Issue Date.

(ix) "Maturity Date" means the earliest to occur of (a) when declared due and payable by the Holder upon the occurrence of an Event of Default (as defined below), or (b) August 3, 2012.

(x) "Notes" means each of the substantially identical Convertible Subordinated Promissory Notes sold pursuant to the Note Purchase Agreements.

(xi) "Note Purchase Agreement" means that certain Note Purchase Agreement among the Company, GE Capital Equity Investments, Inc., Clean Technology Fund II, L.P., CapVest Venture Fund, LP, and Technology Transformation Venture Fund, LP dated August 3, 2007.

(xii) "Original Issue Date" means the date on which this Note was first issued.

(xiii) "QExit" means a merger or sale of at least a majority of the Company assets or stock resulting in consideration on a per share basis of a value, on or before August 3, 2009, of at least $11.23 per share, and after such date, of at least $13.47 per share (subject to appropriate adjustment for stock splits, stock dividends, combinations and other similar recapitalizations affecting such shares).

(xiv) "QIPO" means the closing of the sale of shares of Common Stock at a price to the public, on or before August 3, 2009, of at least $11.23 per share,

and after such date, of at least $13.47 per share (subject to appropriate adjustment for stock splits, stock dividends, combinations and other similar recapitalizations affecting such shares), in a firm-commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, resulting in at least $30,000,000 of net proceeds to the Company after deduction of underwriters' commissions and expenses payable by the Company.

(xv) "Securities Act" means the Securities Act of 1933, as amended.

2. Interest; Payment Upon Maturity Date.

2.1 Interest Rates.

(i) Interest Rate. Prior to the Maturity Date, interest shall accrue on the aggregate unpaid principal amount outstanding under this Note at the rate of six percent (6%) per annum simple, allocated as follows: (A) 3.9% per annum shall accrete to the principal balance of the Note quarterly in arrears and (B) 2.1% per annum shall be payable in cash quarterly in arrears (collectively, the "Interest Rate").

(ii) Deferral Rate. If the Company is prohibited or otherwise restricted from paying any amounts owing to Holder due to obligations or restrictions related to its senior indebtedness or under applicable law, the Company shall have the right to defer any such payment(s); provided, however, that from the date of such deferral, the interest rate applicable to such deferred payment shall increase to eight percent (8%) per annum (3.9% accreting to principal and 4.1% payable in cash), compounding, until such payment is made.

(iii) Default Rate. If an Event of Default has occurred and is continuing, interest at the same rate as the Interest Rate plus four percent (4%) shall be payable, in cash, on the balance of any unpaid principal until such balance is paid.

(iv) Payments. All cash payments of interest provided pursuant to this Section 2.1 shall be payable by wire transfer to an account designated in writing by Holder. If the Note is converted into shares of Common Stock in accordance with Section 6, any unpaid cash interest shall be due and payable on the date of such conversion.

2.2 Payment Upon Maturity Date.

(i) Holder may elect to have the Company pay this Note in full by delivering written notice of such election to the Company, with a copy to the other Holders, one hundred and twenty (120) days in advance of the Maturity Date (or 120 days in advance of any other date after the Maturity Date), in which event the Company shall pay this Note (including all accrued and accreted interest) in three (3) semi-annual installments beginning on the Maturity Date or such later date.

(ii) All payments of principal and interest provided pursuant to this Section 2.2 shall be payable by wire transfer to an account designated in writing by Holder.

3. Events of Default. If any of the events specified in this Section 3 shall occur (herein individually referred to as an "Event of Default"), the Holder of the Note may, so long as such condition exists, declare the entire principal and unpaid accrued interest hereon immediately due and payable, by notice in writing to the Company:

(i) Default in the payment of the principal and unpaid accrued interest of this Note when due and payable if such default is not cured by the Company within ten (10) days after the Holder has given the Company written notice of such default;

(ii) Any breach by the Company of any representation, warranty, or covenant in the Note Purchase Agreement; provided, that, in the event of any such breach, to the extent such breach is susceptible to cure, such breach shall not have been cured by the Company within fifteen (15) days after the earliest to occur of (a) written notice to the Company of such breach, and (b) the Company's actual knowledge of such breach;

(iii) Any breach by the Company of any covenant in the Existing Transaction Documents; provided, that, in the event of any such breach, to the extent such breach is susceptible to cure, such breach shall not have been cured by the Company within fifteen (15) days after the earliest to occur of (a) written notice to the Company of such breach, and (b) the Company's actual knowledge of such breach;

(iv) The institution by the Company of proceedings to be adjudicated as bankrupt or insolvent, or the consent by it to institution of bankruptcy or insolvency proceedings against it or the filing by it of a petition or answer or consent seeking reorganization or release under the federal Bankruptcy Act, or any other applicable federal or state law, or the consent by it to the filing of any such petition or the appointment of a receiver, liquidator, assignee, trustee or other similar official of the Company, or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the taking of corporate action by the Company in furtherance of any such action (a "Voluntary Bankruptcy Proceeding");

(v) If, within sixty (60) days after the commencement of an action against the Company (and service of process in connection therewith on the Company) seeking any bankruptcy, insolvency, reorganization, liquidation, dissolution or similar relief under any present or future statute, law or regulation, such action shall not have been resolved in favor of the Company or all orders or proceedings thereunder affecting the operations or the business of the Company or of all or any substantial part of the properties of the Company, such

appointment shall not have been vacated (an "Involuntary Bankruptcy Proceeding");

(vi) Any Change in Control that is not a QIPO or QExit;

(vii) Company shall fail within thirty days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of $1,000,000 (or multiple judgments or orders for the payment of an aggregate amount in excess of $2,000,000) which is not stayed on appeal or otherwise being appropriately contested in good faith and as to which no enforcement actions have been commenced;

(viii) Delivery of a "Repurchase Notice" (as defined in the Articles of Incorporation);

(ix) Payment or declaration (but not the accrual) of any dividend to holders of Series C Preferred Stock or any other class of equity securities; or

(x) The occurrence of a "Deemed Liquidation Event" (as defined in the Articles of Incorporation) that is not a QIPO or QExit.

4. Subordination. The indebtedness evidenced by this Note is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all the Company's Senior Indebtedness, as hereinafter defined.

4.1 Senior Indebtedness. As used in this Note, the term "Senior Indebtedness" shall mean the principal of and unpaid accrued interest on: (i) all existing indebtedness of the Company to banks, commercial finance lenders, insurance companies or other financial institutions regularly engaged in the business of lending money, which is for money borrowed by the Company (whether or not secured); (ii) all indebtedness of the Company to banks, commercial finance lenders, insurance companies, or other financial institutions regularly engaged in the business of lending money, which may arise under any line of credit of the Company existing on the Original Issue Date (whether or not secured); (iii) indebtedness pursuant to a capital lease with Wells Fargo Equipment Finance, Inc. (or an affiliate) consistent with that certain lease proposal dated July 25, 2007, a copy of which has been provided to Holder, and (iv) any such indebtedness or any debentures, notes or other evidence of indebtedness issued in exchange for or to refinance such Senior Indebtedness, or any indebtedness arising from the satisfaction of such Senior Indebtedness by a guarantor.

4.2 Default on Senior Indebtedness. If there should occur any receivership, insolvency, assignment for the benefit of creditors, bankruptcy, reorganization or arrangements with creditors (whether or not pursuant to bankruptcy or other insolvency laws), sale of all or substantially all of the assets, dissolution, liquidation or any other marshalling of the assets and liabilities of the Company then (i) no amount shall be paid by the Company in respect of the principal of or interest on this Note at the time outstanding, unless and until the principal of and interest on the Senior Indebtedness

then outstanding shall be satisfied, and (ii) no claim or proof of claim shall be filed with the Company by or on behalf of the Holder of this Note that shall assert any right to receive any payments in respect of the principal of and interest on this Note, except subject to the satisfaction of the principal of and interest on all of the Senior Indebtedness then outstanding. If there occurs an event of default that has been declared in writing with respect to any Senior Indebtedness permitting the holder of such Senior Indebtedness to accelerate the maturity thereof, then, unless and until such event of default shall have been cured or waived or shall have ceased to exist, or all Senior Indebtedness shall have been satisfied, no payment shall be made in respect of the principal of or interest on this Note.

4.3 Effect of Subordination. Subject to the rights, if any, of the holders of Senior Indebtedness under this Section 4 to receive cash, securities or other properties otherwise payable or deliverable to the Holder of this Note, nothing contained in this Section 4 shall impair, as between the Company and the Holder, the obligation of the Company, subject to the terms and conditions hereof, to pay to the Holder the principal hereof and interest hereon as and when the same become due and payable, or shall prevent the Holder of this Note, upon default hereunder, from exercising all rights, powers and remedies otherwise provided herein or by applicable law.

4.4 Undertaking. By its acceptance of this Note, the Holder agrees to execute and deliver such documents as may be reasonably requested from time to time by the Company or the lender of any Senior Indebtedness in order to implement the foregoing provisions of this Section 4, at the expense of the Company.

5. Prepayment. The Company shall not be permitted to prepay any outstanding principal under this Note or interest thereon without Holder's prior written consent.

6. Conversion.

6.1 Automatic Conversion. The principal and accrued interest outstanding under this Note shall be converted, immediately, automatically and without election on the part of the Holder hereof, upon the closing of a QIPO or a QExit into shares of the Company's Common Stock at a conversion price equal to $4.49 per share (the "Base Conversion Price"). For each quarter in which interest accretes to the principal balance of this Note in accordance with Section 2.1(i)(A), the aggregate Base Conversion Price will increase by .975% of the original Base Conversion Price (on a quarterly basis) in order to ensure that this Note shall at all times be convertible into an aggregate of ___shares of Common Stock (subject to anti-dilution adjustment as provided herein) (as adjusted, the "Conversion Price"). In connection with a conversion effectuated pursuant to this Section 6.1, the number of shares of Common Stock into which this Note may be converted shall be determined by dividing the aggregate outstanding principal (including, for the avoidance of doubt, any interest which has accreted to the principal balance as provided in Section 2.1(i)(A) but excluding any cash payments of interest paid to Holder as provided in Section 2.1) through the date of the conversion of the Note by the Conversion Price.

6.2 Optional Conversion into Common Stock. At any time, all but not less than all of the principal amount then outstanding under this Note (including, for the avoidance of doubt, any interest which has accreted to the principal balance as provided in Section 2.1(i)(A) but excluding any cash payments of interest paid to Holder as provided in Section 2.1) may, at the election of the Holder, be converted into Common Stock of the Company, with such conversion to be effected at the Conversion Price. The Holder shall exercise this optional conversion right, if at all, by giving notice thereof to the Company at least ten (10) days prior to the date of conversion.

6.3 Notice Regarding QIPO or QExit. At least ten (10) business days prior to the anticipated closing of a QIPO or transaction which would constitute a QExit, written notice shall be delivered to the Holder at the address last shown on the records of the Company for the Holder or given by the Holder to the Company for the purpose of notice or, if no such address appears or is given, at the place where the principal executive office of the Company is located, (1) notifying the Holder of the QIPO or QExit, (2) specifying (A) in the case of a QExit, the terms and conditions thereof, (B) the then outstanding principal amount of the Note, (C) the then outstanding amount of accreted interest as provided for in Section 2.1(i)(A), and (D) the date on which such transaction will close (which in no event shall be less than ten (10) business days following delivery of said notice), and, (3) if the Note is subject to automatic conversion pursuant to Section 6.1, calling upon such Holder to surrender the Note to the Company in the manner and at the place designated in such notice.

6.4 Mechanics and Effect of Conversion. No fractional shares of Common Stock shall be issued upon conversion of this Note. In lieu of the Company issuing any fractional shares to the Holder upon the conversion of this Note, the Company shall pay to the Holder the amount outstanding that is not so converted, such payment to be in made by Company check in an amount equal to the fractional share multiplied by the Conversion Price. At its expense, the Company shall, as soon as practicable following conversion of this Note and surrender of this Note to the Company, issue and deliver to the Holder at its principal office a certificate or certificates for the number of shares of Common Stock to which the Holder shall be entitled upon such conversion (bearing such legends as are required by any applicable purchase documents and applicable state and federal securities laws in the opinion of counsel to the Company), together with any other securities and property to which the Holder is entitled upon such conversion under the terms of this Note, including a check payable to the Holder for any cash amounts payable as described above. Upon conversion of this Note, the Company shall be forever released from all its obligations and liabilities under this Note, except that the Company shall be obligated to pay the Holder, within ten (10) days after the date of such conversion, the cash equivalent of any fractional shares that otherwise would have been issued upon such conversion, and no more.

6.5 Reservation of Stock Issuable Upon Conversion. The Company covenants and agrees that the Company shall reserve a sufficient number of shares of Common Stock to comply with the conversion provisions contained herein with respect to an amount equal to the principal outstanding under this Note and the accrued interest thereon.

7. Adjustments to Conversion Price for Diluting Issues.

7.1 Special Definitions. For purposes of this Section 7, the following definitions shall apply:

(i) "Option" shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire Common Stock or Convertible Securities.

(ii) "Convertible Securities" shall mean any evidences of indebtedness, shares or other securities directly or indirectly convertible into or exchangeable for Common Stock, but excluding Options.

(iii) "Additional Shares of Common Stock" shall mean all shares of Common Stock issued (or, pursuant to Section 7.3 below, deemed to be issued) by the Company after the Original Issue Date, other than the following ("Exempted Securities"):

(1) shares of Common Stock issued or deemed issued as a dividend or distribution on, or upon conversion of, the shares of Series B Preferred Stock or Series C Preferred Stock outstanding on the Original Issue Date, or the Notes;

(2) shares of Common Stock issued upon exercise or conversion of any Options or Convertible Securities outstanding on the Original Issue Date;

(3) shares of Common Stock issued or issuable by reason of a dividend, stock split, split-up or other distribution on shares of Common Stock that is covered by Section 7.7(i) or (ii);

(4) up to an aggregate total of 100,000 shares of Common Stock or warrants to purchase Common Stock issued pursuant to any strategic partnership, in each case approved by a majority of the Independent Directors; or

(5) shares of Common Stock issued or issuable pursuant to Options authorized under existing stock option plans in effect as of the Original Issue Date, provided that any new grants under such existing stock option plans must be approved by the Independent Directors.

7.2 No Adjustment of Conversion Price. No adjustment in the Conversion Price shall be made as the result the issuance of Additional Shares of Common Stock if: (i) the consideration per share (determined pursuant to Section 7.5) for such Additional Share of Common Stock issued or deemed to be issued by the Company is equal to or greater than the Conversion Price in effect immediately prior to the issuance or deemed issuance of such Additional Shares of Common Stock, or (ii) prior to such issuance or deemed issuance, the Company receives written notice from the holders of Notes constituting a majority of the total indebtedness represented by the Notes, voting as a

single class and on an as-converted to Common Stock basis, agreeing that no such adjustment shall be made as the result of the issuance or deemed issuance of such Additional Shares of Common Stock.

7.3 Issue of Securities Deemed Issue of Additional Shares of Common Stock.

(i) If the Company at any time or from time to time after the Original Issue Date shall issue any Options or Convertible Securities (excluding Options or Convertible Securities which, upon exercise, conversion or exchange thereof, would entitle the holder thereof to receive Exempted Securities) or shall fix a record date for the determination of holders of any class of securities entitled to receive any such Options or Convertible Securities, then the maximum number of shares of Common Stock (as set forth in the instrument relating thereto without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date.

(ii) If the terms of any Option or Convertible Security, the issuance of which resulted in an adjustment to the Conversion Price, as the case may be, pursuant to the terms of Section 7.4 below, are revised (either automatically pursuant to the provisions contained therein or as a result of an amendment to such terms) to provide for either (A) any increase or decrease in the number of shares of Common Stock issuable upon the exercise, conversion or exchange of any such Option or Convertible Security or (B) any increase or decrease in the consideration payable to the Company upon such exercise, conversion or exchange, then, effective upon such increase or decrease becoming effective, the Conversion Price computed upon the original issue of such Option or Convertible Security (or upon the occurrence of a record date with respect thereto) shall be readjusted to such Conversion Price as would have obtained had such revised terms been in effect upon the original date of issuance of such Option or Convertible Security. Notwithstanding the foregoing, no adjustment pursuant to this clause (ii) shall have the effect of increasing the Conversion Price to an amount which exceeds the lower of (1) the Conversion Price on the original adjustment date, or (2) the Conversion Price that would have resulted from any issuances of Additional Shares of Common Stock between the original adjustment date and such readjustment date.

(iii) If the terms of any Option or Convertible Security (excluding Options or Convertible Securities which, upon exercise, conversion or exchange thereof, would entitle the holder thereof to receive Exempted Securities), the issuance of which did not result in an adjustment to the Conversion Price pursuant to the terms of Section 7.4 below (either because the consideration per share (determined pursuant to Section 7.5 hereof) of the Additional Shares of Common Stock subject thereto was equal to or greater than the Conversion Price then in

effect, or because such Option or Convertible Security was issued before the Original Issue Date), are revised after the Original Issue Date (either automatically pursuant to the provisions contained therein or as a result of an amendment to such terms) to provide for either (1) any increase or decrease in the number of shares of Common Stock issuable upon the exercise, conversion or exchange of any such Option or Convertible Security or (2) any increase or decrease in the consideration payable to the Company upon such exercise, conversion or exchange, then such Option or Convertible Security, as so amended, and the Additional Shares of Common Stock subject thereto (determined in the manner provided in Section 7.3(i) above) shall be deemed to have been issued effective upon such increase or decrease becoming effective.

(iv) Upon the expiration or termination of any unexercised Option or unconverted or unexchanged Convertible Security which resulted (either upon its original issuance or upon a revision of its terms) in an adjustment to the Conversion Price pursuant to the terms of Section 7.4 below, the Conversion Price shall be readjusted to such Conversion Price as would have obtained had such Option or Convertible Security never been issued.

(v) No adjustment in the Conversion Price shall be made upon the issue of shares of Common Stock or Convertible Securities upon the exercise of Options or the issue of shares of Common Stock upon the conversion or exchange of Convertible Securities.

7.4 Adjustment of Conversion Price Upon Issuance of Additional Shares of Common Stock. In the event the Company shall at any time after the Original Issue Date issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Section 7.3), without consideration or for a consideration per share less than the Conversion Price in effect immediately prior to such issue, then the Conversion Price shall be reduced, concurrently with such issue, to a price (calculated to the nearest one-hundredth of a cent) determined by multiplying the Conversion Price by a fraction, (a) the numerator of which shall be (i) the number of shares of Common Stock outstanding immediately prior to such issue plus (ii) the number of shares of Common Stock which the aggregate consideration received or to be received by the Company for the total number of Additional Shares of Common Stock so issued would purchase at the Conversion Price and (b) the denominator of which shall be (i) the number of shares of Common Stock outstanding immediately prior to such issue plus (ii) the number of such Additional Shares of Common Stock so issued; provided that, for the purpose of this Section 7.4, all shares of Common Stock issuable upon exercise of Options outstanding immediately prior to such issue or upon conversion of Convertible Securities (including the Series C Preferred Stock and the shares into which this Note may be converted) outstanding immediately prior to such issue shall be deemed to be outstanding.

7.5 Determination of Consideration. For purposes of this Section 7, the consideration received by the Company for the issue of any Additional Shares of Common Stock shall be computed as follows:

(i) Cash and Property. Such consideration shall:

(1) insofar as it consists of cash, be computed at the aggregate amount of cash received by the Company, excluding amounts paid or payable for accrued interest;

(2) insofar as it consists of property other than cash, be computed at the fair market value thereof at the time of such issue, as determined in good faith by the Board of Directors of the Company; and

(3) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Company for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (1) and (2) above, as determined in good faith by the Board of Directors of the Company.

(ii) Options and Convertible Securities. The consideration per share received by the Company for Additional Shares of Common Stock deemed to have been issued pursuant to Section 7.3, relating to Options and Convertible Securities, shall be determined by dividing the total amount, if any, received or receivable by the Company as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Company upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, by the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities.

7.6 Multiple Closing Dates. In the event the Company shall issue on more than one date Additional Shares of Common Stock that are comprised of shares of the same series or class of Preferred Stock and that would result in an adjustment to Conversion Price pursuant to the terms of Section 7.4 above, and such issuance dates occur within a period of no more than forty-five (45) days from the first such issuance to the final such issuance, then, upon the final such issuance, the Conversion Price shall be readjusted to give effect to all such issuances as if they occurred on the date of the final such issuance (and without giving effect to any adjustments as a result of such prior issuances within such period).

7.7 Adjustments.

(i) Adjustment for Stock Splits and Combinations. If the Company shall at any time or from time to time after the Original Issue Date effect a

subdivision of the outstanding Common Stock, the Conversion Price in effect immediately before that subdivision or combination shall be proportionately decreased. If the Company shall at any time or from time to time after the Original Issue Date combine the outstanding shares of Common Stock, the Conversion Price in effect immediately before the combination or subdivision shall be proportionately increased. Any adjustment under this paragraph shall become effective at the close of business on the date the subdivision or combination becomes effective.

(ii) Adjustment for Certain Dividends and Distributions. In the event the Company at any time, or from time to time after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock, then and in each such event the Conversion Price in effect immediately before such event shall be decreased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Conversion Price, as the case may be, then in effect by a fraction:

(1) the numerator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and

(2) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution; provided, however, that if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Conversion Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Conversion Price shall be adjusted pursuant to this paragraph as of the time of actual payment of such dividends or distributions; and provided further, however, that no such adjustment shall be made if the holders of the Note simultaneously receive a dividend or other distribution of shares of Common Stock in a number equal to the number of shares of Common Stock as they would have received if the outstanding balance of this Note had been converted into Common Stock on the date of such event.

(iii) Adjustments for Other Dividends and Distributions. In the event the Company at any time or from time to time after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Company (other than shares of Common Stock) or in cash or other property, then and in each such event the holders of the Note shall receive, simultaneously with the distribution to the holders of Common Stock, a dividend or other distribution of such securities, cash or other property in an amount equal to the

amount of such securities, cash or other property as they would have received if the outstanding balance of the Note had been converted into Common Stock on the date of such event.

7.8 Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price pursuant to Section 7.7, the Company at its expense shall, as promptly as reasonably practicable but in any event not later than thirty (30) days thereafter, compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of the Note a certificate setting forth such adjustment or readjustment (including the kind and amount of securities, cash or other property into which the Note is convertible) and showing in detail the facts upon which such adjustment or readjustment is based. The Company shall, as promptly as reasonably practicable after the written request at any time of any holder of the Note (but in any event not later than thirty (30) days thereafter), furnish or cause to be furnished to such holder a certificate setting forth (a) the Conversion Price then in effect, and (b) the number of shares of Common Stock and the amount, if any, of other securities, cash or property which then would be received upon the conversion of the Note.

7.9 Notice of Record Date. If:

(i) the Company shall take a record of the holders of its Common Stock (or other stock or securities at the time issuable upon conversion of the Note), for the purpose of entitling or enabling them to receive any dividend or other distribution, or to receive any right to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right; or

(ii) of any capital reorganization of the Company, any reclassification of the Common Stock of the Company, any consolidation or merger of the Company with or into another corporation (other than a consolidation or merger in which the Company is the surviving entity and its Common Stock is not converted into or exchanged for any other securities or property), or any transfer of all or substantially all of the assets of the Company; or

(iii) of the voluntary or involuntary dissolution, liquidation or winding-up of the Company, then, and in each such case, the Company will send or cause to be sent to the holders of the Note a notice specifying, as the case may be, (a) the record date for such dividend, distribution or right, and the amount and character of such dividend, distribution or right, or (b) the effective date on which such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up is to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock (or such other stock or securities at the time issuable upon the conversion of the Note) shall be entitled to exchange their shares of Common Stock (or such other stock or securities) for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up, and the amount per share and character of such exchange applicable to the Series C Preferred Stock, the Notes and the Common Stock. Such notice shall be sent at

least ten (10) days prior to the record date or effective date for the event specified in such notice.

8. Covenants. Prior to the earlier to occur of the Maturity Date or conversion of this Note in accordance with Section 6, the Company shall not, either directly or indirectly by amendment, merger, consolidation or otherwise:

(i) consent to any liquidation, dissolution or winding up of the Company or to any Deemed Liquidation Event (as defined in the Articles of Incorporation);

(ii) commence or consent to any Voluntary Bankruptcy Proceeding or Involuntary Bankruptcy Proceeding;

(iii) recapitalize, create or authorize the creation of any additional class or series of shares of stock;

(iv) increase or decrease (other than by redemption or conversion) the authorized number of shares of Preferred Stock, Common Stock or shares of any additional class or series of shares of stock;

(v) create or authorize or issue (other than to the Company or a wholly owned subsidiary of the Company) any obligation or security convertible into shares of any class or series of stock;

(vi) purchase or redeem, or set aside any sums for the purchase or redemption of, or pay any dividend or make any distribution on, any shares of stock other than repurchases of Series C Preferred Stock in accordance with Section 3.9.6 of the Articles of Incorporation;

(vii) permit any subsidiary of the Company to issue or sell any equity securities of such subsidiary (other than to the Company or a wholly owned subsidiary of the Company);

(viii) make, or cause any subsidiary of the Company to make, any acquisition of the assets, stock or other equity securities of any other company or effect the same by way of a merger, consolidation or reorganization, except for acquisitions of assets for consideration of $10,000,000 or less in any single transaction or series of related transactions;

(ix) engage in any new line of business substantially outside of the business plan in the form approved by a majority of the Independent Directors or materially modifying such plan, unless approved in each case by a majority of the Independent Directors;

(x) merge with or into or consolidate, or permit any subsidiary to merge with or into or consolidate, with any other entity (other than a merger or

consolidation solely between the Company and one or more subsidiaries or among subsidiaries);

(xi) sell, lease, or otherwise dispose of any of the Company's material properties or assets; or

(xii) fail to maintain insurance, including officer and director insurance, at levels consistent with current coverage limits;

(xiii) Permit any of the Company's material assets to become subject to a lien or encumbrance (other than liens or encumbrances recorded prior to the Original Issue Date);

(xiv) Increase the size or composition of the Company's Board of Directors;

(xv) Materially increase the compensation payable to any management employee of the Company (above inflation);

(xvi) Prohibit Holder from reasonable access to inspect the properties, books, and records of the Company or fail to maintain such properties, books and records;

(xvii) Enter into any transaction between the Company and any of its affiliates; or

(xviii) incur any indebtedness (including purchase money security interest operating leases), or permit any subsidiary to incur any indebtedness (other than indebtedness of subsidiaries owed to the Company, indebtedness owed pursuant to the Notes, and indebtedness of the Company pursuant to that certain Credit and Security Agreement between the Company, Great Lakes Energy Technologies, LLC, and Wells Fargo Bank, National Association dated December 22, 2005) in excess of $10,000,000 in the aggregate.

9. Successors and Assigns. Subject to the restrictions on transfer described in Sections 11 and 12 below, the rights and obligations of the Company and the Holder of this Note shall be binding upon and benefit the successors, assigns, heirs, administrators and transferees of the parties.

10. Waiver and Amendment. Any provision of this Note may be amended, waived or modified upon the written consent of the Company and the holders of a majority in interest of the Notes; provided, however, that the approval of all holders of any portion of the Notes will be required to change the amount or time of any prepayment or payment of principal of the Notes, reduce the rate or change the time of payment or method of computation of interest or premium of the Notes and provided, further, the consent of an affected Holder shall be required to modify or otherwise change the Notes in a manner that adversely affects such Holder relative to any other.

11. Transfer of this Note. This Note or any Common Stock into which this Note is convertible (collectively, the "Securities") may not be transferred except as provided herein. At any time beginning two years after the issuance of the Note, Holder will have the right to transfer the Securities as long as (i) the transfer is not in violation of any law, (ii) the Securities are not transferred to a competitor of the Company (if a majority of the Independent Directors determines in good faith that the proposed transferee is a competitor of the Company and that such proposed transfer would not be in the best interests of the Company, such consent to transfer not to be unreasonably withheld), (iii) the transfer is after a right of first offer to the Company (if the Company would have a right of first refusal with respect to such transfer under Section 3 of the Amended and Restated Investors' Rights Agreement), and (iv) the transferee agrees to be bound by the terms, conditions, representations, and warranties set forth in the Existing Transaction Documents. Without limiting the foregoing, this Note may not be transferred in violation of any restrictive legend set forth hereon at any time. Notwithstanding the foregoing, Holder may, at any time upon written notice to the Company, transfer any or all of the Securities to an affiliate without being subject to the foregoing restrictions. All such restrictions on Holder's right of transfer shall terminate following an initial public offering or other registration of Company shares or a Change of Control. Each new note issued upon transfer of this Note shall bear a legend as to the applicable restrictions on transferability in order to ensure compliance with the Securities Act, unless in the opinion of counsel for the Company such legend is not required in order to ensure compliance with the Act. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions. Subject to the foregoing, transfers of this Note shall be registered upon registration books maintained for such purpose by or on behalf of the Company. Prior to presentation of this Note for registration of transfer, the Company shall treat the registered holder hereof as the owner and holder of this Note for the purpose of receiving all payments of principal and interest hereon and for all other purposes whatsoever, whether or not this Note shall be overdue and the Company shall not be affected by notice to the contrary.

12. Assignment by the Company. Neither this Note nor any of the rights, interests or obligations hereunder may be assigned in whole or in part by the Company without the prior written consent of the Holder.

13. Treatment of Note. To the extent permitted by generally accepted accounting principles, the Company will treat, account and report the Note as debt and not equity for accounting purposes and with respect to any returns filed with federal, state or local tax authorities.

14. Notices. Any notice, request or other communication required or permitted hereunder shall be in writing and shall be deemed to have been duly given if personally delivered, if faxed with confirmation of receipt, or if mailed by registered or certified mail or reputable overnight courier, postage prepaid, at the respective addresses of the parties as set forth herein and in the case of the Holder to the attention of ___and in the case of the Company to the attention of the Chief Executive Officer. Any party hereto may by notice so given change its address for future notice hereunder. Notice shall conclusively be deemed to have been given when personally

delivered, faxed, or when deposited in the mail in the manner set forth above and shall be deemed to have been received when delivered.

15. Confidentiality. The Holder agrees that such Holder will keep confidential and will not disclose, divulge or use for any purpose, other than to monitor its investment in the Company, any confidential information obtained from the Company pursuant to the terms of this Note, unless such confidential information (i) is known or becomes known to the public in general (other than as a result of a breach of this Section 15 by the Holder), (ii) is or has been independently developed or conceived by the Holder without use of the Company's confidential information or (iii) is or has been made known or disclosed to the Holder by a third party without a breach of any obligation of confidentiality such third party may have to the Company; provided, however, that the Holder may disclose confidential information (1) to its attorneys, accountants, consultants, and other professionals to the extent necessary to obtain their services in connection with monitoring its investment in the Company, or (2) as may otherwise be required by law or by the rules and regulations of any exchange or automated quotation system on which the Company's capital stock is listed or quoted, provided that the Holder takes reasonable steps to minimize the extent of any such required disclosure.

16. Disclosure. The Company shall have the right to disclose the Holder's investment in the Company to future prospective investors and/or strategic partners contemplating an investment in the Company, provided, that such recipient is subject to a non-disclosure agreement; provided, that the Company will provide prior written notice of such disclosure (together with the proposed text of such disclosure) to the Holder, and the disclosure made by the Company will reflect any comments provided to the Company by the Holder. Notwithstanding the foregoing, but subject to the requirement above to provide prior written notice of such disclosure as provided above, this Section 16 shall not prohibit any disclosure required by law or by the rules and regulations of any exchange or automated quotation system on which the Company's capital stock is listed or quoted.

17. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, excluding that body of law relating to conflict of laws.

18. Heading; References. All headings used herein are used for convenience only and shall not be used to construe or interpret this Note. Except where otherwise indicated, all references herein to Sections refer to Sections hereof.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Company has caused this Note to be issued as of the date first above written.

ORION ENERGY SYSTEMS, INC.

By: _____
Name: Neal Verfuerth
Title: President and Chief Executive Officer

Acknowledged and Agreed:

_____

_____

By: _____
Name: _____
Title: _____
Address:

EXHIBIT B

ORION ENERGY SYSTEMS, INC.

AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT

August 3, 2007

TABLE OF CONTENTS

AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT

THIS AMENDED AND RESTATED INVESTORS' RIGHTS 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 listed on the signature pages hereto, each of which is herein referred to as an "Investor." This Agreement shall supersede a certain Investors' Rights Agreement, dated as of July 31, 2006 and the Joinder thereto dated as of September 28, 2006 (collectively, the "Original Agreement"), and such Original Agreement shall be terminated and all rights and obligations pursuant thereto shall be of no further force and effect as of the date hereof.

RECITALS

WHEREAS, the Company and the Investors are parties to the Note Purchase Agreement, dated of even date herewith (the "Note Purchase Agreement");

WHEREAS, in order to induce the Investors to purchase the Convertible Subordinated Promissory Notes issued in connection with the Note Purchase Agreement (the "Notes"), the Investors and the Company hereby agree that this Agreement shall govern the rights of the Investors to cause the Company to register shares of Common Stock issued or issuable to them and certain other matters as set forth herein;

WHEREAS, the Company and certain of the Investors entered into the Original Agreement in connection with the purchase and sale of Series C Senior Convertible Preferred Stock (the "Series C Preferred Stock"), pursuant to Stock Purchase Agreements dated as of July 31, 2006 and September 28, 2006 (collectively, the "Series C Purchase Agreement"); and

WHEREAS, under Section 4.7 of the Original Agreement, the Agreement may be amended by the written consent of the Company and the holders of at least a majority of the Company's Registrable Securities;

NOW, THEREFORE, THE PARTIES HEREBY AGREE AS FOLLOWS:

1. Registration Rights. The Company covenants and agrees as follows:

1.1 Definitions. For purposes of this Agreement:

(a) The term "Act" means the Securities Act of 1933, as amended.

(b) The term "Delivery" shall have the meaning set forth in Section 4.5 below.

(c) The term "Form S-3" means such form under the Act as in effect on the date hereof or any registration form under the Act subsequently adopted by the SEC that permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the SEC.

(d) The term “Holder” means any person owning or having the right to acquire Registrable Securities or any assignee thereof in accordance with Section 1.11 hereof.

(e) The term “Independent Director” shall have the same meaning as set forth in the Company’s Amended and Restated Articles of Incorporation, as amended from time to time (the “Articles”).

(f) The term “Qualifying Public Offering” shall have the same meaning as set forth in the Articles.

(g) The term “1934 Act” means the Securities Exchange Act of 1934, as amended.

(h) The terms “register,” “registered,” and “registration” refer to a registration effected by preparing and filing a registration statement or similar document in compliance with the Act, and the declaration or ordering of effectiveness of such registration statement or document.

(i) The term “Registrable Securities” means the Common Stock issuable or issued upon conversion of (i) the Series C Preferred Stock and (ii) the Notes, and any Common Stock of the Company issued as (or issuable upon the conversion or exercise of any warrant, right or other security that is issued as) a dividend or other distribution with respect to, or in exchange for, or in replacement of, the shares referenced in (i) and (ii) above, excluding in all cases, however, any Registrable Securities sold by a person in a transaction in which his rights under this Section 1 are not assigned.

(j) The number of shares of “Registrable Securities” outstanding shall be determined by the number of shares of Common Stock outstanding that are, and the number of shares of Common Stock issuable pursuant to then exercisable or convertible securities or debt that are, Registrable Securities.

(k) The term “Requesting Holder” means a Holder of the class of Series C Preferred Stock or a Note, as the case may be, which makes a request for registration under Section 1.2(b) hereof.

(l) The term “Rule 144” shall mean Rule 144 under the Act.

(m) The term “Rule 144(k)” shall mean subsection (k) of Rule 144 under the Act.

(n) The term “SEC” shall mean the Securities and Exchange Commission.

(o) The term “Transfer” shall include any sale, assignment, encumbrance, hypothecation, pledge, conveyance in trust, gift, transfer by bequest, devise or descent, or other transfer or disposition of any kind, including, but not limited to, transfers pursuant to divorce or legal separation, transfers to receivers, levying creditors, trustees or

receivers in bankruptcy proceedings or general assignees for the benefit of creditors, whether voluntary, involuntarily or by operation of law, directly or indirectly, of any of the Registrable Securities.

1.2 Request for Registration.

(a) Subject to the conditions of this Section 1.2, if the Company shall receive at any time beginning six (6) months after the effective date of the first underwritten public offering by the Company pursuant to a registration statement filed with the SEC under the Act, a written request from the Holders (for purposes of this Section 1.2, the "Initiating Holders") that the Company file a registration statement under the Act covering the registration of Registrable Securities with an anticipated aggregate offering price of at least five million dollars ($5,000,000), then the Company shall, within twenty (20) days of the receipt thereof, give written notice of such request to all Holders, and subject to the limitations of this Section 1.2, use all commercially reasonable efforts to effect, as soon as practicable, the registration under the Act of all Registrable Securities that the Holders request to be registered in a written request received by the Company within twenty (20) days of the mailing of the Company's notice pursuant to this Section 1.2(a).

(b) If the Initiating Holders intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request made pursuant to this Section 1.2 and the Company shall include such information in the written notice referred to in Section 1.2(a). In such event the right of any Holder to include its Registrable Securities in such registration shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting (unless otherwise mutually agreed by a majority in interest of the Initiating Holders and such Holder) to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company (which underwriter or underwriters shall be reasonably acceptable to a majority in interest of the Initiating Holders). Notwithstanding any other provision of this Section 1.2, if the underwriter advises the Company that marketing factors require a limitation on the number of securities underwritten (including Registrable Securities), then the Company shall so advise all Holders of Registrable Securities that would otherwise be underwritten pursuant hereto, and the number of shares that may be included in the underwriting shall be allocated (i) first, to Requesting Holders of Registrable Securities who hold (or held) Series C Preferred Stock or the Notes, as the case may be, and which made the request for registration under this Section 1.2, pro rata according to the number of shares of Series C Preferred Stock or Common Stock issued or issuable upon conversion of the Notes held by each such Holder; (ii) second, to Holders of Registrable Securities who hold (or held) shares of the series of Series C Preferred Stock or Common Stock issued or issuable upon conversion of the Notes which did not make the request for registration under this Section 1.2, pro rata according to the number of shares of such equity securities held by such Holder; (iii) third, to the remaining Holders of Registrable Securities pro rata based on the number of Registrable Securities held by all such Holders; and (iv) fourth, to the Company. In no event shall any Registrable Securities be excluded from such underwriting

unless all other securities are first excluded. Any Registrable Securities excluded or withdrawn from such underwriting shall be withdrawn from the registration.

(c) Notwithstanding the foregoing, the Company shall not be required to effect a registration pursuant to this Section 1.2:

(i) in any particular jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such registration, unless the Company is already subject to service in such jurisdiction and except as may be required under the Act;

(ii) after the Company has effected pursuant to this Section 1.2 (A) two (2) registrations requested by the Holders of the Series C Preferred Stock or the Common Stock issued upon the conversion thereof, and (B) two (2) registrations requested by GE Capital Equity Investments, Inc. ("GE"), and such registrations have been declared or ordered effective;

(iii) during the period starting with the date sixty (60) days prior to the Company's good faith estimate of the date of the filing of and ending on a date one hundred eighty (180) days following the effective date of a Company initiated registration subject to Section 1.3 below, provided that the Company is actively employing in good faith all commercially reasonable efforts to cause such registration statement to become effective;

(iv) if the Initiating Holders propose to dispose of Registrable Securities that may be registered on Form S-3 pursuant to Section 1.4 hereof; or

(v) if the Company furnishes to Holders requesting a registration statement pursuant to this Section 1.2 a certificate signed by the Company's Chief Executive Officer or Chairman of the Board stating that in the good faith judgment of the Board of Directors of the Company (the "Board"), it would be seriously detrimental to the Company and its shareholders for such registration statement to be effected at such time, in which event the Company shall have the right to defer such filing for a period of not more than one hundred twenty (120) days after receipt of the request of the Initiating Holders, provided that such right shall be exercised by the Company not more than once in any twelve (12) month period and provided further that the Company shall not register any securities for the account of itself or any other shareholder during such one hundred twenty (120) day period (other than a registration relating solely to the sale of securities of participants in a Company stock plan, a registration relating to a corporate reorganization or transaction under Rule 145 of the Act, a registration on any form that does not include substantially the same information as would be required to be included in a registration statement covering the sale of the Registrable Securities, or a registration in which the only Common Stock being registered is Common Stock issuable upon conversion of debt securities that are also being registered).

1.3 Company Registration.

(a) If, at any time beginning six (6) months after the effective date of this Agreement (such six (6) month period being referred to as the "Restricted Period"), the Company proposes to register (including for this purpose a registration effected by the Company for shareholders other than the Holders) any of its stock or other securities under the Act in connection with the public offering of such securities (other than a registration relating solely to the sale of securities of participants in a Company stock plan, a registration relating to a corporate reorganization or transaction under Rule 145 of the Act, a registration on any form that does not include substantially the same information as would be required to be included in a registration statement covering the sale of the Registrable Securities, or a registration in which the only Common Stock being registered is Common Stock issuable upon conversion of debt securities that are also being registered), the Company shall, at such time, promptly give each Holder written notice of such registration. Upon the written request of each Holder given within twenty (20) days after mailing of such notice by the Company in accordance with Section 4.5, the Company shall, subject to the provisions of Section 1.3(c), use all commercially reasonable efforts to cause to be registered under the Act all of the Registrable Securities that each such Holder requests to be registered. Notwithstanding the prohibition on exercising registration rights during the Restricted Period set forth in the first sentence of this Section 1.3(a), (i) CapVest Venture Fund, LP and Technology Transformation Venture Fund, LP may exercise such registration rights for up to one hundred twelve thousand one hundred nine (112,109) shares of their Registrable Securities; (ii) Clean Technology Fund II, LP may exercise such registration rights for up to one million nine thousand ninety one (1,009,091) shares of its Registrable Securities (the shares referenced in (i) and (ii) being referred to as the "Series C Threshold Amount"); and (iii) in the event that in any registration within the Restricted Period any senior management employee of the Company or director of the Company who is an employee of the Company and who is listed on Exhibit A, as long as such person is employed by the Company (the "Senior Management Employees" and "Director Employees") registers more than fifteen percent (15%), on a fully diluted basis, of the number of shares held by such Senior Management Employee or Director Employee (such figure being referred to herein as the "Threshold Senior Management Registrable Securities"), then all of the Investors shall be entitled to exercise such registration rights for all or any portion of their Registrable Securities.

(b) Right to Terminate Registration. The Company shall have the right to terminate or withdraw any registration initiated by it under this Section 1.3 prior to the effectiveness of such registration whether or not any Holder has elected to include securities in such registration. The expenses of such withdrawn registration shall be borne by the Company in accordance with Section 1.7 hereof.

(c) Underwriting Requirements. In connection with any offering involving an underwriting of shares of the Company's capital stock, the Company shall not be required under this Section 1.3 to include any of the Holders' securities in such underwriting unless they accept the terms of the underwriting as agreed upon between the Company and the underwriters selected by the Company (or by other persons entitled to select the underwriters) and enter into an underwriting agreement in customary form with such underwriters, and then only in such quantity as the underwriters determine in their sole discretion will not jeopardize the success of the offering by the Company. If the total amount of securities, including Registrable Securities, requested by shareholders to be included in such offering exceeds the amount of

securities sold other than by the Company that the underwriters determine in their sole discretion is compatible with the success of the offering, then the Company shall be required to include in the offering only that number of such securities, including Registrable Securities, that the underwriters determine in their sole discretion will not jeopardize the success of the offering. In no event shall any Registrable Securities be excluded from such offering unless all other shareholders' securities have been first excluded. In the event that the underwriters determine that less than all of the Registrable Securities requested to be registered after the expiration of Restricted Period can be included in such offering, then the Registrable Securities that are included in such offering shall be allocated (i) first, to Holders of Registrable Securities who hold (or held) Notes or Series C Preferred Stock, pro rata according to the number of Registrable Securities held by each such Holder; and (ii) second, to the remaining Holders of Registrable Securities pro rata based on the number of Registrable Securities held by all such Holders. In the event that the underwriters determine that less than all of the Registrable Securities requested to be registered before the expiration of the Restricted Period can be included in such offering, then the Registrable Securities that are included in such offering shall be allocated (i) first, to Holders of Registrable Securities who hold (or held) Series C Preferred Stock, pro rata according to the number of Registrable Securities held by each such Holder, up to the Series C Threshold Amount; and (ii) second, after the Senior Management Employees and Director Employees have each registered up to their Threshold Senior Management Registrable Securities, to all Holders of Registrable Securities, pro rata according to the number of Registrable Securities held by each such Holder of Registrable Securities held by all such Holders. Notwithstanding the foregoing, in no event shall (i) the amount of securities of the selling Holders included in the offering be reduced below thirty percent (30%) of the total amount of securities included in such offering, unless such offering is the Company's first firm commitment underwritten public offering of its Common Stock under the Act (the "Initial Offering"), in which case the selling Holders may be excluded if the underwriters make the determination described above and no other shareholder's securities are included in such offering. For purposes of the preceding sentence and for purposes of Section 1.2(b) concerning apportionment, for any selling shareholder that is a Holder of Registrable Securities and that is a venture capital fund, partnership or corporation, the affiliated venture capital funds, partners, retired partners and shareholders of such Holder, or the estates and family members of any such partners and retired partners and any trusts for the benefit of any of the foregoing persons shall be deemed to be a single "selling Holder," and any pro rata reduction with respect to such "selling Holder" shall be based upon the aggregate amount of Registrable Securities owned by all such related entities and individuals.

1.4 Form S-3 Registration. In case the Company shall receive from the Holders of twenty-five percent (25%) or more of the Registrable Securities then outstanding (for purposes of this Section 1.4, the "Initiating Holders") a written request or requests that the Company effect a registration on Form S-3 and any related qualification or compliance with respect to all or a part of the Registrable Securities owned by such Holder or Holders, the Company shall:

(a) promptly give written notice of the proposed registration, and any related qualification or compliance, to all other Holders; and

(b) use all commercially reasonable efforts to effect, as soon as practicable, such registration and all such qualifications and compliances as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Holders' Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any other Holders joining in such request as are specified in a written request given within fifteen (15) days after receipt of such written notice from the Company, provided, however, that the Company shall not be obligated to effect any such registration, qualification or compliance, pursuant to this Section 1.4:

(i) if Form S-3 is not available for such offering by the Holders;

(ii) if the Company furnishes to Holders requesting a registration statement pursuant to this Section 1.4 a certificate signed by the Company's Chief Executive Officer or Chairman of the Board stating that in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company and its shareholders for such registration statement to be effected at such time, in which event the Company shall have the right to defer such filing for a period of not more than one hundred twenty (120) days after receipt of the request of the Initiating Holders, provided that such right shall be exercised by the Company not more than once in any twelve (12)-month period and provided further that the Company shall not register any securities for the account of itself or any other shareholder during such one hundred twenty (120) day period (other than a registration relating solely to the sale of securities of participants in a Company stock plan, a registration relating to a corporate reorganization or transaction under Rule 145 of the Act, a registration on any form that does not include substantially the same information as would be required to be included in a registration statement covering the sale of the Registrable Securities, or a registration in which the only Common Stock being registered is Common Stock issuable upon conversion of debt securities other than the Note that are also being registered); or

(iii) in any particular jurisdiction in which the Company would be required to qualify to do business or to execute a general consent to service of process in effecting such registration, qualification or compliance.

(c) If the Initiating Holders intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request made pursuant to this Section 1.4 and the Company shall include such information in the written notice referred to in Section 1.4(a). The provisions of Section 1.2(b) shall be applicable to such request (with the substitution of Section 1.4 for references to Section 1.2).

(d) Subject to the foregoing, the Company shall file a registration statement covering the Registrable Securities and other securities so requested to be registered as soon as practicable after receipt of the request or requests of the Initiating Holders. Registrations effected pursuant to this Section 1.4 shall not be counted as requests for registration effected pursuant to Section 1.2 and thus not subject to the limitations found in Section 1.2(c)(ii).

1.5 Obligations of the Company. Whenever required under this Section 1 to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

(a) prepare and file with the SEC a registration statement with respect to such Registrable Securities and use all commercially reasonable efforts to cause such registration statement to become effective, and, upon the request of the Holders of a majority of the Registrable Securities registered thereunder, keep such registration statement effective for a period of up to one hundred twenty (120) days or, if earlier, until the distribution contemplated in the Registration Statement has been completed; provided, however, that such 120 day period shall be extended for a period of time equal to the period of time that the Holders refrain from selling any securities included in such registration upon the request of the Company or the underwriters;

(b) prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Act with respect to the disposition of all securities covered by such registration statement;

(c) furnish to the Holders such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them;

(d) use all commercially reasonable efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions;

(e) in the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter of such offering; and furnish, at the request of any Holder requesting registration of Registrable Securities pursuant to this Section 1, on the date that such Registrable Securities are delivered to the underwriters for sale in connection with a registration pursuant to this Section 1, if such securities are being sold through underwriters, (i) an opinion, dated such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters and (ii) a letter dated such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified accountants to underwriters in an underwritten public offering, addressed to the underwriters;

(f) notify each Holder of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Act of the happening of any event as a result of which the prospectus included in such

registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing, and the Company shall promptly either amend such prospectus or file a supplement, in compliance with state and federal securities laws, to correct such untrue statement of material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing;

(g) cause all such Registrable Securities registered pursuant to this Section 1 to be listed on a national exchange or trading system and on each securities exchange and trading system on which similar securities issued by the Company are then listed;

(h) provide a transfer agent and registrar for all Registrable Securities registered pursuant hereunder and a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration;

(i) notify each Holder promptly after the Company receives notice thereof, of the time when such registration statement has become effective or a supplement of such registration has been filed;

(j) advise each Holder promptly after the Company shall receive notice or obtain knowledge thereof, of the issuance of any stop order by the SEC suspending the effectiveness of such registration statement or the threatening of any proceeding for such purpose and promptly use all commercially reasonable efforts to prevent the issuance of any stop order should such be issued; and

(k) make generally available to its security holders, and to deliver to the Holders an earnings statement of the Company (that will satisfy the provisions of Section 11(a) of the Act) covering a period of twelve (12) months beginning after the effective date of the registration statement (as defined in Rule 158(c) under the Act) as soon as is reasonably practicable after the termination of such twelve (12) month period and upon the request of a Holder.

1.6 Information from Holder. It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Section 1 with respect to the Registrable Securities of any selling Holder that such Holder shall furnish to the Company such information regarding itself, the Registrable Securities held by it, and the intended method of disposition of such securities as shall be reasonably required to effect the registration of such Holder's Registrable Securities.

1.7 Expenses of Registration. All expenses other than underwriting discounts and commissions (which shall be borne by the selling Holders pro rata based on the number of Registrable Securities included in the registration) incurred in connection with registrations, filings or qualifications pursuant to Sections 1.2, 1.3 and 1.4, including (without limitation) all registration, filing and qualification fees, printers' and accounting fees, fees and disbursements of counsel for the Company and the reasonable fees and disbursements of one counsel for the

selling Holders shall be borne by the Company. In the event the Holders of the Series C Preferred Stock elect to retain separate counsel to represent them in connection with registrations, filings or qualifications pursuant to Sections 1.2, 1.3 and 1.4, all expenses other than underwriting discounts and commissions (which shall be borne by the selling Holders of the Series C Preferred Stock pro rata based on the number of Registrable Securities included in the registration) incurred in connection with such registrations, filings or qualifications, including (without limitation) all registration, filing and qualification fees, printers' and accounting fees, fees and disbursements of counsel for the Company and the reasonable fees and disbursements of one counsel for all such selling Holders, shall be borne by the Company in an amount not to exceed $50,000 per offering. Notwithstanding the foregoing, the Company shall not be required to pay for any expenses of any registration proceeding begun pursuant to Section 1.2 or Section 1.4 if the registration request is subsequently withdrawn at the request of the Holders of a majority of the Registrable Securities to be registered (in which case all participating Holders shall bear such expenses pro rata based upon the number of Registrable Securities that were to be included in the withdrawn registration), unless, in the case of a registration requested under Section 1.2, the Holders of a majority of the Registrable Securities agree to forfeit their right to one demand registration pursuant to Section 1.2; provided, however, that if at the time of such withdrawal, the Holders have learned of a material adverse change in the condition, business or prospects of the Company from that known to the Holders at the time of their request and have withdrawn the request with reasonable promptness following disclosure by the Company of such material adverse change, then the Holders shall not be required to pay any of such expenses and shall retain their rights pursuant to Sections 1.2 and 1.4.

1.8 Delay of Registration. No Holder shall have any right to obtain or seek an injunction restraining or otherwise delaying any such registration as the result of any controversy that might arise with respect to the interpretation or implementation of this Section 1.

1.9 Indemnification. In the event any Registrable Securities are included in a registration statement under this Section 1:

(a) To the extent permitted by law, the Company will indemnify and hold harmless each Holder, the partners, officers, directors, partners, members and shareholders of each Holder, legal counsel and accountants for each Holder, any underwriter (as defined in the Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Act or the 1934 Act, against any losses, claims, damages or liabilities (joint or several) to which they may become subject under the Act, the 1934 Act, any other federal or state securities laws or any rule or regulation promulgated thereunder, insofar as such losses, claims, damages, or liabilities (or actions, proceedings or settlements in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"): (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state in such registration statement a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation by the Company of the Act, the 1934 Act, any other federal or state securities laws or any rule or regulation promulgated thereunder, and the Company will reimburse each such Holder, underwriter,

controlling person or other aforementioned person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action, proceeding or settlement as such expenses are incurred; provided, however, that the indemnity agreement contained in this Section 1.9(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action, proceeding or settlement if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld or delayed), nor shall the Company be liable in any such case for any such loss, claim, damage, liability or action, proceeding or settlement to the extent that it arises out of or is based upon a Violation that occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by any such Holder, underwriter, controlling person or other aforementioned person; provided further, however, that the foregoing indemnity agreement with respect to any preliminary prospectus shall not inure to the benefit of any Holder or underwriter or other aforementioned person, or any person controlling such Holder or underwriter, from whom the person asserting any such losses, claims, damages or liabilities purchased shares in the offering, if a copy of the most current prospectus was not sent or given by or on behalf of such Holder or underwriter or other aforementioned person to such person, if required by law to have been so delivered, at or prior to the written confirmation of the sale of the shares to such person, and if the prospectus (as so amended or supplemented) would have cured the defect giving rise to such loss, claim, damage or liability and provided that the Company had made available such prospectus for delivery by such Holder or underwriter.

(b) To the extent permitted by law, each selling Holder will indemnify and hold harmless the Company, each of its directors, each of its officers who has signed the registration statement, each person, if any, who controls the Company within the meaning of the Act, legal counsel and accountants for the Company, any underwriter, any other Holder selling securities in such registration statement and any controlling person of any such underwriter or other Holder, against any losses, claims, damages or liabilities (joint or several) to which any of the foregoing persons may become subject, under the Act, the 1934 Act, any other federal or state securities laws or any rule or regulation promulgated thereunder, insofar as such losses, claims, damages or liabilities (or actions, proceedings or settlements in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder expressly for use in connection with such registration; and each such Holder will reimburse any person intended to be indemnified pursuant to this Section 1.9(b) for any legal or other expenses reasonably incurred by such person in connection with investigating or defending any such loss, claim, damage, liability or action, proceeding or settlement as such expenses are incurred; provided, however, that the indemnity agreement contained in this Section 1.9(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action, proceeding or settlement if such settlement is effected without the consent of the Holder (which consent shall not be unreasonably withheld), and provided that in no event shall any indemnity under this Section 1.9(b) exceed the net proceeds from the offering received by such Holder, except in the case of fraud or willful misconduct by such Holder.

(c) Promptly after receipt by an indemnified party under this Section 1.9 of notice of the commencement of any action, proceeding or settlement (including any

governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 1.9, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party (together with all other indemnified parties that may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, if prejudicial to its ability to defend such action, shall relieve such indemnifying party of liability to the indemnified party under this Section 1.9 to the extent of such prejudice, but the omission to so deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 1.9.

(d) The foregoing indemnity agreements of the Company and the selling Holders are subject to the condition that, insofar as they relate to any loss, liability, claim, damage or expense referred to herein arising from any untrue statement or alleged untrue statement of a material fact contained in, or omission or alleged omission of a material fact from, a preliminary prospectus (or necessary to make the statements therein not misleading) that has been corrected in the form of prospectus included in the registration statement at the time it becomes effective, or any amendment or supplement thereto filed with the SEC pursuant to Rule 424(b) under the Securities Act (the “Final Prospectus”), such indemnity agreement shall not inure to the benefit of any Person if a copy of the Final Prospectus was furnished to the indemnified party and such indemnified party failed to deliver, at or before the confirmation of the sale of the shares registered in such offering, a copy of the Final Prospectus to the Person asserting the loss, liability, claim, or damage in any case in which such delivery was required by the Securities Act.

(e) If the indemnification provided for in this Section 1.9 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, liability, claim, damage or expense referred to herein, then the indemnifying party, in lieu of indemnifying such indemnified party hereunder, shall contribute, subject to the limitations described in Sections 1.9(a) and 1.9(b), to the amount paid or payable by such indemnified party as a result of such loss, liability, claim, damage or expense in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and the indemnified party on the other hand in connection with the statements or omissions that resulted in such loss, liability, claim, damage or expense, as well as any other relevant equitable considerations; provided, however, that no contribution by any Holder, when combined with any amounts paid by such Holder pursuant to Section 1.9(b), shall exceed the net proceeds from the offering received by such Holder, except in the case of willful misconduct or fraud by such Holder. The relative fault of the indemnifying party and the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information furnished expressly for use in

connection with such registration by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; provided, however, that, in any such case, no Person guilty of fraudulent misrepresentation (within the meaning of section 11(f) of the Securities Act) will be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

(f) Notwithstanding the foregoing, to the extent that the provisions on indemnification and contribution contained in the underwriting agreement entered into in connection with the underwritten public offering are in conflict with the foregoing provisions, the provisions in the underwriting agreement shall control; provided that should the underwriting agreement not address an aspect of indemnification and contribution contained in this Section 1.9, that shall not constitute a conflict for purposes of this Section 1.9(f).

(g) The obligations of the Company and Holders under this Section 1.9 shall survive the completion of any offering of Registrable Securities in a registration statement under this Section 1 and otherwise.

1.10 Reports Under the 1934 Act. With a view to making available to the Holders the benefits of Rule 144 and any other rule or regulation of the SEC that may at any time permit a Holder to sell securities of the Company to the public without registration or pursuant to a registration on Form S-3, the Company agrees to:

(a) make and keep public information available, as those terms are understood and defined in Rule 144, at all times after the effective date of the Qualifying Public Offering;

(b) file with the SEC in a timely manner all reports and other documents required of the Company under the Act and the 1934 Act; and

(c) furnish to any Holder, so long as the Holder owns any Registrable Securities, forthwith upon request (i) a written statement by the Company that it has complied with the reporting requirements of Rule 144 (at any time after ninety (90) days after the effective date of the first registration statement filed by the Company), the Act and the 1934 Act (at any time after it has become subject to such reporting requirements), or that it qualifies as a registrant whose securities may be resold pursuant to Form S-3 (at any time after it so qualifies); (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company; and (iii) such other information as may be reasonably requested to avail any Holder of any rule or regulation of the SEC that permits the selling of any such securities without registration or pursuant to such form.

1.11 Assignment of Registration Rights. The rights to cause the Company to register Registrable Securities pursuant to this Section 1 may be assigned (but only with all related obligations) by a Holder to a transferee or assignee of such securities that (i) is a subsidiary, parent or other corporate affiliate of a Holder, or a partner, limited partner, retired partner or shareholder of a Holder; (ii) is a Holder's family member or trust for the benefit of an

individual Holder; or (iii) after such assignment or transfer, holds at least two hundred fifty thousand (250,000) shares of Registrable Securities (subject to appropriate adjustment for stock splits, stock dividends, combinations or the like), provided: (A) the Company is, within a reasonable time after such transfer, furnished with written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned; (B) such transferee or assignee agrees in writing to be bound by and subject to the terms and conditions of this Agreement, including, without limitation, the provisions of Section 1.13 below; and (C) such assignment shall be effective only if immediately following such transfer the further disposition of such securities by the transferee or assignee is restricted under the Act.

1.12 Limitations on Subsequent Registration Rights. From and after the date of this Agreement, the Company shall not, without the prior written consent of the Holders of at least a majority of the Registrable Securities and the Holders of at least a majority of the shares of Common Stock issuable upon conversion of the Notes, enter into any agreement with any holder or prospective holder of any securities of the Company that would allow such holder or prospective holder (a) to include any of such securities in any registration filed under Section 1.2, Section 1.3 or Section 1.4 hereof, unless under the terms of such agreement, such holder or prospective holder may include such securities in any such registration only to the extent that the inclusion of such securities will not reduce the amount of the Registrable Securities of the Holders that are included, or (b) to demand registration of their securities.

1.13 “Market Stand Off” Agreement.

(a) Each holder of equity securities of the Company that is a party to this Agreement (a “Company Stockholder”) hereby agrees that it will not, without the prior written consent of the managing underwriter, during the period commencing on the date of the final prospectus relating to the Initial Offering and ending on the date specified by the Company and the managing underwriter (such period not to exceed (a) one hundred eighty (l80) days (or such longer period as the underwriters or the Company shall require in order to facilitate compliance with NASD Rule 2711)) with respect to the Company’s Initial Offering and (b) ninety (90) days with respect to a Company underwritten offering other than the Initial Offering, (i) lend, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock held immediately prior to the effectiveness of the Registration Statement for such offering, or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Common Stock, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or other securities, in cash or otherwise. The foregoing provisions of this Section 1.13 shall not apply to the sale of any shares to an underwriter pursuant to an underwriting agreement. In addition, the provisions of this Section 1.13 shall only be applicable to the Company Stockholders if (X) all officers and directors of the Company serving in such positions as of the date hereof and any additional persons serving in any such positions on the date of the applicable offering enter into similar agreements, (Y) the Company obtains a similar covenant from the holders in interest of two percent (2%) or more of the outstanding securities of

the Company, and (Z) the Company uses all reasonable efforts to obtain a similar covenant from the holders in interest of one percent (1%) or more of the outstanding securities of the Company. The underwriters in connection with the Company's Initial Offering are intended third-party beneficiaries of this Section 1.13 and shall have the right, power and authority to enforce the provisions hereof as though they were a party hereto. Each Company Stockholder further agrees to execute such agreements as may be reasonably requested by the underwriters in the Company's Initial Offering that are consistent with this Section 1.13 or that are necessary to give further effect thereto. Any discretionary waiver or termination of the restrictions of any or all of such agreements or this Section 1.13 by the Company or the underwriters shall apply to all holders of capital stock of the Company subject to such agreements pro rata based on the number of shares subject to such agreements.

In order to enforce the foregoing covenant, the Company may impose stop transfer instructions with respect to the Registrable Securities of each Company Stockholder (and the shares or securities of every other person subject to the foregoing restriction) until the end of such period.

(b) Each Company Stockholder agrees that a legend reading substantially as follows shall be placed on all certificates representing all Registrable Securities of each Company Stockholder (and the shares or securities of every other person subject to the restriction contained in this Section 1.13):

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO A LOCK-UP PERIOD OF UP TO 180 DAYS AFTER THE EFFECTIVE DATE OF THE ISSUER'S REGISTRATION STATEMENT FILED UNDER THE ACT, AS AMENDED, AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE ORIGINAL HOLDER OF THESE SECURITIES, A COPY OF WHICH MAY BE OBTAINED AT THE ISSUER'S PRINCIPAL OFFICE. SUCH LOCK-UP PERIOD IS BINDING ON TRANSFEREES OF THESE SHARES.

1.14 Termination of Registration Rights. No Holder shall be entitled to exercise any right provided for in this Section 1 (i) after five (5) years following the consummation of the Qualifying Public Offering; (ii) as to any Holder, such earlier time after the Qualifying Public Offering at which such Holder can sell all shares held by it in compliance with Rule 144(k); or (iii) when the Company shall sell, convey, or dispose of all or substantially all of the Company's property or business or merge with or into or consolidate with any other corporation (other than a wholly-owned subsidiary corporation) or effect any other transaction or series of related transactions in which more than fifty percent (50%) of the voting power of the Company is disposed of, in each case in a transaction in which the Holders receive, or at such later time at which the Holders receive, cash, cash equivalents or Marketable Securities (as defined below) in consideration for the Registrable Securities held by them; provided that this Section 1.14 shall not cause the Holders' registration rights to terminate following a merger effected solely for the purpose of changing the domicile of the Company. For purposes of this Agreement, the term "Marketable Securities" means securities that are listed on a national

securities exchange or listed on the NASDAQ National Market System and either (i) freely tradeable by the Holders under applicable securities laws on such exchange or system, or (ii) with respect to which the Holder has received registration rights materially similar to those provided under Section 1 of this Agreement.

2. Covenants of the Company.

2.1 Information Rights. For so long as an Investor (together with its respective affiliates) continues to own at least ten percent (10%) of the Registrable Securities purchased pursuant to (i) the Series C Purchase Agreement, or (ii) the Note Purchase Agreement, the Company shall deliver to each Investor:

(a) as soon as practicable, but in any event within one hundred twenty (120) days after the end of each fiscal year of the Company, an income statement for such fiscal year, a balance sheet of the Company and statement of shareholders' equity as of the end of such year, and a statement of cash flows for such year, such year end financial reports to be in reasonable detail, prepared in accordance with generally accepted accounting principles ("GAAP"), and audited and certified by independent public accountants of nationally recognized standing selected by the Company;

(b) as soon as practicable, but in any event within forty-five (45) days after the end of each of the first three (3) quarters of each fiscal year of the Company, an unaudited income statement, statement of cash flows for such fiscal quarter and an unaudited balance sheet as of the end of such fiscal quarter;

(c) within forty-five (45) days of the end of each month an unaudited income statement, statement of cash flows and balance sheet for and as of the end of such month, in reasonable detail;

(d) as soon as practicable, but in any event no later than the fifteenth (15th) of March of each fiscal year, a budget and business plan for the next fiscal year, prepared on a monthly basis, and, as soon as prepared, any other budgets or revised budgets prepared by the Company;

(e) with respect to the financial statements called for in Sections 2.1(b) and 2.1(c), an instrument executed by the Chief Financial Officer or President of the Company certifying that such financials were prepared in accordance with GAAP consistently applied with prior practice for earlier periods (with the exception of footnotes that may be required by GAAP) and fairly present the financial condition of the Company and its results of operation for the period specified, subject to year-end audit adjustment;

(f) notices of default with respect to any obligation of the Company or its affiliates; and

(g) such other information relating to the financial condition, business or corporate affairs of the Company as the Investor may from time to time request, provided, however, that the Company shall not be obligated under this Section 2.1(g) or any other

subsection of Section 2.1 to provide information that it deems in good faith to be a trade secret or similar confidential information.

2.2 Inspection. The Company shall permit each Investor, at such Investor's expense, to visit and inspect the Company's properties, to examine its books of account and records and to discuss the Company's affairs, finances and accounts with its officers, all at such times during normal business hours as may be requested by the Investor with reasonable advance notice; provided, however, that the Company shall not be obligated pursuant to this Section 2.2 to provide access to any information that it reasonably considers to be a trade secret or similar confidential information.

2.3 Termination of Information and Inspection Covenants. The covenants set forth in Sections 2.1 and 2.2 shall terminate and be of no further force or effect upon the earlier to occur of (i) the consummation of a QIPO, (ii) when the Company first becomes subject to the periodic reporting requirements of Sections 12(g) or 15(d) of the 1934 Act, or (iii) the consummation of a Deemed Liquidation Event, as that term is defined in the Articles. Further, such covenants will terminate and be of no further force or effect with respect to any Holder of a Note if such Holder does not continue to hold an interest in the Note purchased by such Holder equal to at least thirty-three percent (33%) of the balance of such Note (or the Common Stock into which such Note may have been converted).

2.4 Right of First Refusal. Subject to the terms and conditions specified in this Section 2.4, the Company hereby grants to each Investor a right of first refusal to purchase all or any portion of its pro rata portion of future sales by the Company of its Shares (as hereinafter defined). An Investor shall include any general partners and affiliates of an Investor. Investors shall be entitled to apportion the right of first refusal hereby granted it among itself and its partners and affiliates in such proportions as it deems appropriate.

Each time the Company proposes to offer any shares of, or securities convertible into or exchangeable or exercisable for any shares of, its capital stock or debt instruments that are issued along with warrants to purchase any of the foregoing (collectively, "Shares"), the Company shall first make an offering to each Investor to purchase all or a portion of its pro rata portion of such Shares in accordance with the following provisions:

(a) The Company shall deliver a notice in accordance with Section 4.5 to the Investors stating (i) its bona fide intention to offer such Shares, (ii) the number of such Shares to be offered, and (iii) the price and terms upon which it proposes to offer such Shares.

(b) By written notification received by the Company within twenty (20) calendar days after the giving of Notice, each Investor may elect to purchase, at the price and on the terms specified in the Notice, up to that portion of such Shares that equals the proportion that the number of shares of Common Stock that are Registrable Securities issued and held by such Investor (assuming full conversion and exercise of all convertible and exercisable securities then outstanding) bears to the total number of shares of Common Stock of the Company then outstanding (assuming full conversion and exercise of all convertible and exercisable securities then outstanding). The Company shall promptly, in writing, inform each

Investor that elects to purchase all the shares available to it (a "Fully-Exercising Investor") of any other Investor's failure to do likewise. During the ten (10) day period commencing after such information is given, each Investor that is a Fully-Exercising Investor may elect to purchase that portion of the Shares for which the Investors were entitled to subscribe, but which were not subscribed for by the Investors, that is equal to the proportion that the number of shares of Registrable Securities issued and held by such Fully-Exercising Investor bears to the number of shares of Registrable Securities issued and held by all Investors that are Fully-Exercising Investors.

(c) If all Shares that Investors are entitled to obtain pursuant to Section 2.4(b) are not elected to be obtained as provided in Section 2.4(b) hereof, the Company may, during the ninety (90) day period following the expiration of the period provided in Section 2.4(b) hereof, offer the remaining unsubscribed portion of such Shares to any person or persons at a price not less than that, and upon terms no more favorable to the offeree than those, specified in the Notice. If the Company does not enter into an agreement for the sale of the Shares within such period, or if such agreement is not consummated within seventy-five (75) days of the execution thereof, the right provided hereunder shall be deemed to be revived and such Shares shall not be offered unless first reoffered to the Investors in accordance herewith.

(d) The right of first refusal in this Section 2.4 shall not be applicable to (i) up to two hundred seventeen thousand two hundred sixty eight (217,268) shares of Common Stock (or options therefor) (subject to adjustment for stock splits, stock dividends, recapitalizations and similar changes affecting the capital stock of the Company) to employees, directors, consultants and other service providers of this corporation for the primary purpose of soliciting or retaining their services pursuant to plans or agreements approved by a majority of the Independent Directors; (ii) the issuance of securities pursuant to a Qualifying Public Offering; (iii) the issuance of securities pursuant to the conversion or exercise of existing convertible or exercisable securities or securities, the issuance of which would not be subject to the right of first refusal set forth in Section 2.4 of this Agreement; (iv) the issuance of up to an aggregate of one hundred thousand (100,000) shares of Common Stock (or securities convertible into Common Stock) in connection with a bona fide business acquisition of or by the Company, whether by merger, consolidation, sale of assets, sale or exchange of stock or otherwise; (v) the issuance and sale of the Notes pursuant to the Note Purchase Agreement, as such agreement may be amended; (vi) up to fifty thousand (50,000) shares of equity securities per year (subject to adjustment for stock splits, stock dividends, recapitalizations and similar changes affecting the capital stock of the Company) issued to vendors, consultants or advisors or in connection with acquisitions, which grant, agreement or other arrangement has been approved by a majority of the Independent Directors; (vii) shares of Common Stock or warrants to purchase Common Stock issued pursuant to any strategic partnership, in each case approved by a majority of the Independent Directors; and (viii) any securities issued in connection with any stock split, stock dividend or recapitalization by the Company that affects all outstanding capital stock of the Company. In addition to the foregoing, the right of first refusal in this Section 2.4 shall not be applicable with respect to any Investor in any subsequent offering of Shares if (i) at the time of such offering, the Investor is not an "accredited investor," as that term is then defined in Rule 501(a) of the Act, and (ii) such offering of Shares is otherwise being offered only to accredited investors.

(e) The rights provided in this Section 2.4 may not be assigned or transferred by any Investor; provided, however, that (i) an Investor may assign or transfer such rights to any other entity which controls, is controlled by or is under common control with the Investor or any entity that is managed by the same joint management company of the Investor or any entity that is the general partner or limited partner of the Investors, and (ii) an Investor that is a venture capital fund may assign or transfer such rights to an affiliated venture capital fund.

2.5 Proprietary Information and Inventions Agreements. The Company has caused each of the persons listed on Schedule 2.5 attached hereto to execute and deliver a Proprietary Information and Intellectual Property Agreement (a "Proprietary Information Agreement") in form and substance reasonably satisfactory to the Investors. Company shall use commercially reasonable efforts to cause all officers, key management employees and employees involved in research and development activities who are not listed on Schedule 2.5 attached hereto to execute and deliver a Proprietary Information Agreement within thirty (30) days of the date of this Agreement, and shall require all future officers, key management employees and employees involved in research and development activities to execute and deliver a Proprietary Information Agreement.

2.6 Lock-Up of Future Securityholders. The Company shall ensure that all future holders of the Company's Series C Preferred Stock and Notes are subject to a Market Stand-Off substantially similar to that set forth in Section 1.13 hereof.

2.7 D&O Insurance. The Company has as of the date hereof, obtained from financially sound and reputable insurer(s) and maintains director and officer liability insurance in the amount of at least two million dollars ($2,000,000) per occurrence.

2.8 Board of Directors. The Board shall consist of not less than six (6) and not more than nine (9) members, at least a majority of whom shall be Independent Directors. Hiring and dismissal of officers shall be under the purview of the Board, and the Board shall have exclusive authority over all equity incentive grants and senior management compensation decisions; provided, however, that without the prior written consent of the parties holding a majority of the Series C Preferred Stock and the consent of parties holding a majority of shares of Common Stock issued or issuable upon conversion of the Notes, which consent shall not be unreasonably withheld, the Board will not materially increase the salary, bonuses, benefits or other compensation of the Company's management. For the avoidance of doubt, references to the Board in the previous sentence shall include the Compensation Committee of the Board (the "Compensation Committee"), to the extent appropriate and consistent with the charter of the Compensation Committee. The Board shall review and approve the Company's operating plan and budget annually as well as any material deviations from or amendments to such plans and budgets.

2.9 Board Observer.

(a) The Investors holding a majority of the Registrable Securities issued or issuable upon conversion of the Series C Preferred Stock shall be entitled to nominate one (1) Board observer (the "Board Observer") with full rights to observe and attend any and all

meetings and other proceedings of the Company's Board of Directors and to receive all notices and information provided to the members of the Board. All out-of-pocket expenses of the Board Observer resulting from his or her activities in such capacity shall be reimbursed by the Company. The right to appoint the Board Observer pursuant to this Section 2.9(a) shall be transferable to any transferee of the Investors holding shares of Series C Preferred Stock only to the extent that the transfer of such rights has been consented to by a majority of the Board, which consent shall not be unreasonably withheld.

(b) The Investors holding a majority of the Registrable Securities issued or issuable upon conversion of the Notes shall be entitled to nominate one (1) Board Observer with full rights to observe and attend any and all meetings and other proceedings of the Company's Board of Directors and to receive all notices and information provided to the members of the Board. All out-of-pocket expenses of the Board Observer resulting from his or her activities in such capacity shall be reimbursed by the Company. The right to appoint the Board Observer pursuant to this Section 2.9(b) shall be transferable to any transferee of the Investors holding a Note only to the extent that the transfer of such rights has been consented to by a majority of the Board, which consent shall not be unreasonably withheld. The Investors shall, to the extent practicable, appoint a Board Observer designated by GE Energy Financial Services, Inc.

2.10 Related Party Transactions. The Company will not enter into any transaction with any employee, officer, director or shareholder of the Company or any of its subsidiaries (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 the Company or any of its subsidiaries, other than on arms'-length basis as reasonably determined a majority of the Independent Directors.

2.11 Approval Rights. The approval of the Investors holding a majority of the shares of Common Stock issued or issuable upon conversion of the Notes shall be required to (whether effected as a merger, amendment or otherwise):

(a) commence or consent to any voluntary or involuntary bankruptcy, insolvency or creditors' proceeding;

(b) amend, alter or repeal any provision of the Articles of Incorporation or Bylaws of the Company other than in connection with a QIPO (as defined in the Notes) in a manner that adversely affects the rights or preferences of the holders of the Notes or the holders of the shares of Common Stock issued or issuable upon conversion of the Notes;

(c) recapitalize, create or authorize the creation of any additional class or series of shares of stock;

(d) increase or decrease (other than by redemption or conversion) the authorized number of shares of Preferred Stock of the Company, Common Stock or shares of any additional class or series of shares of stock;

(e) purchase or redeem, or set aside any sums for the purchase or redemption of, or pay any dividend or make any distribution on, any shares of stock ranking junior to the Notes, except for repurchases of Series C Preferred Stock in accordance with Section 3.9.6 of the Articles;

(f) authorize or issue any equity securities other than the following authorizations or issuances:

(i) Common Stock pursuant to the Company's stock purchase and stock option plans approved by a majority of the members of the Board of Directors who are not employees of the Company and were not employees of the Company during the twenty-four month period prior to the date of such approval (the "Independent Directors");

(ii) shares of Common Stock issued pursuant to the exercise of options, warrants or convertible securities outstanding on the date hereof or otherwise permitted in accordance with the terms of this Section 2.11(f);

(iii) shares of Common Stock or warrants to purchase Common Stock issued pursuant to any strategic partnership, in each case approved by a majority of the Independent Directors; and

(iv) an aggregate of 50,000 shares of new equity per year granted to vendors, consultants, advisors or in small acquisitions, which plans, partnership arrangements or grants have been approved by a majority of the Independent Directors;

(g) engage in any new line of business substantially outside of the business plan in the form approved by a majority of the Independent Directors or materially modifying such plan, unless approved in each case by a majority of the Independent Directors;

(h) merge with or into or consolidate, or permit any subsidiary to merge with or into or consolidate, with any other entity (other than a merger or consolidation solely between the Company and one or more subsidiaries or among subsidiaries);

(i) sell, lease, or otherwise dispose of all or substantially all of the Company's properties or assets; or

(j) commence any initial public offering that is not a QIPO.

Any modification or restructuring that would affect the Common Stock, whether effected as a merger, amendment or otherwise, shall require the approval of the Investors holding a majority of the shares of Common Stock issued or issuable upon conversion of the Notes.

2.12 Termination of Certain Covenants. The covenants set forth in Sections 2.4 through 2.11 shall terminate and be of no further force or effect (i) upon the consummation of a QIPO, or (ii) upon a QExit. The covenants set forth in Section 3 shall terminate and be of no further force or effect (i) upon the consummation of the Company's sale of its Common Stock or other securities pursuant to an Initial Offering, or (ii) upon a Deemed Liquidation Event.

3. Transfers of Registrable Securities.

3.1 Transfer Notice. If at any time an Investor desires to Transfer any Registrable Securities (a "Selling Investor"), the Selling Investor shall promptly give the Company written notice thereof (the "Transfer Notice"). The Transfer Notice shall include a description and the amount of the Registrable Securities that the Selling Investor desires to Transfer (for the purposes of this Section 3, the "Offered Shares"). In the event that the Transfer is being made pursuant to the provisions of Section 3.3, the Transfer Notice shall state under which specific subsection the Transfer is being made. If the Company so elects within ten (10) days following receipt of such notice, the Company shall have the right, on an exclusive basis, for a period of forty-five (45) days after receipt of such notice to negotiate with the Selling Investor with respect to a definitive agreement for the sale and purchase of all (and not less than all) of the Offered Shares. The Selling Investor and the Company shall negotiate in good faith the terms and conditions of any such agreement.

3.2 Non-Exercise of Rights. To the extent that the Company does not exercise its right to negotiate with the Selling Investor or the Company and the Selling Investor do not reach an agreement for the sale and purchase of the Offered Shares within the time periods specified in Section 3.1, the Selling Investor shall have a period of ninety (90) days from the expiration of such rights in which to sell the Offered Shares to a third-party transferee(s), on terms and conditions no less favorable to the Selling Investor than the terms proposed by the Company pursuant to Section 3.1 hereof (if applicable). The third-party transferee(s) shall acquire the Offered Shares free and clear of subsequent rights of first offer under this Agreement. In the event the Selling Investor does not sell the Offered Shares within the ninety (90) day period from the expiration of these rights, the Company's first offer rights shall continue to be applicable to any subsequent disposition of the Offered Shares by the Selling Investor until such rights lapse in accordance with the terms of this Agreement. Furthermore, the exercise or non-exercise of the rights of the Company under Section 3.1 to offer to purchase Registrable Securities from the Selling Investor shall not adversely affect its right to make subsequent purchases from the Selling Investor of Registrable Securities.

3.3 Limitations to Company Right of First Offer. Notwithstanding the provisions of Section 3.1 of this Agreement, the first offer right of the Company shall not apply to (a) in the case of a company, corporation or a partnership, to the Transfer of Equity Securities to any members, shareholders, partners or corporate affiliates thereof (each, an "Indirect Shareholder" of the Company) or to any entity controlled by, controlling or under common control with the transferor; (b) to the Transfer of Equity Securities to any spouse or member of an Investor's Immediate Family, or to a custodian, trustee (including a trustee of a voting trust), executor, or other fiduciary for the account of the Investor's or Indirect Shareholder's spouse or members of the Investor's immediate family, or to a trust for the Indirect Shareholder's own self, or a charitable remainder trust;
(c) Transfers of Equity Securities by one or more individual Investors pursuant to which after such Transfer, (i) if Common Stock issued or issuable upon conversion of the Notes is proposed to be transferred by GE, GE will continue to collectively own at least one million (1,000,000) shares (including shares held by transferees pursuant to clauses (a) and (b) above) of such Common Stock (subject to adjustment for stock splits, stock dividends, recapitalizations and similar changes affecting the capital stock of the Company)

subsequent to such Transfer, (ii) if Series C Preferred Stock (or Common Stock issued upon the conversion thereof) and/or Common Stock issued or issuable upon conversion of the Notes is proposed to be transferred by Clean Technology Fund II, LP ("CTF"), CTF will continue to collectively own at least three hundred twelve thousand five hundred (312,500) shares (including shares held by transferees pursuant to clauses (a) and (b) above) of such Series C Preferred Stock (or Common Stock issued upon the conversion thereof) and/or Common Stock (subject to adjustment for stock splits, stock dividends, recapitalizations and similar changes affecting the capital stock of the Company) subsequent to such Transfer; (iii) if Series C Preferred Stock (or Common Stock issued upon the conversion thereof) and/or Common Stock issued or issuable upon conversion of the Notes is proposed to be transferred by CapVest Venture Fund, LP ("CapVest") or Technology Transformation Venture Fund, LP ("TTVF"), CapVest and TTVF will continue to collectively own at least twelve thousand five hundred (12,500) shares (including shares held by transferees pursuant to clauses (a) and (b) above) of such Series C Preferred Stock (or Common Stock issued upon the conversion thereof) and/or Common Stock (subject to adjustment for stock splits, stock dividends, recapitalizations and similar changes affecting the capital stock of the Company) subsequent to such Transfer; or (d) any sale of Registrable Securities to the public pursuant to a registration statement filed with, and declared effective by, the SEC under the Act; *provided, however*, that in the event of any transfer made pursuant to one of the exemptions provided by clauses (a) or (b), the Investor shall inform the Company in writing of such Transfer prior to effecting it and (ii) each such transferee or assignee, prior to the completion of the Transfer, shall have executed documents assuming the obligations of the Investor under this Agreement with respect to the transferred Registrable Securities. Except with respect to the Registrable Securities transferred under clauses (c) and (d) above (which Registrable Securities shall no longer be subject to the first offer rights of the Company), such transferred Registrable Securities shall remain "Registrable Securities" hereunder, and such pledgee, transferee or donee shall be treated as the "Investor" for purposes of this Agreement. For purposes of this Section 3.3, "Investor's immediate family" shall include any spouse, father, mother, sibling or lineal descendant of Holder, Holder's spouse or an Indirect Shareholder.

4. Miscellaneous.

4.1 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 shares of Registrable 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.

4.2 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Wisconsin, as applied to contracts made and performed within the State of Wisconsin, without regard to principles of conflicts of law.

4.3 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

4.4 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.

4.5 Notices. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed effectively given: (i) upon personal delivery to the party to be notified, (ii) 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, (iii) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (iv) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. The occurrence of the events set forth in subsections (i) through (iv) above shall constitute "Delivery" of notice. 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 4.5).

4.6 Expenses. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

4.7 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 the holders of a majority of the Registrable Securities and the holders of a majority in interest of the Notes (or the shares of Common Stock into which the Notes may be converted). Notwithstanding the foregoing, (i) in the event that such amendment or waiver adversely affects the obligations or rights of a holder of Registrable Securities under this Agreement in a manner not applicable to all holders of Registrable Securities, such amendment or waiver shall also require the written consent of such adversely affected holder or, if multiple holders are so adversely affected, all such holders, and (ii) no waiver of the rights provided in Section 2.4 of this Agreement as to any Investor may be given without the consent of such Investor. Any amendment or waiver effected in accordance with this paragraph shall be binding upon each holder of any Registrable Securities, each future holder of all such Registrable Securities, and the Company.

4.8 Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision(s) shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision(s) were so excluded and shall be enforceable in accordance with its terms.

4.9 Aggregation of Stock. All shares of Registrable Securities held or acquired by affiliated entities (including affiliated venture capital funds) or persons shall be aggregated together for the purpose of determining the availability of any rights under this Agreement.

4.10 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.

4.11 Entire Agreement. This Agreement contains the entire understanding of the parties hereto with respect to the subject matter hereof and supersedes any other prior agreements between the parties hereto with respect to the subject matter hereof, including the Original Agreement, which shall have no further force or effect. No party shall be liable or bound to any other in any manner by any representations, warranties, covenant and agreements except as specifically set forth herein.

{Remainder of Page Intentionally Left Blank – Signature Pages Immediately Follow}

IN WITNESS WHEREOF, the parties have executed this Amended and Restated Investors' Rights Agreement as of the date first above written.

COMPANY

ORION ENERGY SYSTEMS, INC.

By: _____

Name:
Title:

Address:

INVESTORS:

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: _____
Name: Bernardo H. Llovera
Title: Managing Member

Address: 90 Park Avenue, Suite 1700
New York, NY 10016

GE CAPITAL EQUITY INVESTMENTS, INC.

By: _____
Name:
Title:

Address:

CAPVEST VENTURE FUND, LP

By: _____
_____

By: _____
Name:
Title:

Address:

TECHNOLOGY TRANSFORMATION VENTURE FUND, LP

By: _____

_____

By: _____

Name:
Title:

Address:

Exhibit A

Senior Management Employees and Director Employees

Neal Verfuerth
Mike Potts
Dan Waibel
Pat Verfuerth
Rick Olsen
John Scribante
Danny Czaja
Eric von Estorff
Erik Birkerts

Schedule 2.5

Neal Verfuerth
Mike Potts
Dan Waibel
Pat Verfuerth
Rick Olsen
John Scribante
Danny Czaja
Eric von Estorff
Erik Birkerts

EXHIBIT C

AMENDED AND RESTATED FIRST OFFER AND CO-SALE AGREEMENT

This AMENDED AND RESTATED FIRST OFFER AND CO-SALE 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"), the officers and directors of the Company listed on Schedule A hereto (the "Shareholders"), Clean Technology Fund II, LP ("CTF"), CapVest Venture Fund, LP "(CapVest"), Technology Transformation Venture Fund, LP ("TTVF') and GE Capital Equity Investments, Inc. ("GE"). CTF, CapVest and TTVF are collectively referred to herein as the "Series C Investors" and the Series C Investors and GE are collectively referred to herein as the "Investors." The Investors, together with any transferee of (i) the Series C Senior Convertible Preferred Stock (the "Series C Preferred Stock"); (ii) the Convertible Subordinated Promissory Notes (the "Notes") issued pursuant to that certain Strategic Alliance and Note Purchase Agreement, dated as of the date hereof (the "Note Purchase Agreement"); or (iii) common stock issuable upon the conversion of either of the Series C Preferred Stock or the Notes that is subject to the terms of this Agreement, are also herein referred to as "Investors." This Agreement shall supersede a certain First Offer and Co-Sale Agreement, dated as of July 31, 2006 and the Joinder thereto dated as of September 28, 2006 (collectively, the "Original Agreement"), and such Original Agreement shall be terminated and all rights and obligations pursuant thereto shall be of no further force and effect as of the date hereof.

WITNESSETH:

WHEREAS, the Company and the Investors are parties to the Note Purchase Agreement pursuant to which the Investors are purchasing the Notes;

WHEREAS, the Company and the Shareholders wish to enter into this Agreement to provide inducement to the Investors to purchase the Notes;

WHEREAS, the Company, the Shareholders and the Series C Investors entered into the Original Agreement in connection with the purchase and sale of Series C Preferred Stock, pursuant to Stock Purchase Agreements dated as of July 31, 2006 and September 28, 2006 (collectively, the "Series C Purchase Agreement"); and

WHEREAS, under Section 10 of the Original Agreement, the Original Agreement may be amended by the written consent of the Company and the holders of a majority of the Company's Common Stock (assuming full conversion of all shares of Preferred Stock owned by all of the Series C Investors at the conversion rate effective on the date herewith);

NOW, THEREFORE, in consideration of the foregoing premises and certain other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Definitions.

For purposes of this Agreement, the following terms have the meanings specified below:

(a) Common Stock. “Common Stock” means the Common Stock of the Company.

(b) Delivery. “Delivery” has the meaning set forth in Section 6 below.

(c) Equity Securities. “Equity Securities” means any securities now or hereafter owned or held by a Holder (or a transferee in accordance with Section 2.3 herein), or any securities evidencing an ownership interest in the Company, or any securities convertible into or exercisable for any shares of the foregoing.

(d) Holders. “Holders” means each of the Investors and Shareholders or persons who have acquired Equity Securities from any Investor or Shareholder or the transferees or assignees of an Investor or Shareholder in accordance with the provisions of Section 2.3 or Section 3 of this Agreement.

(e) Independent Director. “Independent Director” has the same meaning as set forth in the Company’s Amended and Restated Articles of Incorporation dated as of July 31, 2006.

(f) Preferred Stock. “Preferred Stock” means the Preferred Stock of the Company.

(g) QIPO. “QIPO” means the closing of the sale of shares of Common Stock at a price to the public, on or before August 3, 2009, of at least $11.23 per share, and after such date, of at least $13.47 per share (subject to appropriate adjustment for stock splits, stock dividends, combinations and other similar recapitalizations affecting such shares), in a firm-commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, resulting in at least $30,000,000 of net proceeds to the Company after deduction of underwriters’ commissions and expenses payable by the Company.

(h) Transfer. “Transfer” shall include any sale, assignment, encumbrance, hypothecation, pledge, conveyance in trust, gift, transfer by bequest, devise or descent, or other transfer or disposition of any kind, including, but not limited to, transfers pursuant to divorce or legal separation, transfers to receivers, levying creditors, trustees or receivers in bankruptcy proceedings or general assignees for the benefit of creditors, whether voluntary, involuntarily or by operation of law, directly or indirectly, of any of the Equity Securities.

2. Agreements Among the Parties.

2.1 Investors’ Rights of First Offer.

(a) If at any time a Shareholder desires to make a Transfer or series of related Transfers of Equity Securities (and thereby become an “Offering Holder”), then unless such Transfer is excluded under Section 2.3, the Offering Holder shall promptly give the Company and each Investor written notice thereof (the “Offer Notice”). The Offer Notice shall include a description and the amount of the Equity Securities that the Holder desires to Transfer (for the

purposes of this Section 2.1, the "Offered Shares"). If any Investors so elect within ten (10) days following receipt of such notice (each, an "Electing Investor"), the Electing Investors shall have the right, on an exclusive basis, for a period of forty-five (45) days after receipt of such notice to negotiate with the Offering Holder with respect to a definitive agreement for the sale and purchase of the Offered Shares. The Offering Holder and the Electing Investors shall negotiate in good faith the terms and conditions of any such agreement.

(b) Unless the Electing Investors agree otherwise, in the event that the Offering Holder and the Electing Investors agree to final terms and conditions for the Transfer of the Offered Shares, each Electing Investor shall be entitled to purchase all of its respective pro rata share of the Offered Shares pursuant to such Transfer. Each Electing Investor's pro rata share of the Offered Shares shall be a fraction of the Offered Shares, the numerator of which shall be the number of shares of Common Stock (including shares of Common Stock issuable upon conversion of Preferred Stock or the Notes) owned by such Electing Investor and denominator of which shall be the total number of shares of Common Stock (including shares of Common Stock issuable upon conversion of Preferred Stock or the Notes) held by all Electing Investors.

(c) In the event any Electing Investor elects not to purchase all of its pro rata share of the Offered Shares available pursuant to its option under Section 2.1(b), each Electing Investor that has elected to purchase all of its respective pro rata share of the Offered Shares (each, a "Fully Participating Investor") shall be entitled to purchase its respective pro rata share of all unsubscribed shares (including any shares that are unsubscribed due to any other Fully Participating Investor not exercising its option to purchase unsubscribed shares). For purposes of this Section 2.1(c), the numerator shall be the same as that used in Section 2.1(b) above and the denominator shall be the total number of shares of Common Stock (including shares of Common Stock issuable upon conversion of Preferred Stock or the Notes) owned by all Fully Participating Investors. Each Electing Investor shall be entitled to apportion Offered Shares to be purchased among its partners and affiliates (including in the case of a venture capital fund other venture capital funds affiliated with such fund), provided that such Electing Investor notifies the Offering Holder of such allocation.

(d) To the extent that none of the Investors exercise their right to negotiate with the Offering Holder or the Electing Investors and the Offering Holder do not reach an agreement for the sale and purchase of the Offered Shares within the time periods specified in Section 2.1(a), the Offering Holder shall have a period of ninety (90) days from the expiration of such rights in which to sell the Offered Shares to a third-party transferee(s), on terms and conditions no less favorable to the Offering Holder than the terms proposed by any of the Electing Investors pursuant to Section 2.1(a) hereof (if applicable). In the event the Offering Holder does not sell the Offered Shares within the ninety (90) day period from the expiration of these rights, the Investors' first offer rights shall continue to be applicable to any subsequent disposition of the Offered Shares by the Offering Holder until such rights lapse in accordance with the terms of this Agreement. Furthermore, the exercise or non-exercise of the rights of the Investors under this Section 2.1 to offer to purchase Equity Securities from the Offering Holder shall not adversely affect their rights to make subsequent purchases from the Offering Holder of Equity Securities or subsequently participate in sales of Equity Securities by a Selling Shareholder pursuant to Section 2.2 hereof. Any definitive agreement for the sale and purchase of the Offered Shares to a

third-party transferee(s) shall be subject to the Investors' right of co-sale pursuant to Section 2.2 hereof.

2.2 Rights of Co-Sale.

(a) In the event the Investors fail to exercise their rights under Section 2.1 or do not reach an agreement for the purchase and sale of the Offered Shares within the time periods specified in Section 2.1(a), and if at any time thereafter a Shareholder proposes to Transfer Equity Securities (and thereby become a "Selling Holder"), the Selling Holder shall promptly give the Company and each Investor written notice of the Selling Holder's intention to make the Transfer (for purposes of this Section 2.2, the "Transfer Notice"). The Transfer Notice shall include (i) a description of the Equity Securities to be transferred (for purposes of this Section 2.2, the "Offered Shares"), (ii) the name(s) and address(es) of the prospective transferee(s), (iii) the consideration, and (iv) the material terms and conditions upon which the proposed Transfer is to be made. The Transfer Notice shall certify that the Selling Holder has received a firm offer from the prospective transferee(s) and in good faith believes a binding agreement for the Transfer is obtainable on the terms set forth in the Transfer Notice. The Transfer Notice shall also include a copy of any written proposal, term sheet or letter of intent or other agreement relating to the proposed Transfer. In the event that the Transfer is being made pursuant to the provisions of Section 2.3, the Transfer Notice shall state under which specific subsection the Transfer is being made.

(b) Each Investor that notifies the Company and the Selling Holder in writing within five (5) days after Delivery of a Transfer Notice referred to in Section 2.2(a) that it wishes to exercise its rights of co-sale (a "Co-selling Investor") shall have the right to participate in such sale of Equity Securities on the same terms and conditions as specified in the Transfer Notice. Such Co-selling Investor's notice to the Company and the Selling Holder shall indicate the maximum number of shares of capital stock of the Company that the Co-selling Investor wishes to sell under his, her or its right to participate. To the extent one or more of the Investors exercise such right of participation in accordance with the terms and conditions set forth below, the number of shares of Equity Securities that the Selling Holder may sell in the Transfer shall be correspondingly reduced.

(c) Each Co-selling Investor may sell all or any part of that number of shares of capital stock of the Company equal to the product obtained by multiplying (i) the aggregate number of shares of Equity Securities covered by the Transfer Notice by (ii) a fraction, the numerator of which is the number of shares of Common Stock (including shares of Common Stock issuable upon conversion of Preferred Stock or the Notes) owned by the Co-selling Investor on the date of the Transfer Notice and the denominator of which is the total number of shares of Common Stock (including shares of Common Stock issuable upon conversion of Preferred Stock or the Notes) owned by the Selling Shareholder and all of the Co-selling Investors on the date of the Transfer Notice.

(d) Each Co-selling Investor shall effect its participation in the sale by promptly delivering to the Selling Holder for transfer to the prospective purchaser one or more certificates, properly endorsed for transfer to the purchaser, which represent:

(i) if the Offered Shares are shares of Series C Preferred Stock, the number of shares of Series C Preferred Stock of the Company that such Co-selling Investor elects to sell, or that number of shares of Common Stock equal to the as converted to Common Stock equivalent of that number of Offered Shares that the Selling Holder (together with any other Co-selling Investors) would be permitted to sell if the Co-selling Investor were not participating in the sale;

(ii) if the Offered Shares are shares of Preferred Stock other than shares of Series C Preferred Stock, that number of shares of Series C Preferred Stock or Common Stock equal to the as converted to Common Stock equivalent of that number of Offered Shares that the Selling Holder (together with any other Co-selling Investors) would be permitted to sell if the Co-selling Investor were not participating in the sale;

(iii) if the Offered Shares are shares of Common Stock, that number of shares of Common Stock, or such number of Equity Securities that are at such time convertible into the number of shares of Common Stock, that such Co-selling Investor elects to sell;

provided, however, that if the prospective third-party purchaser objects to the delivery of shares of capital stock of the Company in lieu of Common Stock, or the Co-Selling Investor desires to deliver Common Stock issuable upon the conversion of a Note, such Co-selling Investor shall convert such shares of capital stock of the Company or such Note into Common Stock and deliver Common Stock as provided in this Section 2.2. The Company agrees to make any such conversion concurrent with the actual transfer of such shares to the purchaser and contingent on such transfer.

(e) The stock certificate or certificates that the Co-selling Investor delivers to the Selling Shareholder pursuant to Section 2.2(d) shall be transferred to the prospective purchaser in consummation of the sale of the Equity Securities pursuant to the terms and conditions specified in the Transfer Notice, and the prospective purchaser shall concurrently therewith remit to such Co-selling Investor that portion of the sale proceeds to which such Co-selling Investor is entitled by reason of its participation in such sale. To the extent that any prospective purchaser or purchasers prohibits such assignment or otherwise refuses to purchase shares or other securities from a Co-selling Investor exercising its rights of co-sale hereunder, the Selling Holder shall not sell to such prospective purchaser or purchasers any Equity Securities unless and until, simultaneously with such sale, the Selling Holder shall purchase such shares or other securities from such Co-selling Investor for the same consideration and on the same terms and conditions as the proposed transfer described in the Transfer Notice. In the event that a Co-selling Investor elects to participate in a sale of Equity Securities pursuant to this Section 2.2, and notwithstanding such election any Selling Holder fails to comply with such election, such Selling Holder agrees to purchase the Equity Securities held by such Co-selling Investor in accordance with this Agreement provided such Co-selling Investor has otherwise complied with the provisions of this Section 2.2.

(f) To the extent that the Investors have not exercised their right to participate in the sale of the Offered Shares within the time periods specified in Section 2.2(b), the Selling Holder shall have a period of ninety (90) days from the expiration of such rights in which to sell the Offered Shares upon terms and conditions (including the purchase price) no more favorable than those specified in the Transfer Notice, to the third-party transferee(s) identified in the Transfer Notice. The third-party transferee(s) shall acquire the Offered Shares free and clear of subsequent rights of first offer and co-sale under this Agreement. In the event the Selling Holder does not consummate the sale or disposition of the Offered Shares within the ninety (90) day period from the expiration of these rights, the Investors' first offer and co-sale rights shall continue to be applicable to any subsequent disposition of the Offered Shares by the Selling Holder until such right lapses in accordance with the terms of this Agreement. Furthermore, the exercise or non-exercise of the rights of the Investors under this Section 2.2 to participate in sales of Equity Securities by the Selling Holder shall not adversely affect their rights to make subsequent offers to purchase from the Selling Holder of Equity Securities or subsequently participate in sales of Equity Securities by the Selling Shareholder.

2.3 Limitations to Rights of First Offer and Co-Sale.

(a) Notwithstanding the provisions of Section 2.1 and Section 2.2 of this Agreement, the first offer and co-sale rights of the Investors shall not apply (i) in the case of a company, corporation or a partnership, to the Transfer of Equity Securities to any members, shareholders or partners thereof (each, an "Indirect Shareholder" of the Company) or to any entity controlled by, controlling or under common control with the transferor; (ii) to the Transfer of Equity Securities to any spouse or member of a Holder's Immediate Family, or to a custodian, trustee (including a trustee of a voting trust), executor, or other fiduciary for the account of the Holder's or Indirect Shareholder's spouse or members of the Holder's immediate family, or to a trust for the Indirect Shareholder's own self, or a charitable remainder trust; or (iii) to a QIPO; *provided*, *however*, that in the event of any transfer made pursuant to one of the exemptions provided by clauses (i) or (ii), (I) the Holder shall inform the Investors and the Company in writing of such Transfer prior to effecting it, and (II) each such transferee or assignee, prior to the completion of the Transfer, shall have executed documents assuming the obligations of the Holder under this Agreement with respect to the transferred Equity Securities. Except with respect to the Equity Securities transferred under clause (iii) above (which Equity Securities shall no longer be subject to the first offer or co-sale rights of the of the Investors), such transferred Equity Securities shall remain "Equity Securities" hereunder, and such pledgee, transferee or donee shall be treated as the "Holder" for purposes of this Agreement. For purposes of this Section 2.3(a), "Holder's Immediate Family" shall include any spouse, father, mother, sibling or lineal descendant of Holder, Holder's spouse or an Indirect Shareholder.

(b) Notwithstanding the provisions of Section 2.1 of this Agreement, the rights of first offer of the Investors shall not apply to Transfers of Equity Securities of one or more individual Shareholders until the aggregate amount of such sales after the date hereof shall equal $1,000,000; provided, however, that the purchase of Equity Securities by the Company in connection with the termination of a Shareholder's employment with the Company shall not be a Transfer included in the $1,000,000 threshold.

(c) Notwithstanding the provisions of Section 2.2 of this Agreement, a majority in interest of the Common Stock issuable upon the conversion of the Series C Preferred Stock and a majority in interest of the Common Stock issuable upon the conversion of the Notes held by the Investors may waive in writing the co-sale rights with respect to a given Transfer. Moreover, the co-sale rights of the Investors shall not apply to (i) any Transfers of Equity Securities of one or more individual Shareholders until the aggregate amount of such Transfers after the date hereof shall equal $1,000,000, exclusive of any Transfers of Equity Securities within any fiscal year by individual Shareholders of up to twenty percent (20%) of the Equity Securities (including for such purpose any Equity Securities which are the subject of options or other rights to purchase) held by such Shareholder on the date hereof until such $1,000,000 limitation is achieved; and (ii) the purchase of Equity Securities by the Company in connection with the termination of a Shareholder's employment with the Company. Notwithstanding the foregoing, however, any proposed Transfer by Neal R. Verfeurth that would result in him owning less than sixty percent (60%) of the number of shares of the Company's Common Stock that he owned on the date hereof (excluding unexercised options), whether or not the $1,000,000 threshold has been achieved, shall be subject to the Investors' rights of co-sale set forth in Section 2.2.

2.4 Right of Stock Transfer. The parties hereto agree that no Holder shall Transfer Equity Securities to any competitor of the Company. If at any time a Holder proposes to Transfer Equity Securities, it shall notify the Company of the identity of such transferee no later than ten (10) business days prior to entering into a definitive agreement with respect to such Transfer. If a majority of the Independent Directors reasonably determines within such ten (10) business day period that the proposed transferee is a competitor of the Company and that such Transfer would not be in the best interest of the Company, the Board shall immediately notify the Holder of such determination and the Holder shall be prohibited from transferring any Equity Securities to such proposed transferee; *provided*, *however*, that the Board's consent to Transfer by an Investor shall not be unreasonably withheld.

Any sale, assignment, transfer, pledge, hypothecation or other encumbrance or disposition of Equity Securities not made in conformance with this Agreement or in violation of applicable law shall be null and void, shall not be recorded on the books of the Company and shall not be recognized by the Company.

3. Assignments and Transfers; No Third-Party Beneficiaries. This Agreement and the rights and obligations of the parties hereunder shall inure to the benefit of, and be binding upon, their respective successors, assigns and legal representatives, but shall not otherwise be for the benefit of any third party. The rights of the Investors hereunder are only assignable (a) to any other Investor; (b) to a partner, member or affiliate of such Investor (including affiliated venture capital funds of which such Investor is a partner or member); or (c) to an assignee or transferee who acquires (i) all of the Equity Securities held by a particular Investor, (ii) at least two hundred fifty thousand (250,000) shares of the Series C Preferred Stock (or shares of Common Stock into which such Series C Preferred Stock has been converted) purchased pursuant to the Series C Purchase Agreement (subject to adjustment for stock splits, stock dividends, recapitalizations and similar changes affecting the capital stock of the Company) from such Investor, or (iii) an interest in a Note convertible into at least two hundred fifty thousand (250,000) shares of Common Stock into which the Notes may have been converted or a portion of a Note convertible into at least two hundred fifty thousand (250,000) shares of Common Stock, purchased pursuant to the Note

(subject to adjustment for stock splits, stock dividends, recapitalizations and similar changes affecting the capital stock of the Company) from such Investor.

4. Legend. Each existing or replacement certificate for shares now owned or hereafter acquired by the Holders shall bear the following legend upon its face:

"THE SALE, PLEDGE, HYPOTHECATION, ASSIGNMENT OR TRANSFER OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE IS SUBJECT TO THE TERMS AND CONDITIONS OF A CERTAIN FIRST OFFER AND CO-SALE AGREEMENT BY AND BETWEEN THE SHAREHOLDER, THE CORPORATION AND CERTAIN HOLDERS OF STOCK OF THE CORPORATION. COPIES OF SUCH AGREEMENT MAY BE OBTAINED UPON WRITTEN REQUEST TO THE SECRETARY OF THE CORPORATION."

5. Effect of Change in Company's Capital Structure. If, from time to time, the Company pays a stock dividend or effects a stock split or other change in the character or amount of any of the outstanding stock of the Company, then in such event any and all new, substituted or additional securities to which a Holder is entitled by reason of such Holder's ownership of Equity Securities shall be immediately subject to the rights and obligations set forth in this Agreement with the same force and effect as the stock subject to such rights immediately before such event.

6. Notices. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed effectively given: (i) upon personal delivery to the party to be notified; (ii) 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; (iii) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid; or (iv) one (1) business day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. The occurrence of the events set forth in subsections (i) through (iv) above shall constitute "Delivery" of notice. 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. Further Instruments and Actions. The parties hereto agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement. Each such party agrees to cooperate affirmatively with each other party, and to the extent reasonably requested by any such party, to enforce rights and obligations pursuant hereto.

8. Term. This Agreement shall terminate and be of no further force or effect upon (a) the consummation of the Company's sale of its Common Stock or other securities pursuant to an initial public offering under the Securities Act of 1933, or (b) the consummation of a Deemed Liquidation Event, as such term is defined in the Company's Amended and Restated Articles of Incorporation. This Agreement shall terminate with respect to any Shareholder upon the termination of such Shareholder as an officer or director of the Company.

9. 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 the Investors holding at least a majority of the shares of Common Stock and a majority of the shares of Common Stock issuable upon conversion of the Notes (assuming full conversion at the then effective conversion rate of all shares of Preferred Stock or Notes owned by all of the Investors) held by all Investors. Notwithstanding the foregoing, in the event that such amendment or waiver adversely affects the obligations or rights of a Shareholder under this Agreement, such amendment or waiver shall also require the written consent of such adversely affected Shareholder or, if multiple Shareholders are so adversely affected, the holders of a majority in interest of such adversely affected Shareholders. Any amendment or waiver effected in accordance with this Section 9 shall be binding upon all Holders and their respective successors and assigns.

10. Governing Law. This Agreement shall be interpreted under the laws of the State of Wisconsin without reference to Wisconsin conflicts of law provisions.

11. Severability. If one or more provisions of this Agreement is 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.

12. Attorneys' Fees. In the event that any dispute among the parties to this Agreement should result in litigation, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

13. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

14. 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 ANY 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.

15. Entire Agreement. This Agreement contains the entire understanding of the parties hereto with respect to the subject matter hereof and supersede any other prior agreements between the parties hereto with respect to the subject matter hereof, including the Original Agreement, which shall have no further force or effect. No party shall be liable or bound to any other in any manner by any representations, warranties, covenant and agreements except as specifically set forth herein.

{Remainder of Page Intentionally Left Blank – Signature Pages Immediately Follow}

IN WITNESS WHEREOF, the parties hereto have executed this Amended and Restated First Offer and Co-sale Agreement as of the date first written above.

COMPANY

ORION ENERGY SYSTEMS, INC.

By: _____

Name:
Title:

Address: _____

_____

_____

INVESTORS:

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: _____

Name: Bernardo H. Llovera
Title: Managing Member

Address: 90 Park Avenue, Suite 1700
New York, NY 10016

GE CAPITAL EQUITY INVESTMENTS, INC.

By: _____

Name:
Title:

Address: _____

CAPVEST VENTURE FUND, LP

By: _____

By: _____

Name:
Title:

Address: _____

TECHNOLOGY TRANSFORMATION VENTURE FUND, LP

By: _____

_____

By: _____

Name: _____

Title: _____

Address: _____

_____

_____

SHAREHOLDERS:

Neal Verfuerth

Address:

Michael Potts

Address:

Patricia Verfuerth

Address:

Daniel Waibel

Address:

John Scribante

Address:

[Signatures continued on next page]

Erik G. Birkerts

Address:

Rick Olsen

Address:

Daniel Czaja

Address:

Eric von Estorff

Address:

Patrick Trotter

Address:

[Signatures continued on next page]

Eckhart Grohmann

Address:

Jim Kackley

Address:

Thomas A. Quadracci

Address:

Diana Propper de Callejon

Address:

Ronald Ernst

Address:

[Signatures continued on next page]

Stephen Heins

Address:

Schedule A

Shareholders

Officers

President and CEO	Neal Verfuerth
Executive Vice President	Michael Potts
Vice President, Operations	Patricia Verfuerth
CFO and Treasurer	Daniel Waibel
Senior Vice President, Business Development	John Scribante
Vice President, Strategic Initiatives	Erik G. Birkerts
Vice President, Technical Services	Rick Olsen
Vice President, National Accounts	Daniel Czaja
Vice President, General Counsel and Corporate Secretary	Eric von Estorff
Vice President, Manufacturing and Engineering	Ronald Ernst
Vice President, Communications	Stephen Heins

Directors

Neal Verfuerth
Michael Potts
Patrick Trotter
Eckhart Grohmann
Jim Kackley
Thomas A. Quadracci
Diana Propper de Callejon

EXHIBIT D

EMPLOYEE
PROPRIETARY INFORMATION
AND INTELLECTUAL PROPERTY AGREEMENT

(name of employee)

(address)

In consideration of my employment by Orion Energy Systems, Ltd. (the "Company"), the compensation received by me from the Company from time to time, and the grant of an incentive stock option made by the Company to me, the receipt and sufficiency of which is hereby acknowledged, the Company and I agree as follows:

1. I understand that the Company possesses and will possess Proprietary Information which is important to its or its affiliates' or clients' business. For purposes of this Agreement, "Proprietary Information" is all information, whether or not made verbally or in writing or other tangible or intangible form, that was or will be developed, created, or discovered by or on behalf of the Company or its affiliates or clients, or which became or will become known by, or was or is conveyed to the Company or its affiliates or clients, which has value in the Company's or its affiliates' or clients' business, or is considered, deemed or treated as confidential by the Company, its affiliates or clients or is otherwise not generally known. "Proprietary Information" includes, but is not limited to, the proprietary integrated sales management system developed and maintained by the Company providing various sales methodology, technology, financial and marketing solutions including customer relationship management, financial management, product and service information; information concerning the Company's business, products, and affairs which may be or has been developed or belongs to or is otherwise possessed by the Company; product and engineering specifications; proprietary tooling information; performance analyses of the Company's products; inventions and ideas; research and development; current and planned manufacturing or distribution methods and processes; customer lists; current and anticipated customer requirements; market studies; business plans; financial information; and other business and strategic information; trade secrets, ideas, methodologies, skills, knowledge, computer programs, computer codes, databases, database criteria, user profiles, algorithms, modules, scripts, features and modes of operation, designs, technology, ideas, know-how, processes, data, techniques, internal documentation, improvements, inventions (whether patentable or not), works of authorship, technical, business, financial, client, marketing, and product development plans, forecasts, the salaries and terms of compensation of other employees, client and supplier lists, contacts at or knowledge of clients or prospective clients of the Company or its affiliates, and other information concerning the Company's or its affiliates' or clients' actual or anticipated products or services, business, research or development, or any information which is received in confidence by or for the Company from any other person. Proprietary Information shall not include publicly available information (in substantially the

same form in which it is publicly available) unless such information is publicly available by reason of unauthorized disclosure.

2. I understand that my employment creates a relationship of confidence and trust between me and the Company with respect to Proprietary Information. I agree to take all measures necessary to safeguard and protect the Proprietary Information of the Company, its affiliates and clients. I agree to keep in strict confidence, and not to directly or indirectly, at any time during or for up to two years after my employment with the Company ends, disclose, furnish, disseminate, make available, or, except solely in the course of performing my duties of employment with the Company, during my employment, use any Proprietary Information. I understand and agree that the Proprietary Information could be used or disseminated anywhere in the United States and Canada, and if so used or disseminated without Company permission could seriously harm the Company. Accordingly, I agree that the scope of this provision is as to the entire United States and Canada. I understand that this Agreement relates to Proprietary Information and does not prohibit me from being employed with any other employer, although such a prohibition may be contained in a separate noncompetition agreement that I may enter into with the Company.

3. During my employment at the Company, I may be exposed to trade secrets of the Company, its affiliates or clients. Nothing in this Agreement diminishes or limits any protection granted by law to trade secrets or relieves me of any duty not to disclose, use, or misappropriate any information that is a trade secret for as long as such information remains a trade secret.

4. I understand that the Company possesses or will possess “Company Materials” which are important to its or its affiliates’ or clients’ business. For purposes of this Agreement, “Company Materials” are documents, apparatus, equipment and any other property of the Company, or any reproduction of such property or other media or tangible items that contain or embody Proprietary Information or any other information or material concerning the business, operations or plans of the Company or its affiliates or clients, whether such documents have been prepared by me or by others. “Company Materials” include, but are not limited to, computers, computer software, computer disks, tapes, printouts, source, HTML and other code, flowcharts, schematics, designs, graphics, trademarks, service marks, logos, trade dress, domain names, drawings, photographs, charts, graphs, notebooks, customer lists, sound recordings, other tangible or intangible manifestation of content, and all other documents and materials whether printed, typewritten, handwritten, electronic, or stored on computer disks, tapes, hard drives, or any other tangible medium, as well as samples, prototypes, models, products and the like.

a. All Proprietary Information, Company Materials, and all title, rights, interests, patents, patent rights, copyrights, trademark and service mark rights and all goodwill associated therewith, trade secret rights, and other intellectual property and rights anywhere in the world of any kind (collectively “Rights”) in connection with such Proprietary Information and Company Materials shall be the sole and exclusive property of the Company. I hereby assign to the Company any Rights I may have or acquire in such Proprietary Information or Company Materials.

b. I agree that during my employment by the Company, I will not deliver any Company Materials to any person or entity except as I am required to do in connection with

performing the duties of my employment. I further agree that, immediately upon the termination of my employment by me or by the Company for any reason, or during my employment if so requested by the Company, I will return all Company Materials, excepting only (i) my personal copies of records relating to my compensation; and (ii) my copy of this Agreement. I shall also provide any information, such as passwords or codes, necessary to allow the Company to fully utilize its property.

c. I will promptly disclose in writing to my immediate supervisor, with a copy to the President or Chief Executive Officer of the Company, or to any persons designated by the Company, all Company Developments. "Company Developments" shall include, without limitation, all Developments made, conceived, reduced to practice, suggested or developed by me, either alone or jointly with others, during the term of my employment and during the one year period thereafter, whether or not during usual business hours and whether or not on the premises of the Company or its affiliates that (i) result in any way from the performance of my duties or obligations for the Company or its affiliates, (ii) relate in any way to the past, present or anticipated products, services or business of the Company or its affiliates, or (iii) were made, conceived, reduced to practice, suggested or developed in any way using or otherwise relying on any Company Materials, Proprietary Information or Rights of the Company or any of its affiliates. "Developments" shall include, without limitation, any work of authorship, discovery, improvement, invention, design, graphic, trademark, service mark, trade dress, logo, domain name, source, HTML and other code, trade secret, technology, algorithms, computer program, audio, video or other files or content, idea, design, process, technique, know-how, data, and all other Company Materials, information, work product and written disclosures thereof, whether or not patentable or copyrightable.

d. I agree that all Company Developments shall be the sole and exclusive property of the Company. Unless the Company decides otherwise, the Company shall be the sole and exclusive owner of all Rights in connection therewith. All copyright-protected Company Developments are and at all times shall remain "work made for hire". I hereby assign to the Company any and all of my Rights to any Company Developments, absolutely and forever, throughout the world and for the full term of each and every such Right, including renewal or extension of any such term.

e. I agree to perform, during and after my employment, all acts deemed necessary or desirable by the Company to permit and assist it, at the Company's expense, in evidencing, perfecting, obtaining, maintaining, defending and enforcing Rights and/or any assignments required hereunder in any and all countries and otherwise effectuating the purposes of this Agreement. Such acts may include, but are not limited to, execution of documents and assistance or cooperation in legal proceedings or efforts to register, apply for, or otherwise obtain, prosecute or maintain Rights relating to Proprietary Information, Company Materials or Company Developments. I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents, as my agents and attorneys-in-fact to act for and in my behalf and instead of me, to execute and file any documents and to do all other lawfully permitted acts to further the above purposes with the same legal force and effect as if executed by me.

f. Any assignment of copyright hereunder includes all rights of paternity, integrity, disclosure and withdrawal and any other rights that may be known as or referred to as

“moral rights” (collectively “Moral Rights”). To the extent such Moral Rights cannot be assigned under applicable law and to the extent the following is allowed by the laws in the various countries where Moral Rights exist, I hereby waive such Moral Rights and consent to any action of the Company that would violate such Moral Rights in the absence of such consent. I will confirm any such waivers and consents from time to time as requested by the Company.

g. I have attached hereto a complete list of all existing Developments to which I claim ownership as of the date of this Agreement and that I desire to specifically clarify are not subject to this Agreement, and I acknowledge and agree that such list is complete. If no such list is attached to this Agreement, I represent that I have no such Developments at the time of signing this Agreement.

h. I represent that my performance of all the terms of this Agreement will not breach any agreement to keep in confidence proprietary information acquired by me in confidence or in trust prior to my employment by the Company. I have not entered into, and I agree I will not enter into, any agreement either written or oral in conflict herewith or in conflict with my employment with the Company. I also understand that I am prohibited from using or disclosing, in the course of my employment with the Company, any proprietary information, trade secrets, or tangible property of any other person or company, including prior employers, without the express authority to do so.

i. I represent that any and all Developments that I may create under this Agreement will be original and shall not defame the Company, its other employees, officers, directors, consultants or agents or any third party or constitute a violation of the rights of privacy of the Company’s other employees or any rights of any third party.

5. In addition to any other remedies provided by law, if I breach this Agreement, the Company shall be entitled to injunctive relief against me. In the event that the Company is required to hire an attorney to enforce this Agreement or to defend against any claim because I have not performed or fulfilled any of my obligations under this Agreement, the Company shall be entitled to recover reasonable attorneys’ fees and other expenses in enforcing the obligation or defending against the claim.

6. I agree that this Agreement is not an employment contract and that I have the right to resign and the Company has the right to terminate my employment at any time, for any reason, with or without cause, subject to the provisions of any written employment agreement between the Company and me.

7. I agree that this Agreement does not purport to set forth all of the terms and conditions of my employment, and that as an employee of the Company I have obligations to the Company which are not set forth in this Agreement.

8. I agree that my obligations under paragraphs 1, 2, 3, 4 and 5 of this Agreement shall continue in effect after termination of my employment, regardless of the reason or reasons for termination, and whether such termination is voluntary or involuntary on my part, and that the Company is entitled to communicate my obligations under this Agreement to any future employer or potential employer of mine.

9. I agree that if one or more provisions of this Agreement are held to be illegal or unenforceable under applicable law, such illegal or unenforceable portion(s) shall be limited or excluded from this Agreement to the minimum extent required so that this Agreement shall otherwise remain in full force and effect and enforceable in accordance with its terms. The exclusion of any provision from this Agreement shall not affect any other provision of this Agreement.

10. This Agreement shall be effective as of the date I commenced employment with the Company and this Agreement shall be binding upon me, my heirs, executors, assigns, and administrators and shall inure to the benefit of the Company, its subsidiaries, successors and assigns.

11. This Agreement constitutes the full and complete understanding and agreement of the Company and me with respect to the subject matter hereof, and supersedes all prior understandings and agreements as to the subject matter hereof.

12. This Agreement can only be modified by a subsequent written agreement executed by the President or Chief Executive Officer of the Company.

I HAVE READ THIS AGREEMENT CAREFULLY AND I UNDERSTAND AND ACCEPT THE OBLIGATIONS WHICH IT IMPOSES UPON ME WITHOUT RESERVATION. NO PROMISES OR REPRESENTATIONS HAVE BEEN MADE TO ME TO INDUCE ME TO SIGN THIS AGREEMENT. I SIGN THIS AGREEMENT VOLUNTARILY AND FREELY.

Dated:_____, 200__

_____
Signature

Name of
Employee: _____
(please print name)

Accepted and Agreed to:

Orion Energy Systems, Ltd.

Signature: _____

Name: _____

Title: _____

ATTACHMENT A

Orion Energy Systems, Ltd.
1204 Pilgrim Road
Plymouth, WI 53073

Ladies and Gentlemen:

1. The following is a complete list of Developments relevant to the subject matter of my employment by Orion Energy Systems, Ltd. (the "Company") that have been made, conceived, first reduced to practice or suggested by me alone or jointly with others prior to my employment by the Company that I desire to clarify are not subject to the Company's Employee Proprietary Information and Intellectual Property Agreement.

___ No Developments
___ See below:

___ Additional sheets attached

2. I propose to bring to my employment the following materials and documents of a former employer:

___ No materials or documents
___ See below:

Signature: _____

Name of Employee: _____
(please print name)

EXHIBIT E

FORM OF FOLEY & LARDNER OPINION

1. The Company is a corporation duly incorporated, validly existing and in active status under the laws of the State of Wisconsin and has the corporate power and authority to execute and deliver the Transaction Documents and to consummate the transactions contemplated thereby.

2. The Company has duly authorized, executed and delivered the Transaction Documents and each of the Transaction Documents constitutes the valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other laws of general applicability relating to or affecting creditors' rights and to general equity principles.

3. The Company's authorized capital stock, immediately prior to the Closing, consists of the following: (a) 80,000,000 shares of Common Stock, of which 12,086,237 shares are issued and outstanding; (b) 20,000,000 shares of Cumulative Preferred Stock, of which (i) 500,000 shares are designated Series A Convertible 12% Cumulative Preferred Stock (the "Series A Preferred Stock"), of which none are issued or outstanding, (ii) 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 (iii) 2,000,000 shares are designated Series C Preferred Stock, 1,818,182 of which are issued and outstanding. Each outstanding share of Common Stock, Series B Preferred Stock and Series C Preferred Stock has been validly issued and is fully paid and non-assessable except to the extent provided in Section 180.0622 of the Wisconsin Statutes. To our knowledge, there are no outstanding options, warrants, conversion privileges, preemptive rights or other rights presently outstanding to purchase any of the authorized but unissued capital stock of the Company, other than (1) 217,268 shares of Common Stock reserved for issuance under the Equity Incentive Plan, (2) 794,390 shares of Common Stock reserved for issuance upon the exercise of warrants, (3) 2,989,830 shares of Common Stock reserved for issuance upon the conversion of the Series B Preferred Stock, (4) 1,818,182 shares of Common Stock reserved for issuance upon the conversion of the Series C Preferred Stock, (5) 2,360,802 shares of Common Stock reserved for issuance pursuant to the Agreement (subject to adjustment in accordance with the terms thereof), (6) the preemptive rights of the Investors under the Amended and Restated Investors' Rights Agreement, and (7) the preemptive rights of the Investors under the Amended and Restated First Offer and Co-Sale Agreement.

4. The Notes have been duly authorized and, upon issuance and delivery of the shares of Common Stock reserved for issuance in accordance with the terms of the Notes, such shares of Common Stock will be validly issued, fully paid and nonassessable.

5. No consent, approval, authorization or other action by or filing with any governmental agency or instrumentality of the State of Wisconsin, the State of New York or the United States of America is required on the part of the Company for the execution and delivery of the Transaction Documents or the consummation of the transactions contemplated thereby in accordance with the terms thereof, except those already obtained or made or those required under Federal and state securities laws to be made after the Closing.

6. The execution and delivery of the Transaction Documents by the Company and the consummation by the Company of the transactions contemplated thereby in accordance with the terms thereof do not (i) violate any Wisconsin, New York or Federal statute, law, rule or regulation known to us to which the Company is subject, (ii) breach the provisions of the Restated Articles or the Bylaws of the Company, (iii) to our knowledge, breach the provisions of, or constitute a default under, any of the agreements or instruments listed on the Schedule of Exceptions to the Agreement, except where consent to such execution and delivery and such consummation is required pursuant to the terms of such agreements or instruments, which consents, to our knowledge, have been obtained, or (iv) violate or contravene any order, writ, judgment, decree, determination or award that specifically names the Company.

7. Based in part upon and assuming the accuracy of the representations and warranties of the Purchasers set forth in Section 3 of the Agreement, it is not necessary in connection with the issuance and sale of the Notes pursuant to the Agreement to register the Notes under the Securities Act.

EXHIBIT F

August 1, 2007

CONFIDENTIAL

Orion Energy Systems, Inc.
1204 Pilgrim Road
Plymouth, WI 53073

Thomas Weisel Partners LLC
Canaccord Adams Inc.
Pacific Growth Equities, LLC
As Representatives of the Underwriters named in the Underwriting Agreement

c/o Thomas Weisel Partners LLC
Two International Place, 26th Flr
Boston, MA 02110

Dear Sirs:

As an inducement to the Underwriters to execute the Underwriting Agreement, pursuant to which an offering will be made that is intended to result in the establishment of a public market for the common stock (the "**Securities**") of Orion Energy Systems, Inc., and any successor (by merger or otherwise) thereto, (the "**Company**"), the undersigned hereby agrees that during the period specified below (the "**Lock-Up Period**"), the undersigned will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of Securities or securities convertible into or exchangeable or exercisable for any shares of Securities, 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 the Securities, whether any such aforementioned transaction is to be settled by delivery of the Securities or such other securities, in cash or otherwise, 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, without, in each case, the prior written consent of Thomas Weisel Partners LLC ("**TWP**"). In addition, the undersigned agrees that, without the prior written consent of TWP, it will not, during the Lock-Up Period, make any demand for or exercise any right with respect to, the registration of any Securities or any security convertible into or exercisable or exchangeable for the Securities; provided, however that it is understood and agreed that this agreement will not apply to the request to register, the registration or sale of any Securities that the undersigned registers or sells to the underwriters in the initial public offering of the Company's common stock.

Any Securities received upon exercise of options granted to the undersigned or warrants held by the undersigned or upon an automatic conversion of preferred stock held by the undersigned will also be subject to this Agreement. Any Securities acquired by the undersigned in the open market or in any issuer directed share program established in connection with the offering of the Securities will not be subject to this Agreement. A transfer of Securities to a

family member or trust may be made, provided the transferee agrees to be bound in writing by the terms of this 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 Securities Exchange Act of 1934, as amended, shall be required or shall be 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 initial Lock-Up Period will commence on the date on which the Company files an initial registration statement on Form S-1 with the Securities and Exchange Commission in connection with the offering of the Securities (the "**Commencement Date**") and will continue and include the date 180 days after the public offering date set forth on the final prospectus used to sell the Securities (the "**Public Offering Date**") pursuant to the Underwriting Agreement, to which you are or expect to become, directly or indirectly, parties. If (1) during the last 17 days of the initial Lock-Up Period, the Company releases earnings results or material news or a material event relating to the Company occurs or (2) prior to the expiration of the initial Lock-Up Period, the Company announces that it will release earnings results during the 16-day period beginning on the last day of the initial 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 release of the earnings results or the occurrence of the material news or material event, unless TWP waives, in writing, such extension.

The undersigned acknowledges and agrees that written notice of any extension of the Lock-Up Period will be delivered by TWP to the Company (in accordance with Section 11 of the Underwriting Agreement) and that any such notice properly delivered will be deemed to have been given to, and received by, the undersigned. The undersigned further agrees that, prior to engaging in any transaction or taking any other action that is subject to the terms of this Lock-Up Agreement during the period from the Commencement Date to and including the 34th day following the expiration of the initial Lock-Up Period, it will give notice thereof to the Company and will not consummate such transaction or take any such action unless it has received written confirmation from the Company that the Lock-Up Period (as may have been extended pursuant to the previous paragraph) has expired.

In furtherance of the foregoing, the Company and its transfer agent and registrar are hereby authorized to decline to make any transfer of shares of Securities if such transfer would constitute a violation or breach of this Agreement.

This Agreement shall be binding on the undersigned and the successors, heirs, personal representatives and assigns of the undersigned. This Agreement shall lapse and become null and void if the Public Offering Date shall not have occurred on or before March 3l, 2008. **This agreement shall be governed by, and construed in accordance with, the laws of the State of New York.**

Very truly yours,

_____

PRINT NAME: _____

August 2, 2007

CONFIDENTIAL

Orion Energy Systems, Inc.
1204 Pilgrim Road
Plymouth, WI 53073

Thomas Weisel Partners LLC
Canaccord Adams Inc.
Pacific Growth Equities, LLC
As Representatives of the Underwriters named in the Underwriting Agreement

c/o Thomas Weisel Partners LLC
Two International Place, 26th Flr
Boston, MA 02110

Dear Sirs:

As an inducement to the Underwriters to execute the Underwriting Agreement, pursuant to which an offering will be made that is intended to result in the establishment of a public market for the common stock (the "**Securities**") of Orion Energy Systems, Inc., and any successor (by merger or otherwise) thereto, (the "**Company**"), the undersigned hereby agrees that during the period specified below (the "**Lock-Up Period**"), the undersigned will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of Securities or securities convertible into or exchangeable or exercisable for any shares of Securities, 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 the Securities, whether any such aforementioned transaction is to be settled by delivery of the Securities or such other securities, in cash or otherwise, 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, without, in each case, the prior written consent of Thomas Weisel Partners LLC ("**TWP**"). In addition, the undersigned agrees that, without the prior written consent of TWP, it will not, during the Lock-Up Period, make any demand for or exercise any right with respect to, the registration of any Securities or any security convertible into or exercisable or exchangeable for the Securities.

Any Securities received upon exercise of options granted to the undersigned or warrants held by the undersigned or upon an automatic conversion of preferred stock held by the undersigned will also be subject to this Agreement. Any Securities acquired by the undersigned in the open market or in any issuer directed share program established in connection with the offering or the Securities will not be subject to this Agreement. A transfer of Securities to may be made a subsidiary, parent or other corporate affiliate of the undersigned, to a family member or to a trust, provided the transferee agrees to be bound in writing by the terms of this 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 Securities Exchange Act of l934, as amended, shall be required or shall be 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 initial Lock-Up Period will commence on the date on which the Company files an initial registration statement on Form S-1 with the Securities and Exchange Commission in connection with the offering of the Securities (the "**Commencement Date**") and will continue and include the date 180 days after the public offering date set forth on the final prospectus used to sell the Securities (the "**Public Offering Date**") pursuant to the Underwriting Agreement, to which you are or expect to become, directly or indirectly, parties. If (l) during the last 17 days of the initial Lock-Up Period, the Company releases earnings results or material news or a material event relating to the Company occurs or (2) prior to the expiration of the initial Lock-Up Period, the Company announces that it will release earnings results during the 16-day period beginning on the last day of the initial 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 release of the earnings results or the occurrence of the material news or material event, unless TWP waives, in writing, such extension.

The undersigned acknowledges and agrees that written notice of any extension of the Lock-Up Period will be delivered by TWP to the Company (in accordance with Section 11 of the Underwriting Agreement) and that any such notice properly delivered will be deemed to have been given to, and received by, the undersigned. The undersigned further agrees that, prior to engaging in any transaction or taking any other action that is subject to the terms of this Lock-Up Agreement during the period from the Commencement Date to and including the 34th day following the expiration of the initial Lock-Up Period, it will give notice thereof to the Company and will not consummate such transaction or take any such action unless it has received written confirmation from the Company that the Lock-Up Period (as may have been extended pursuant to the previous paragraph) has expired.

In furtherance of the foregoing, the Company and its transfer agent and registrar are hereby authorized to decline to make any transfer of shares of Securities if such transfer would constitute a violation or breach of this Agreement.

This Agreement shall be binding on the undersigned and the successors, heirs, personal representatives and assigns of the undersigned. This Agreement shall lapse and become null and void if the Public Offering Date shall not have occurred on or before March 31, 2008. **This agreement shall be governed by, and construed in accordance with, the laws of the State of New York.**

Very truly yours,

_____

PRINT NAME: _____

EXHIBIT 10.4

SEPARATION AGREEMENT AND MUTUAL RELEASES

This Separation Agreement ("Agreement") is between Orion Energy Systems Ltd., a Wisconsin corporation ("Orion") and James Prange ("Prange").

1. Background. Orion ended Prange's employment with it, effective March 12, 2007. Both Prange 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.

2. Employment Termination. Prange understands that his employment with Orion ended effective March 12, 2007, based on reasons that have been explained to him. Orion does not generally provide severance pay or benefits of any sort to employees when it terminates their employment. However, subject to the terms and conditions of this Agreement, Orion is willing to provide the benefits and consideration specified in paragraph 3 below in return for Prange's execution of this Agreement, it becoming effective (*see* paragraph 19), and his continued compliance with each of the covenants in this Agreement, including those regarding confidentiality, non-competition, and non-solicitation.

3. Consideration. In return for the execution of this Agreement, it becoming effective (*see* paragraph 19), and Prange honoring all of its terms, Orion will provide/do the following:

a. Allegedly Unpaid Back Pay And Compensation. Within 10 business days of the date on which this Agreement becomes effective (*see* paragraph 19), Orion shall pay to Prange the sum of Forty Thousand, Three Hundred, Six dollars and One cent ($40,306.01) in allegedly owed back pay and compensation, less applicable withholding and deductions. Prange specifically acknowledges that the payment of the amount specified in this subparagraph is the full and complete amount of back pay and compensation allegedly owed to him. This payment shall be made payable to the "Johns, Flaherty & Collins, S.C. Trust Account" and mailed to Prange's attorney, Thomas H. Taylor.

b. Reimbursement of Allegedly Owed Employee Business Expenses. Within 10 business days of the date on which this Agreement becomes effective (*see* paragraph 19), Orion shall pay to Prange the sum of Seven Thousand, Seven Hundred, Twenty-five dollars and Fifty-six cents ($7,725.56) for allegedly owed business expenses incurred by Prange during the course of his employment. Prange specifically acknowledges that the payment of the amount specified in this subparagraph is the full and complete amount allegedly owed to him for reimbursement of business expenses incurred by him during his employment. This payment shall be made payable to the "Johns, Flaherty & Collins, S.C. Trust Account" and mailed to Prange's attorney, Thomas H. Taylor.

c. Stock Options.

i. Stock Options Fully Vested. If this Agreement becomes effective (*see* paragraph 19), Orion shall amend Prange's Stock Option Agreement such that Prange's rights and interests in Two Hundred Twenty Thousand, Two Hundred Twenty-Two (220,222) Orion common stock options shall be treated as having fully vested as of March 11, 2007.

ii. Exercise of A Portion of Stock Options. If this Agreement becomes effective (*see* paragraph 19), Orion shall amend Prange's Stock Option Agreement such that Forty-eight Thousand (48,000) of Prange's fully-vested common stock options may be exercised by Prange at a strike price of Sixty-eight and Three-quarters cents ($0.6875) per share at any time within Ninety (90) days of the date on which this Agreement becomes effective (see paragraph 19). Once exercised, Prange may do whatever he wishes with the common stock so acquired.

iii. Identification of Interested Purchaser. If this Agreement becomes effective (*see* paragraph 19), then within 5 business days of the date on which this Agreement becomes effective, Orion shall provide him with the identity of a party willing to purchase all Forty-Eight Thousand (48,000) shares of common stock at a price not less than Three dollars and no cents ($3.00) per share. The identification shall include a firm commitment from the party so identified to purchase the shares of common stock at a price not less than the amount specified in this subparagraph.

Prange specifically acknowledges receipt of information from Orion sufficient to allow him to determine the current fair market value of the common stock referred to in this subparagraph, and that he has had the opportunity to request any additional information he deems necessary or appropriate in connection with making such a determination. Prange further acknowledges that he is not under any obligation to sell any of his Forty-Eight Thousand (48,000) shares of common stock to the potential purchaser identified by Orion pursuant to this subparagraph, and that he may sell any of his shares of common stock to any person he deems appropriate for whatever price he may negotiate.

iv. Exercise of Remaining Stock Options. So long as Prange honors and continues to honor all of his obligations in this Agreement, and only after the effective date of this Agreement (see paragraph 19), Orion shall amend Prange's Stock Option Agreement in order to allow Prange to exercise his rights and interests in the remaining One Hundred Seventy-two Thousand, Two Hundred, Twenty-Two (172,222) Orion common stock options at a strike price of Sixty-Eight and Three-Quarters cents ($0.6875) per share as follows:

A. Except as otherwise provided in subparagraph 3.c.iv.B. below, Prange shall be allowed to exercise his rights and interests in the remaining One Hundred Seventy-Two Thousand, Two Hundred, Twenty-Two (172,222) Orion common stock options during a ninety (90)-day period (the "Stock Option Exercise Period") commencing on March 12, 2009 and expiring at 5:00 p.m. on June 10, 2009, subject to the limitation that all common stock options not exercised within the Stock Option Exercise Period shall expire at the end of such period. Except as otherwise provided in subparagraph 3.c.iv.B. below, under no circumstances shall Prange be permitted to exercise such remaining common stock options prior to the commencement of the Stock Option Exercise Period.

B. In the event of an Initial Public Offering by Orion prior to March 12, 2009, Prange shall be allowed to exercise his rights and interests in Seventeen Thousand, Two Hundred and Twenty-Two (17,222) Orion common stock options during the ninety (90)-day period commencing with Orion's issuance and sale of common or preferred stock pursuant to the Initial Public Offering. If Prange should exercise any of the Orion common stock options referenced in this subparagraph, the amount of Orion common stock options available for exercise pursuant to subparagraph 3.c.iv.A. above shall be reduced by the number of Orion common stock options exercised under this subparagraph. All common stock options not exercised within the ninety (90)-day period commencing with Orion's issuance and sale of common or preferred stock pursuant to the Initial Public Offering under this subparagraph shall still be available for exercise consistent with subparagraph 3.c.iv.A. above.

d. Unemployment Compensation. Orion shall not challenge any claim by Prange for unemployment compensation benefits.

4. Acknowledgement. Prange understands that the benefits provided in paragraph 3 will not be provided unless (a) he accepts this Agreement, (b) it becomes effective (*see* paragraph 19), and (c) he continues to comply with all of the applicable terms of this Agreement.

5. Restrictive Covenants.

a. Non-competition. Prange agrees that, for a period of twenty-four (24) months after the date on which his employment ended, he will not, anywhere in the United States, on his own behalf or for another person, business or organization, provide services of the same nature that he provided while employed by Orion to any Orion Competitor. "Competitor" means Cooper Lighting, Ruud Lighting, GE Lighting Systems, Lithonia Lighting, an Acuity Brands Company or any other person, business or organization that is engaged in the business of, or makes money from:

i. designing, developing, manufacturing or selling application-specific high performance lighting systems for use in industrial, warehouse, retail, commercial, institutional, agricultural and/or healthcare environments, or controls, technologies and/or products related thereto, including the "Light Pipe" or similar technology, and the Tridium control systems or similar technology (hereafter referred to collectively as "Competing Products"), or

ii. providing energy management services or project financing related to such Competing Products, controls or technologies, including project management or installation services, emissions offset trading or consulting services, or energy capacity and/or usage trading or consulting services, for use in industrial, warehouse, retail, commercial, institutional, agricultural and/or healthcare environments (hereafter referred to as "Competing Services").

b. No Solicitation. Prange agrees that for a period of twenty-four (24) months after the date on which his employment ended, he will not initiate contact in order

to induce, solicit, or encourage a client, customer, reseller or shareholder of Orion or Orion products or services with whom Prange had direct contact, during the 12-month period prior to the end of his employment, to purchase Competing Products or Competing Services from an Orion Competitor or to invest in an Orion Competitor. Additionally, Prange agrees that, for a twenty-four (24) 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.

6. Release. Prange understands and agrees that his acceptance of this Agreement means that, except as stated in paragraph 9, 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.

7. No Disparagement. Prange agrees not to make critical, negative or disparaging remarks about Orion, its services, its products, its employees, officers, directors, shareholders, investors or agents to any other person, business or organization. He also agrees not to disclose personal or private information about Orion or its employees, officers or directors, agents or clients to any other person, business or organization. Prange understands that Orion is relying upon Prange's promises in this Agreement, including this paragraph, in agreeing to provide the benefits outlined in subparagraph paragraph 3.c. above. Orion similarly agrees not to make any critical, negative or disparaging remarks about Prange to any other person, business or organization.

8. Future Employment. Prange agrees that he is not now or hereafter entitled to employment or reemployment with Orion and he agrees not to knowingly seek such employment, whether directly on his own or through an employment agency. Prange further agrees and acknowledges that should he apply for any position in contradiction of this paragraph, Orion may completely ignore such application and fail to consider it based on this paragraph.

9. Claims Not Waived. Prange 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.

10. Government Cooperation. Nothing in this Agreement prohibits Prange from cooperating with any government agency.

11. Confidentiality/Non-Disclosure. Prange 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, financial strategies, sales and marketing strategies, management salaries and compensation, consultants and consultant relationships (current and former), customers and customer relationships (current and former), shareholder and shareholder relationships (current and former), suppliers and supplier relationships (current and former), products, services, engineering and manufacturing, research and development, computer systems, training materials, business strategies and plans, including financial, marketing, sales and other matters, and other information stamped, marked or kept as confidential information is considered private and confidential by Orion ("Confidential Information"). Prange 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 Prange from any employment opportunities or employment with another. Future employment restrictions are provided in paragraph 5.a. above.

In addition, Prange agrees that the existence and 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, Prange 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, Prange may be required to share the terms of the restrictive covenants in paragraphs 5.a. and 5.b. with a future employer as Orion requests or instructs, and in such case, such disclosure shall be permitted.

12. Trade Secret Law Unaffected. Prange agrees and understands that this Agreement does not reduce his obligations to comply with applicable laws relating to trade secrets, confidential information or unfair competition.

13. No Admission of Liability or Wrongdoing. Nothing in this Agreement shall be construed or represented by either party to be an admission of liability or wrongdoing by either party. Any and all allegations of liability or wrongdoing are expressly denied by each party. Nor is anything in this Agreement meant to suggest that Orion has violated any law or contract or that Prange has any claim against Orion.

14. Voluntary Agreement. Prange acknowledges and states that he has entered into this Agreement knowingly and voluntarily.

15. Consulting An Attorney. Prange 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. Prange further acknowledges that he has consulted Attorney Thomas H. Taylor of Johns, Flaherty & Collins, S.C. regarding the terms of this Agreement and every matter that it covers.

16. Obligation to Pay Attorney Fees and Costs. Prange understands and agrees that if he violates the commitments he has made in this Agreement, Orion may seek to recover any

payments and/or benefits provided in this Agreement and that, except as provided in paragraph 17, he will be responsible for paying the actual attorney fees and costs incurred by Orion in enforcing this Agreement or in defending a claim released by paragraph 6.

17. **Exception to Attorney Fees Obligation**. The obligation to pay Orion's attorney fees and costs does not apply to an action by Prange regarding the validity of this Agreement under the ADEA.

18. **Complete Agreement**. Prange understands and agrees that this document contains the entire agreement between he and Orion relating to his employment and the termination of his employment, that this Agreement supersedes and displaces any prior agreements and discussions relating to such matters and that he may not rely on any such prior agreements or discussions.

19. **Effective Date and Revocation**. This Agreement shall not be effective until seven days after Prange signs it and returns it to Orion's attorney — Daniel A. Kaplan of Foley & Lardner LLP. During that seven-day period Prange may revoke his acceptance of this Agreement by delivering to Kaplan a written statement stating he wishes to revoke this Agreement or not be bound by it.

20. **Severability**. Paragraphs 5.a., 5.b., 11, or 24 of this Agreement shall be considered separate and independent from the other paragraphs of this Agreement (as well as separate and independent of each other) and no invalidity of any one of those paragraphs shall affect any other paragraph or provision of this Agreement.

21. **Final and Binding Effect**. Prange 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.

22. **Return of Property**. Prange represents and warrants that he has an obligation and agrees to return and has returned all Orion property. This includes all files, working papers and notes, memoranda, documents, records, including customer and client and potential customer and client business cards and information, credit cards, keys and key cards, computers, laptops, personal digital assistants, cellular telephones, Blackberry devices or similar instruments, printers, other equipment of any sort, badges, vehicles, and any other property of Orion. In addition, to the extent he has not already done so, Prange 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.

23. **Future Cooperation**. Prange 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 Prange may have at the time of request. Orion agrees to reimburse Prange for expenses incurred in providing such cooperation, so long as such expenses are approved in advance by Orion.

24. **No Contact**. Prange agrees that for a period of twenty-four (24) months after the date on which his employment ended, he will not initiate contact with any client, customer, reseller or shareholder of Orion or Orion products or services for the purpose of circumventing any obligation, restriction or covenant in this Agreement.

25. **Representations**. By signing this Agreement Prange represents that he has read this entire document and understands all of its terms.

26. **21-Day Consideration Period**. Prange may consider whether to sign and accept this Agreement for a period of twenty-one days (21) from the day he received it. If this Agreement is not signed, dated and returned to Kaplan within twenty-two (22) days, the offer of benefits described in paragraph 3.c. will no longer be available.

Date Agreement was given to Prange: June 29, 2007.

ACCEPTED:

/s/ James Prange
James Prange
Dated: July 5, 2007

ACCEPTED:

Orion Energy Systems, Ltd.

By: /s/ Neal Verfuerth
Name: Neal Verfuerth
Title: President

Reviewed and Approved as to Form:

Johns, Flaherty & Collins, S.C.

/s/ Thomas H. Taylor
Thomas H. Taylor, Esq.
Attorneys for James Prange

Dated: July 10, 2007

Reveiwed and Approved as to Form

Foley & Lardner LLP

/s/ Danial A. Kaplan
Daniel A. Kaplan, Esq.
Attorneys for Orion Energy Systems, Ltd.

Dated: July 11, 2007

Exhibit 23.1

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. 2 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. 2 to the Registration Statement and Prospectus and to the use of our name as it appears under the caption "Experts."

/s/ GRANT THORNTON LLP
Milwaukee, Wisconsin
October 29, 2007

Exhibit 23.3

WIPFLi LLP
CPAs and Consultants

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. 2 to the registration statement on Form S-l 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 26, 2007

FOLEY

FOLEY & LARDNER LLP

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CLIENT/MATTER NUMBER
042365-0111

October 29, 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.**
Amendment No. 1 to Registration Statement on Form S-1
Filed October 2, 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 October 22, 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. 2 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 Amendment No. 1 to the Registration Statement on Form S-1 filed with the Commission on October 2, 2007.

Some of the intellectual property we use in our business, page 15

1. We note that your response to prior comment 9 is limited to patents; however, prior comment 9 addressed all intellectual property — not solely patents. Therefore, we reissue the comment.

We respectfully advise the Staff on a supplemental basis that the Company does not currently derive any revenue from patents or patent applications owned by the Company's chief executive officer that have not been previously assigned to the Company. Further, the Company's chief executive officer does not own any registered copyrights or trademarks; accordingly, the Company does not derive any revenue from these sources. The amount of revenue that the Company derives from other forms of non-assigned intellectual property owned by the Company's chief executive officer, such as technical know-how, ideas, techniques, research, processes and marketing and business plans, is unknown and not quantifiable. The Company intends the risk factor found under "Risk Factors — Risks Relating to Our Business — Some of the intellectual property we use in our business is owned by our chief executive officer," which the Company modified in response to the Staff's prior comment 9 and this comment, to address the potential risks relating to the ownership by the Company's chief executive officer of such other non-assigned intellectual property.

Industry and Market Data Forecasts, page 25

2. Refer to the last bullet point in your response to prior comment 3. If you have not obtained the consent from the sources of the data you cite, please tell us how you determined that the data remains current and reliable.

We respectfully advise the Staff on a supplemental basis that the Company has researched the information provided on the websites of the various sources to which it cites and has disclosed in its Registration Statement the most current publicly available information from these sources relating to the statistics the Company provides. The Company has identified specific dates when citing these sources to avoid potential investor confusion. The Company believes that, based on its industry and market experience, these sources provide reliable information to the public as described under "Industry and Market Data and Forecasts."

Use of Proceeds, page 26

3. With a view toward clarifying the disclosure in response to prior comments 11 and 12, please tell us how you determined the size of the offering required to support your anticipated future growth.

We respectfully advise the Staff on a supplemental basis that while the Company has broadly considered a variety of alternative uses for the proceeds to be received upon the sale of its shares of common stock, including as set forth under "Use of Proceeds," it has not allocated precise dollar amounts to specific uses of capital or to specific operating or capital budget requirements or plans. Please see the Company's risk factor set forth under "Risk Factors — Risks Relating to this Offering and Our Common Stock — Our management will have broad discretion in allocating the proceeds of this offering." The Company believes that it is impractical to quantify such potential uses of funds or to relate them to the size of the offering at this time, since its current potential alternatives for the use of proceeds could change significantly depending upon market acceptance of its products, consumer reaction to its sales and marketing efforts, capital expenditure requirements, potential future acquisitions, and a variety of other factors that make it difficult to estimate with any degree of precision how future capital resources will be deployed or to relate such factors to the relative size of the offering. As a result, the Company has revised its disclosure under "Prospectus Summary — The Offering" and "Use of Proceeds" to clarify the anticipated general uses of capital raised in the offering and to remove any potential inference that the Company has quantified how those proceeds will support anticipated future growth.

Gross Margin, page 40

4. The first bullet point in your response to prior comment 17 indicates that the margin on your backlog will generally be consistent with the trend disclosed for the first fiscal quarter. However, since your current disclosure on page 40 describes both increased and decreased margin trends, it is unclear how investors are to know the effects on margin of your current backlog. Please revise for clarity.

We respectfully advise the Staff on a supplemental basis that the Company expects that completion of its existing backlog as of September 30, 2007 will likely result in realizing gross margin on such orders in the third quarter of fiscal 2008 that will be generally consistent with and support the increasing gross margin trend that the Company has realized over the prior five fiscal quarters, 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 that the Company's backlog as of September 30, 2007 will not constitute all of the total revenue that the Company expects to realize in its fiscal 2008 third quarter and because of the other potential risks and uncertainties of projecting such potential margin improvements since the Company's gross margin in its third quarter may be further affected by the factors described under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Revenue and Expense Components — Gross Margin."

5. We note your response to the third bullet point of prior comment 17. Please discuss any uncertainty regarding the effect that your shared savings type sales and energy management services might have on your margins and other historic results of operations.

We respectfully advise the Staff on a supplemental basis that the Company does not expect the impact of its sales-type financing program over the remainder of its fiscal 2008 to have a material effect on its margins or other results of operations compared to prior periods. Similarly, while the Company has disclosed its recent historical trend of service revenue gross margins resulting in higher gross margins than those realized on product revenue, the future impact of service revenue on the Company's gross margin is subject to the relative mix of product revenue and service revenue in future periods, as well as the other factors affecting the variability of the Company's gross margin as set forth 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 trends.

Research and Development, page 40

6. We note your disclosure in response to prior comment 18. Please replace vague disclosure like "efforts relating to" with specific information that investors can use to evaluate your activities.

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 — Results of Operations — Six Months Ended September 30, 2007 Compared to Six Months Ended September 30, 2006

— Operating Expenses — Research and Development" on page 38 to remove all reference to amounts spent on regulatory and legislative initiatives because the Company believes that these initiatives are now immaterial for the periods presented in relation to the Company's overall level of expenditures on research and development activities for the periods presented.

Indebtedness, page 48

7. We note your response to prior comment 21; however, since the waiver was dated in March 2007, it is unclear how a discussion of your liquidity and capital resources would be complete without describing the issues that caused the default and how you addressed them. Therefore, we reissue the comment.

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" on page 45 in response to this comment.

Stock-based Compensation, page 52

8. Please refer to comment 25. We recognize your response and will delay our final assessment of your response pending inclusion of the estimated IPO price range.

We respectfully advise the Staff that, in order to facilitate and expedite the Staff's review and assessment of this matter, the Company intends to provide to the Staff on a supplemental basis a preliminary estimate of its initial public offering price range and related disclosure.

Products, page 63

9. It is unclear where you have disclosed the quantitative disclosure by product class as required by Regulation S-K Item 101(c)(1)(i). Therefore, we reissue prior comment 28.

We respectfully advise the Staff that the Company has revised the disclosure under "Business — Products and Services" on page 61 in response to this comment.

Our Customers, page 65

10. We note your response to comment 32. Please provide us with a detailed analysis of why you believe disclosure is not required under Item 101 of Regulation S-K. Include in your analysis citations to any SEC releases or guidance upon which you rely.

We respectfully advise the Staff that the Company revised its disclosure under "Business — Our Customers" on page 63 to include the name of the customer that accounted for over 20% of its consolidated revenues for the first half of fiscal 2008 in response to this comment. The Company has also revised the Registration Statement to identify this customer under "Prospectus Summary — Our Business," "Risk Factors — Risks Relating to Our Business — We depend upon a limited number of customers in any given period to generate a substantial portion of our revenue," and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview."

Our History and Development, page 67

11. We note your response to prior comment 27. Please clarify whether you discontinued selling products other than those mentioned on page 63.

We respectfully advise the Staff on a supplemental basis that the Company is no longer a distributor of products manufactured by others. The Company has not discontinued the sale or manufacture of any of its other products. The Company has revised its disclosure under "Business — Our History and Development" on page 65 in response to this comment.

Executive Compensation, page 72

12. With a view toward clarified disclosure, please expand your response to prior comment 39 to tell us when the committee last met, when they will meet again, and the content of the current proposals that the committee is considering regarding the matters addressed in the comment.

We respectfully advise the Staff on a supplemental basis that the compensation committee of the Board of Directors of the Company has met several times and is still in the process of working with its independent compensation consultant, legal advisors and management to analyze and assess the various potential terms and conditions of the Company's executive compensation programs that serve as the subject of this comment and prior comment 39. Certain actions taken by the compensation committee regarding the addition of stock ownership guidelines for executive officers and non-employee directors and a new compensation plan for its non-employee directors are reflected under "Executive Compensation — Compensation Discussion and Analysis — Other Policies — Executive Officer Stock Ownership Guidelines" and "Executive Compensation — Director Compensation." The Company believes that the compensation committee may take additional action on the other referenced executive compensation-related matters prior to the effective date of the Registration Statement, in which case the Company will revise its disclosure under "Executive Compensation." However, these matters ultimately constitute decisions for the compensation committee of the Board of Directors, and the Company is not in a position to discuss in greater detail the matters currently being considered and discussed by the compensation committee. The compensation committee does not have any obligation to make changes to the Company's current executive compensation plans and programs and may ultimately determine not to do so, or it may determine to adopt compensation plans that are significantly different than those currently under consideration. The Company will further update the disclosure under "Executive Compensation" if and when the compensation committee takes definitive action. Alternatively, if the compensation committee determines not to take action on these compensation-related items, then the Company will update the disclosure under "Executive Compensation" to reflect this fact.

Setting Executive Compensation, page 72

13. We note your response to comment 40. Please disclose the names of the 96 companies contained in the Towers Perrin market report.

We respectfully advise the Staff that the Company has revised its disclosure under "Executive Compensation — Compensation Discussion and Analysis — Setting Executive Compensation" on pages 71 and 72 in response to this comment. The Company has also revised its disclosure under this

section to reflect the names of certain additional companies against which the compensation committee of the Company's board of directors is benchmarking certain executive compensation components.

Long-Term Equity Incentive Compensation, page 76

14. Please revise your disclosure to more specifically explain how the factors disclosed resulted in a determination that 250,000 shares was the appropriate number.

We respectfully advise the Staff that the Company has revised its disclosure under "Executive Compensation — Compensation Discussion and Analysis — Long-Term Equity Incentive Compensation" on page 76 in response to this comment.

Severance and Change in Control Arrangements, page 80

15. Please expand the disclosure added in response to prior comment 46 to clarify how you define "market practice" and "competitive."

We respectfully advise the Staff that the Company has revised its disclosure under "Executive Compensation — Payments Upon Termination or Change of Control — New Employment Agreements" on page 86 in response to this comment.

16. From the disclosure added in response to prior comment 47, it is unclear how you chose these triggering events over any other triggering events that would represent a "significant change in ownership." Please revise for clarity.

We respectfully advise the Staff that the Company has revised its disclosure under "Executive Compensation — Payments Upon Termination or Change of Control — New Employment Agreements" on page 87 in response to this comment.

Director Compensation, page 90

17. Please refer to comment 48. We note that your option grants to directors were intended to compensate directors for past and future services. Please identify the service period intended to be compensated by each option grant.

We respectfully advise the Staff that the Company has revised its disclosure under "Executive Compensation — Director Compensation" on page 90 in response to this comment.

Principal and Selling Shareholders, page 92

18. Please expand your response to prior comment 50 to tell us how GE Capital Equity Investments makes voting and investment decisions with regard to your securities in a manner that no individuals have or share directly or indirectly beneficial ownership of those securities.

We respectfully advise the Staff on a supplemental basis that representatives of GE Capital Equity Investments, Inc. ("GECEI"), an indirect wholly-owned subsidiary of General Electric

Co., a publicly traded corporation ("GE"), have supplementally advised the Company that GE has a complex internal structure and reporting lines with matrix responsibility such that multiple individuals have authority over any given matter, and decisions by any one individual are subject to review by others. GECEI has informed us that no individual employed by GE or any of its subsidiaries is a beneficial owner (within the meaning of Rule 13d-3 of the Securities Exchange Act of 1934) of the Company's securities or of any security owned by GE.

19. Based on the information provided in your response to prior comment 51, we are unable to agree that the transactions in which the registrant sold the selling stockholders the very shares that are now being offered to the public need not be disclosed. See Regulation S-K Item 507. Please disclose all such transactions that occurred within the past three years.

We respectfully advise the Staff that, in response to this comment, the Company will revise its disclosure under "Principal and Selling Shareholders" in a future amendment to the Registration Statement to describe the transactions over its prior three fiscal years in which the Company sold or issued shares to the selling shareholders to be identified in the Registration Statement, although the Company does not know which of such shares (if any) that those selling shareholders may offer to sell in the offering. The Company has revised its disclosure under "Principal and Selling Shareholders" on page 94 to include the footnotes that will serve as the basis for the descriptions of these various transactions, which footnotes will be attributed as appropriate to the identified selling shareholders.

Patrick J. Trotter, page 96

20. We note your disclosure on page 50 about your receipt of a below-market interest rate promissory note from Mr. Trotter. Please discuss the nature and amount of these restatements in your discussion of the related-party transaction with Mr. Trotter. Please also tell us why you should not revise your statement on page 95 about your belief that all related-party transactions were on terms and conditions that were not materially less favorable than you could have obtained from unaffiliated third parties.

We respectfully advise the Staff that the Company has revised its disclosure under "Related Party Transactions" on page 96 in response to this comment. Additionally, we respectfully advise the Staff on a supplemental basis that the interest rate on the promissory note from Mr. Trotter was the applicable federal rate (or "AFR") at the time the note was issued, which the Company's audit committee and board of directors believed was not, at that time, a "below-market" interest rate. It was subsequently determined in connection with preparation for this offering that the interest rate was considered "below-market" solely for accounting purposes pursuant to generally accepted accounting principles. The audit committee and board of directors of the Company believed that AFR was within a reasonable range of interest rates that could have been obtained in a transaction with a similarly situated unaffiliated individual, and therefore that the Company does not believe it should not be required to revise the indicated statement regarding its belief that all related-party transactions were on terms and conditions that were not materially less favorable than it could have obtained from unaffiliated third parties.

Revenue Recognition, page F-11

21. Please refer to prior comment 62. Please tell us and revise to disclose how your apply EITF 00-21 in your accounting for revenues with multiple elements. In your disclosure, it should be clear when you defer revenues, how you measure the deferred amounts and when you

recognize the revenues that are deferred. Tell us and disclose how you consider acceptance provisions in your revenue recognition policy.

We respectfully advise the Staff that the Company has revised its disclosure regarding "Revenue Recognition" in Note A to its Notes to Consolidated Financial Statements on pages F-11 and F-12 in response to this comment.

22. Please refer to prior comments 64 and 65. Please tell us in more detail about the significant terms of your sales-type programs. Please also tell us the significant terms of your agreements with third party finance companies wherein you enter into an exchange for cash and future payments. Explain the nature of the future payments and how you determine the net present value of the future payments.

We respectfully advise the Staff that the Company has revised its disclosure under "Revenue Recognition" in Note A to its Notes to Consolidated Financial Statements on pages F-11 and F-12 to disclose the level of revenue and significant terms of our sales-type programs and arrangements with third party finance companies in response to this comment.

Net Income (loss) per Common Share, page F-14

23. Please refer to prior comment 66. We note that you adjusted your net income attributable to common shareholders and basic net income per share in response to our prior comment to reflect the participation rights of the preferred shareholders that is required by EITF 03-6 under the two-class method. Please revise to provide the disclosures required by SFAS 154 for the correction of errors, or tell us why the disclosures are not required.

We respectfully advise the Staff on a supplemental basis that the Company considered SFAS 154, "*Accounting Changes and Error Corrections, a Replacement of APB Opinion No. 20 and FASB Statement No. 3*" and SAB 99, "*Materiality,*" and determined the adjustments to net income attributable to common shareholders, basic net income per share attributable to common shareholders of $0.02 in fiscal 2007, $0.01 in the six month period ended September 30, 2006, and $0.02 in the six month period ended September 30, 2007 and diluted net income per share attributable to common shareholders of $0.01 in fiscal 2007 were not material to the Company's financial statements. In reaching its conclusion, the Company considered the significance of the changes to users of these financial statements and the Company did not believe that the changes in light of all circumstances would have changed the judgment of a reasonable person relying upon these financial statements. In particular, the Company considered that (i) upon closing of this offering, all preferred shares will convert into common stock; (ii) the basic and diluted net income per share attributable to common shareholders is not indicative of the Company's performance following consummation of this offering due to the dilution created by conversion of preferred shares into common stock, and the dilution due to the additional shares of common stock to be issued as part of this offering; (iii) disclosure under "Dilution" provides a dilution calculation upon effectiveness of the offering; (iv) the Company is not obligated to pay dividends unless declared by its board of directors; (v) dividends, other than those contractually accumulated on redeemable preferred stock, cannot be legally declared and paid unless the Company has positive retained earnings which it does not have and will not have prior to the effectiveness of this offering; and (vi) the Company is restricted from paying dividends on its preferred stock by the terms of its revolving credit facility and other debt instruments.

The Company also considered such other qualitative factors to determine if the effect of the adjustments (1) masked a change in earnings or other trends; (2) would have hidden a failure to meet analysts' expectations; (3) would have changed income to a loss or vice versa; (4) would have affected compliance with regulatory, loan or other contractual requirements; (5) would have changed management's compensation or (6) concealed an unlawful transaction, and the Company determined that the adjustments had no such effects.

Given both the qualitative analysis and small quantitative amounts involved, the Company believes the aforementioned adjustments are not material based upon the guidance in SAB 99 and do not require further disclosure under the requirements of SFAS 154.

Note F. Temporary Equity and Shareholders' Equity, page F-21

24. Please refer to prior comment 70. Please disclose the method and period over which you are accreting the carrying value to the redemption value.

We respectfully advise the Staff that the Company has revised its disclosure under "Series C Redeemable Preferred Stock" in Note G to its Notes to Consolidated Financial Statements on page F-23 in response to this comment.

Exhibits, page II-3

25. We note your response to prior comment 73; however, the exhibits you file should be complete, including all attachments, unless the exhibit is properly filed under Regulation S-K Item 601(b)(2) and you comply with the last sentence of Item 601(b)(2). We note example, the missing attachments from exhibit 4.10.

We respectfully advise the Staff that the Company has filed with Amendment No. 2 to the Registration Statement the exhibits relating to each of Exhibits 2.1 and Exhibit 4.10. Accordingly, the Company believes that it has fully complied with Item 601 with respect to the filing of exhibits to the Registration Statement.

Signatures

26. Please do not omit text required on the Signatures page.

We respectfully advise the Staff that the Company has revised its disclosure on the Signatures page in response to this comment.

* * * *

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 Amendment No. 2 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:

- The Company has updated the financial information in the document to reflect data for its second fiscal quarter ended September 30, 2007 and the first half of fiscal 2008. The Company has also updated statistical data internally generated by the Company to September 30, 2007. These changes impact the following sections of the Registration Statement: "Prospectus Summary," "Selected Historical Consolidated Financial Data," "Capitalization," "Dilution," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and related Notes to Consolidated Financial Statements, as well as various financial statistics cited throughout "Business."
- The Company has updated share-related information in the document to October 15, 2007, the latest practical date. These changes impact the following sections of the Registration Statement: "Prospectus Summary," "Principal and Selling Stockholders," "Description of Capital Stock," and "Shares Eligible for Future Sale."
- The Company has made changes in "Executive Compensation" to reflect certain actions taken by the compensation committee of the Company's board of directors since the filing of Amendment No. 1 to the Registration Statement.
- The Company has made changes under "Executive Compensation" and "Principal and Selling Shareholders" to reflect the cancellation by the Company of certain shares of the Company's common stock and certain options to purchase shares of the Company's common stock held by Mr. James L. Prange.
- The Company has included graphics and text in the inside front and back covers of the prospectus forming a part of the Registration Statement.

* * * *

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