

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

**FORM 10-Q**

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

For the Quarterly Period Ended September 30, 2013

OR

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

Commission file number 001-33887

**Orion Energy Systems, Inc.**

(Exact name of Registrant as specified in its charter)

**Wisconsin**

(State or other jurisdiction of  
incorporation or organization)

**39-1847269**

(I.R.S. Employer  
Identification number)

**2210 Woodland Drive, Manitowoc, Wisconsin**

(Address of principal executive offices)

**54220**

(Zip code)

**Registrant's telephone number, including area code: (920) 892-9340**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

There were 21,161,029 shares of the Registrant's common stock outstanding on November 6, 2013.

**Orion Energy Systems, Inc.**  
**Quarterly Report On Form 10-Q**  
**For The Quarter Ended September 30, 2013**  
**Table Of Contents**

	<u>Page(s)</u>
<b><u>PART I FINANCIAL INFORMATION</u></b>	<u>3</u>
<b>ITEM 1. <u>Financial Statements (unaudited)</u></b>	<u>3</u>
<u>Condensed Consolidated Balance Sheets as of March 31, 2013 and September 30, 2013</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended September 30, 2012 and 2013</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended September 30, 2012 and 2013</u>	<u>5</u>
<u>Notes to the Condensed Consolidated Financial Statements</u>	<u>6</u>
<b>ITEM 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<u>24</u>
<b>ITEM 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u></b>	<u>36</u>
<b>ITEM 4. <u>Controls and Procedures</u></b>	<u>36</u>
<b><u>PART II OTHER INFORMATION</u></b>	<u>37</u>
<b>ITEM 1. <u>Legal Proceedings</u></b>	<u>37</u>
<b>ITEM 1A. <u>Risk Factors</u></b>	<u>37</u>
<b>ITEM 2. <u>Unregistered Sale of Equity Securities and Use of Proceeds</u></b>	<u>37</u>
<b>ITEM 5. <u>Other Information</u></b>	<u>37</u>
<b>ITEM 6. <u>Exhibits</u></b>	<u>39</u>
<b><u>SIGNATURES</u></b>	<u>40</u>
Exhibit 2.1	
Exhibit 3.2	
Exhibit 31.1	
Exhibit 31.2	
Exhibit 32.1	
Exhibit 32.2	
EX-101 INSTANCE DOCUMENT	
EX-101 SCHEMA DOCUMENT	
EX-101 CALCULATION LINKBASE DOCUMENT	
EX-101 LABELS LINKBASE DOCUMENT	
EX-101 PRESENTATION LINKBASE DOCUMENT	

**PART I – FINANCIAL INFORMATION****Item 1: Financial Statements****ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(in thousands, except share and per share amounts)**

	<u>March 31, 2013</u>	<u>September 30, 2013</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 14,376	\$ 17,563
Short-term investments	1,021	1,024
Accounts receivable, net of allowances of \$900 and \$652	18,397	17,254
Inventories, net	15,230	15,207
Deferred contract costs	2,118	2,453
Prepaid expenses and other current assets	2,465	2,483
Total current assets	53,607	55,984
Property and equipment, net	27,947	26,127
Long-term inventory	11,491	9,878
Goodwill	—	4,899
Other intangible assets, net	1,709	7,568
Deferred tax assets	—	134
Long-term accounts receivable	5,069	3,460
Other long-term assets	2,274	2,285
Total assets	<u>\$ 102,097</u>	<u>\$ 110,335</u>
<b>Liabilities and Shareholders' Equity</b>		
Accounts payable	\$ 7,773	\$ 11,925
Accrued expenses and other	5,457	4,427
Deferred revenue, current	2,946	822
Current maturities of long-term debt	2,597	3,326
Total current liabilities	18,773	20,500
Long-term debt, less current maturities	4,109	5,041
Deferred revenue, long-term	1,258	1,355
Other long-term liabilities	188	944
Total liabilities	24,328	27,840
Commitments and contingencies (See Note F)		
Shareholders' equity:		
Common stock, no par value: Shares authorized: 200,000,000 at March 31, 2013 and September 30, 2013; shares issued: 30,498,900 and 30,641,710 at March 31, 2013 and September 30, 2013; shares outstanding: 20,162,397 and 21,143,729 at March 31, 2013 and September 30, 2013	—	—
Additional paid-in capital	128,104	129,067
Treasury stock: 10,336,503 and 9,497,981 common shares at March 31, 2013 and September 30, 2013	(38,378)	(36,356)
Shareholder notes receivable	(265)	(146)
Retained deficit	(11,692)	(10,070)
Total shareholders' equity	77,769	82,495
Total liabilities and shareholders' equity	<u>\$ 102,097</u>	<u>\$ 110,335</u>

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

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

	Three Months Ended September 30, 2013		Six Months Ended September 30,	
	2012	2013	2012	2013
Product revenue	\$ 16,931	\$ 21,181	\$ 30,511	\$ 38,704
Service revenue	2,477	6,314	4,207	9,643
Total revenue	19,408	27,495	34,718	48,347
Cost of product revenue	11,867	15,638	21,464	28,522
Cost of service revenue	1,736	4,028	3,076	6,273
Total cost of revenue	13,603	19,666	24,540	34,795
Gross profit	5,805	7,829	10,178	13,552
Operating expenses:				
General and administrative	4,638	3,173	7,940	5,857
Acquisition related	—	356	—	431
Sales and marketing	4,561	3,644	8,513	6,947
Research and development	710	448	1,407	938
Total operating expenses	9,909	7,621	17,860	14,173
(Loss) income from operations	(4,104)	208	(7,682)	(621)
Other income (expense):				
Interest expense	(142)	(142)	(303)	(255)
Interest income	218	153	443	327
Total other income	76	11	140	72
(Loss) income before income tax	(4,028)	219	(7,542)	(549)
Income tax expense (benefit)	5,631	(2,184)	4,057	(2,171)
Net (loss) income	\$ (9,659)	\$ 2,403	\$ (11,599)	\$ 1,622
Basic net income (loss) per share attributable to common shareholders	\$ (0.46)	\$ 0.11	\$ (0.53)	\$ 0.08
Weighted-average common shares outstanding	21,075,624	21,089,917	21,814,321	20,634,333
Diluted net income (loss) per share	\$ (0.46)	\$ 0.11	\$ (0.53)	\$ 0.08
Weighted-average common shares and share equivalents outstanding	21,075,624	21,541,942	21,814,321	21,102,849

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

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

	Six Months Ended September 30,	
	2012	2013
<b>Operating activities</b>		
Net (loss) income	\$ (11,599)	\$ 1,622
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation	2,122	2,024
Amortization of long-term assets	108	172
Stock-based compensation expense	770	676
Accretion of fair value of deferred and contingent purchase price consideration related to acquisition	—	425
Deferred income tax expense (benefit)	3,945	(2,212)
Loss on sale of property and equipment	30	96
Provision for bad debts	100	75
Other	34	62
Changes in operating assets and liabilities, net of effects of acquisition:		
Accounts receivable, current and long-term	440	4,849
Inventories, current and long-term	(224)	3,269
Deferred contract costs	(2,571)	(335)
Prepaid expenses and other assets	445	58
Accounts payable	866	2,633
Accrued expenses	1,985	(1,837)
Deferred revenue	1,222	(2,027)
<b>Net cash (used in) provided by operating activities</b>	<b>(2,327)</b>	<b>9,550</b>
<b>Investing activities</b>		
Cash paid for acquisition, net of cash acquired	—	(4,992)
Purchase of property and equipment	(1,715)	(222)
Purchase of short-term investments	(3)	(3)
Additions to patents and licenses	(75)	(14)
Proceeds from sales of property, plant and equipment	19	39
<b>Net cash used in investing activities</b>	<b>(1,774)</b>	<b>(5,192)</b>
<b>Financing activities</b>		
Payment of long-term debt	(1,415)	(1,497)
Proceeds from long-term debt	156	—
Proceeds from repayment of shareholder notes	6	119
Repurchase of common stock into treasury	(4,523)	—
Excess tax benefits from stock-based compensation	21	—
Deferred financing costs	—	(18)
Proceeds from issuance of common stock	59	225
<b>Net cash used in financing activities</b>	<b>(5,696)</b>	<b>(1,171)</b>
Net (decrease) increase in cash and cash equivalents	(9,797)	3,187
Cash and cash equivalents at beginning of period	23,011	14,376
Cash and cash equivalents at end of period	\$ 13,214	\$ 17,563
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 279	\$ 97
Cash paid for income taxes	\$ 37	\$ 18
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Shares issued from treasury for shareholder note receivable	\$ 68	\$ 119
Shares returned to treasury in satisfaction of receivable	\$ —	\$ 48
Acquisition related contingent consideration liability	\$ —	\$ 612
Acquisition financed through debt	\$ —	\$ 3,158
Common stock issued for acquisition	\$ —	\$ 2,065

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



**ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES**  
**UNAUDITED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE A — DESCRIPTION OF BUSINESS**

***Organization***

The Company includes Orion Energy Systems, Inc., a Wisconsin corporation, and all consolidated subsidiaries. The Company is a developer, manufacturer and seller of lighting and energy management systems and a seller and integrator of renewable energy technologies to commercial and industrial businesses, predominantly in North America.

See Note I “Segment Reporting” of these financial statements for further discussion of the Company's reportable segments.

The Company's corporate offices and primary manufacturing operations are located in Manitowoc, Wisconsin and an operations facility is located in Plymouth, Wisconsin. The Company leases manufacturing and office space in Green Cove Springs, Florida. The Company leases office space for sales offices located in New Jersey, Chicago and Texas.

**NOTE B — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Principles of Consolidation***

The condensed consolidated financial statements include the accounts of Orion Energy Systems, Inc. and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

***Reclassifications***

Where appropriate, certain reclassifications have been made to prior years' financial statements to conform to the current year presentation.

***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of results that may be expected for the year ending March 31, 2014 or other interim periods.

The condensed consolidated balance sheet at March 31, 2013 has been derived from the audited and adjusted consolidated financial statements at that date but does not include all of the information required by GAAP for complete financial statements.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2013 filed with the Securities and Exchange Commission on June 14, 2013.

***Use of Estimates***

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

***Cash and Cash Equivalents***

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

**Short-Term Investments**

The amortized cost and fair value of short-term investments, with gross unrealized gains and losses, as of March 31, 2013 and September 30, 2013 were as follows (in thousands):

March 31, 2013						
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-term Investments
Money market funds	\$ 487	\$ —	\$ —	\$ 487	\$ 487	\$ —
Bank certificate of deposit	1,021	—	—	1,021	—	1,021
Total	\$ 1,508	\$ —	\$ —	\$ 1,508	\$ 487	\$ 1,021

September 30, 2013						
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-term Investments
Money market funds	\$ 488	\$ —	\$ —	\$ 488	\$ 488	\$ —
Bank certificate of deposit	1,024	—	—	1,024	—	1,024
Total	\$ 1,512	\$ —	\$ —	\$ 1,512	\$ 488	\$ 1,024

As of March 31, 2013 and September 30, 2013, the Company's financial assets described in the table above were measured at cost which approximates fair value due to the short-term nature of the investment (level 1 inputs).

**Fair Value of Financial Instruments**

The Company's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, accrued expenses and other and long-term debt. The carrying amounts of the Company's financial instruments approximate their respective fair values due to the relatively short-term nature of these instruments, or in the case of long-term, because of the interest rates currently available to the Company for similar obligations. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. GAAP describes a fair value hierarchy based on the following three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value:

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

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

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

**Accounts Receivable**

The majority of the Company's accounts receivable are due from companies in the commercial, industrial and agricultural industries, as well as 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 and/or guarantees. Accounts receivable are generally due within 30-60 days. Accounts receivable are stated at the amount the Company expects to collect from outstanding balances. The Company provides for probable uncollectible amounts through a charge to earnings and a credit to an allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after the Company has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable.

**Financing Receivables**

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



[Table of Contents](#)

*Aging Analysis as of September 30, 2013 (in thousands):*

	Not Past Due	1-90 days past due	Greater than 90 days past due	Total past due	Total sales-type leases
Lease balances included in consolidated accounts receivable—current	\$ 2,667	\$ 97	\$ 187	\$ 284	\$ 2,951
Lease balances included in consolidated accounts receivable—long-term	2,618	—	—	—	2,618
Total gross sales-type leases	5,285	97	187	284	5,569
Allowance	—	—	(84)	(84)	(84)
Total net sales-type leases	\$ 5,285	\$ 97	\$ 103	\$ 200	\$ 5,485

*Allowance for Credit Losses on Financing Receivables*

The Company's allowance for credit losses is based on management's assessment of the collectability of customer accounts. A considerable amount of judgment is required in order to make this assessment, including a detailed analysis of the aging of the lease receivables and the current credit worthiness of the Company's customers and an analysis of historical bad debts and other adjustments. If there is a deterioration of a major customer's credit worthiness or if actual defaults are higher than historical experience, the estimate of the recoverability of amounts due could be adversely affected. The Company reviews in detail the allowance for doubtful accounts on a quarterly basis and adjusts the allowance estimate to reflect actual portfolio performance and any changes in future portfolio performance expectations. The Company believes that there is currently no impairment of the receivables for the sales-type leases. The Company incurred no write-offs or credit losses against its OTA sales-type lease receivable balances in fiscal 2013 and for the six months ended September 30, 2013.

*Inventories*

Inventories consist of raw materials and components, such as ballasts, metal sheet and coil stock and molded parts; work in process inventories, such as frames and reflectors; and finished goods, including completed fixtures and systems, and wireless energy management systems and accessories, such as lamps, meters and power supplies. All inventories are stated at the lower of cost or market value with cost determined using the first-in, first-out (FIFO) method. The Company reduces the carrying value of its inventories for differences between the cost and estimated net realizable value, taking into consideration usage in the preceding 12 months, expected demand, and other information indicating obsolescence. The Company records as a charge to cost of product revenue the amount required to reduce the carrying value of inventory to net realizable value. As of March 31, 2013 and September 30, 2013, the Company had inventory obsolescence reserves of \$2.3 million and \$1.1 million, respectively.

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

Inventories were comprised of the following (in thousands):

	March 31, 2013	September 30, 2013
Raw materials and components	\$ 8,207	\$ 7,406
Work in process	846	753
Finished goods	6,177	7,048
	\$ 15,230	\$ 15,207

*Deferred Contract Costs*

Deferred contract costs consist primarily of the costs of products delivered, and services performed, that are subject to additional performance obligations or customer acceptance. These deferred contract costs are expensed at the time the related revenue is recognized. Current deferred costs amounted to \$2.1 million and \$2.5 million as of March 31, 2013 and September 30, 2013, respectively.

*Prepaid Expenses and Other Current Assets*

Prepaid expenses and other current assets consist primarily of prepaid insurance premiums, prepaid license fees, purchase deposits, advance payments to contractors, unbilled revenue, prepaid taxes and miscellaneous receivables.

**Property and Equipment**

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

	March 31, 2013	September 30, 2013
Land and land improvements	\$ 1,562	\$ 1,562
Buildings	15,918	15,889
Furniture, fixtures and office equipment	11,995	12,130
Leasehold improvements	58	58
Equipment leased to customers under Power Purchase Agreements	4,997	4,997
Plant equipment	10,620	10,333
Construction in progress	91	100
	45,241	45,069
Less: accumulated depreciation and amortization	(17,294)	(18,942)
Net property and equipment	\$ 27,947	\$ 26,127

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

**Goodwill and Other Intangible Assets**

The costs of specifically identifiable intangible assets that do not have an indefinite life are amortized over their estimated useful lives. Goodwill and intangible assets with indefinite lives are not amortized. Goodwill and intangible assets with indefinite lives are reviewed for impairment annually, as of January 1, or more frequently if impairment indicators arise. Amortizable intangible assets are amortized over their estimated economic useful life to reflect the pattern of economic benefits consumed based upon the following lives and methods:

Patents	10-17 years	Straight-line
Licenses	7-13 years	Straight-line
Customer relationships	5-8 years	Accelerated based upon the pattern of economic benefits consumed
Developed technology	8 years	Accelerated based upon the pattern of economic benefits consumed
Non-competition agreement	5 years	Straight-line

Indefinite lived intangible assets are evaluated for potential impairment whenever events or circumstances indicate that the carrying value may not be recoverable based primarily upon whether expected future undiscounted cash flows are sufficient to support the asset recovery. If the actual useful life of the asset is shorter than the estimated life estimated by us, the asset may be deemed to be impaired and accordingly a write-down of the value of the asset determined by a discounted cash flow analysis or shorter amortization period may be required.

The change in the carrying value of goodwill for the six months ended September 30, 2013 was as follows (in thousands):

Balance at March 31, 2013	\$ —
Acquisition of Harris	4,899
Balance at September 30, 2013	\$ 4,899

The components of, and changes in, the carrying amount of other intangible assets as of September 30, 2013 were as follows (in thousands):

[Table of Contents](#)

	Gross Carrying Amount	Accumulated Amortization
Patents	\$ 2,335	\$ (716)
Licenses	58	(58)
Trade name and trademarks	1,939	—
Customer relationships	3,100	(84)
Developed technology	900	(5)
Non-competition agreement	100	(1)
Total	<u>\$ 8,432</u>	<u>\$ (864)</u>

As of September 30, 2013, the weighted average useful life of intangible assets was 7.8 years. The estimated amortization expense for each of the next five years is shown below (in thousands):

For the remaining 6 months of fiscal 2014	\$ 433
Fiscal 2015	1,217
Fiscal 2016	1,118
Fiscal 2017	808
Fiscal 2018	558
Fiscal 2019	397
Thereafter	1,098
Total	<u>\$ 5,629</u>

**Long-Term Receivables**

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

Also included in other long-term receivables are amounts due from a third party finance company to which the Company has sold, without recourse, the future cash flows from OTAs entered into with customers. Such receivables are recorded at the present value of the future cash flows discounted between 8.8% and 11%. As of September 30, 2013, the following amounts were due from the third party finance company in future periods (in thousands):

Fiscal 2014	\$ 616
Fiscal 2015	955
Fiscal 2016	309
Fiscal 2017	9
Total gross long-term receivable	1,889
Less: amount representing interest	(194)
Net long-term receivable	<u>\$ 1,695</u>

**Long-Term Inventories**

The Company records long-term inventory for the non-current portion of its wireless controls finished goods inventory. The inventories are stated at the lower of cost or market value with cost determined using the FIFO method.

**Other Long-Term Assets**

Other long-term assets include long-term security deposits, prepaid licensing costs, a note receivable, deferred costs for a long-term contract, and deferred financing costs. Other long-term assets include \$58,000 and \$45,000 of deferred financing costs as of March 31, 2013 and September 30, 2013, respectively. Deferred financing costs related to debt issuances are amortized to interest expense over the life of the related debt issue (1 to 10 years).

**Accrued Expenses**

[Table of Contents](#)

Accrued expenses include warranty accruals, accrued wages and benefits, accrued vacation, accrued legal costs, accrued commissions, accrued acquisition earn-out liability, accrued project costs, sales tax payable and other various unpaid expenses. Accrued expenses include \$1,300,000 and \$0 of accrued reorganization and settlement costs as of March 31, 2013 and September 30, 2013, respectively, and \$0.7 million and \$1.4 million of accrued project costs as of March 31, 2013 and September 30, 2013, respectively.

The Company generally offers a limited warranty of one year on its lighting 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 lighting products. Included in other long-term liabilities is \$0.1 million for warranty reserves related to solar operating systems.

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2013	2012	2013
Beginning of period	\$ 90	\$ 287	\$ 84	\$ 284
Provision (benefit) to product cost of revenue	126	(74)	141	75
Charges	(129)	(24)	(138)	(170)
End of period	\$ 87	\$ 189	\$ 87	\$ 189

### Revenue Recognition

Revenue is recognized on the sales of our lighting and related energy efficiency systems and products when the following four criteria are met:

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

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

For sales of the Company's lighting and energy management technologies, consisting of multiple elements of revenue, such as a combination of product sales and services, the Company determines revenue by allocating the total contract revenue to each element based on their relative selling prices in accordance with ASC 605-25, *Revenue Recognition - Multiple Element Arrangements*. In such circumstances, the Company uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (1) vendor-specific objective evidence (VSOE) of fair value, if available, (2) third-party evidence (TPE) of selling price if VSOE is not available, and (3) best estimate of the selling price if neither VSOE nor TPE is available (a description as to how the Company determined estimated selling price is provided below).

The nature of the Company's multiple element arrangements for the sale of its lighting and energy management technologies is similar to a construction project, with materials being delivered and contracting and project management activities occurring according to an installation schedule. The significant deliverables include the shipment of products and related transfer of title and the installation.

To determine the selling price in multiple-element arrangements, the Company established the selling price for its HIF lighting and energy management system products using management's best estimate of the selling price, as VSOE or TPE does not exist. Product revenue is recognized when products are shipped. For product revenue, management's best estimate of selling price is determined using a cost plus gross profit margin method. In addition, the Company records in service revenue the selling price for its installation and recycling services using management's best estimate of selling price, as VSOE or TPE does not exist. Service revenue is recognized when services are completed and customer acceptance has been received. Recycling services provided in connection with installation entail the disposal of the customer's legacy lighting fixtures. The Company's service revenues, other than for installation and recycling that are completed prior to delivery of the product, are included in product revenue using management's best estimate of selling price, as VSOE or TPE does not exist. These services include comprehensive site assessment, site field verification, utility incentive and government subsidy management, engineering

design, and project management. For these services, along with the Company's installation and recycling services, under a multiple-element arrangement, management's best estimate of selling price is determined by considering several external and internal factors including, but not limited to, economic conditions and trends, customer demand, pricing practices, margin objectives, competition, geographies in which the Company offers its products and services and internal costs. The determination of estimated selling price is made through consultation with and approval by management, taking into account all of the preceding factors.

For sales of solar photovoltaic systems, which are governed by customer contracts that require the Company to deliver functioning solar power systems and are generally completed within three to 15 months from the start of construction, the Company recognizes revenue from fixed price construction contracts using the percentage-of-completion method in accordance with ASC 605-35, *Construction-Type and Production-Type Contracts*. Under this method, revenue arising from fixed price construction contracts is recognized as work is performed based upon the percentage of incurred costs to estimated total forecasted costs. The Company has determined that the appropriate method of measuring progress on these sales is measured by the percentage of costs incurred to date of the total estimated costs for each contract as materials are installed. The percentage-of-completion method requires revenue recognition from the delivery of products to be deferred and the cost of such products to be capitalized as a deferred cost and asset on the balance sheet. The Company performs periodic evaluations of the progress of the installation of the solar photovoltaic systems using actual costs incurred over total estimated costs to complete a project. Provisions for estimated losses on uncompleted contracts, if any, are recognized in the period in which the loss first becomes probable and reasonably estimable.

The Company offers a financing program, called an OTA, for a customer's lease of the Company's energy management systems. The OTA is structured as a sales-type lease and upon successful installation of the system and customer acknowledgment that the system is operating as specified, revenue is recognized at the Company's net investment in the lease, which typically is the net present value of the future cash flows.

The Company offers a financing program, called a power purchase agreement, or PPA, for the Company's renewable energy product offerings. A PPA is a supply side agreement for the generation of electricity and subsequent sale to the end user. Upon the customer's acknowledgment that the system is operating as specified, product revenue is recognized on a monthly basis over the life of the PPA contract, which is typically in excess of 10 years.

Deferred revenue relates to advance customer billings, investment tax grants received related to PPAs and a separate obligation to provide maintenance on OTAs and is classified as a liability on the Consolidated Balance Sheet. The fair value of the maintenance is readily determinable based upon pricing from third-party vendors. Deferred revenue related to maintenance services is recognized when the services are delivered, which occurs in excess of a year after the original OTA contract is executed.

#### ***Income Taxes***

The Company recognizes deferred tax assets and liabilities for the future tax consequences of temporary differences between financial reporting and income tax basis of assets and liabilities, measured using the enacted tax rates and laws expected to be in effect when the temporary differences reverse. Deferred income taxes also arise from the future tax benefits of operating loss and tax credit carryforwards. A valuation allowance is established when management determines that it is more likely than not that all or a portion of a deferred tax asset will not be realized. As of September 30, 2013, the Company had a valuation allowance of \$5.2 million against its deferred tax assets.

ASC 740, *Income Taxes*, also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination. The Company has classified the amounts recorded for uncertain tax benefits in the balance sheet as other liabilities (non-current) to the extent that payment is not anticipated within one year. The Company recognizes penalties and interest related to uncertain tax liabilities in income tax expense. Penalties and interest are immaterial and are included in the unrecognized tax benefits.

Deferred tax benefits have not been recognized for income tax effects resulting from the exercise of non-qualified stock options. These benefits will be recognized in the period in which the benefits are realized as a reduction in taxes payable and an increase in additional paid-in capital. For the six months ended September 30, 2012 and 2013, realized tax benefits from the exercise of stock options were \$21,000 and \$0, respectively.

#### ***Stock Option Plans***

[Table of Contents](#)

The Company did not issue any stock options during the three months ended September 30, 2013. The fair value of each option grant during the three and six months ended September 30, 2012 and 2013 was determined using the assumptions in the following table:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2013	2012	2013
Weighted average expected term	6.0 years	N/A	5.6 years	4.1 years
Risk-free interest rate	0.9%	N/A	0.8%	0.8%
Expected volatility	73.0%	N/A	74.2%	73.3%
Expected forfeiture rate	15.1%	N/A	15.1%	21.4%

**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.

Diluted net income (loss) per common share reflects the dilution that would occur if warrants and stock options were exercised. In the computation of diluted net income (loss) per common share, the Company uses the “treasury stock” method for outstanding options, warrants and restricted shares. Diluted net loss per common share was the same as basic net loss per common share for the three and six months ended September 30, 2012, because the effects of potentially dilutive securities were anti-dilutive. The effect of net income (loss) per common share is calculated based upon the following shares (in thousands except share amounts):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2013	2012	2013
Numerator:				
Net income (loss) (in thousands)	\$ (9,659)	\$ 2,403	\$ (11,599)	\$ 1,622
Denominator:				
Weighted-average common shares outstanding	21,075,624	21,089,917	21,814,321	20,634,333
Weighted-average effect of assumed conversion of stock options and warrants	—	452,025	—	468,516
Weighted-average common shares and common share equivalents outstanding	21,075,624	21,541,942	21,814,321	21,102,849
Net income (loss) per common share:				
Basic	\$ (0.46)	\$ 0.11	\$ (0.53)	\$ 0.08
Diluted	\$ (0.46)	\$ 0.11	\$ (0.53)	\$ 0.08

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

	September 30, 2012	September 30, 2013
Common stock options	4,321,571	3,195,917
Restricted shares	163,750	462,537
Common stock warrants	38,980	38,980
Total	4,524,301	3,697,434

**Concentration of Credit Risk and Other Risks and Uncertainties**

The Company previously depended on one supplier for a number of components necessary for its lighting products, including ballasts and lamps. Currently, the Company has been able to obtain these components from multiple suppliers. For the three months ended September 30, 2012, purchases from two suppliers accounted for 11% and 12% of total cost of revenue. For the six months ended September 30, 2012, no supplier accounted for more than 10% of total cost of revenue. For the three and six months ended September 30, 2013, no supplier accounted for more than 10% of total cost of revenue.

The Company previously purchased a majority of its solar panels from one supplier for its sales of solar generating systems through its Orion Engineered Systems Division. Currently, the Company has been able to obtain panels from multiple suppliers. For the three and six months ended September 30, 2012, panel purchases from one supplier accounted for 11% and

6% of total cost of revenue, respectively. For the three and six months ended September 30, 2013, panel purchases from one supplier accounted for 11% and 12% of total cost of revenue, respectively.

For the three and six months ended September 30, 2012, no customers accounted for more than 10% of revenue. For the three and six months ended September 30, 2013, one customer accounted for 33% and 28% of revenue, respectively.

As of March 31, 2013 and September 30, 2013, no customer accounted for more than 10% of accounts receivable.

#### **Recent Accounting Pronouncements**

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2013-11 ("ASU 2013-11"), "*Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.*" ASU 2013-11 requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to the deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The provisions of ASU 2013-11 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company is currently evaluating the impact of ASU 2013-11.

#### **NOTE C — ACQUISITION**

On July 1, 2013, the Company acquired all of the equity interests of Harris Manufacturing, Inc. and Harris LED, LLC (collectively, Harris). Harris is a Florida-based lighting company which engineers, designs, sources and manufactures energy efficient lighting systems, including fluorescent and LED lighting solutions, and day-lighting products.

The acquisition of Harris expands the Company's product lines, including a patent pending LED lighting product designed for commercial office buildings, increases its sales force and provides growth opportunities into markets where the Company has previously not had a strong presence, specifically, new construction, retail store fronts, commercial office and government.

The acquisition was consummated pursuant to a Stock and Unit Purchase Agreement, dated as of May 22, 2013 (Purchase Agreement), by and among Harris, the shareholders and members of Harris (Harris Shareholders), and the Company. The acquisition consideration paid to the Harris Shareholders was valued under the Purchase Agreement at an aggregate of \$10.0 million, plus an adjustment of approximately \$0.2 million to reflect the Company's acquisition of net working capital in excess of a targeted amount, plus an additional \$0.6 million for the contingent consideration earn-out value assigned to non-employee Harris shareholders. The aggregate acquisition consideration was paid through a combination of \$5.0 million in cash, \$3.2 million in a three-year unsecured subordinated promissory note and the issuance of 856,997 shares of unregistered Company common stock. For purposes of the acquisition and the acquisition consideration, the shares of common stock issued in the acquisition of Harris were valued at \$2.33 per share, which was the average closing share price as reported on the NYSE MKT for the 45 trading days preceding and the 22 trading days following the execution of the Purchase Agreement. For purposes of applying the purchase accounting provisions of ASC 805, *Business Combinations*, the shares of common stock issued in the acquisition were valued at \$2.41 per share, which was the closing sale price of the Company's common stock as reported on the NYSE MKT on the July 1, 2013, date of acquisition.

Total revenues and pre-tax income from the Harris business since the date of acquisition included in the accompanying consolidated statements of income for the three months ended September 30, 2013 were \$4.2 million and \$0.1 million, respectively. The Company incurred \$0.4 million in acquisition related costs for Harris during the six months ended September 30, 2013, which included contingent consideration, legal, accounting and other integration related expenses.

The Purchase Agreement contains customary representations and warranties as well as indemnification obligations, and limitations thereon, by the Company and the Harris Shareholders to each other.

The following table summarizes the consideration paid to the Harris Shareholders and the preliminary fair value allocation of the purchase price (in thousands):

[Table of Contents](#)

Consideration paid to Harris Shareholders:		
Cash	\$	5,000
Seller provided debt		3,158
Shares of Company common stock		2,065
Contingent consideration arrangement		612
Total consideration paid	\$	10,835
Cash and cash equivalents	\$	8
Accounts receivable, net		2,215
Inventories		1,633
Other current assets		86
Property, plant and equipment		117
Deferred tax asset		141
Identifiable intangible assets:		
Customer relationships		3,100
Non-competition agreement		100
Developed technology		900
Trade name and trademarks		1,900
Accounts payable		(1,519)
Deferred tax liabilities		(2,219)
Accrued and other liabilities		(526)
Total identifiable net assets		5,936
Goodwill		4,899
	\$	10,835

Prior to the amendment discussed in Note K, the contingent consideration arrangement required the Company to pay the Harris Shareholders up to \$1.0 million in unregistered shares of the Company's common stock upon Harris' achievement of certain revenue milestones in calendar year 2013 and/or 2014, and, in the case of certain Harris Shareholders who became employees of the Company, their continued employment by the Company. The potential undiscounted amount of all future payments that the Company could be required to make under the contingent consideration arrangement is between \$0 and \$1.0 million. The Company recorded \$0.6 million for the non-employee Harris Shareholder portion of the contingent consideration liability. Contingent consideration of \$0.6 million for employee Harris Shareholders will be recorded as compensation expense through the end of calendar 2014. During the three and six months ended September 30, 2013, the Company expensed \$0.2 million in compensation expense.

As part of the preliminary purchase price allocation, the Company determined that the separately identifiable intangible assets acquired consisted of customer relationships, developed technology, trademarks and trade names, and non-competition agreements. The fair value of the acquired identifiable intangible assets and the goodwill in the table above are provisional pending completion of the final valuations for those assets. All of the intangible asset value was assigned to the Company's Energy Management segment.

The separately identifiable intangible assets acquired that do not have an indefinite life are amortized over their estimated economic useful life to reflect the pattern of economic benefits consumed based upon the following lives and methods:

Customer relationships	5-8 years	Accelerated based upon the pattern of economic benefits consumed
Developed technology	8 years	Accelerated based upon the pattern of economic benefits consumed
Non-competition agreement	5 years	Straight-line
Trade name and trademarks	N/A	Indefinite life

The Company used the income approach to value the customer relationships, developed technology and non-competition agreements. This approach calculates the fair value by discounting the forecasted after-tax cash flows for each intangible asset back to a present value at an appropriate risk-adjusted rate of return. The data for these analyses was the cash flow estimates used to price the transaction. Fair value estimates are based on a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions.



[Table of Contents](#)

In estimating the useful lives of the acquired assets, the Company considered ASC 350-30-35, *General Intangibles Other Than Goodwill*, and reviewed the following factors: the expected use by the combined company of the assets acquired, the expected useful life of another asset (or group of assets) related to the acquired assets, legal, regulatory or other contractual provisions that may limit the useful life of an acquired asset, the effects of obsolescence, demand, competition and other economic factors, and the level of maintenance expenditures required to obtain the expected future cash flows from the assets. The Company will amortize these intangible assets over their estimated economic useful lives.

The goodwill of \$4.9 million arising from the Harris acquisition consists largely of the synergies and economies of scale expected from combining operations, and, to a lesser extent, the assembled workforce of Harris. All of the goodwill was assigned to the Company's Energy Management segment. None of the acquired goodwill is expected to be deductible for tax purposes.

The following unaudited pro forma condensed combined results of operations for the six months ended September 30, 2012 and 2013, respectively, are based on the historical financial statements of Orion and Harris giving effect to the business combination as if it had occurred at the beginning of the period presented. Therefore, this pro forma data has been adjusted to include amortization of purchased intangible assets and interest on the promissory note delivered as part of the purchase price during the entire applicable periods. Additionally, the tax benefit of \$2.2 million recorded during the six months ended September 30, 2013 was eliminated and the tax benefit was recorded during the six month period ended September 30, 2012. This data is not necessarily indicative of the results of operations that would have been generated if the transaction had occurred at the beginning of the respective periods. Moreover, this data is not intended to be indicative of future results of operations.

(In Thousands):	Acquisition of Harris Pro Forma Results of Operations	
	Six Months Ended September 30,	
	2012	2013
Revenue	41,976	52,592
Net loss available to common shareholders	(9,118)	(622)
Loss per share:		
Basic	(0.41)	(0.03)
Diluted	(0.41)	(0.03)

The supplemental pro forma results above exclude any benefits that may result from the acquisition due to synergies that are expected to be derived from the elimination of any duplicative costs. In addition, the pro forma results for the six months ended September 30, 2013 were adjusted to exclude non-recurring aggregate acquisition-related costs of \$0.2 million that were incurred in 2013.

**NOTE D — RELATED PARTY TRANSACTIONS**

During the six months ended September 30, 2012 and 2013, the Company had no related party transactions.

**NOTE E — LONG-TERM DEBT**

Long-term debt as of March 31, 2013 and September 30, 2013 consisted of the following (in thousands):

	March 31, 2013	September 30, 2013
Term note	\$ 263	\$ 122
Harris seller's note	—	3,158
Customer equipment finance notes payable	4,408	3,245
First mortgage note payable	694	651
Debenture payable	721	698
Other long-term debt	620	493
Total long-term debt	6,706	8,367
Less current maturities	(2,597)	(3,326)
Long-term debt, less current maturities	\$ 4,109	\$ 5,041

***New Debt Arrangement***

On July 1, 2013, the Company issued an unsecured and subordinated promissory note agreement in the principal amount of \$3.2 million to partially fund the acquisition of Harris. The note is included in the table above as Harris seller's note. The note bears interest at the rate of 4% per annum. Principal and interest are payable quarterly and the note matures in July 2016.

#### ***Revolving Credit Agreement***

The Company has an amended credit agreement (Credit Agreement) with JP Morgan Chase Bank, N.A. (JP Morgan). The Credit Agreement provides for a revolving credit facility (Credit Facility) that matures on August 30, 2014. Borrowings under the Credit Facility are limited to \$15.0 million, subject to a borrowing base requirement when the outstanding principal balance of loans under the Credit Facility is greater than \$5.0 million. Such commitment includes a \$2.0 million sublimit for the issuance of letters of credit. As of September 30, 2013, the Company had outstanding letters of credit totaling \$1.7 million, primarily for securing collateral requirements under equipment operating leases. There were no borrowings outstanding under the Credit Agreement as of March 31, 2013 or September 30, 2013. In February 2013, the Company completed an amendment to the Credit Agreement making certain changes to the financial covenants, which are described below. In August 2013, the Company completed an additional amendment to extend the maturity date of the Credit Agreement to August 30, 2014.

The Credit Agreement requires the Company to maintain (i) a ratio of total liabilities to tangible net worth not to exceed 0.50 to 1.00 as of the last day of any fiscal quarter, (ii) average daily unencumbered liquidity of at least \$20.0 million during each period of three consecutive business days and (iii) EBITDA of at least \$1.0 million during each fiscal quarter. The Credit Agreement also contains certain restrictions on the ability of the Company to make capital or lease expenditures over prescribed limits, incur additional indebtedness, consolidate or merge, guarantee obligations of third parties, make loans or advances, declare or pay any dividend or distribution on its stock, redeem or repurchase shares of its stock or pledge assets. The Company was in compliance with all covenants in the Credit Agreement as of September 30, 2013.

The Credit Agreement is secured by a first priority security interest in the Company's accounts receivable, inventory and general intangibles, and a second priority security interest in the Company's equipment and fixtures. All OTAs, PPAs, leases, supply agreements and/or similar agreements relating to solar PV and wind turbine systems or facilities, as well as all accounts receivable and assets of the Company related to the foregoing, are excluded from these liens, except to the extent the Company elects to finance any such assets with JP Morgan.

Borrowings under the Credit Agreement bear interest based on LIBOR plus an applicable margin (Applicable Margin), which ranges from 2.0% to 3.0% per annum based on the Company's debt service coverage ratio from time to time. The Company must pay a fee ranging between 0.25% and 0.50% per annum on the average daily unused amount of the Credit Facility (with the amount of such fee based on the Company's debt service coverage ratio from time to time) and a fee in the amount of the Applicable Margin on the daily average face amount of undrawn issued letters of credit. The fee on unused amounts is waived if the Company or its affiliates maintain funds on deposit with JP Morgan or its affiliates above a specified amount. The deposit threshold requirement was not met as of September 30, 2013.

#### ***OTA Credit Agreement***

The Company has a credit agreement with JP Morgan that provided up to \$5.0 million that was immediately available to fund completed customer contracts under its OTA finance program. The Company had one year from the date of the commitment to borrow under the credit agreement, which expired on September 30, 2012 for new borrowings. As of September 30, 2013, the Company had \$2.2 million outstanding under the credit agreement. There were no new borrowings during fiscal 2013. The loan amount is collateralized by the OTA-related equipment and the expected future monthly payments under the supporting 39 individual OTA customer contracts. The current loan amount under the credit agreement bears interest at LIBOR plus 4% and matures in December 2016. In February 2013, the Company completed an amendment to the credit agreement making certain changes to the financial covenants requiring the Company to maintain (i) average daily unencumbered liquidity of at least \$20.0 million during each period of three consecutive business days and (ii) EBITDA of at least \$1.0 million during each fiscal quarter. The Company was in compliance with all covenants, as amended, in the credit agreement as of September 30, 2013.

#### **NOTE F — INCOME TAXES**

The income tax provision for the six months ended September 30, 2013 was determined by applying an estimated annual effective tax rate. The estimated annual tax rate is modified to exclude the effect of losses from jurisdictions where the tax benefits cannot be recognized. Items disallowed to a specific quarter are reflected in the tax expense for that period. The estimated effective income tax rate was determined by applying statutory tax rates to pretax loss adjusted for certain permanent book to tax differences and tax credits. As of September 30, 2013, the Company recorded a decrease in its valuation allowance of \$2.2 million as a result of the Harris acquisition. ASC 805, *Business Combinations*, requires the release of all or part of an acquirer's valuation allowance as a result of a business combination to be recorded at the acquisition date. The valuation allowance

[Table of Contents](#)

adjustment considers the projected combined results and available taxable differences resulting from the Harris acquisition. As of September 30, 2013, the Company had recorded a valuation allowance of \$5.2 million, equaling the net deferred tax asset due to the uncertainty of its realization value in the future. ASC 740, *Income Taxes*, requires that a deferred tax asset be reduced by a valuation allowance if there is less than a 50% chance that it will be realized. The determination of the realization of deferred tax assets requires considerable judgment. ASC 740 prescribes the consideration of both positive and negative evidence in evaluating the need for a valuation allowance. Negative evidence for the Company includes a cumulative three year operating loss and limited visibility into future earnings. While the Company has positive evidence with a strong backlog of orders, the Company has determined that the current negative evidence outweighs the current positive evidence and has concluded to record a valuation allowance. The estimated effective income tax rate was determined by applying statutory tax rates to pretax income (loss) adjusted for certain permanent book to tax differences and tax credits.

Below is a reconciliation of the statutory federal income tax rate and the effective income tax rate:

	Six Months Ended September 30,	
	2012	2013
Statutory federal tax rate	(34.0)%	34.0 %
State taxes, net	(2.4)%	0.3 %
Federal tax credit	(2.0)%	17.1 %
State tax credit	0.4 %	5.8 %
Change in valuation reserve	92.7 %	345.8 %
Permanent items	1.2 %	(1.0)%
Change in tax contingency reserve	(0.1)%	(4.0)%
Other, net	(2.0)%	(2.5)%
Effective income tax rate	53.8 %	395.5 %

The Company is eligible for tax benefits associated with the excess of the tax deduction available for exercises of non-qualified stock options, or NQSOs, over the amount recorded at grant. The amount of the benefit is based on the ultimate deduction reflected in the applicable income tax return. Benefits of \$0.1 million were recorded in fiscal 2013 as a reduction in taxes payable and a credit to additional paid in capital based on the amount that was utilized during the year. Benefits of \$0 were recorded for the six months ended September 30, 2013.

As of September 30, 2013, the Company had federal net operating loss carryforwards of approximately \$15.1 million, of which \$3.0 million are associated with the exercise of NQSOs that have not yet been recognized by the Company. The Company also has state net operating loss carryforwards of approximately \$15.5 million, of which \$4.1 million are associated with the exercise of NQSOs. The Company also has federal tax credit carryforwards of approximately \$1.5 million and state tax credits of \$0.5 million. As of September 30, 2013, the Company has recorded a valuation allowance of \$5.2 million, equaling the net deferred tax asset due to the uncertainty of its realization value in the future. The Company considers future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. In the event that the Company determines that the deferred tax assets are able to be realized, an adjustment to the deferred tax asset would increase income in the period such determination is made.

#### ***Uncertain Tax Positions***

As of September 30, 2013, the balance of gross unrecognized tax benefits was approximately \$0.2 million, all of which would reduce the Company's effective tax rate if recognized. The Company does not expect this amount to change during fiscal 2014 as none of the issues are currently under examination, the statutes of limitations do not expire within the period, and the Company is not aware of any pending litigation. Due to the existence of net operating loss and credit carryforwards, all years since 2002 are open to examination by tax authorities.

The Company has classified the amounts recorded for uncertain tax benefits in the balance sheet as other liabilities (non-current) to the extent that payment is not anticipated within one year. The Company recognizes penalties and interest related to uncertain tax liabilities in income tax expense. Penalties and interest are immaterial as of the date of adoption and are included in the unrecognized tax benefits. For the six months ended September 30, 2012 and 2013, the Company had the following unrecognized tax benefit activity (in thousands):

	Six Months Ended September 30,	
	2012	2013
Unrecognized tax benefits as of beginning of period	\$ 401	\$ 188
Additions based on tax positions related to the current period positions	—	22
Unrecognized tax benefits as of end of period	\$ 401	\$ 210

## NOTE G — COMMITMENTS AND CONTINGENCIES

### *Operating Leases and Purchase Commitments*

The Company leases vehicles, equipment and facility space under operating leases expiring at various dates through 2021. Rent expense under operating leases was \$0.4 million and \$0.3 million for the three months ended September 30, 2012 and 2013, respectively; and \$0.9 million and \$0.6 million for the six months ended September 30, 2012 and 2013, respectively. The Company enters into non-cancellable purchase commitments for certain inventory items in order to secure better pricing and ensure materials are on hand to meet anticipated order volume and customer expectations, as well as for capital expenditures. As of September 30, 2013, the Company had entered into \$8.0 million of purchase commitments related to fiscal 2014, including \$1.0 million for operating lease commitments and \$3.4 million for inventory purchase commitments.

## NOTE H — SHAREHOLDERS' EQUITY

### *Shareholder Rights Plan*

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

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

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

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

### *Employee Stock Purchase Plan*

In August 2010, the Company's Board of Directors approved a non-compensatory employee stock purchase plan, or ESPP. The ESPP authorizes 2,500,000 shares to be issued from treasury or authorized shares to satisfy employee share purchases under the ESPP. All full-time employees of the Company are eligible to be granted a non-transferable purchase right each calendar quarter to purchase directly from the Company up to \$20,000 of the Company's common stock at a purchase price equal to 100% of the closing sale price of the Company's common stock on the NYSE MKT exchange on the last trading day of each quarter. The ESPP allows for employee loans from the Company, except for Section 16 officers, limited to 20% of an individual's annual income and no more than \$250,000 outstanding at any one time. Interest on the loans is charged at the 10-year loan IRS rate and is payable at the end of each calendar year or upon loan maturity. The loans are secured by a pledge of any and all the Company's shares purchased by the participant under the ESPP and the Company has full recourse against the employee, including offset against compensation payable. As of March 31, 2013, the Company had halted the loan

program. The Company had the following shares issued from treasury as of March 31, 2013 and for the six months ended September 30, 2013:

	Shares Issued Under ESPP Plan	Closing Market Price	Shares Issued Under Loan Program	Dollar Value of Loans Issued	Repayment of Loans
Cumulative through March 31, 2013	150,408	\$1.66-4.04	128,143	\$ 361,550	\$ 96,441
Quarter Ended June 30, 2013	990	\$2.48	—	—	823
Quarter Ended September 30, 2013	702	\$3.76	—	—	118,309
Total as of September 30, 2013	152,100	\$1.66 - 4.04	128,143	\$ 361,550	\$ 215,573

Loans issued to employees are reflected on the Company's balance sheet as a contra-equity account.

#### **Share Repurchase Program**

In October 2011, the Company's Board of Directors approved a share repurchase program authorizing the Company to repurchase in aggregate up to a maximum of \$1.0 million of the Company's outstanding common stock. In November 2011, the Company's Board of Directors approved an increase to the share repurchase program authorizing the Company to repurchase in aggregate up to a maximum of \$2.5 million of the Company's outstanding common stock. In April 2012, the Company's Board approved another increase to the share repurchase program authorizing the Company to repurchase in aggregate up to a maximum of \$7.5 million of the Company's outstanding common stock. As of September 30, 2013, the Company had repurchased a total of 3.0 million shares of common stock at a cost of \$6.8 million under the program. The Company does not intend to repurchase any additional common stock under this program in the near-term.

#### **NOTE I — STOCK OPTIONS, RESTRICTED SHARES AND WARRANTS**

The Company grants stock options and restricted stock awards under its 2003 Stock Option and 2004 Stock and Incentive Awards Plans (Plans). Under the terms of the Plans, the Company has reserved 13,500,000 shares for issuance to key employees, consultants and directors. The options generally vest and become exercisable ratably between 1 month and 5 years although longer and shorter vesting periods have been used in certain circumstances. Exercisability of the options granted to employees are generally contingent on the employees' continued employment and non-vested options are subject to forfeiture if employment terminates for any reason. Options under the Plans have a maximum life of 10 years. In the past, the Company has granted both ISOs and NQSOs, although in July 2008, the Company adopted a policy of thereafter only granting NQSOs. Certain non-employee directors have elected to receive stock awards in lieu of cash compensation pursuant to elections made under the Company's non-employee director compensation program. The Plans also provide to certain employees accelerated vesting in the event of certain changes of control of the Company as well as under other special circumstances.

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

In June 2012, the Compensation Committee of the Board of Directors approved the issuance of restricted shares under the Plans to key employees to provide an opportunity for such employees to earn long-term equity incentive awards. In May 2013, the Compensation Committee of the Board of Directors changed the Company's long-term equity incentive grant policy so that only restricted shares are issued to all employees under the Plans. The restricted shares are settled in Company stock when the restriction period ends. Compensation cost for restricted shares granted to employees is recognized ratably over the vesting term, which is between three to five years. Settlement of the shares is contingent on the employees' continued employment and non-vested shares are subject to forfeiture if employment terminates for any reason. For the three months ended September 30, 2013, an aggregate of 202,083 of restricted shares were granted valued at a price per share between \$2.41 and \$3.88, which was the closing market price as of each grant date. For the six months ended September 30, 2013, an aggregate of 388,871 of restricted shares were granted valued at a price per share between \$2.41 and \$3.88, which was the closing market price as of each grant date.

For the three and six months ended September 30, 2012, the Company issued zero and 13,547 shares under the Plans to certain non-employee directors who elected to receive stock awards in lieu of cash compensation. The shares were valued at \$2.03, the closing market price as of the issuance date. For the three and six months ended September 30, 2013, the Company issued 7,412 and 21,126 shares under the Plans to certain non-employee directors who elected to receive stock awards in lieu of cash compensation. The shares were valued ranging from \$2.41 per share to \$3.88 per share, the closing market price as of the issuance dates. Additionally, during the three and six months ended September 30, 2012, the Company issued zero and 3,000 shares to a consultant as part of a consulting compensation agreement. The shares were valued at \$2.03 per share, the closing market price as of the issuance date.

[Table of Contents](#)

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2013	2012	2013
Cost of product revenue	\$ 26	\$ 17	\$ 57	\$ 37
General and administrative	269	230	419	451
Sales and marketing	102	57	279	183
Research and development	7	2	15	5
<b>Total</b>	<b>\$ 404</b>	<b>\$ 306</b>	<b>\$ 770</b>	<b>\$ 676</b>

As of September 30, 2013, compensation cost related to non-vested common stock-based compensation, excluding restricted share awards, amounted to \$2.2 million over a remaining weighted average expected term of 6.5 years.

The following table summarizes information with respect to the Plans:

	Options Outstanding				
	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Balance at March 31, 2013	1,632,778	3,312,523	\$ 3.42	6.54	
Granted stock options	(305,544)	305,544	2.41		
Granted shares	(21,126)	—	—		
Restricted shares	(388,871)	—	—		
Forfeited restricted shares	8,250	—	—		
Forfeited stock options	323,550	(323,550)	3.43		
Exercised	—	(98,600)	2.28		
Balance at September 30, 2013	1,249,037	3,195,917	\$ 3.36	6.60	\$ 3,093,399
Exercisable at September 30, 2013		1,647,530	\$ 4.08	5.15	\$ 1,142,506

The aggregate intrinsic value represents the total pre-tax intrinsic value, which is calculated as the difference between the exercise price of the underlying stock options and the fair value of the Company's closing common stock price of \$3.76 as of September 30, 2013.

A summary of the status of the Company's outstanding non-vested stock options as of September 30, 2013 was as follows:

Non-vested at March 31, 2013	1,747,805
Granted	305,544
Vested	(181,412)
Forfeited	(323,550)
<b>Non-vested at September 30, 2013</b>	<b>1,548,387</b>

During the first half of fiscal 2014, the Company granted restricted shares as follows (which are included in the above stock plan activity tables):

Balance at March 31, 2013	105,000
Shares issued	388,871
Shares vested	(23,084)
Shares forfeited	(8,250)
Shares outstanding at September 30, 2013	462,537
Per share price on grant date	\$2.41-3.88
Compensation expense for six months ended September 30, 2013	\$ 95,121

[Table of Contents](#)

As of September 30, 2013, the amount of deferred stock-based compensation related to grants of restricted shares, to be recognized over a remaining period of 3.8 years, was approximately \$1.0 million.

The Company has previously issued warrants in connection with various private placement stock offerings and services rendered. The warrants granted the holder the option to purchase common stock at specified prices for a specified period of time. No warrants were issued in fiscal 2013 or during the six months ended September 30, 2013.

A summary of outstanding warrants at September 30, 2013 follows:

	Number of Shares	Exercise Price	Expiration
Balance at March 31, 2013	38,980	\$ 2.25	Fiscal 2015
Balance at September 30, 2013	38,980	\$ 2.25	Fiscal 2015

**NOTE J — SEGMENTS**

The descriptions of the Company's segments and their summary financial information are presented below.

***Energy Management***

The Energy Management Division develops, manufactures, integrates and sells commercial HIF and other lighting systems and energy management systems.

***Engineered Systems***

The Engineered Systems Division sells and integrates alternative renewable energy systems, such as solar and wind systems.

***Corporate and Other***

Corporate and Other is comprised of operating expenses not directly allocated to the Company's segments and adjustments to reconcile to consolidated results, which primarily include intercompany eliminations.

	Revenues		Operating Income (Loss)	
	For the Three Months Ended September 30,		For the Three Months Ended September 30,	
	2012	2013	2012	2013
(dollars in thousands)				
<b>Segments:</b>				
Energy Management	\$ 16,652	\$ 18,410	\$ (453)	\$ 1,123
Engineered Systems	2,756	9,085	(661)	911
Corporate and Other	—	—	(2,990)	(1,826)
	<u>\$ 19,408</u>	<u>\$ 27,495</u>	<u>\$ (4,104)</u>	<u>\$ 208</u>

	Revenues		Operating Income (Loss)	
	For the Six Months Ended September 30,		For the Six Months Ended September 30,	
	2012	2013	2012	2013
(dollars in thousands)				
<b>Segments:</b>				
Energy Management	\$ 29,252	\$ 34,300	\$ (2,211)	\$ 1,271
Engineered Systems	5,466	14,047	(1,057)	1,114
Corporate and Other	—	—	(4,414)	(3,006)
	<u>\$ 34,718</u>	<u>\$ 48,347</u>	<u>\$ (7,682)</u>	<u>\$ (621)</u>

	Total Assets		Deferred Revenue	
	March 31, 2013	September 30, 2013	March 31, 2013	September 30, 2013
(dollars in thousands)				
Segments:				
Energy Management	\$ 58,627	\$ 64,789	\$ 564	\$ 420
Engineered Systems	9,339	9,180	3,640	1,757
Corporate and Other	34,131	36,366	—	—
	<u>\$ 102,097</u>	<u>\$ 110,335</u>	<u>\$ 4,204</u>	<u>\$ 2,177</u>

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

#### NOTE K — SUBSEQUENT EVENTS

On October 21, 2013, the Company executed a letter agreement amending the Purchase Agreement for the Harris acquisition. The letter agreement established a fixed future consideration of \$1.4 million for the previously existing earn-out component of the Purchase Agreement and eliminated the requirement that certain revenue targets must be achieved. Under the letter agreement, on January 1, 2014, the Company will issue \$0.6 million in unregistered shares of the Company's common stock. The fixed consideration was determined based upon the existing share calculation at a fair value of \$3.80 per common share. On January 1, 2015, the Company will pay \$0.8 million in cash to settle all outstanding obligations related to the earn-out component of the Purchase Agreement.



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

*The following discussion and analysis of our financial condition and results of operations should be read together with our unaudited condensed consolidated financial statements and related notes included in this Form 10-Q, as well as our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2013.*

**Cautionary Note Regarding Forward-Looking Statements**

Any statements in this Quarterly Report on Form 10-Q about our expectations, beliefs, plans, objectives, prospects, financial condition, assumptions or future events or performance are not historical facts and are "forward-looking statements" as that term is defined under the federal securities laws. These statements are often, but not always, made through the use of words or phrases such as "believe", "anticipate", "should", "intend", "plan", "will", "expects", "estimates", "projects", "positioned", "strategy", "outlook" and similar words. You should read the statements that contain these types of words carefully. Such forward-looking statements are subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what is expressed or implied in such forward-looking statements. There may be events in the future that we are not able to predict accurately or over which we have no control. Potential risks and uncertainties include, but are not limited to, those discussed in "Part I, Item 1A. Risk Factors" in our fiscal 2013 Annual Report filed on Form 10-K for the fiscal year ended March 31, 2013 and elsewhere in this Quarterly Report. We urge you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We do not undertake any obligation to release publicly any revisions to such forward-looking statements to reflect events or uncertainties after the date hereof or to reflect the occurrence of unanticipated events.

**Recent Developments**

On July 1, 2013, we completed the acquisition of the equity interests of Harris Manufacturing, Inc. and Harris LED, LLC, or collectively, Harris. Harris engineers, designs, sources and manufactures energy efficient lighting systems, including fluorescent and LED lighting solutions, and day-lighting products. We expect the Harris acquisition to expand our product lines, increase our sales force and provide growth opportunities into markets where we have not had a strong presence, specifically, new construction, retail store fronts, commercial office and government. The initial purchase price for the transaction was \$10.8 million, after an adjustment of \$0.2 million for excess net working capital over a targeted amount. The purchase price was paid in a combination of \$5.0 million of cash, \$3.2 million in a three-year unsecured subordinated note bearing interest at the rate of 4% per annum, and the issuance of 856,997 shares of unregistered common stock, representing a fair value on the date of issuance of \$2.1 million. We also agreed to issue up to \$1.0 million in shares of our unregistered common stock if Harris met certain revenue targets through calendar year 2014, and, in the case of certain Harris shareholders who became employees of the Company, their continued employment by us. In October 2013, we amended the earn-out provisions of the Harris purchase agreement to fix the future consideration for the earn-out at \$1.4 million and eliminate the future revenue targets, although the employee retention provisions still apply to Harris shareholders who became our employees. We believe that the contingent Harris revenue targets were more likely than not to be achieved. We agreed to settle \$0.6 million of the earn-out payment on January 1, 2014 in an equivalent value of unregistered shares of our common stock and \$0.8 million on January 1, 2015 in cash. Harris had audited revenue of approximately \$14.7 million and audited net income of approximately \$0.9 million during the year ended December 31, 2012. We expect the transaction to be accretive to our future earnings during fiscal 2014.

We acquired certain light emitting diode, or LED, technologies through the acquisition of Harris which complement our existing portfolio of LED lighting products. In particular, Harris' LED door retrofit, or LDR, product is designed to retrofit commercial office space, a market where we have historically had little revenue contribution. Since the acquisition of Harris, our engineering and design teams have worked to expand the LDR product line to include architectural, industrial and contractor product categories. According to a May 2013 US Department of Energy report, we estimate the potential North American LED retrofit market within our key product categories to be approximately 1.1 billion lighting fixtures. We continue to research LED technologies and expect that as component performance attributes increase and product costs decrease, LED technologies will become an increasingly larger component of our future revenue.

During fiscal 2013, we recorded operating expenses related to reorganization costs of \$2.1 million, which included \$1.9 million to general and administrative expenses and \$0.2 million to sales and marketing expenses. Additionally, we recorded a \$4.1 million non-cash income tax expense to establish a valuation allowance against our deferred tax assets. During the fiscal 2014 second quarter, we recorded a \$2.2 million benefit against this valuation allowance to offset deferred tax liabilities acquired from Harris.

## [Table of Contents](#)

During the fiscal 2013 second half, we implemented \$5.2 million in annualized cost reduction initiatives, including a reduction in headcount of approximately 18%, the termination of consulting agreements, material and component cost savings in our HIF lighting products, and discretionary spending reductions. We have also identified an additional \$2.0 million of annualized cost containment initiatives which we are working towards implementing in the future. These new initiatives will require some time to implement due to contractual obligations, engineering review, production planning and other analysis related to ensuring minimal business interruption and risk. There is no guarantee that we will be able to implement these cost containment opportunities and recognize any of these additional cost savings.

During the fiscal 2014 first half, we have been actively expanding our direct sales force. We expect to continue to increase our sales headcount during the remainder of our fiscal 2014 year. We expect that these additional costs will increase our overall sales and marketing expense in fiscal 2014 by approximately \$2.3 million and that the net benefit of these additions and our implemented cost containment initiatives will result in reduced annual expense of approximately \$2.9 million.

### **Overview**

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

We typically generate the 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 more recently introduced new products of our LED lighting and energy management systems. We believe that we have taken a responsible approach to this emerging technology. Based upon recent improvements, including drastic reduction of chip prices, availability of name-brand drivers and the integration with our InteLite controls offerings, we believe that LED will become a larger part of our overall interior and exterior lighting strategy in the future. We believe that our new LED product offerings also present new opportunities in the hospitality, health care, education, commercial office and general retail markets, in addition to strengthening our position as an energy management leader in the commercial, industrial and food service markets.

We have sold and installed more than 2,634,000 of our HIF and LED lighting systems in over 9,735 facilities from December 1, 2001 through September 30, 2013. We have sold our products to 162 Fortune 500 companies, many of which have installed our HIF lighting systems in multiple facilities. Our top direct customers by revenue in fiscal 2013 included Coca-Cola Enterprises, Inc., PepsiCo Inc., U.S. Foodservice, SYSCO Corp., Quad Graphics, Inc. and Wakefern Food Corporation.

Our fiscal year ends on March 31. We refer to our prior fiscal year which ended on March 31, 2013, as "fiscal 2013", and our current fiscal year, which will end on March 31, 2014, as "fiscal 2014." Our fiscal first quarter of each fiscal year 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.

Due to a difficult economic environment, especially as it has impacted capital equipment manufacturers, our results for fiscal 2013 and the first half of fiscal 2014 continued to be adversely affected by lengthened customer sales cycles and sluggish customer capital spending. To address these difficult economic conditions, we implemented several cost reduction initiatives during the fiscal 2013 second half as described above. During fiscal 2014, we are aggressively focused on additional cost containment initiatives related to material product costs, service margin expansion and implementing lean manufacturing methodologies to reduce production costs in our manufacturing facility. We currently anticipate approximately \$1.0 million in annualized synergies from our Harris acquisition related to headcount reductions and facility operating cost decreases. We do not expect full synergies to be achieved until the end of calendar year 2014.

In response to the constraints on our customers' capital spending budgets, we have been promoting the advantages to our customers of purchasing our energy management systems through our Orion Throughput Agreement, or OTA, financing program. Our OTA financing program provides for our customer's purchase of our energy management systems without an up-front capital outlay. During fiscal 2012, we entered into an arrangement with a national equipment finance company to provide immediate non-recourse funding of pre-credit approved OTA finance contracts upon project completion and customer acceptance. The majority of these sales occur on a non-recourse basis. During fiscal 2013 and the first half of fiscal 2014, approximately 73.3% and 90.5%, respectively, of our total completed OTA contracts were financed directly through third party

equipment finance companies. In the future, we intend to continue to utilize third party finance companies to fund the majority of our OTA contracts. In future periods, the number of customers who choose to purchase our systems by using our OTA financing program will be dependent upon our relationships with third party equipment finance companies, the extent to which customers choose to use their own capital budgets and the extent to which customers choose to enter into finance contracts. Additionally, we have provided a financing program to our alternative renewable energy system customers called a solar Power Purchase Agreement, or PPA, as an alternative to purchasing our systems for cash. The PPA is a supply side agreement for the generation of electricity and subsequent sale to the end user. We do not intend to use our own cash balances to fund future PPA opportunities and have been able to secure several external sources of funding for PPA's on behalf of our customers.

Despite these recent economic challenges, we remain optimistic about our near-term and long-term financial performance. Our near-term optimism is based upon our return to profitability during our fiscal 2013 second half, the significant improvement in our fiscal 2014 first half performance compared to our fiscal 2013 first half performance, our investments into our retail sales force and our intentions to continue to expand our retail sales force during the remainder of fiscal 2014, our cost containment initiatives and opportunities, the increasing volume of unit sales of our new products, specifically our exterior HIF and LED fixtures, and the completion of our acquisition of Harris and the increased sales market opportunities and cost synergies that Harris provides. Our long-term optimism is based upon the considerable size of the existing market opportunity for lighting retrofits, including the new market opportunities in commercial office, government and retail that Harris provides, the continued development of our new products and product enhancements, including our new LED product offerings, the opportunity for additional revenue from sales of third party technologies through our Orion Engineered Systems Division, our refocused management efforts which has resulted in our cost reduction initiatives, and the opportunity to increase gross margins through the leverage of our under-utilized manufacturing capacity.

Our annual report on Form 10-K for the fiscal year ended March 31, 2013 provides additional information about our business and operations.

### **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 majority of our revenue from sales of HIF lighting systems and related services to commercial and industrial customers. While our services include comprehensive site assessment, site field verification, utility incentive and government subsidy management, engineering design, project management, installation and recycling in connection with our retrofit installations, we separately recognize service revenue only for our installation and recycling services. Our installation and recycling service revenues are recognized when services are complete and customer acceptance has been received. Our wholesale channels, which includes our value-added resellers and electrical contractors, accounted for approximately 59% of our total revenue in fiscal 2013, not taking into consideration our renewable technologies revenue generated through our Orion Engineered Systems Division. During the first half of fiscal 2014, wholesale revenues accounted for approximately 66% of our total revenue, not taking into consideration our renewable technologies revenue generated through our Orion Engineered Systems Division, compared to 58% for the first half of fiscal 2013. In fiscal 2012, we focused our expansion efforts on our direct retail sales channel through the creation of a telemarketing call center for the purpose of customer lead generation, the establishment of a sales office and personnel in Houston, Texas and headcount additions to our retail sales force and our Engineered Systems Division. During the fiscal 2013 second half, we re-engineered our telemarketing call center for the purpose of improving the quality of leads and increasing sales closing ratios. During the first half of fiscal 2014, we have continued the expansion of our direct in-market sales force and intend to continue increasing the number of direct sales personnel during the remainder of fiscal 2014.

Additionally, we offer our OTA sales-type financing program under which we finance the customer's purchase of our energy management systems. The OTA program was established to assist customers who are interested in purchasing our energy management systems but who have capital expenditure budget limitations. Our OTA contracts are capital leases under GAAP and we record revenue at the present value of the future payments at the time customer acceptance of the installed and operating system is complete. Our OTA contracts under this sales-type financing are either structured with a fixed term, typically 60 months, and a bargain purchase option at the end of term, or are one year in duration and, at the completion of the initial one-year term, provide for (i) one to four automatic one-year renewals at agreed upon pricing; (ii) an early buyout for cash; or (iii) the return of the equipment at the customer's expense. The revenue that we are entitled to receive from the sale of our lighting fixtures under our OTA financing program is fixed and is based on the cost of the lighting fixtures and applicable profit margin. Our revenue from agreements entered into under this program is not dependent upon our customers' actual energy savings. We recognize revenue from OTA contracts at the net present value of the future cash flows at the completion date of the installation of the energy management systems and the customer's acknowledgment that the system is operating as specified. Upon completion of the installation, we may choose to sell the future cash flows and residual rights to the equipment on a non-recourse basis to third party finance companies in exchange for cash and future payments.

## [Table of Contents](#)

In fiscal 2013, we recognized \$6.7 million of revenue from 128 completed OTA contracts. For the three months ended September 30, 2013, we recognized \$0.7 million of revenue from 13 completed contracts compared to \$1.6 million from 33 completed contracts during the three months ended September 30, 2012. For the six months ended September 30, 2013, we recognized \$2.4 million of revenue from 37 completed contracts compared to \$3.4 million from 52 completed contracts for the six months ended September 30, 2012.

Our PPA financing program provides for our customer's purchase of electricity from our renewable energy generating assets without an upfront capital outlay. Our PPA is a longer-term contract, typically in excess of 10 years, in which we receive monthly payments over the life of the contract. This program creates an ongoing recurring revenue stream, but reduces near-term revenue as the payments are recognized as revenue on a monthly basis over the life of the contract versus upfront upon product shipment or project completion. In fiscal 2013, we recognized \$0.7 million of revenue from completed PPAs. In the first half of fiscal 2014, we recognized \$0.4 million of revenue from completed PPAs. As of September 30, 2013, we had signed one customer to two separate PPAs representing future potential discounted revenue streams of \$2.0 million. We discount the future revenue from PPAs due to the long-term nature of the contracts, typically in excess of 10 years. The timing of expected future discounted GAAP revenue recognition and the resulting operating cash inflows from PPAs, assuming the systems perform as designed, was as follows as of September 30, 2013 (in thousands):

Fiscal 2014	\$	98
Fiscal 2015		247
Fiscal 2016		247
Fiscal 2017		247
Fiscal 2018		246
Beyond		867
Total expected future discounted revenue from PPAs	\$	1,952

For sales of our solar PV systems, which are governed by customer contracts that require us to deliver functioning solar power systems and are generally completed within three to 15 months from the start of project construction, we recognize revenue from fixed price construction contracts using the percentage-of-completion method. Under this method, revenue arising from fixed price construction contracts is recognized as work is performed based upon the percentage of incurred costs to estimated total forecasted costs. We have determined that the appropriate method of measuring progress on these sales is measured by the percentage of costs incurred to date of the total estimated costs for each contract as materials are installed. The percentage-of-completion method requires revenue recognition from the delivery of products to be deferred and the cost of such products to be capitalized as a deferred cost and current asset on the balance sheet. We perform periodic evaluations of the progress of the installation of the solar PV systems using actual costs incurred over total estimated costs to complete a project. Provisions for estimated losses on uncompleted contracts, if any, are recognized in the period in which the loss first becomes probable and reasonably estimable.

We recognize revenue on product only sales of our lighting and energy management systems at the time of shipment. For lighting and energy management systems projects consisting of multiple elements of revenue, such as a combination of product sales and services, we recognize revenue by allocating the total contract revenue to each element based on their relative selling prices. We determine the selling price of each element based upon management's best estimate giving consideration to pricing practices, margin objectives, competition, scope and size of individual projects, geographies in which we offer our products and services and internal costs. We recognize revenue at the time of product shipment on product sales and on services completed prior to product shipment. We recognize revenue associated with services provided after product shipment, based on their relative selling price, when the services are completed and customer acceptance has been received. When other significant obligations or acceptance terms remain after products are delivered, revenue is recognized only after such obligations are fulfilled or acceptance by the customer has occurred.

Our dependence on individual key customers can vary from period to period as a result of the significant size of some of our solar PV projects and multi-facility roll-out projects. Our top 10 customers accounted for approximately 30% and 49% of our total revenue for the first half of fiscal 2013 and fiscal 2014, respectively. No customer accounted for more than 10% of our total revenue in the first half of fiscal 2013. One customer accounted for 28% of our total revenue in the first half of fiscal 2014. To the extent that large solar PV projects and multi-facility roll-out projects become a greater component of our total revenue, we may experience more customer concentration in given periods. The loss of, or substantial reduction in sales volume to, any of our significant customers could have a material adverse effect on our total revenue in any given period and may result in significant annual and quarterly revenue variations.

Our level of total revenue for any given period is dependent upon a number of factors, including (i) the demand for our products and systems, including our OTA and PPA programs and any new products, applications and service that we may introduce through our Orion Engineered Systems Division; (ii) the number and timing of large retrofit and multi-facility retrofit, or “roll-out,” projects; (iii) the rate at which we expand our direct sales force; (iv) our ability to realize revenue from our services; (v) market conditions; (vi) the level of our wholesale sales; (vii) our execution of our sales process; (viii) our ability to compete in a highly competitive market and our ability to respond successfully to market competition; (ix) the selling price of our products and services; (x) changes in capital investment levels by our customers and prospects; (xi) the rate of performance improvement and cost decreases of LED product offerings; and (xii) customer sales and budget cycles. As a result, our total revenue may be subject to quarterly variations and our total revenue for any particular fiscal quarter may not be indicative of future results.

*Backlog.* We define backlog as the total contractual value of all firm orders and OTA contracts received for our lighting and solar products and services where delivery of product or completion of services has not yet occurred as of the end of any particular reporting period. Such orders must be evidenced by a signed proposal acceptance or purchase order from the customer. Our backlog does not include PPAs or national contracts that have been negotiated, but under which we have not yet received a purchase order for the specific location. As of September 30, 2013, we had a backlog of firm purchase orders of approximately \$13.0 million, which included \$8.9 million of solar PV orders, compared to \$18.6 million as of June 30, 2013, which included \$16.5 million of solar PV orders. We currently expect approximately \$11.1 million of our September 30, 2013 backlog to be recognized as revenue in our fiscal 2014 second half and the remainder in future years. We generally expect this level of firm purchase order backlog related to HIF lighting systems to be recognized as revenue within the following quarter. We generally expect our firm purchase order backlog related to solar PV systems to be recognized within the following three to 15 months from the time construction of the system begins, although during fiscal 2012, we received a \$20.2 million single order for which the solar PV system construction began during our fiscal 2014 first quarter. As a result of the decreased volume of our solar PV orders, the continued lengthening of our customer’s purchasing decisions because of current recessed economic conditions and related factors, the continued shortening of our installation cycles and the number of projects sold through OTAs, a comparison of backlog from period to period is not necessarily meaningful and may not be indicative of actual revenue recognized in future periods.

*Cost of Revenue.* Our total cost of revenue consists of costs for: (i) raw materials, including sheet, coiled and specialty reflective aluminum; (ii) electrical components, including ballasts, power supplies and lamps; (iii) materials for sales of solar PV systems through our Engineered Systems Division, including solar panels, inverters and wiring; (iv) wages and related personnel expenses, including stock-based compensation charges, for our fabricating, coating, assembly, logistics and project installation service organizations; (v) manufacturing facilities, including depreciation on our manufacturing facilities and equipment, taxes, insurance and utilities; (vi) warranty expenses; (vii) installation and integration; and (viii) shipping and handling. Our cost of aluminum can be subject to commodity price fluctuations, which we attempt to mitigate through the recycling of old scrap fixtures through our facility which contain similar content of aluminum when compared to new fixtures. We also purchase many of our electrical components through forward purchase contracts. We buy most of our specialty reflective aluminum from a single supplier. We purchase our ballast and lamp components from multiple suppliers. For the first half of fiscal 2013 and fiscal 2014, no supplier accounted for more than 10% of total cost of revenue. We purchase our solar panels from multiple suppliers for sales of our solar generating systems. For the first half of fiscal 2013, purchases from one supplier accounted for 6% of total cost of revenue. For the first half of fiscal 2014, purchases from one supplier accounted for 12% of total cost of revenue. Our cost of revenue from OTA projects is recorded upon customer acceptance and acknowledgment that the system is operating as specified. Our production labor force is non-union and, as a result, our production labor costs have been relatively stable. We have been expanding our network of qualified third-party installers to realize efficiencies in the installation process. During fiscal 2013, we reduced indirect headcount as part of our cost containment initiative. During fiscal 2014, we are aggressively focused on cost containment initiatives related to material product costs, service margin expansion and the implementation of lean manufacturing methodologies to reduce production costs in our manufacturing facility.

*Gross Margin.* Our gross profit has been, and will continue to be, affected by the relative levels of our total revenue and our total cost of revenue, and as a result, our gross profit may be subject to quarterly variation. Our gross profit as a percentage of total revenue, or gross margin, is affected by a number of factors, including: (i) our level of solar PV sales which have greater margin volatility due to recent decreases in product costs versus our traditional energy management systems; (ii) our mix of large retrofit and multi-facility roll-out projects with national accounts; (iii) the level of our wholesale and partner sales (which generally have historically resulted in lower relative gross margins, but higher relative net margins, than our sales to direct customers); (iv) our realization rate on our billable services; (v) our project pricing; (vi) our level of warranty claims; (vii) our level of utilization of our manufacturing facilities and production equipment and related absorption of our manufacturing overhead costs; (viii) our level of efficiencies in our manufacturing operations; and (ix) our level of efficiencies from our subcontracted installation service providers.

*Operating Expenses.* Our operating expenses consist of: (i) general and administrative expenses; (ii) acquisition related expenses; (iii) sales and marketing expenses; and (iv) research and development expenses. Personnel related costs are our largest operating expense. In fiscal 2013, we decreased headcount as part of our cost containment initiatives. In fiscal 2014, we expect to increase headcount in our sales areas for direct sales employees.

Our general and administrative expenses consist primarily of costs for: (i) salaries and related personnel expenses, including stock-based compensation charges related to our executive, finance, human resource, information technology and operations organizations; (ii) public company costs, including investor relations, external audit and internal audit; (iii) occupancy expenses; (iv) professional services fees; (v) technology related costs and amortization; (vi) asset impairment charges; and (vii) corporate-related travel.

Our acquisition related expenses consist primarily of costs for: (i) variable purchase accounting expenses for contingent consideration; (ii) legal and accounting costs; and (iii) integration expenses.

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; (vi) bad debt; and (vii) 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.

During the back half of fiscal 2013, we initiated cost containment efforts that reduced expenses related to compensation, consulting and other discretionary spending. 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 intend to continue to invest in the expansion of our in-market direct sales force during fiscal 2014. We also intend to continue investing in our research and development of new and enhanced energy management products and services.

We recognize compensation expense for the fair value of our stock option and restricted stock awards granted over their related vesting period. We recognized \$0.8 million and \$0.7 million of compensation expense for the first half of fiscal 2013 and fiscal 2014, respectively. As a result of prior option and restricted stock grants, we expect to recognize an additional \$3.2 million of stock-based compensation over a weighted average period of approximately six years, including \$0.6 million in the last half of fiscal 2014. These charges have been, and will continue to be, allocated to cost of product revenue, general and administrative expenses, sales and marketing expenses and research and development expenses based on the departments in which the personnel receiving such awards have primary responsibility. A substantial majority of these charges have been, and likely will continue to be, allocated to general and administrative expenses and sales and marketing expenses.

*Interest Expense.* Our interest expense is comprised primarily of interest expense on outstanding borrowings under long-term debt obligations, including the amortization of previously incurred financing costs. We amortize deferred financing costs to interest expense over the life of the related debt instrument, ranging from one to ten years.

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

*Income Taxes.* As of September 30, 2013, we had net operating loss carryforwards of approximately \$15.1 million for federal tax purposes and \$15.5 million for state tax purposes. Included in these loss carryforwards were \$3.0 million for federal and \$4.1 million for state tax purposes of compensation expenses that were associated with the exercise of nonqualified stock options. The benefit from our net operating losses created from these compensation expenses has not yet been recognized in our financial statements and will be accounted for in our shareholders' equity as a credit to additional paid-in capital as the deduction reduces our income taxes payable. We also had federal tax credit carryforwards of approximately \$1.5 million and state credit carryforwards of approximately \$0.5 million. A valuation allowance has been set up to fully reserve for our net operating losses and our tax credits. It is possible that we may not be able to utilize the full benefit of our state tax credits due to our state apportioned income and the potential expiration of the state tax credits due to the carry forward period. These federal and state net operating losses and credit carryforwards are available, subject to the discussion in the following paragraph, to offset future taxable income and, if not utilized, will begin to expire in varying amounts between 2020 and 2033. Our valuation allowance for deferred tax assets is based upon our cumulative three year operating losses.

[Table of Contents](#)

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. There was no limitation that occurred for fiscal 2012 or fiscal 2013.

**Results of Operations**

The following table sets forth the line items of our consolidated statements of operations on an absolute dollar basis and as a relative percentage of our total revenue for each applicable period, together with the relative percentage change in such line item between applicable comparable periods set forth below (dollars in thousands):

	Three Months Ended September 30,					Six Months Ended September 30,				
	2012		2013		% Change	2012		2013		% Change
	Amount	% of Revenue	Amount	% of Revenue		Amount	% of Revenue	Amount	% of Revenue	
Product revenue	\$ 16,931	87.2 %	\$ 21,181	77.0 %	25.1 %	\$ 30,511	87.9 %	\$ 38,704	80.1 %	26.9 %
Service revenue	2,477	12.8 %	6,314	23.0 %	154.9 %	4,207	12.1 %	9,643	19.9 %	129.2 %
Total revenue	19,408	100.0 %	27,495	100.0 %	41.7 %	34,718	100.0 %	48,347	100.0 %	39.3 %
Cost of product revenue	11,867	61.2 %	15,638	56.9 %	31.8 %	21,464	61.8 %	28,522	59.0 %	32.9 %
Cost of service revenue	1,736	8.9 %	4,028	14.6 %	132.0 %	3,076	8.9 %	6,273	13.0 %	103.9 %
Total cost of revenue	13,603	70.1 %	19,666	71.5 %	44.6 %	24,540	70.7 %	34,795	72.0 %	41.8 %
Gross profit	5,805	29.9 %	7,829	28.5 %	34.9 %	10,178	29.3 %	13,552	28.0 %	33.1 %
General and administrative expenses	4,638	23.9 %	3,173	11.5 %	(31.6)%	7,940	22.9 %	5,857	12.1 %	(26.2)%
Acquisition related expenses	—	— %	356	1.3 %	N/A	—	— %	431	0.9 %	N/A
Sales and marketing expenses	4,561	23.5 %	3,644	13.3 %	(20.1)%	8,513	24.4 %	6,947	14.4 %	(18.4)%
Research and development expenses	710	3.6 %	448	1.6 %	(36.9)%	1,407	4.1 %	938	1.9 %	(33.3)%
(Loss) income from operations	(4,104)	(21.1)%	208	0.8 %	(105.1)%	(7,682)	(22.1)%	(621)	(1.3)%	(91.9)%
Interest expense	(142)	(0.8)%	(142)	(0.6)%	— %	(303)	(0.9)%	(255)	(0.5)%	(15.8)%
Interest income	218	1.1 %	153	0.6 %	(29.8)%	443	1.3 %	327	0.7 %	(26.2)%
(Loss) income before income tax	(4,028)	(20.8)%	219	0.8 %	(105.4)%	(7,542)	(21.7)%	(549)	(1.1)%	(92.7)%
Income tax expense (benefit)	5,631	29.0 %	(2,184)	(7.9)%	(138.8)%	4,057	11.7 %	(2,171)	(4.5)%	(153.5)%
Net (loss) income	\$ (9,659)	(49.8)%	\$ 2,403	8.7 %	(124.9)%	\$ (11,599)	(33.4)%	\$ 1,622	3.4 %	(114.0)%

*Revenue.* Product revenue increased from \$16.9 million for the fiscal 2013 second quarter to \$21.2 million for the fiscal 2014 second quarter, an increase of \$4.3 million, or 25%. The increase in product revenue was a result of increased sales of solar PV systems, \$2.6 million of revenue resulting from our acquisition of Harris and increased sales of our LED fixtures. Service revenue increased from \$2.5 million for the fiscal 2013 second quarter to \$6.3 million for the fiscal 2014 second quarter, an increase of \$3.8 million, or 155%. The increase in service revenue was a result of the installation of solar projects under construction and \$1.6 million in service revenue resulting from our acquisition of Harris. Total revenue from renewable energy systems was \$9.1 million for the fiscal 2014 second quarter compared to \$2.8 million for the fiscal 2013 second quarter. The percentage increase in revenue from renewable energy systems was due to an increase in the system size of our projects under construction compared to smaller projects under construction during fiscal 2013. Product revenue increased from \$30.5 million for the first half of fiscal 2013 to \$38.7 million for the first half of fiscal 2014, an increase of \$8.2 million, or 27%. Service revenue increased from \$4.2 million for the first half of fiscal 2013 to \$9.6 million for the first half of fiscal 2014, an increase of \$5.4 million, or 129%. Total revenue from renewable energy systems was \$14.0 million for the first half of fiscal 2014 compared to \$5.5 million for the first half of fiscal 2013, an increase of \$8.5 million, or 155%.

*Cost of Revenue and Gross Margin.* Our cost of product revenue increased from \$11.9 million for the fiscal 2013 second quarter to \$15.6 million for the fiscal 2014 second quarter, an increase of \$3.7 million, or 32%. Our cost of service revenue increased from \$1.7 million for the fiscal 2013 second quarter to \$4.0 million for the fiscal 2014 second quarter, an increase of \$2.3 million, or 132%. Gross margin decreased from 29.9% for the fiscal 2013 second quarter to 28.5% for the fiscal 2014 second quarter. Our gross margins were unfavorably impacted by an increased mix of lower margin solar projects during the fiscal 2014 second quarter compared to the prior year second quarter. Our gross margin on renewable revenue was 21.2% during the fiscal 2014 second quarter compared to 27.1% during the fiscal 2013 second quarter. We expect that our total margins from sales of renewable solar systems will continue to remain in the 20.0% range during the remainder of fiscal 2014. Gross margin from sales of our integrated lighting systems for the fiscal 2014 second quarter was 32.1% compared to 30.4% for the fiscal 2013 second quarter. The increase in our lighting gross margin percentage was due to the cost containment

initiatives within our manufacturing facility. Our cost of product revenue increased from \$21.5 million for the first half of fiscal 2013 to \$28.5 million for the first half of fiscal 2014, an increase of \$7.0 million, or 33%. Our cost of service revenue increased from \$3.1 million for the first half of fiscal 2013 to \$6.3 million for the first half of fiscal 2014, an increase of \$3.2 million, or 104%. Total gross margin decreased from 29.3% for the first half of fiscal 2013 to 28.0% for the first half of fiscal 2014. For the fiscal 2014 first half, our gross margin percentage declined due to the increased mix of lower margin solar projects compared to the prior year. Our gross margin on renewable revenues was 31.0% during the fiscal 2013 first half compared to 21.5% during the fiscal 2014 first half. Gross margin from our HIF integrated systems revenue for the fiscal 2013 first half was 29.0% compared to 30.7% during the fiscal 2014 first half.

*General and Administrative.* Our general and administrative expenses decreased from \$4.6 million for the fiscal 2013 second quarter to \$3.2 million for the fiscal 2014 second quarter, a decrease of \$1.4 million, or 32%. The decrease was due to reorganization expenses of \$1.3 million incurred in the prior year as a result of our management change, and reduced compensation and benefit expenses of \$0.3 million resulting from our headcount reductions. These reductions were partially offset by increased insurance expenses and \$0.1 million of intangible asset amortization resulting from the acquisition of Harris in July 2013. Our general and administrative expenses decreased from \$7.9 million for the first half of fiscal 2013 to \$5.9 million for the first half of fiscal 2014, a decrease of \$2.0 million, or 26%. The decrease for the first half was due to prior year expenses of \$1.3 million resulting from our reorganization, \$0.7 million in reduced compensation and benefit expenses resulting from headcount reductions and other reductions in discretionary spending. These increases were partially offset by increased insurance expenses of \$0.1 million and \$0.1 million for the amortization of intangible assets resulting from the acquisition of Harris.

*Acquisition Related.* We incurred acquisition related expenses of \$0.4 million for the fiscal 2014 second quarter and the fiscal 2014 first half related to the Harris acquisition. We incurred no acquisition expenses in the first half of fiscal 2013. The expenses were due to the acquisition of Harris during the fiscal 2014 second quarter and included \$0.3 million for variable purchasing accounting expenses for mark-to-market expenses related to the contingent consideration earn-out for the acquisition of Harris and other expenses for legal, accounting and integration related costs.

*Sales and Marketing.* Our sales and marketing expenses decreased from \$4.6 million for the fiscal 2013 second quarter to \$3.6 million for the fiscal 2014 second quarter, a decrease of \$1.0 million, or 20%. The decrease was due to reduced compensation and benefit expense of \$0.4 million resulting from our headcount reductions, reorganization expenses incurred in fiscal 2013 of \$0.4 million and discretionary spending reductions of \$0.7 million, offset by an increase in our sales commission expense of \$0.2 million and incremental expenses of \$0.3 million resulting from the acquisition of Harris. Our sales and marketing expenses decreased from \$8.5 million for the first half of fiscal 2013 to \$6.9 million for the first half of fiscal 2014, a decrease of \$1.6 million, or 18%. The decrease was due to reduced compensation and benefit expense of \$1.0 million resulting from headcount reductions, reorganization expenses incurred in fiscal 2013 of \$0.4 million and discretionary spending reductions of \$0.9 million, offset by an increase in our sales commission expense of \$0.4 million and incremental expenses of \$0.3 million resulting from the acquisition of Harris. We have recently been increasing, and intend to continue to increase, our in-market direct sales force. Total sales and marketing headcount was 115 and 87 at September 30, 2012 and 2013, respectively.

*Research and Development.* Our research and development expenses decreased from \$0.7 million for the fiscal 2013 second quarter to \$0.4 million for the fiscal 2014 second quarter, a decrease of \$0.3 million, or 37%. Our research and development expenses decreased from \$1.4 million for the first half of fiscal 2013 to \$0.9 million for the first half of fiscal 2014, a decrease of \$0.5 million, or 33%. Our R&D expenses decreased during the second quarter and first half of fiscal 2014 due to a reduction in compensation expenses, consulting expenses and product testing costs related to our energy management controls initiatives.

*Interest Expense.* Our interest expense was unchanged from \$142,000 for the fiscal 2013 second quarter to \$142,000 for the fiscal 2014 second quarter. Our interest expense decreased from \$303,000 for the first half of fiscal 2013 to \$255,000 for the first half of fiscal 2014, a decrease of \$48,000, or 16%. The decrease in interest expense was due to the reduction in financed contract debt compared to the prior year first half. In the future, we expect an increase in interest expense due to the \$3.2 million promissory note issued as part of the Harris acquisition.

*Interest Income.* Interest income decreased from \$218,000 for the fiscal 2013 second quarter to \$153,000 for the fiscal 2014 second quarter, a decrease of \$65,000, or 30%. Interest income decreased from \$443,000 for the first half of fiscal 2013 to \$327,000 for the first half of fiscal 2014, a decrease of \$116,000, or 26%. Our interest income decreased as we increased the utilization of third party finance providers for a majority of our financed projects. In the future, we expect our interest income to decrease as we continue to utilize third party finance providers for our Orion Throughput Agreements, or OTA, projects.

*Income Taxes.* Our income tax expense decreased from income tax expense of \$5.6 million for the fiscal 2013 second quarter to an income tax benefit of \$2.2 million for the fiscal 2014 second quarter, a decrease of \$7.8 million, or 139%. Our



[Table of Contents](#)

income tax expense decreased from income tax expense of \$4.1 million for the first half of fiscal 2013 to an income tax benefit of \$2.2 million for the first half of fiscal 2014, a decrease of \$6.3 million, or 154%. During our fiscal 2013 first half, we recorded a valuation reserve against our deferred tax assets in the amount of \$4.1 million due to uncertainty over the realization value of these assets in the future. During our fiscal 2014 first half, we reversed \$2.2 million of our valuation reserve to offset deferred tax liabilities resulting from our acquisition of Harris. Our effective income tax rate for the first half of fiscal 2013 was 53.8%, compared to a benefit rate of 395.5% for the first half of fiscal 2014. The change in effective rate was due primarily to the changes in the valuation reserve and expected minimum state tax liabilities.

### Energy Management Segment

The following table summarizes our Energy Management segment operating results:

(dollars in thousands)	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2012	2013	2012	2013
Revenues	\$ 16,652	\$ 18,410	\$ 29,252	\$ 34,300
Operating (loss) income	\$ (453)	\$ 1,123	\$ (2,211)	\$ 1,271
Operating margin	(2.7)%	6.1%	(7.6)%	3.7%

Energy Management segment revenue increased \$1.7 million, or 11%, from \$16.7 million for the fiscal 2013 second quarter to \$18.4 million for the fiscal 2014 second quarter. The increase in revenue for the fiscal 2014 second quarter was primarily due to the acquisition of Harris. Energy Management segment revenue increased \$5.0 million, or 17%, from \$29.3 million for the first half of fiscal 2013 to \$34.3 million for the first half of fiscal 2014. The increase in revenue for the fiscal 2014 first half was due to the acquisition of Harris and increased sales of our LED lighting systems.

Energy Management segment operating income increased \$1.6 million, or 348%, from operating loss of \$0.5 million for the fiscal 2013 second quarter to operating income of \$1.1 million for the fiscal 2014 second quarter. Energy Management segment operating income increased \$3.5 million, or 157%, from operating loss of \$2.2 million for the first half of fiscal 2013 to operating income of \$1.3 million for the first half of fiscal 2014. The increase in operating income for both the fiscal 2013 second quarter and year-to-date periods was a result of the increased gross margin contribution from the revenue increase and cost decreases due to our cost containment initiatives resulting in reduced material costs and reduced operating expenses.

### Engineered Systems Segment

The following table summarizes our Engineered Systems segment operating results:

(dollars in thousands)	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2012	2013	2012	2013
Revenues	\$ 2,756	\$ 9,085	\$ 5,466	\$ 14,047
Operating income (loss)	\$ (661)	\$ 911	\$ (1,057)	\$ 1,114
Operating margin	(24.0)%	10.0%	(19.3)%	7.9%

Engineered Systems segment revenue increased \$6.3 million, or 230%, from \$2.8 million for the fiscal 2013 second quarter to \$9.1 million for the fiscal 2014 second quarter. Engineered Systems segment revenue increased \$8.5 million, or 157%, from \$5.5 million for the first half of fiscal 2013 to \$14.0 million for the first half of fiscal 2014. The increase in revenue for the fiscal 2014 second quarter and the fiscal 2014 first half was due to the fiscal 2014 first quarter start of construction on a \$20.0 million solar project on a landfill site.

Engineered Systems segment operating income increased \$1.6 million, or 238%, from operating loss of \$0.7 million for the fiscal 2013 second quarter to operating income of \$0.9 million for the fiscal 2014 second quarter. Engineered Systems segment operating income increased \$2.2 million, or 205%, from operating loss of \$1.1 million for the first half of fiscal 2013 to operating income of \$1.1 million for the first half of fiscal 2014. The increase in operating income for the fiscal 2014 second quarter and first half was a result of the increased gross margin contribution from the revenue increase and due to reduced operating costs due to cost containment initiatives.

### Liquidity and Capital Resources

#### Overview

We had approximately \$17.6 million in cash and cash equivalents and \$1.0 million in short-term investments as of September 30, 2013, compared to \$14.4 million and \$1.0 million at March 31, 2013. Our cash equivalents are invested in

[Table of Contents](#)

money market accounts with maturities of less than 90 days and an average yield of 0.24%. Our short-term investment account consists of a bank certificate of deposit in the amount of \$1.0 million with an expiration date of December 2013 and a yield of 0.50%. Additionally, as of September 30, 2013, we had \$13.3 million of borrowing availability under our revolving credit agreement. Our OTA credit agreement expired September 30, 2012 for new borrowings, but not for amounts previously drawn. We did not borrow on the OTA credit agreement during fiscal 2013. We believe that having multiple external funding sources that will purchase our OTA contracts from us has greatly reduced the cash strain created by funding these contracts ourselves and is no longer an impediment to our ability to increase the number of OTA contracts we complete in the future. On July 1, 2013, we completed the acquisition of Harris. The purchase price was paid through a combination of \$5.0 million in cash, \$3.2 million in a three-year unsecured subordinated note bearing interest at the rate of 4% per annum, and the issuance of 856,997 unregistered shares of common stock, representing a fair value on the date of issuance of \$2.1 million. We also agreed to issue up to \$1.0 million of our unregistered common stock if Harris met certain financial targets through December 31, 2014. In October 2013, we amended the earn-out provisions of the Harris purchase agreement to fix the future consideration for the earn-out at \$1.4 million and eliminated the requirement that certain financial targets must be achieved, although the employee retention provisions still apply to the Harris shareholders who became our employees. We agreed to settle \$0.6 million of the earn-out payment on January 1, 2014 in an equivalent value of unregistered shares of our common stock and \$0.8 million on January 1, 2015 in cash. In July 2013, we paid \$975,000, net of insurance proceeds, to settle claims filed against us by a former senior vice president.

We believe that our existing cash and cash equivalents, our anticipated cash flows from operating activities and our borrowing capacity under our revolving credit facility will be sufficient to meet our anticipated cash needs for the next 12 months, dependent upon our growth opportunities with our cash and finance customers.

### Cash Flows

The following table summarizes our cash flows for the six months ended September 30, 2012 and 2013 (in thousands):

	Six Months Ended September 30,	
	2012	2013
Operating activities	\$ (2,327)	\$ 9,550
Investing activities	(1,774)	(5,192)
Financing activities	(5,696)	(1,171)
Increase (decrease) in cash and cash equivalents	\$ (9,797)	\$ 3,187

*Cash Flows Related to Operating Activities.* Cash provided from operating activities for the first half of fiscal 2014 was \$9.6 million and consisted of net cash provided by changes in operating assets and liabilities of \$6.6 million and net income adjusted for non-cash expense items of \$3.0 million. Cash provided by changes in operating assets and liabilities consisted of a decrease of \$3.3 million in inventory on decreased purchases of lighting components, predominantly fluorescent ballasts and wireless controls, a decrease of \$4.8 million in accounts receivable on higher cash collections and an increase in accounts payable of \$2.6 million due to the timing of vendor payments for solar project materials and construction installation costs. Cash used from changes in operating assets and liabilities included a \$1.8 million decrease in accrued expenses related to the payment of accrued settlement expenses and other timing differences for legal and construction installation costs, a \$2.0 million decrease in deferred revenue related to an increase in completed projects due to the timing of project billing for a large solar project under construction, a \$0.3 million decrease in deferred solar project costs as projects move through the construction completion stage.

Cash used in operating activities for the first half of fiscal 2013 was \$2.3 million and consisted of net cash provided by changes in operating assets and liabilities of \$2.4 million and a net loss adjusted for non-cash expense items of \$4.7 million. Cash provided by changes in operating assets and liabilities consisted of a decrease of \$0.5 million in total accounts receivable due to customer collections and reduced revenue during the first half, an increase in accounts payable of \$0.9 million due to vendor payment terms, an increase in accrued expenses of \$2.0 million due to the timing of reorganization expenses and a \$1.2 million increase in deferred revenue due to customer deposit payments received. Cash used from changes in operating assets and liabilities included a \$0.2 million increase in inventory for purchases of raw material components and a \$2.6 million increase in deferred contract costs for product costs incurred on projects where the performance criteria for revenue recognition has not yet occurred.

*Cash Flows Related to Investing Activities.* For the first half of fiscal 2014, cash used in investing activities was \$5.2 million. This included \$5.0 million related to the acquisition of Harris and \$0.2 million for capital improvements related to product development tooling and information technology systems.

## [Table of Contents](#)

For the first half of fiscal 2013, cash used in investing activities was \$1.8 million. This included \$1.7 million for capital improvements related to our product development, information technology systems, manufacturing improvements and facility investments and \$0.1 million for investment in patent activities.

*Cash Flows Related to Financing Activities.* For the first half of fiscal 2014, cash flows used in financing activities were \$1.2 million. This included \$1.5 million for repayment of long-term debt. Cash flows provided by financing activities included \$0.3 million received from stock option exercises and for stock note repayments.

For the first half of fiscal 2013, cash flows provided by financing activities were \$5.7 million. This included \$4.5 million used for common share repurchases and \$1.4 million for repayment of long-term debt. Cash flows provided by financing activities included \$0.2 million in debt proceeds and \$0.1 million received from stock option exercises and for excess tax benefits from stock-based compensation.

### ***Working Capital***

Our net working capital as of September 30, 2013 was \$35.5 million, consisting of \$56.0 million in current assets and \$20.5 million in current liabilities. Our net working capital as of March 31, 2013 was \$34.8 million, consisting of \$53.6 million in current assets and \$18.8 million in current liabilities. Our net working capital increased by \$2.8 million during the first half of fiscal 2014 as a result of our acquisition of Harris. Our current accounts receivable decreased from fiscal 2013 year-end by \$1.1 million, net of a \$2.9 million increase related to Harris receivables, due to customer collections on a large solar project under construction. Our accounts payable increased from our fiscal 2013 year end by \$4.2 million, which included a \$1.3 million increase as a result of the Harris acquisition and an increase in solar inventory purchases and project costs. Our accrued expenses decreased from our fiscal 2013 year end by \$1.0 million due the payment of accrued settlement expenses. Our deferred revenue decreased from our fiscal 2013 year end by \$2.1 million as we continued to progress through the construction of our solar landfill project.

We generally attempt to maintain at least a three-month supply of on-hand inventory of purchased components and raw materials to meet anticipated demand, as well as to reduce our risk of unexpected raw material or component shortages or supply interruptions. Our accounts receivables, inventory and payables may increase to the extent our revenue and order levels increase.

For the remainder of fiscal 2013 and for fiscal 2014, we intend to focus our efforts to preserve cash by reducing expenses and by implementing conservative inventory purchasing strategies and reducing our overall inventories.

### ***Indebtedness***

#### ***Revolving Credit Agreement***

We have an amended credit agreement (Credit Agreement) with JP Morgan Chase Bank, N.A. (JP Morgan). The Credit Agreement provides for a revolving credit facility (Credit Facility) that matures on August 30, 2014. Borrowings under the Credit Facility are limited to \$15.0 million, subject to a borrowing base requirement when the outstanding principal balance of loans under the Credit Facility is greater than \$5.0 million. Such commitment includes a \$2.0 million sublimit for the issuance of letters of credit. As of September 30, 2013, we had outstanding letters of credit totaling \$1.7 million, primarily for securing collateral requirements under equipment operating leases. There were no borrowings outstanding under the Credit Agreement as of September 30, 2013. In February 2013, we completed an amendment to the Credit Agreement making certain changes to the financial covenants, which are described below. In August 2013, we completed an additional amendment to extend the maturity date of the Credit Agreement to August 30, 2014.

The Credit Agreement requires us to maintain (i) a ratio of total liabilities to tangible net worth not to exceed 0.50 to 1.00 as of the last day of any fiscal quarter, (ii) average daily unencumbered liquidity of at least \$20.0 million during each period of three consecutive business days and (iii) EBITDA of at least \$1.0 million during each fiscal quarter. The Credit Agreement also contains certain restrictions on our ability to make capital or lease expenditures over prescribed limits, incur additional indebtedness, consolidate or merge, guarantee obligations of third parties, make loans or advances, declare or pay any dividend or distribution on its stock, redeem or repurchase shares of its stock or pledge assets. We were in compliance with all covenants in the Credit Agreement as of September 30, 2013.

The Credit Agreement is secured by a first priority security interest in our accounts receivable, inventory and general intangibles, and a second priority security interest in our equipment and fixtures. All OTAs, PPAs, leases, supply agreements and/or similar agreements relating to solar PV and wind turbine systems or facilities, as well as all accounts receivable and our assets related to the foregoing, are excluded from these liens, except to the extent that we elect to finance any such assets with JP Morgan.

Borrowings under the Credit Agreement bear interest based on LIBOR plus an applicable margin (the Applicable Margin), which ranges from 2.0% to 3.0% per annum based on our debt service coverage ratio from time to time. We must pay a fee ranging between 0.25% and 0.50% per annum on the average daily unused amount of the Credit Facility (with the amount of such fee based on our debt service coverage ratio from time to time) and a fee in the amount of the Applicable Margin on the daily average face amount of undrawn issued letters of credit. The fee on unused amounts is waived if we or our affiliates maintain funds on deposit with JP Morgan or its affiliates above a specified amount. The deposit threshold requirement was not met as of September 30, 2013.

#### **OTA Credit Agreement**

We have a credit agreement with JP Morgan that provided us with \$5.0 million immediately available to fund completed customer contracts under our OTA finance program. We had one year from the date of the commitment to borrow under the credit agreement, which expired on September 30, 2012 for new borrowing. As of September 30, 2013, we had \$2.2 million outstanding under the credit agreement. There were no new borrowings during fiscal 2013. The loan amount is collateralized by the OTA-related equipment and the expected future monthly payments under the supporting 39 individual OTA customer contracts. The current loan amount under the credit agreement bears interest at LIBOR plus 4% and matures in December 2016. In February 2013, we completed an amendment to the credit agreement making certain changes to the financial covenants requiring us to maintain (i) average daily unencumbered liquidity of at least \$20.0 million during each period of three consecutive business days and (ii) EBITDA of at least \$1.0 million during each fiscal quarter. We were in compliance with all covenants, as amended, in the credit agreement as of September 30, 2013.

#### **Harris Seller's Note**

We issued an unsecured and subordinated promissory note in the principal amount of \$3.2 million to help fund our acquisition of Harris. The note bears interest at the rate of 4% per annum, is payable in quarterly installments of principal and interest and matures in July 2016.

#### **Capital Spending**

Capital expenditures totaled \$0.2 million during the first half of fiscal 2014 due to investments in new product development tooling and information system technologies. We expect to incur approximately \$0.4 to \$0.7 million in capital expenditures during the remainder of fiscal 2014. Our capital spending plans predominantly consist of investments related to our manufacturing operations to improve efficiencies and reduce costs and for investments in information technology systems. We expect to finance these capital expenditures primarily through our existing cash, equipment secured loans and leases, to the extent needed, long-term debt financing, or by using our available capacity under our credit facility. For the remainder of fiscal 2013 and for fiscal 2014, we intend to focus our efforts to preserve cash by reducing capital spending initiatives.

#### **Contractual Obligations and Commitments**

The following table is a summary of our long-term contractual obligations as of September 30, 2013 (dollars in thousands):

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Debt obligations	\$ 8,367	\$ 3,326	\$ 4,442	\$ 164	\$ 435
Cash interest payments on debt	739	341	229	65	104
Operating lease obligations	6,367	1,146	1,767	1,509	1,945
Purchase order and cap-ex commitments(1)	4,721	3,365	1,356	—	—
Total	\$ 20,194	\$ 8,178	\$ 7,794	\$ 1,738	\$ 2,484

- (1) Reflects non-cancellable purchase order commitments in the amount of \$4.7 million for certain inventory items entered into in order to secure better pricing and ensure materials on hand.

#### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

#### **Inflation**

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

#### **Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our consolidated financial statements requires us to make certain estimates and judgments that affect our reported assets, liabilities, revenue and expenses, and our related disclosure of contingent assets and liabilities. We re-evaluate our estimates on an ongoing basis, including those related to revenue recognition, inventory valuation, the collectability of receivables, stock-based compensation, warranty reserves and income taxes. We base our estimates on historical experience and on various assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. A summary of our critical accounting policies is set forth in the “Critical Accounting Policies and Estimates” section of our Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended March 31, 2013. For the three months ended, September 30, 2013, there were changes in our accounting policies for Goodwill and Other Intangible Assets as a result of the acquisition of Harris. Refer to Note B in the condensed consolidated financial statements included elsewhere in this report.

#### **Recent Accounting Pronouncements**

For a complete discussion of recent accounting pronouncements, refer to Note B in the condensed consolidated financial statements included elsewhere in this report.

#### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our exposure to market risk was discussed in the “Quantitative and Qualitative Disclosures About Market Risk” section contained in our Annual Report on Form 10-K for the year ended March 31, 2013. There have been no material changes to such exposures since March 31, 2013.

#### **ITEM 4. CONTROLS AND PROCEDURES**

##### **Evaluation of Disclosure Controls and Procedures**

We maintain a system of disclosure controls and procedures designed to provide reasonable assurance as to the reliability of our published financial statements and other disclosures included in this report. Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter ended September 30, 2013 pursuant to Rule 13a-15(b) of the Exchange Act of 1934 (the “Exchange Act”). Our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2013.

##### **Changes in Internal Controls and Procedures**

Subsequent to the quarter ended September 30, 2013, and prior to the completion of our accounting close, we developed an internal control process over accounting for acquisitions and other complex or unusual related events. The control process included a review of transactions, processes and financial disclosures. Additionally, the control process required an independent review from an expert in the appropriate area related to the accounting event. Except as described in the preceding sentences, there were no other changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II – OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

We are subject to various claims and legal proceedings. As of the date hereof, we are unable to currently assess whether the final resolution of any such claims or legal proceedings may have a material adverse affect on us.

As previously disclosed, in August 2012, the Company received a subpoena issued by the staff of the Securities and Exchange Commission ("SEC") requesting certain documents and information generally related to the Company's financial reporting of its sales of solar photovoltaic systems, among other matters. The Company continues to cooperate with the SEC regarding this non-public, fact-finding inquiry. The SEC has informed the Company that this inquiry should not be construed as an indication that any violations of law have occurred or that the SEC has any negative opinion of any person, entity or security.

**ITEM 1A. RISK FACTORS**

We operate in a rapidly changing environment that involves a number of risks that could materially affect our business, financial condition or future results, some of which are beyond our control. In addition to the other information set forth in this Quarterly Report on Form 10-Q, the risks and uncertainties that we believe are most important for you to consider are discussed in Part I — Item 1A under the heading "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended March 31, 2013, which we filed with the SEC on June 14, 2013.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On July 1, 2013, the Company completed the acquisition of all of the issued and outstanding equity interests of Harris. As part of the purchase price, the Company issued Two Million Dollars (\$2,000,000) in value of unregistered shares of common stock of the Company (based on the trading price of the shares on the NYSE MKT), which represented an aggregate of 856,997 shares of common stock, to the shareholders of Harris. The shares were issued pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended.

**ITEM 5. OTHER INFORMATION****Statistical Data**

The following table presents certain statistical data, cumulative from December 1, 2001 through September 30, 2013, regarding sales of our HIF lighting systems, total units sold (including HIF lighting systems), customer kilowatt demand reduction, customer kilowatt hours saved, customer electricity costs saved, indirect carbon dioxide emission reductions from customers' energy savings, and square footage we have retrofitted. The assumptions behind our calculations are described in the footnotes to the table below.

	<b>Cumulative From December 1, 2001 Through September 30, 2013</b>
	<b>(in thousands, unaudited)</b>
HIF lighting systems sold (1)	2,634
Total units sold (including HIF lighting systems)	3,721
Customer kilowatt demand reduction (2)	848
Customer kilowatt hours saved (2)(3)	29,419,326
Customer electricity costs saved (4)	\$ 2,264,164
Indirect carbon dioxide emission reductions from customers' energy savings (tons) (5)	19,033
Square footage retrofitted (6)	1,388,201

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

(2) A substantial majority of our HIF lighting systems, which generally operate at approximately 224 watts per six-lamp fixture, are installed in replacement of HID fixtures, which generally operate at approximately 465 watts per fixture in commercial and industrial applications. We calculate that each six-lamp HIF lighting system we install in replacement of an HID fixture generally reduces electricity consumption by approximately 241 watts (the difference between 465 watts and 224 watts). In retrofit projects where we replace fixtures other than HID fixtures, or where we replace fixtures with products other than our HIF lighting systems (which other products generally consist of products with lamps similar to those used in our HIF systems, but with varying frames, ballasts or power packs), we generally achieve similar wattage

reductions (based on an analysis of the operating wattages of each of our fixtures compared to the operating wattage of the fixtures they typically replace). We calculate the amount of kilowatt demand reduction by multiplying (i) 0.241 kilowatts per six-lamp equivalent unit we install by (ii) the number of units we have installed in the period presented, including products other than our HIF lighting systems (or a total of approximately 3.7 million units).

- (3) We calculate the number of kilowatt hours saved on a cumulative basis by assuming the demand (kW) reduction for each fixture and assuming that each such unit has averaged 7,500 annual operating hours since its installation.
- (4) We calculate our customers' electricity costs saved by multiplying the cumulative total customer kilowatt hours saved indicated in the table by \$0.077 per kilowatt hour. The national average rate for the year-to-date period ended August 2013, which is the most current data for which this information is available, was \$0.1009 per kilowatt hour according to the United States Energy Information Administration.
- (5) We calculate this figure by multiplying (i) the estimated amount of carbon dioxide emissions that result from the generation of one kilowatt hour of electricity (determined using the Emissions and Generation Resource Integration Database, or EGrid, prepared by the United States Environmental Protection Agency), by (ii) the number of customer kilowatt hours saved as indicated in the table.
- (6) Based on 3.7 million total units sold, which contain a total of approximately 18.5 million lamps. Each lamp illuminates approximately 75 square feet. The majority of our installed fixtures contain six lamps and typically illuminate approximately 450 square feet.

#### **Amended and Restated Bylaws**

Effective November 7, 2013, the Board of the Directors of the Company amended and restated the Company's Amended and Restated Bylaws in order to eliminate the requirement that the certificates representing shares of the Company be signed by the corporate secretary or assistant corporate secretary.

The description of the Amended and Restated Bylaws set forth above is qualified by reference to the Amended and Restated Bylaws filed herewith as Exhibit 3.2, which exhibit is incorporated herein by reference.

**ITEM 6. EXHIBITS**

**(a) Exhibits**

- 2.1 Letter Agreement with respect to Stock and Unit Purchase Agreement dated May 22, 2013 between Orion Energy Systems, Inc., a Wisconsin corporation, Harris Manufacturing, Inc., a Florida corporation, Harris LED, LLC, a Florida limited liability corporation and their respective shareholders and members.
- 3.2 Amended and Restated Bylaws of Orion Energy Systems, Inc.
- 31.1 Certification of Chief Executive Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
- 31.2 Certification of Chief Financial Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
- 32.1 Certification of Chief Executive Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.SCH Taxonomy extension schema document
- 101.CAL Taxonomy extension calculation linkbase document
- 101.LAB Taxonomy extension label linkbase document
- 101.PRE Taxonomy extension presentation linkbase document



**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 8, 2013.

ORION ENERGY SYSTEMS, INC.  
Registrant

By  /s/ Scott R. Jensen  
\_\_\_\_\_  
Scott R. Jensen  
Chief Financial Officer  
(Principal Financial Officer and Authorized Signatory)

**Exhibit Index to Form 10-Q for the Period Ended September 30, 2013**

2.1	Letter Agreement with respect to Stock and Unit Purchase Agreement dated May 22, 2013 between Orion Energy Systems, Inc., a Wisconsin corporation, Harris Manufacturing, Inc., a Florida corporation, Harris LED, LLC, a Florida limited liability corporation and their respective shareholders and members.
3.2	Amended and Restated Bylaws of Orion Energy Systems, Inc.
31.1	Certification of Chief Executive Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chief Executive Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	Taxonomy extension schema document
101.CAL	Taxonomy extension calculation linkbase document
101.LAB	Taxonomy extension label linkbase document
101.PRE	Taxonomy extension presentation linkbase document

October 21, 2013

Jonathan M. Ruga  
Sentry Financial Capital Corporation  
201 South Main, Suite 1400  
Salt Lake City, Utah 84111

Re: Stock and Unit Purchase Agreement dated as of May 22, 2013 and executed by and among Orion Energy Systems, Inc., as buyer, and Harris Manufacturing, Inc., Harris LED, LLC and the shareholders and members thereof, as seller ("Purchase Agreement"). All capitalized terms used herein, not otherwise defined, shall have the meanings ascribed to them in the Purchase Agreement.

Dear Mr. Ruga:

This second letter amending the Purchase Agreement is to memorialize the understanding between the Buyer, Companies, and Shareholders with respect to Performance Shares in the Purchase Agreement. Buyer, Companies, and Shareholders hereby agree as follows:

1. The 2013 Final Combined Revenue is deemed to be \$16,000,001 and the 2013 Performance Shares are deemed earned in full and the parties agree that Buyer will, on January 1, 2014, issue and deliver to the Shareholders' Agent for distribution to the Shareholders the number of shares of Common Stock resulting from dividing \$570,815.45 (150,214.59 shares multiplied by the market closing price of \$3.80 per share on October 17, 2013) by the New York Stock Exchange closing price for the Common Stock on December 31, 2013.
2. The 2014 Final Combined Revenue is deemed to be \$32,000,001 and the 2014 Performance Shares are deemed earned in full and the parties agree that Buyer will, on January 1, 2015, pay the Shareholders' Agent for distribution to the Shareholders an amount of \$800,000 cash in full satisfaction of its obligation to deliver Common Stock for the 2014 Performance Shares (the "2014 Payment").
3. Nothing set forth herein shall be deemed to limit the eligibility requirements set forth in Section 4 of Exhibit D. For purposes of determining the Former Employee Share Allocation, if any, for purposes of the 2014 Performance Shares calculation, in the event a Shareholder is not eligible to receive 2014 Performance Shares as provided in Section 4 of Exhibit D, the 2014 Payment shall be reduced by a percentage equal to the percentage ownership of the Companies held directly by such former employee(s) as of the Closing Date.
4. The parties acknowledge and agree that the provisions of Section 2(g) and Exhibit D of the Purchase Agreement are fulfilled and satisfied with the agreement and obligations set forth herein.
5. The terms and conditions of the Purchase Agreement as specifically modified herein remain in full force and effect and are reaffirmed by the parties.

*(remainder of page intentionally blank; signature page follows)*

---

If you are in agreement with this understanding, please execute this second letter agreement where provided below and deliver the undersigned at your earliest convenience.

Sincerely,

ORION ENERGY SYSTEMS, INC.

By: /s/ John Scribante  
Name: John Scribante  
Title: CEO

AGREED AND ACCEPTED:

SENTRY FINANCIAL CAPITAL CORP.,  
acting on behalf of itself, in its capacity as Shareholders'  
Agent, and as attorney in fact for the Shareholders pursuant to  
the power of attorney set forth in Section 13(a) of the  
Purchase Agreement

By: /s/ R. Kirk Heaton  
Name: R. Kirk Heaton  
Title: Executive Vice President

**AMENDED AND RESTATED BYLAWS**

**OF**

**ORION ENERGY SYSTEMS, INC.**

**(a Wisconsin corporation)**

**Effective November 7, 2013**

---

## ARTICLE I.

## OFFICES

1.01 Principal and Business Offices. The corporation may have such principal and other business offices, either within or without the State of Wisconsin, as the Board of Directors may designate or as the business of the corporation may require from time to time.

1.02 Registered Office. The registered office of the corporation required by the Wisconsin Business Corporation Law to be maintained in the State of Wisconsin may be, but need not be, identical to the principal office in the State of Wisconsin, and the address of the registered office may be changed from time to time by the Board of Directors or by the registered agent. The business office of the registered agent of the corporation shall be identical to such registered office.

## ARTICLE II. SHAREHOLDERS

2.01 Annual Meeting. The annual meeting of the shareholders (the “Annual Meeting”) shall be held at such time and on such date as may be fixed by or under the authority of the Board of Directors. In fixing a meeting date for any Annual Meeting, the Board of Directors may consider such factors as it deems relevant within the good faith exercise of its business judgment. At each Annual Meeting, the shareholders shall elect that number of directors equal to the number of directors in the class whose term expires at the time of such meeting. At any such Annual Meeting, only other business properly brought before the meeting in accordance with Section 2.13 of these bylaws may be transacted. If the election of directors shall not be held on the date fixed as herein provided for any Annual Meeting, or any adjournment or postponement thereof, the Board of Directors shall cause the election to be held at a special meeting of shareholders (a “Special Meeting”) as soon thereafter as is practicable.

### 2.02 Special Meetings.

(a) Who May Call A Special Meeting. A Special Meeting may be called by the Board of Directors, the Chairman of the Board, or the President and shall be called by the corporation upon the written demand, in accordance with this Section 2.02, of the holders of record of shares representing at least 10% of all the votes entitled to be cast on any issue proposed to be considered at the Special Meeting.

(b) Demand Record Date. In order that the corporation may determine the shareholders entitled to demand a Special Meeting, the Board of Directors may fix a record date to determine the shareholders entitled to make such a demand (the “Demand Record Date”). The Demand Record Date shall not precede the date upon which the resolution fixing the Demand Record Date is adopted by the Board of Directors and shall not be more than ten (10) days after the date upon which the resolution fixing the Demand Record Date is adopted by the Board of Directors. Any shareholder of record seeking to have shareholders demand a Special Meeting shall, by sending written notice to the Secretary of the corporation by hand or by certified or registered mail, return receipt requested, request the Board of Directors to fix a Demand Record Date. The Board of Directors shall promptly, but in all events within ten (10) days after the date on which a valid request to fix a Demand Record Date is received, adopt a resolution fixing the Demand Record Date and shall make a public announcement of such Demand Record Date. If no Demand Record Date has

been fixed by the Board of Directors within ten (10) days after the date on which such request is received by the Secretary, the Demand Record Date shall be the 10th day after the first date on which a valid written request to set a Demand Record Date is received by the Secretary. To be valid, such written request shall set forth the purpose or purposes for which the Special Meeting is to be held, shall be signed by one or more shareholders of record, shall bear the date of signature of each such shareholder and shall set forth all information about each such shareholder and about the beneficial owner or owners, if any, on whose behalf the request is made that would be required to be set forth in a shareholder's notice described in paragraph (a) (ii) of Section 2.13 of these bylaws.

(c) Shareholder Demand for a Special Meeting. In order for a shareholder or shareholders to demand a Special Meeting, a written demand or demands for a Special Meeting by the holders of record as of the Demand Record Date of shares representing at least 10% of all the votes entitled to be cast on any issue proposed to be considered at the Special Meeting must be delivered to the corporation. To be valid, each written demand by a shareholder or shareholders for a Special Meeting shall set forth the specific purpose or purposes for which the Special Meeting is to be held (which purpose or purposes shall be limited to the purpose or purposes set forth in the written request to set a Demand Record Date received by the corporation pursuant to paragraph (b) of this Section 2.02), shall be signed by one or more persons who as of the Demand Record Date are shareholders of record holding the requisite number of shares, shall bear the date of signature of each such shareholder, and shall set forth the name and address, as they appear in the corporation's books, of each such shareholder and the class and number of shares of the corporation which are owned of record and beneficially by each such shareholder, shall be sent to the Secretary by hand or by certified or registered mail, return receipt requested, and shall be received by the Secretary within seventy (70) days after the Demand Record Date.

(d) Costs of Special Meeting. The corporation shall not be required to call a Special Meeting upon shareholder demand unless, in addition to the documents required by paragraph (c) of this Section 2.02, the Secretary receives a written agreement signed by each Soliciting Shareholder (as defined below), pursuant to which each Soliciting Shareholder, jointly and severally, agrees to pay the corporation's costs of holding the Special Meeting, including the costs of preparing and mailing proxy materials for the corporation's own solicitation, provided that if each of the resolutions introduced by any Soliciting Shareholder at such meeting is adopted and each of the individuals nominated by or on behalf of any Soliciting Shareholder for election as a director at such meeting is elected, then the Soliciting Shareholders shall not be required to pay such costs. For purposes of this paragraph (d), the following terms shall have the meanings set forth below:

(i) "Affiliate" of any Person (as defined herein) shall mean any Person controlling, controlled by, or under common control with such first Person.

(ii) "Participant" shall have the meaning assigned to such term in paragraphs (a)(iii), (iv), (v) and (vi) of Instruction 3 to Item 4 of Schedule 14A of the Rules promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

(iii) “Person” shall mean any individual, firm, corporation, limited liability company, partnership, limited liability partnership, joint venture, association, trust, unincorporated organization or other entity.

(iv) “Proxy” shall have the meaning assigned to such term in Rule 14a-1 promulgated under the Exchange Act (and, in such Rule 14a-1, a consent or authorization shall be interpreted to include signature on a demand for purposes of construing all the definitions in this paragraph (d)).

(v) “Solicitation” shall have the meaning assigned to such term in Rule 14a-1 promulgated under the Exchange Act.

(vi) “Soliciting Shareholder” shall mean, with respect to any Special Meeting demanded by a shareholder or shareholders, any of the following Persons:

(A) if the number of shareholders signing the demand or demands of meeting delivered to the corporation pursuant to paragraph (c) of this Section 2.02 is ten (10) or fewer, each shareholder signing any such demand;

(B) if the number of shareholders signing the demand or demands of meeting delivered to the corporation pursuant to paragraph (c) of this Section 2.02 is more than ten (10), each Person who either (I) was a Participant in any Solicitation of such demand or demands or (II) at the time of the delivery to the corporation of the documents described in paragraph (c) of this Section 2.02 had engaged or intended to engage in any Solicitation of Proxies for use at such Special Meeting (other than a Solicitation of Proxies on behalf of the corporation); or

(C) any Affiliate of a Soliciting Shareholder, if a majority of the directors then in office determine, reasonably and in good faith, that such Affiliate should be required to sign the written notice described in paragraph (c) of this Section 2.02 and/or the written agreement described in this paragraph (d) in order to prevent the purposes of this Section 2.02 from being evaded.

(e) Date, Time, and Place of Special Meeting. Any Special Meeting shall be held at such hour and day as may be designated by the Board of Directors, the Chairman of the Board, or the President. In fixing a meeting date for any Special Meeting, the Board of Directors, the Chairman of the Board, or the President may consider such factors as he, she or it deems relevant within the good faith exercise of his, her or its business judgment, including, without limitation, the nature of the action proposed to be taken, the facts and circumstances surrounding any demand for such meeting, and any plan of the Board of Directors to call an Annual Meeting or a Special Meeting for the conduct of related business.

(f) Business Day. For purposes of these bylaws, “Business Day” shall mean any day other than a Saturday, a Sunday, or a day on which banking institutions in the State of Wisconsin are authorized or obligated by law or executive order to close.



2.03 Place of Meeting. The Board of Directors, the Chairman of the Board, or the President may designate any place, either within or without the State of Wisconsin, as the place of meeting for an Annual Meeting or Special Meeting. If no designation is made, the place of meeting shall be the principal office of the corporation. Any meeting may be postponed or adjourned to reconvene at any place designated by vote of the Board of Directors or by the Chairman of the Board, or the President.

2.04 Notice of Meeting. Written notice stating the date, time, and place of any meeting of shareholders shall be delivered not less than ten (10) days nor more than sixty (60) days before the date of the meeting (unless a different time period is provided by the Wisconsin Business Corporation Law or the corporation's Amended and Restated Articles of Incorporation), either personally or by mail, by or at the direction of the Board of Directors, the Chairman of the Board, the President, or the Secretary, to each shareholder of record entitled to vote at such meeting and to such other persons as required by the Wisconsin Business Corporation Law. If mailed, notice pursuant to this Section 2.04 shall be deemed to be effective when deposited in the United States mail, addressed to the shareholder at his or her address as it appears on the stock record books of the corporation, with postage thereon prepaid. Unless otherwise required by the Wisconsin Business Corporation Law or the corporation's Amended and Restated Articles of Incorporation, a notice of an Annual Meeting need not include a description of the purpose for which the meeting is called. In the case of any Special Meeting, (a) the notice of meeting shall describe any business that the Board of Directors shall have theretofore determined to bring before the meeting and (b) in the case of a Special Meeting called by the corporation on demand of the shareholders (a "Demand Special Meeting"), the notice of meeting (i) shall describe any business set forth in the statement of purpose of the demands received by the corporation in accordance with Section 2.02 of these bylaws and (ii) shall contain all of the information required in the notice received by the corporation in accordance with Section 2.13(b) of these bylaws. If an Annual Meeting or Special Meeting is adjourned to a different date, time, or place, the corporation shall not be required to give notice of the new date, time, or place if the new date, time, or place is announced at the meeting before adjournment; *provided, however*, that if a new Meeting Record Date (as defined below) for an adjourned meeting is or must be fixed, the corporation shall give notice of the adjourned meeting to persons who are shareholders as of the new Meeting Record Date.

2.05 Waiver of Notice. A shareholder may waive any notice required by the Wisconsin Business Corporation Law, the corporation's Amended and Restated Articles of Incorporation, or these bylaws before or after the date and time stated in the notice. The waiver shall be in writing and signed by the shareholder entitled to the notice, contain the same information that would have been required in the notice under applicable provisions of the Wisconsin Business Corporation Law (except that the time and place of meeting need not be stated) and be delivered to the corporation for inclusion in the corporate records. A shareholder's attendance at any Annual Meeting or Special Meeting, in person or by proxy, waives objection to all of the following: (a) lack of notice or defective notice of the meeting, unless the shareholder at the beginning of the meeting or promptly upon arrival objects to holding the meeting or transacting business at the meeting; and (b) consideration of a particular matter at the meeting that is not within the purpose described in the meeting notice, unless the shareholder objects to considering the matter when it is presented.

2.06 Fixing of Record Date. The Board of Directors may fix in advance a date not less than ten (10) days and not more than seventy (70) days prior to the date of an Annual Meeting or Special Meeting as the record date for the determination of shareholders entitled to notice of, or to vote at, such meeting (the “Meeting Record Date”). The shareholders of record on the Meeting Record Date shall be the shareholders entitled to notice of and to vote at the meeting. Except as provided by the Wisconsin Business Corporation Law for a court-ordered adjournment, a determination of shareholders entitled to notice of and to vote at an Annual Meeting or Special Meeting is effective for any adjournment of such meeting unless the Board of Directors fixes a new Meeting Record Date, which it shall do if the meeting is adjourned to a date more than One Hundred Twenty (120) days after the date fixed for the original meeting. The Board of Directors may also fix in advance a date as the record date for the purpose of determining shareholders entitled to take any other action or determining shareholders for any other purpose. Such record date shall be not more than seventy (70) days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken. The record date for determining shareholders entitled to a distribution (other than a distribution involving a purchase, redemption, or other acquisition of the corporation’s shares) or a share dividend is the date on which the Board of Directors authorizes the distribution or share dividend, as the case may be, unless the Board of Directors fixes a different record date.

2.07 Shareholders’ List for Meetings. After a Meeting Record Date has been fixed, the corporation shall prepare a list of the names of all of the shareholders entitled to notice of the meeting. The list shall be arranged by class or series of shares, if any. Such list shall be available for inspection by any shareholder, beginning two (2) business days after notice of the meeting is given for which the list was prepared and continuing to the date of the meeting, at the corporation’s principal office or at a place identified in the meeting notice in the city where the meeting will be held. A shareholder or his or her agent may, on written demand, inspect and, subject to the limitations imposed by the Wisconsin Business Corporation Law, copy the list, during regular business hours and at his or her expense, during the period that it is available for inspection pursuant to this Section 2.07. The corporation shall make the list available at the meeting and any shareholder or his or her agent or attorney may inspect the list at any time during the meeting or any adjournment thereof. Refusal or failure to prepare or make available the list shall not affect the validity of any action taken at a meeting of shareholders.

2.08 Quorum and Voting Requirements; Postponements; Adjournments.

(a) Quorum and Voting Requirements. Shares entitled to vote as a separate voting group may take action on a matter at any Annual Meeting or Special Meeting only if a quorum of those shares exists with respect to that matter. If the corporation has only one class of stock outstanding, such class shall constitute a separate voting group for purposes of this Section 2.08. Except as otherwise provided in the corporation’s Amended and Restated Articles of Incorporation or the Wisconsin Business Corporation Law, a majority of the votes entitled to be cast on the matter shall constitute a quorum of the voting group for action on that matter. Once a share is represented for any purpose at any Annual Meeting or Special Meeting, other than for the purpose of objecting to holding the meeting or transacting business at the meeting, it is considered present for purposes of determining whether a quorum exists for the remainder of the meeting and

for any adjournment of that meeting unless a new Meeting Record Date is or must be set for the adjourned meeting. If a quorum exists, except in the case of the election of directors, action on a matter shall be approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action, unless the corporation's Amended and Restated Articles of Incorporation or the Wisconsin Business Corporation Law requires a greater number of affirmative votes. Unless otherwise provided in the corporation's Amended and Restated Articles of Incorporation, each director to be elected shall be elected by a plurality of the votes cast by the shares entitled to vote in the election of directors at an Annual Meeting or Special Meeting at which a quorum is present.

(b) Postponements and Adjournments. The Board of Directors acting by resolution may postpone and reschedule any previously scheduled Annual Meeting or Special Meeting. Any Annual Meeting or Special Meeting may be adjourned from time to time, whether or not there is a quorum, (i) at any time, upon a resolution by shareholders if the votes cast in favor of such resolution by the holders of shares of each voting group entitled to vote on any matter theretofore properly brought before the meeting exceed the number of votes cast against such resolution by the holders of shares of each such voting group or (ii) at any time prior to the transaction of any business at such meeting, by the Chairman of the Board, the President, or pursuant to a resolution of the Board of Directors. No notice of the time and place of adjourned meetings need be given except as required by the Wisconsin Business Corporation Law. At any adjourned meeting at which a quorum shall be present or represented (as determined under paragraph (a) of this Section 2.08), any business may be transacted which might have been transacted at the meeting as originally notified.

2.09 Conduct of Meeting. The Chairman of the Board, and in his or her absence, the President, and in his or her absence, any Vice President in the order provided under Section 4.08 of these bylaws, and in their absence, any person chosen by the shareholders present shall call any Annual Meeting or Special Meeting to order and shall act as chairperson of the meeting, and the Secretary of the corporation shall act as secretary of all meetings of the shareholders, but, in the absence of the Secretary, the presiding officer may appoint any other person to act as secretary of the meeting.

#### 2.10 Voting of Shares.

(a) Vote Per Share. Each outstanding share of Common Stock shall be entitled to one vote upon each matter submitted to a vote at an Annual Meeting or Special Meeting, except to the extent that the voting rights of the shares of any class or classes are enlarged, limited, or denied by the Wisconsin Business Corporation Law or the corporation's Amended and Restated Articles of Incorporation.

(b) Shares Held by Another Corporation. Shares held by another corporation, if a sufficient number of shares entitled to elect a majority of the directors of such other corporation is held directly or indirectly by this corporation, shall not be entitled to vote at an Annual Meeting or Special Meeting, but shares held in a fiduciary capacity may be voted.

2.11 Action Without Meeting. Any action required or permitted by the corporation's Amended and Restated Articles of Incorporation or these bylaws or any provision of the Wisconsin Business Corporation Law to be taken at an Annual Meeting or Special Meeting may be taken without a meeting if a written consent or consents, describing the action so taken, is signed by all of the shareholders entitled to vote with respect to the subject matter thereof and delivered to the corporation for inclusion in the corporate records.

2.12 Acceptance of Instruments Showing Shareholder Action. If the name signed on a vote, consent, waiver or proxy appointment corresponds to the name of a shareholder, the corporation, if acting in good faith, may accept the vote, consent, waiver, or proxy appointment and give it effect as the act of a shareholder. If the name signed on a vote, consent, waiver, or proxy appointment does not correspond to the name of a shareholder, the corporation, if acting in good faith, may accept the vote, consent, waiver, or proxy appointment and give it effect as the act of the shareholder if any of the following apply:

(a) Officer or Agent of Entity. The shareholder is an entity and the name signed purports to be that of an officer or agent of the entity.

(b) Fiduciary. The name purports to be that of a personal representative, administrator, executor, guardian, or conservator representing the shareholder and, if the corporation requests, evidence of fiduciary status acceptable to the corporation is presented with respect to the vote, consent, waiver, or proxy appointment.

(c) Receiver or Trustee in Bankruptcy. The name signed purports to be that of a receiver or trustee in bankruptcy of the shareholder and, if the corporation requests, evidence of this status acceptable to the corporation is presented with respect to the vote, consent, waiver, or proxy appointment.

(d) Pledgee, Beneficial Owner, Attorney-in-Fact. The name signed purports to be that of a pledgee, beneficial owner, or attorney-in-fact of the shareholder and, if the corporation requests, evidence acceptable to the corporation of the signatory's authority to sign for the shareholder is presented with respect to the vote, consent, waiver, or proxy appointment.

(e) Co-Owners. Two or more persons are the shareholders as co-tenants or fiduciaries and the name signed purports to be the name of at least one of the co-owners and the person signing appears to be acting on behalf of all co-owners.

The corporation may reject a vote, consent, waiver, or proxy appointment if the Secretary or other officer, or agent of the corporation who is authorized to tabulate votes, acting in good faith, has reasonable basis for doubt about the validity of the signature on it or about the signatory's authority to sign for the shareholder.

2.13 Notice of Shareholder Business and Nomination of Directors.

(a) Annual Meetings.

(i) Generally. Nominations of persons for election to the Board of Directors of the corporation and the proposal of business to be considered by the shareholders may be made at an Annual Meeting

(A) pursuant to the corporation's notice of meeting,

(B) by or at the direction of the Board of Directors, or

(C) by any shareholder of the corporation who is a shareholder of record at the time of giving of notice provided for in this bylaw and who is entitled to vote at the meeting and complies with the notice procedures set forth in this Section 2.13.

(ii) Nominations and Proposals by Shareholders. For nominations or other business to be properly brought before an Annual Meeting by a shareholder pursuant to clause (C) of paragraph (a)(i) of this Section 2.13, the shareholder must have given timely notice thereof in writing to the Secretary of the corporation. To be timely, a shareholder's notice shall be received by the Secretary of the corporation at the principal offices of the corporation on or before December 31 of the year immediately preceding the Annual Meeting; *provided, however*, that in the event that the date of the Annual Meeting is on or after May 1 in any year, notice by the shareholder to be timely must be so 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. Such shareholder's notice shall be signed by the shareholder of record who intends to make the nomination or introduce the other business, shall bear the date of signature of such shareholder and shall set forth:

(A) the name and address, as they appear on this corporation's books, of such shareholder and the beneficial owner or owners, if any, on whose behalf the nomination or proposal is made;

(B) the class and number of shares of the corporation which are beneficially owned by such shareholder or beneficial owner or owners;

(C) a representation that such shareholder is a holder of record of shares of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to make the nomination or introduce the other business specified in the notice;

(D) in the case of any proposed nomination for election or re-election as a director,

(I) the name and residence address of the person or persons to be nominated,

(II) a description of all arrangements or understandings between such shareholder or beneficial owner or owners and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination is to be made by such shareholder,

(III) such other information regarding each nominee proposed by such shareholder as would be required to be disclosed in solicitations of proxies for elections of directors, or would be otherwise required to be disclosed, in each case pursuant to Regulation 14A under the Exchange Act, including any information that would be required to be included in a proxy statement filed pursuant to Regulation 14A had the nominee been nominated by the Board of Directors, and

(IV) the written consent of each nominee to be named in a proxy statement and to serve as a director of the corporation if so elected; and

(E) in the case of any other business that such shareholder proposes to bring before the meeting,

(I) a brief description of the business desired to be brought before the meeting and, if such business includes a proposal to amend these bylaws, the language of the proposed amendment,

(II) such shareholder's and beneficial owner's or owners' reasons for conducting such business at the meeting and

(III) any material interest in such business of such shareholder and beneficial owner or owners.

(iii) Shareholder Nominations to Increased Board. Notwithstanding anything in the second sentence of paragraph (a)(ii) of this Section 2.13 to the contrary, in the event that the number of directors to be elected to the Board of Directors of the corporation is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the corporation at least seventy (70) days prior to the date of the Annual Meeting in the immediately preceding year, a shareholder's notice required by this Section 2.13 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be received by the Secretary at the principal offices of the corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the corporation.

(b) Special Meetings. Only such business shall be conducted at a Special Meeting as shall have been described in the notice of meeting sent to shareholders pursuant to Section 2.04 of these bylaws.

(i) Special Meeting Nominations. Nominations of persons for election to the Board of Directors may be made at a Special Meeting at which directors are to be elected pursuant to such notice of meeting

- (A) by or at the direction of the Board of Directors or
- (B) by any shareholder of the corporation who
  - (I) is a shareholder of record at the time of giving of such notice of meeting,
  - (II) is entitled to vote at the meeting, and
  - (III) complies with the notice procedures set forth in this Section 2.13.

(ii) Shareholder Nominations. Any shareholder desiring to nominate persons for election to the Board of Directors at such a Special Meeting shall cause a written notice to be received by the Secretary of the corporation at the principal offices of the corporation not earlier than ninety (90) days prior to such Special Meeting and not later than the close of business on the later of (x) the 60th day prior to such Special Meeting and (y) the 10th day following the day on which public announcement is first made of the date of such Special Meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. Such written notice shall be signed by the shareholder of record who intends to make the nomination, shall bear the date of signature of such shareholder and shall set forth:

- (A) the name and address, as they appear on the corporation's books, of such shareholder and the beneficial owner or owners, if any, on whose behalf the nomination is made;
- (B) the class and number of shares of the corporation which are beneficially owned by such shareholder or beneficial owner or owners;
- (C) a representation that such shareholder is a holder of record of shares of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to make the nomination specified in the notice;
- (D) the name and residence address of the person or persons to be nominated;
- (E) a description of all arrangements or understandings between such shareholder or beneficial owner or owners and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination is to be made by such shareholder;
- (F) such other information regarding each nominee proposed by such shareholder as would be required to be disclosed in solicitations of proxies for

elections of directors, or would be otherwise required to be disclosed, in each case pursuant to Regulation 14A under the Exchange Act, including any information that would be required to be included in a proxy statement filed pursuant to Regulation 14A had the nominee been nominated by the Board of Directors; and

(G) the written consent of each nominee to be named in a proxy statement and to serve as a director of the corporation if so elected.

(c) Governing Procedures.

(i) Effect of Procedures. Only persons who are nominated in accordance with the procedures set forth in this Section 2.13 shall be eligible to serve as directors. Only such business shall be conducted at an Annual Meeting or Special Meeting as shall have been brought before such meeting in accordance with the procedures set forth in this Section 2.13. The chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Section 2.13 and, if any proposed nomination or business is not in compliance with this Section 2.13, to declare that such defective proposal shall be disregarded.

(ii) Public Announcement. For purposes of this Section 2.13, “public announcement” shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14, or 15(d) of the Exchange Act.

(iii) Compliance with Exchange Act. Notwithstanding the foregoing provisions of this Section 2.13, a shareholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.13. Nothing in this Section 2.13 shall be deemed to limit the corporation’s obligation to include shareholder proposals in its proxy statement if such inclusion is required by Rule 14a-8 under the Exchange Act, as such rule may be amended from time to time.

### ARTICLE III. BOARD OF DIRECTORS

3.01 General Powers. The business and affairs of the corporation shall be managed by its Board of Directors.

3.02 Number. The number of directors of the corporation shall be not less than three (3) nor more than twelve (12), the exact number to be determined from time to time by resolution adopted by the Board of Directors or by the shareholders of the corporation at the annual meeting of the shareholders.

3.03 Classified Board. The directors shall be divided into three classes, designated Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the entire Board of Directors. Each director shall serve 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 successor shall be elected and shall qualify, subject, however, to prior death, resignation or removal from office. Notwithstanding the immediately preceding sentence, the Class I directors shall have an initial term ending on the date of the 2008 annual shareholders' meeting; the Class II directors shall have an initial term ending on the date of the 2009 annual shareholders' meeting; and the Class III directors shall have an initial term ending on the date of the 2010 annual shareholders' meeting. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, and any additional director of any class elected to fill a vacancy resulting from an increase in such class shall hold office for a term that shall coincide with the remaining term of that class, but in no case will a decrease in the number of directors shorten the term of any incumbent director. Unless otherwise required by law and subject to the Corporation's Amended and Restated Articles of Incorporation, any vacancy on the Board of Directors may be filled only by a majority of the directors then in office, though less than a quorum, or by a sole remaining director, or by shareholders if such vacancy was caused by the action of shareholders (in which event such vacancy may not be filled by the directors or a majority thereof). Any director elected to fill a vacancy not resulting from an increase in the number of directors shall have the same remaining term as that of his or her predecessor.

3.04 Resignation and Removal. A director may resign at any time by delivering written notice which complies with the Wisconsin Business Corporation Law to the Board of Directors, to the Chairman of the Board, or to the corporation. A director's resignation is effective when the notice is delivered unless the notice specifies a later effective date. A director may be removed from office only for cause at a meeting of the shareholders called for the purpose of removing the director, and the meeting notice shall state that the purpose, or one of the purposes, of the meeting is removal of the director and shall state the alleged cause upon which the director's removal would be based.

3.05 Chairman of the Board. The Board of Directors may elect a director as the Chairman of the Board. The Chairman of the Board shall, when present, preside at all meetings of the shareholders and of the Board of Directors, may call meetings of the shareholders and the Board of Directors, shall advise and counsel with the management of the corporation, and shall perform such other duties as set forth in these bylaws and as determined by the Board of Directors. Except as provided in this Section 3.05, the Chairman shall be neither an officer nor an employee of the corporation by virtue of his or her election and service as Chairman of the Board; *provided, however*, the Chairman may be an officer of the corporation upon resolution by the Board of Directors. The Chairman may use the title Chairman or Chairman of the Board interchangeably.

3.06 Regular Meetings. A regular meeting of the Board of Directors shall be held without other notice than this bylaw immediately after the Annual Meeting and each adjourned session thereof. The place of such regular meeting shall be the same as the place of the Annual Meeting that precedes it, or such other suitable place as may be announced at such Annual Meeting. The Board of Directors may provide, by resolution, the date, time, and place, either within or without the State of Wisconsin, for the holding of additional regular meetings of the Board of Directors without other notice than such resolution.

3.07 Special Meetings. Special meetings of the Board of Directors may be called by or at the request of the Chairman of the Board, the President, the Secretary or any two directors. The Chairman of the Board, the President, or the Secretary may fix any place, either within or without the State of Wisconsin, as the place for holding any special meeting of the Board of Directors, and if no other place is fixed the place of the meeting shall be the principal office of the corporation in the State of Wisconsin.

3.08 Notice; Waiver. Notice of each meeting of the Board of Directors (unless otherwise provided in or pursuant to Section 3.06 of these bylaws) shall be given by written notice delivered in person, by facsimile or other form of wire or wireless communication, or by mail or private carrier, to each director at his business address or at such other address as such director shall have designated in writing filed with the Secretary, in each case not less than forty-eight hours prior to the meeting. The notice need not describe the purpose of the meeting of the Board of Directors or the business to be transacted at such meeting. If mailed, such notice shall be deemed to be effective when deposited in the United States mail so addressed, with postage thereon prepaid. If notice is given by private carrier, such notice shall be deemed to be effective when delivered to the private carrier. Whenever any notice whatsoever is required to be given to any director of the corporation under the corporation's Amended and Restated Articles of Incorporation or these bylaws or any provision of the Wisconsin Business Corporation Law, a waiver thereof in writing, signed at any time, whether before or after the date and time of meeting, by the director entitled to such notice shall be deemed equivalent to the giving of such notice. The corporation shall retain any such waiver as part of the permanent corporate records. A director's attendance at or participation in a meeting waives any required notice to him or her of the meeting unless the director at the beginning of the meeting or promptly upon his or her arrival objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting.

3.09 Quorum. Except as otherwise provided by the Wisconsin Business Corporation Law or by the corporation's Amended and Restated Articles of Incorporation or these bylaws, a majority of the directors then in office shall constitute a quorum for the transaction of business at any meeting of the Board of Directors. Except as otherwise provided by the Wisconsin Business Corporation Law or by the corporation's Amended and Restated Articles of Incorporation or by these bylaws, a quorum of any committee of the Board of Directors created pursuant to Section 3.15 of these bylaws shall consist of a majority of the number of directors appointed to serve on the committee. A majority of the directors present (though less than such quorum) may adjourn any meeting of the Board of Directors or any committee thereof, as the case may be, from time to time without further notice.

3.10 Manner of Acting. The affirmative vote of a majority of the directors present at a meeting of the Board of Directors or a committee thereof at which a quorum is present shall be the act of the Board of Directors or such committee, as the case may be, unless the Wisconsin Business Corporation Law, the corporation's Amended and Restated Articles of Incorporation or these bylaws require the vote of a greater number of directors.

3.11 Conduct of Meetings. The Chairman of the Board, and in his or her absence, the President, and in his or her absence, a Vice President in the order provided under Section 4.08

of these bylaws, and in their absence, any director chosen by the directors present, shall call meetings of the Board of Directors to order and shall act as chairperson of the meeting. The Secretary of the corporation shall act as secretary of all meetings of the Board of Directors but in the absence of the Secretary, the presiding officer may appoint any other person present to act as secretary of the meeting. Minutes of any regular or special meeting of the Board of Directors shall be prepared and distributed to each director.

3.12 Vacancies. Any vacancies occurring in the Board of Directors, including a vacancy created by an increase in the number of directors, shall be filled only as provided in the corporation's Amended and Restated Articles of Incorporation. A vacancy that will occur at a specific later date, because of a resignation effective at a later date or otherwise, may be filled before the vacancy occurs, but the new director may not take office until the vacancy occurs.

3.13 Compensation.

(a) Board of Directors. The Board of Directors, irrespective of any personal interest of any of its members, may establish reasonable compensation of all directors for services to the corporation as directors or may delegate such authority to the Compensation Committee under paragraph (c) of Section 3.15 of these bylaws.

(b) Compensation. Compensation may include, in addition to salary, reasonable pensions, disability or death benefits, and other benefits or payments, to directors, officers and employees and to their estates, families, dependents, or beneficiaries on account of prior services rendered by such directors, officers and employees to the corporation.

3.14 Presumption of Assent. A director who is present and is announced as present at a meeting of the Board of Directors or any committee thereof created in accordance with Section 3.15 of these bylaws, when corporate action is taken, assents to the action taken unless any of the following occurs: (a) the director objects at the beginning of the meeting or promptly upon his or her arrival to holding the meeting or transacting business at the meeting; (b) the director dissents or abstains from an action taken and minutes of the meeting are prepared that show the director's dissent or abstention from the action taken; (c) the director delivers written notice that complies with the Wisconsin Business Corporation Law of his or her dissent or abstention to the presiding officer of the meeting before its adjournment or to the corporation immediately after adjournment of the meeting; or (d) the director dissents or abstains from an action taken, minutes of the meeting are prepared that fail to show the director's dissent or abstention from the action taken, and the director delivers to the corporation a written notice of that failure that complies with the Wisconsin Business Corporation Law promptly after receiving the minutes. Such right of dissent or abstention shall not apply to a director who votes in favor of the action taken.

3.15 Committees. The Board of Directors by resolution adopted by the affirmative vote of a majority of all of the directors then in office may create one or more committees, appoint members of the Board of Directors to serve on the committees and designate other members of the Board of Directors to serve as alternates. Each committee shall have one or more members who shall, unless otherwise provided by the Board of Directors, serve at the pleasure of the Board of Directors. A committee may be authorized to exercise the authority of the Board of Directors,

except that a committee may not do any of the following: (a) authorize distributions; (b) approve or propose to shareholders action that the Wisconsin Business Corporation Law requires to be approved by shareholders; (c) fill vacancies on the Board of Directors or, unless the Board of Directors provides by resolution that vacancies on a committee shall be filled by the affirmative vote of the remaining committee members, on any Board committee; (d) amend the corporation's articles of incorporation; (e) adopt, amend or repeal bylaws; (f) approve a plan of merger not requiring shareholder approval; (g) authorize or approve reacquisition of shares, except according to a formula or method prescribed by the Board of Directors; and (h) authorize or approve the issuance or sale or contract for sale of shares, or determine the designation and relative rights, preferences and limitations of a class or series of shares, except that the Board of Directors may authorize a committee to do so within limits prescribed by the Board of Directors. Unless otherwise provided by the Board of Directors in creating the committee, a committee may employ counsel, accountants and other consultants to assist it in the exercise of its authority.

3.16 Telephonic Meetings. Except as herein provided and notwithstanding any place set forth in the notice of the meeting or these bylaws, members of the Board of Directors (and any committees thereof created pursuant to Section 3.15 of these bylaws) may participate in regular or special meetings by, or through the use of, any means of communication by which all participants may simultaneously hear each other, such as by conference telephone. If a meeting is conducted by such means, then at the commencement of such meeting the presiding officer shall inform the participating directors that a meeting is taking place at which official business may be transacted. Any participant in a meeting by such means shall be deemed present in person at such meeting. Notwithstanding the foregoing, no action may be taken at any meeting held by such means on any particular matter which the presiding officer determines, in his or her sole discretion, to be inappropriate under the circumstances for action at a meeting held by such means. Such determination shall be made and announced in advance of such meeting.

3.17 Action Without Meeting. Any action required or permitted by the Wisconsin Business Corporation Law to be taken at a meeting of the Board of Directors or a committee thereof created pursuant to Section 3.15 of these bylaws may be taken without a meeting if the action is taken by all members of the Board or of the committee. The action shall be evidenced by one or more written consents describing the action taken, signed by each director or committee member and retained by the corporation. Such action shall be effective when the last director or committee member signs the consent, unless the consent specifies a different effective date.

#### ARTICLE IV. OFFICERS

4.01 Number. The principal officers of the corporation shall be a President and Chief Executive Officer (herein the "President"), the number of Vice Presidents as authorized from time to time by the Board of Directors, a Secretary, and a Treasurer, each of whom shall be elected by the Board of Directors. Such other officers and assistant officers as may be deemed necessary may be elected or appointed by the Board of Directors, the Chairman of the Board or the President. The Board of Directors may also authorize any duly appointed officer to appoint one or more officers or assistant officers. Any two or more offices may be held by the same person.

4.02 Election and Term of Office. The officers of the corporation to be elected by the Board of Directors shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each Annual Meeting of the shareholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as is practicable. Each officer shall hold office until his or her successor shall have been duly elected or until his or her prior death, resignation or removal.

4.03 Removal. The Board of Directors may remove any officer and, unless restricted by the Board of Directors or these bylaws, an officer may remove any officer or assistant officer appointed by that officer, at any time, with or without cause and notwithstanding the contract rights, if any, of the officer removed. The appointment of an officer does not of itself create contract rights.

4.04 Resignation. An officer may resign at any time by delivering notice to the corporation that complies with the Wisconsin Business Corporation Law. The resignation shall be effective when the notice is delivered, unless the notice specifies a later effective date and the corporation accepts the later effective date.

4.05 Vacancies. A vacancy in any principal office because of death, resignation, removal, disqualification or otherwise, shall be filled by the Board of Directors for the unexpired portion of the term. If a resignation of an officer is effective at a later date as contemplated by Section 4.04 of these bylaws, the Board of Directors may fill the pending vacancy before the effective date if the Board provides that the successor may not take office until the effective date.

4.06 President. The President shall be the principal executive officer of the corporation and, subject to the control of the Board of Directors, shall in general supervise and control all of the business and affairs of the corporation. The President shall have authority, subject to such rules as may be prescribed by the Board of Directors, to appoint such agents and employees of the corporation as he or she shall deem necessary, to prescribe their powers, duties and compensation, and to delegate authority to them. Such agents and employees shall hold office at the discretion of the President. He or she shall have authority to sign, execute, and acknowledge, on behalf of the corporation, all deeds, mortgages, bonds, stock certificates, contracts, leases, reports, and all other documents or instruments necessary or proper to be executed in the course of the corporation's regular business, or which shall be authorized by resolution of the Board of Directors; and, except as otherwise provided by law or the Board of Directors, he or she may authorize any Vice President or other officer or agent of the corporation to sign, execute, and acknowledge such documents or instruments in his or her place and stead. In general, he or she shall perform all duties incident to the office of President and such other duties as may be prescribed by the Board of Directors from time to time. In the absence or disability of the Chairman of the Board, or when that position is vacant, the President shall, when present, preside at all meetings of the shareholders and of the Board of Directors.

4.07 The Vice Presidents. In the absence or disability of the President, the Vice President (or in the event there be more than one Vice President, the Vice Presidents in the order designated by the Board of Directors, or in the absence of any designation, then in the order of their election) shall perform the duties of the President, and when so acting, shall have all the powers of

and be subject to all the restrictions upon the President. Any Vice President may sign certificates for shares of the corporation; and shall perform such other duties and have such authority as from time to time may be delegated or assigned to him or her by the President or by the Board of Directors. The execution of any instrument of the corporation by any Vice President shall be conclusive evidence, as to third parties, of his or her authority to act in the stead of the President. The Board of Directors may designate any Vice President as being senior in rank or degree of responsibility and may accord such a Vice President an appropriate title designating his senior rank, such as "Executive Vice President" or "Senior Vice President." The Board of Directors may assign a certain Vice President responsibility for a designated group, division or function of the corporation's business and add an appropriate descriptive designation to his title.

4.08 The Secretary. The Secretary shall: (a) keep minutes of the meetings of the shareholders and of the Board of Directors (and of committees thereof) in one or more books provided for that purpose (including records of actions taken by the shareholders or the Board of Directors (or committees thereof) without a meeting); (b) see that all notices are duly given in accordance with the provisions of these bylaws or as required by the Wisconsin Business Corporation Law; (c) be custodian of the corporate records and of the seal (if any) of the corporation and see that the seal (if any) of the corporation is affixed to all documents the execution of which on behalf of the corporation under its seal is duly authorized; (d) maintain a record of the shareholders of the corporation, in a form that permits preparation of a list of the names and addresses of all shareholders, by class or series of shares and showing the number and class or series of shares held by each shareholder; (e) have general charge of the stock transfer books of the corporation; and (f) in general perform all duties incident to the office of Secretary and have such other duties and exercise such authority as from time to time may be delegated or assigned by the President or by the Board of Directors.

4.09 The Treasurer. The Treasurer shall: (a) have charge and custody of and be responsible for all funds and securities of the corporation; (b) maintain appropriate accounting records; (c) receive and give receipts for moneys due and payable to the corporation from any source whatsoever, and deposit all such moneys in the name of the corporation in such banks, trust companies, or other depositories as shall be selected in accordance with the provisions of Section 5.04 of these bylaws; and (d) in general perform all of the duties incident to the office of Treasurer and have such other duties and exercise such other authority as from time to time may be delegated or assigned by the President or by the Board of Directors. If required by the Board of Directors, the Treasurer shall give a bond for the faithful discharge of his or her duties in such sum and with such surety or sureties as the Board of Directors shall determine.

4.10 Assistant Secretaries and Assistant Treasurers. There shall be such number of Assistant Secretaries and Assistant Treasurers as the Board of Directors may from time to time authorize. The Assistant Treasurers shall respectively, if required by the Board of Directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the Board of Directors shall determine. The Assistant Secretaries and Assistant Treasurers, in general, shall perform such duties and have such authority as shall from time to time be delegated or assigned to them by the Secretary or the Treasurer, respectively, or by the President or the Board of Directors.

4.11 Other Assistants and Acting Officers. The Board of Directors shall have the power to appoint, or to authorize any duly appointed officer of the corporation to appoint, any person to act as assistant to any officer, or as agent for the corporation in his or her stead, or to perform the duties of such officer whenever for any reason it is impracticable for such officer to act personally, and such assistant or acting officer or other agent so appointed by the Board of Directors or an authorized officer shall have the power to perform all the duties of the office to which he or she is so appointed to be an assistant, or as to which he or she is so appointed to act, except as such power may be otherwise defined or restricted by the Board of Directors or the appointing officer.

ARTICLE V. CONTRACTS, LOANS, CHECKS AND  
DEPOSITS; SPECIAL CORPORATE ACTS

5.01 Contracts. The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or execute or deliver any instrument in the name of and on behalf of the corporation, and such authorization may be general or confined to specific instances. In the absence of other designation, all deeds, mortgages, and instruments of assignment or pledge made by the corporation shall be executed in the name of the corporation by the President or one of the Vice Presidents and by the Secretary, an Assistant Secretary, the Treasurer, or an Assistant Treasurer; the Secretary or an Assistant Secretary, when necessary or required, shall affix the corporate seal, if any, thereto; and when so executed no other party to such instrument or any third party shall be required to make any inquiry into the authority of the signing officer or officers.

5.02 Loans. No indebtedness for borrowed money shall be contracted on behalf of the corporation and no evidences of such indebtedness shall be issued in its name unless authorized by or under the authority of a resolution of the Board of Directors. Such authorization may be general or confined to specific instances.

5.03 Checks, Drafts, etc. All checks, drafts or other orders for the payment of money, notes, or other evidences of indebtedness issued in the name of the corporation, shall be signed by such officer or officers, agent or agents of the corporation and in such manner as shall from time to time be determined by or under the authority of a resolution of the Board of Directors.

5.04 Deposits. All funds of the corporation not otherwise employed shall be deposited from time to time to the credit of the corporation in such banks, trust companies, or other depositaries as may be selected by or under the authority of a resolution of the Board of Directors.

5.05 Voting of Securities Owned by this Corporation. Subject always to the specific directions of the Board of Directors, (a) any shares or other securities issued by any other corporation and owned or controlled by this corporation may be voted at any meeting of security holders of such other corporation by the President of this corporation if he or she shall be present, or in his or her absence by any Vice President of this corporation who may be present, and (b) whenever, in the judgment of President, or in his or her absence, of any Vice President, it is desirable for this corporation to execute a proxy or written consent in respect to any shares or other securities issued by any other corporation and owned by this corporation, such proxy or consent shall be executed in the name of this corporation by the President or one of the Vice Presidents of this corporation, without necessity of any authorization by the Board of Directors, affixation of

corporate seal, if any, or countersignature or attestation by another officer. Any person or persons designated in the manner above stated as the proxy or proxies of this corporation shall have full right, power, and authority to vote the shares or other securities issued by such other corporation and owned by this corporation the same as such shares or other securities might be voted by this corporation.

5.06 No Nominee Procedures. The corporation has not established, and nothing in these bylaws shall be deemed to establish, any procedure by which a beneficial owner of the corporation's shares that are registered in the name of a nominee is recognized by the corporation as a shareholder under Section 180.0723 of the Wisconsin Business Corporation Law.

## ARTICLE VI. CERTIFICATES FOR SHARES; TRANSFER OF SHARES

### 6.01 Certificates for Shares.

(a) Generally. Certificates representing shares of the corporation shall be in such form, consistent with the Wisconsin Business Corporation Law, as shall be determined by the Board of Directors. Such certificates shall be signed by the President or a Vice President. All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the corporation. All certificates surrendered to the corporation for transfer shall be canceled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled, except as provided in Section 6.06 of these bylaws.

(b) Classes or Series. If the corporation issues different classes of shares or different series within a class, the front or back of the certificate shall contain either of the following:

(i) a summary of the designations, relative rights, preferences and limitations applicable to each class, and the variations in rights, preferences, and limitations determined for each series and the authority of the board of directors to determine variations for future series; or

(ii) a conspicuous statement that the corporation will furnish the shareholder the information described in paragraph (b)(i) of this section 6.01 on request, in writing and without charge.

6.02 Facsimile Signatures and Seal. The seal of the corporation, if any, on any certificates for shares may be a facsimile. The signature of the President or a Vice President upon a certificate may be facsimiles if the certificate is manually signed on behalf of a transfer agent, or a registrar, other than the corporation itself or an employee of the corporation.

6.03 Signature by Former Officers. The validity of a share certificate is not affected if a person who signed the certificate (either manually or in facsimile) no longer holds office when the certificate is issued.



6.04 Transfer of Shares. Prior to due presentment of a certificate for shares for registration of transfer the corporation may treat the registered owner of such shares as the person exclusively entitled to vote, to receive notifications, and otherwise to have and exercise all the rights and power of an owner. Where a certificate for shares is presented to the corporation with a request to register for transfer, the corporation shall not be liable to the owner or any other person suffering loss as a result of such registration of transfer if (a) there were on or with the certificate the necessary endorsements, and (b) the corporation had no duty to inquire into adverse claims or has discharged any such duty. The corporation may require reasonable assurance that such endorsements are genuine and effective and compliance with such other regulations as may be prescribed by or under the authority of the Board of Directors.

6.05 Restrictions on Transfer. The face or reverse side of each certificate representing shares shall bear a conspicuous notation of any restriction imposed by the corporation upon the transfer of such shares.

6.06 Lost, Stolen, or Destroyed Certificates. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost, stolen, or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen, or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the person requesting such new certificate or certificates, or his or her legal representative, to give the corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost, stolen, or destroyed.

6.07 Consideration for Shares. The Board of Directors may authorize shares to be issued for consideration consisting of any tangible or intangible property or benefit to the corporation, including cash, promissory notes, services performed, contracts for services to be performed, or other securities of the corporation. Before the corporation issues shares, the Board of Directors shall determine that the consideration received or to be received for the shares to be issued is adequate. The determination of the Board of Directors is conclusive insofar as the adequacy of consideration for the issuance of shares relates to whether the shares are validly issued, fully paid, and nonassessable. The corporation may place in escrow shares issued in whole or in part for a contract for future services or benefits, a promissory note, or other property to be issued in the future, or make other arrangements to restrict the transfer of the shares, and may credit distributions in respect of the shares against their purchase price, until the services are performed, the benefits or property are received, or the promissory note is paid. If the services are not performed, the benefits or property are not received, or the promissory note is not paid, the corporation may cancel, in whole or in part, the shares escrowed or restricted and the distributions credited.

6.08 Stock Regulations. The Board of Directors shall have the power and authority to make all such further rules and regulations not inconsistent with law as it may deem expedient concerning the issue, transfer, and registration of shares of the corporation.

## ARTICLE VII. SEAL

7.01 The Board of Directors may provide for a corporate seal for the corporation.

#### ARTICLE VIII. FISCAL YEAR

8.01 The fiscal year of the corporation shall be as determined by the Board of Directors.

#### ARTICLE IX. INDEMNIFICATION

9.01 Certain Definitions. All terms used in this Article IX and not otherwise hereinafter defined in this Article IX shall have the meaning set forth in Section 180.0850 of the Wisconsin Business Corporation Law. The following terms (including any plural forms thereof) used in this Article IX are defined as follows:

(c) “Affiliate” shall include, without limitation, any Person (including without limitation an employee benefit plan) that, directly or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the Corporation.

(d) “Authority” shall mean the entity selected by the Director or Officer, or Covered Person to determine his right to indemnification pursuant to Section 9.04 of this Article IX.

(e) “Board of Directors” shall mean the entire then elected and serving Board of Directors of the Corporation, including all members thereof who are Parties to the subject Proceeding or any related Proceeding.

(f) “Breach of Duty” shall mean the Director or Officer or Covered Person breached or failed to perform his duties to the Corporation and his breach of or failure to perform those duties is determined, in accordance with Section 9.04 of this Article IX, to constitute misconduct under Section 180.0851(2)(a) 1, 2, 3 or 4 of the Statute.

(g) “Corporation,” as used herein and as defined in the Statute and incorporated by reference into the definitions of certain other capitalized terms used herein, shall mean the corporation, including, without limitation, any successor corporation or entity to the corporation by way of merger, consolidation, or acquisition of all or substantially all of the capital stock or assets of the corporation.

(h) “Covered Person” shall mean any trustee of any employee benefit plan of the Corporation, and any person serving at the request of the Corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, or trust.

(i) “Director or Officer” shall have the meaning set forth in the Statute; provided, that, for purposes of this Article IX, it shall be conclusively presumed that any Director or Officer serving as a director, officer, partner, member of any governing or decision-making committee, employee, or agent of an Affiliate shall be so serving at the request of the Corporation.

(j) “Disinterested Quorum” shall mean a quorum of the Board of Directors who are not Parties to the subject Proceeding or any related Proceeding.

(k) “Party” shall have the meaning set forth in the Statute; provided, that, for purposes of this Article IX, the term “Party” shall also include any Director or Officer, Covered Person, or employee of the Corporation who is or was a witness in a Proceeding at a time when he has not otherwise been formally named a Party thereto.

(l) “Person” shall mean any individual, partnership, limited liability partnership, firm, corporation, limited liability company, association, trust, unincorporated organization, or other entity, as well as any syndicate or group deemed to be a person under Section 14(d)(2) of the Exchange Act.

(m) “Proceeding” shall have the meaning set forth in the Statute; provided, that, in accordance with Section 180.0859 of the Statute and for purposes of this Article IX, the term “Proceeding” shall also include all Proceedings (i) brought under (in whole or in part) the Securities Act of 1933, as amended, the Exchange Act, their respective state counterparts, and/or any rule or regulation promulgated under any of the foregoing; (ii) brought before an Authority or otherwise to enforce rights hereunder; (iii) any appeal from a Proceeding; and (iv) any Proceeding in which the Director or Officer or Covered Person is a plaintiff or petitioner because he is a Director or Officer or Covered Person; *provided, however*, that any such Proceeding under this subsection (iv) must be authorized by a majority vote of a Disinterested Quorum.

(n) “Statute” shall mean Sections 180.0850 through 180.0859, inclusive, of the Wisconsin Business Corporation Law, Chapter 180 of the Wisconsin Statutes, as the same shall then be in effect, including any amendments thereto, but, in the case of any such amendment, only to the extent such amendment permits or requires the Corporation to provide broader indemnification rights than the Statute permitted or required the Corporation to provide prior to such amendment.

9.02 Mandatory Indemnification of Directors and Officers and Covered Persons. To the fullest extent permitted or required by the Statute, the Corporation shall indemnify a Director or Officer or Covered Person against all Liabilities incurred by or on behalf of such Director or Officer or Covered Person in connection with a Proceeding in which the Director or Officer or Covered Person is a Party because he is a Director or Officer or Covered Person.

9.03 Procedural Requirements.

(c) Payment or Reimbursement. A Director or Officer or Covered Person who seeks indemnification under Section 9.02 of this Article IX shall make a written request therefor to the Corporation. Subject to subsection (b) of this Section 9.03, within sixty (60) days of the Corporation’s receipt of such request, the Corporation shall pay or reimburse the Director or Officer or Covered Person for the entire amount of Liabilities incurred by the Director or Officer or Covered Person in connection with the subject Proceeding (net of any Expenses previously advanced pursuant to Section 9.05 of this Article IX).

(d) Exception. No indemnification shall be required to be paid by the Corporation pursuant to Section 9.02 of this Article IX if, within such sixty (60) day period, (i) a Disinterested Quorum, by a majority vote thereof, determines that the Director or Officer or Covered Person requesting indemnification engaged in misconduct constituting a Breach of Duty or (ii) a Disinterested Quorum cannot be obtained.

(e) Authorization of an Authority. In either case of nonpayment pursuant to subsection (b) of this Section 9.03, the Board of Directors shall immediately authorize by resolution that an Authority, as provided in Section 9.04 of this Article IX, determine whether the conduct of the Director or Officer or Covered Person constituted a Breach of Duty and, therefore, whether indemnification should be denied hereunder.

(f) Presumption. (i) If the Board of Directors does not authorize an Authority to determine the Director's or Officer's or Covered Person's right to indemnification hereunder within such sixty (60) day period and/or (ii) if indemnification of the requested amount of Liabilities is paid by the Corporation, then it shall be conclusively presumed for all purposes that a Disinterested Quorum has affirmatively determined that the Director or Officer or Covered Person did not engage in misconduct constituting a Breach of Duty and, in the case of clause (i) above (but not clause (ii)), indemnification by the Corporation of the requested amount of Liabilities shall be paid to the Director or Officer or Covered Person immediately.

#### 9.04 Determination of Indemnification.

(a) Selection of an Authority. If the Board of Directors authorizes an Authority to determine a Director's or Officer's or Covered Person's right to indemnification pursuant to Section 9.03 of this Article IX, then the Director or Officer or Covered Person requesting indemnification shall have the absolute discretionary authority to select one of the following as such Authority:

(i) An independent legal counsel; provided, that such counsel shall be mutually selected by such Director or Officer or Covered Person and by a majority vote of a Disinterested Quorum or, if a Disinterested Quorum cannot be obtained, then by a majority vote of the Board of Directors;

(ii) A panel of three arbitrators selected from the panels of arbitrators of the American Arbitration Association in Wisconsin; provided, that (A) one arbitrator shall be selected by such Director or Officer or Covered Person, the second arbitrator shall be selected by a majority vote of a Disinterested Quorum or, if a Disinterested Quorum cannot be obtained, then by a majority vote of the Board of Directors, and the third arbitrator shall be selected by the two previously selected arbitrators, and (B) in all other respects (other than this Article IX), such panel shall be governed by the American Arbitration Association's then existing Commercial Arbitration Rules; or

(iii) A court pursuant to and in accordance with Section 180.0854 of the Statute.

(b) Burden of Proof. In any such determination by the selected Authority there shall exist a rebuttable presumption that the conduct of the Director or Officer or Covered Person did not constitute a Breach of Duty and that indemnification against the requested amount of Liabilities is required. The burden of rebutting such a presumption by clear and convincing evidence shall be on the Corporation or such other party asserting that such indemnification should not be allowed.

(c) Authority's Determination. The Authority shall make its determination within sixty (60) days of being selected and shall submit a written opinion of its conclusion simultaneously to both the Corporation and the Director or Officer or Covered Person.

(d) Payment if Indemnification is Required. If the Authority determines that indemnification is required hereunder, then the Corporation shall pay the entire requested amount of Liabilities (net of any Expenses previously advanced pursuant to Section 9.05 of this Article IX), including interest thereon at a reasonable rate, as determined by the Authority, within ten (10) days of receipt of the Authority's opinion; provided, that, if it is determined by the Authority that a Director or Officer or Covered Person is entitled to indemnification against Liabilities' incurred in connection with some claims, issues, or matters, but not as to other claims, issues, or matters, involved in the subject Proceeding, the Corporation shall be required to pay (as set forth above) only the amount of such requested Liabilities as the Authority shall deem appropriate in light of all of the circumstances of such Proceeding.

(e) Determination is Binding. The determination by the Authority that indemnification is required hereunder shall be binding upon the Corporation regardless of any prior determination that the Director or Officer or Covered Person engaged in a Breach of Duty.

(f) Expenses of Determination. All Expenses incurred in the determination process under this Section 9.04 by either the Corporation or the Director or Officer or Covered Person, including, without limitation, all Expenses of the selected Authority, shall be paid by the Corporation.

#### 9.05 Mandatory Allowance of Expenses.

(f) Payment or Reimbursement of Expenses. While proceedings for determination by an Authority under Section 9.04 of this Article IX are pending, the Corporation shall pay or reimburse from time to time or at any time, within ten (10) days after the receipt of the Director's or Officer's or Covered Person's written request therefor, the reasonable Expenses of the Director or Officer or Covered Person as such Expenses are incurred; provided, the following conditions are satisfied:

(i) The Director or Officer or Covered Person furnishes to the Corporation an executed written certificate affirming his good faith belief that he has not engaged in misconduct that constitutes a Breach of Duty; and

(ii) The Director or Officer or Covered Person furnishes to the Corporation an unsecured executed written agreement to repay any advances made under this Section

9.05 if it is ultimately determined by an Authority that he is not entitled to be indemnified by the Corporation for such Expenses pursuant to Section 9.04 of this Article IX.

(g) Repayment. If the Director or Officer or Covered Person must repay any previously advanced Expenses pursuant to this Section 9.05, then such Director or Officer or Covered Person shall not be required to pay interest on such amounts.

9.06 Indemnification and Allowance of Expenses of Certain Others.

(d) Director or Officer of Affiliate. The Board of Directors may, in its sole and absolute discretion as it deems appropriate, pursuant to a majority vote thereof, indemnify a director or officer of an Affiliate (who is not otherwise serving as a Director or Officer or Covered Person) against all Liabilities, and shall advance the reasonable Expenses, incurred by such director or officer in a Proceeding to the same extent hereunder as if such director or officer incurred such Liabilities because he was a Director or Officer or Covered Person, if such director or officer is a Party thereto because he is or was a director or officer of the Affiliate.

(e) Successful Employee. The Corporation shall indemnify an employee who is not a Director or Officer or Covered Person, to the extent he has been successful on the merits or otherwise in defense of a Proceeding, for all reasonable Expenses incurred in the Proceeding if the employee was a Party because he was an employee of the Corporation.

(f) Other Employee or Agent. The Board of Directors may, in its sole and absolute discretion as it deems appropriate, pursuant to a majority vote thereof, indemnify (to the extent not otherwise provided in subsection (b) of this Section 9.06) against Liabilities incurred by, and/or provide for the allowance of reasonable Expenses of, an employee or authorized agent of the Corporation acting within the scope of his duties as such and who is not otherwise a Director or Officer or Covered Person.

9.07 Insurance. The Corporation may purchase and maintain insurance on behalf of a Director or Officer or Covered Person or any individual who is or was an employee or authorized agent of the Corporation against any Liability asserted against or incurred by such individual in his capacity as such or arising from his status as such, regardless of whether the Corporation is required or permitted to indemnify against any such Liability under this Article IX.

9.08 Notice to the Corporation. A Director or Officer, Covered Person or employee shall promptly notify the Corporation in writing when he has actual knowledge of a Proceeding that may result in a claim of indemnification against Liabilities or allowance of Expenses hereunder, but the failure to do so shall not relieve the Corporation of any liability to the Director or Officer, Covered Person, or employee hereunder unless the Corporation shall have been irreparably prejudiced by such failure (as determined, in the case of Directors or Officers or Covered Persons only, by an Authority selected pursuant to Section 9.04(a) of this Article IX).

9.09 Severability. If any provision of this Article IX shall be deemed invalid or inoperative, or if a court of competent jurisdiction determines that any of the provisions of this Article IX contravene public policy, then this Article IX shall be construed so that the remaining

provisions shall not be affected, but shall remain in full force and effect, and any such provisions that are invalid or inoperative or that contravene public policy shall be deemed, without further action or deed by or on behalf of the Corporation, to be modified, amended and/or limited, but only to the extent necessary to render the same valid and enforceable; it being understood that it is the Corporation's intention to provide the Directors and Officers and Covered Persons with the broadest possible protection against personal liability allowable under the Statute.

9.10 Nonexclusivity of Article IX. The rights of a Director or Officer, Covered Person, or employee (or any other person) granted under this Article IX shall not be deemed exclusive of any other rights to indemnification against Liabilities or allowance of Expenses to which the Director or Officer, Covered Person, or employee (or such other person) may be entitled under any written agreement, Board of Director resolution, vote of shareholders of the Corporation, or otherwise, including, without limitation, under the Statute. Nothing contained in this Article IX shall be deemed to limit the Corporation's obligations to indemnify against Liabilities or allow Expenses to a Director or Officer, Covered Person, or employee under the Statute.

9.11 Contractual Nature of Article IX; Repeal or Limitation of Rights. This Article IX shall be deemed to be a contract between the Corporation and each Director or Officer, Covered Person, and employee of the Corporation, and any repeal or other limitation of this Article IX or any repeal or limitation of the Statute or any other applicable law shall not limit any rights of indemnification against Liabilities or allowance of Expenses then existing or arising out of events, acts, or omissions occurring prior to such repeal or limitation, including, without limitation, the right to indemnification against Liabilities or allowance of Expenses for Proceedings commenced after such repeal or limitation to enforce this Article IX with regard to acts, omissions, or events arising prior to such repeal or limitation.

## ARTICLE X. AMENDMENTS

10.01 By Shareholders. Except as otherwise provided in the corporation's Amended and Restated Articles of Incorporation or these bylaws, these bylaws may be amended or repealed and new bylaws may be adopted by the shareholders at any Annual Meeting or Special Meeting at which a quorum is in attendance.

10.02 By Directors. Except as otherwise provided by the Wisconsin Business Corporation Law or the corporation's Amended and Restated Articles of Incorporation, these bylaws may also be amended or repealed and new bylaws may be adopted by the Board of Directors by affirmative vote of a majority of the number of directors present at any meeting at which a quorum is in attendance; *provided, however,* that the shareholders in adopting, amending, or repealing a particular bylaw may provide therein that the Board of Directors may not amend, repeal or readopt that bylaw.

10.03 Implied Amendments. Any action taken or authorized by the shareholders or by the Board of Directors which would be inconsistent with the bylaws then in effect but which is taken or authorized by affirmative vote of not less than the number of shares or the number of directors required to amend the bylaws so that the bylaws would be consistent with such action

shall be given the same effect as though the bylaws had been temporarily amended or suspended so far, but only so far, as is necessary to permit the specific action so taken or authorized.



*Certification*

I, John H. Scribante, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Orion Energy Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2013

/s/ John H. Scribante  
John H. Scribante  
Chief Executive Officer

*Certification*

I, Scott R. Jensen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Orion Energy Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2013

/s/ Scott R. Jensen  
Scott R. Jensen  
Chief Financial Officer

**Certification of CEO Pursuant To**  
**18 U.S.C. Section 1350,**  
**As Adopted Pursuant To**  
**Section 906 Of The Sarbanes-Oxley Act Of 2002**

In connection with the Quarterly Report of Orion Energy Systems, Inc., a Wisconsin corporation (the "Company"), on Form 10-Q for the period ended September 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John H. Scribante, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2013

/s/ John H. Scribante

---

John H. Scribante  
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**Certification of CFO Pursuant To**  
**18 U.S.C. Section 1350,**  
**As Adopted Pursuant To**  
**Section 906 Of The Sarbanes-Oxley Act Of 2002**

In connection with the Quarterly Report of Orion Energy Systems, Inc., a Wisconsin corporation (the "Company"), on Form 10-Q for the period ended September 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scott R. Jensen, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2013

/s/ Scott R. Jensen

Scott R. Jensen

Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

